



Axis Purchasing – Working With Group Purchasing Organizations in the Foodservice and Hospitality Industries

GPOs, What are they? How do they work for foodservice and hospitality providers? What are the benefits for corporations, franchises, owners and operators?

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What is a Group Purchasing Organization?

A Group Purchasing Organization (GPO) leverages the purchasing power of a group of businesses to obtain improved pricing based on the collective buying power of the members.

In the hospitality industry, a GPO goes much further than simply leveraging its buying power, although that is a major part of its overall value to members. In addition to negotiating discounts with approved manufacturers and distributors, GPO's analyze purchases and prices in order to reduce its members' expenditures and improve their bottom line.

As purchasing has become more complex and stratified, GPOs have gained more importance. In the \$600 billion foodservice industry, multi-national chains, independent operators, regional chains, schools, hospitals and others can unite under the GPO umbrella allowing them to compete without sacrificing quality or service. In this way, GPOs offer valuable contract negotiations, volume discounts and supply-chain services that individual foodservice businesses cannot accomplish alone.

History

The first GPO was the Hospital Bureau of New York, formed in 1910, but it took more than 50 years for the idea to take hold. Spurred by Medicare and Medicaid, the number of hospital GPOs grew to more than 120 by 1977. In 1986, Congress granted "safe-harbor" to GPOs to free them from anti-kickback statutes. With the free reign to grow, GPOs represented 97 percent of all hospitals by 2007.

In recent years, that growth has encompassed a broader spectrum of foodservice entities beyond healthcare. GPOs are now a recognized segment of the industry providing assistance in all categories including poultry, fresh produce, frozen food products, fresh and frozen meats, candy, snacks, dairy, bakery, dry goods, cleaning supplies, chemicals, disposables and beverages.

Over time, GPOs have become an integral part of the purchasing channel that stretches from farmer to manufacturer to sales group to end user. Today, foodservice operators who are part of a GPO can expect dramatic savings (3 – 10 percent per annum) from their membership.

GPOs benefit manufacturers as well as operators and have become a standard channel for promotions, branding and marketing. GPOs offer direct access to the decision-makers at foodservice operators who manufacturers are trying to reach. By working through a GPO, the manufacturer of food or supplies can reach out and inform purchasing decision-makers, thus saving time, money and the difficulty of communicating with these often-harried food executives.

The GPO, through its tracking and monitoring of purchases, knows which items are being used and where potential product conversions and opportunities lie. In this way, GPOs can suggest product conversions that will save members money without undermining quality, while increasing sales for contracted manufacturers.



Cooperatives – What’s the Difference?

Unlike a Cooperative (or Co-Op), a GPO is not necessarily managed or owned by its members. In the U.S., the cooperative business model encompasses everything from Fortune 500 companies to small storefronts.

While Co-Ops may have potent buying power (the top 100 Co-Ops have a combined \$117 billion in revenues, according to the National Cooperative Business Association), they do not necessarily have the ability or experience to negotiate contracts, analyze pricing or manage volume discounts.

How do GPOs relate to the food industry?

Aggregated purchasing through entities like GPOs has grown substantially in the last few years, and a study by Foodsource, predicts this segment of the food industry will increase from 62 to 79 percent by 2020.

GPOs have the ability to reduce manufacturer costs by as much as 17 percent and reduce distributor fees by more than half resulting in an overall savings of an average of 27 percent to the operator. This is highly significant considering that chains have a decided advantage over independent operators; their purchasing power can be as much as 40 percent greater than that of the single or small chain restaurant company.

The GPO landscape has grown to accommodate this trend. Its largest groups include Avendra, formed by a collaboration between Marriott and Hyatt; Foodbuy, formed initially to meet The Compass Groups’ purchasing needs; and Entegra, with its roots in Sodexo. These major players in the foodservice industry continue to extend their reach into new segments.

Other foodservice GPOs include Premier, HPSI, Amerinet, HPPI and MedAssets. Combined with Avendra, FoodBuy and Entegra, GPOs account for more than \$35 billion in food purchasing.



Healthcare remains the largest user of GPOs in the country with more than 75 percent of purchasing going through these member-related organizations. However, with GPOs like FoodBuy extending into non-healthcare entities, expectations are that the segment will surpass healthcare GPOs.

Many food organizations have never heard of GPOs and do not know where to get information. Many believe bidding with distributors is where

the process ends. Foodservice operators often make the mistake that distributors have the best purchase aggregation and that these resellers have their best interest at heart.

Other misconceptions about the use of GPOs include pride, skepticism, fear, adherence to old-school bidding practices and a lack of knowledge regarding the many benefits provided by a GPO versus an independent approach.

Market Misunderstandings of GPOs

Due to a lack of understanding about the potential benefits of working with a GPO, restaurant operators have a myriad of reasons why a GPO is not the right vehicle for them.

Such objections can range from a basic mistrust of working with outside entities to a simple lack of knowledge about how GPOs work and how they benefit members. Here are some of the reasons operators give for not joining a GPO:

- *“My company has plenty of purchasing power.”* In actuality, the main purpose of a GPO is to combine the purchasing power of a number of foodservice operations so that it can negotiate pricing based on volume. A single foodservice operator, while perhaps powerful in its own right, will not be able to garner the same discounts as a “group” of operators.
- *“I have access to all of the manufacturers’ deals.”* This is a basic misnomer promulgated by distributors and brokers. In fact, an established GPO can provide purchasing programs with hundreds of manufacturers covering thousands of food and supply products.
- *“I am confident that my existing internal programs are the best they can be.”* Because of their ongoing relationships with manufacturers, GPOs have the ability to analyze programs and improve them based on their members’ needs. GPO’s also provide benchmarks on the market where an operator has limited access.
- *“I don’t want to be locked into a long-term program.”* GPOs differ in this aspect. Some do require a minimum period of commitment. However, there are GPOs that allow great freedom to leave anytime with a minimum notice.
- *“I need to have complete control over my suppliers and product choice.”* A GPO should provide choices and with complete transparency. A GPO works with foodservice operators so they maintain control over the basics; brand identity and service quality.
- *“I am not looking to add work to the origination or my staff by monitoring another entity.”* GPOs have thrived on providing support. The nature of a GPO is to help streamline costs and administration by working with staff to allow



a focus on core and strategic activities. GPO technology investments are paying off to members, providing better visibility into spend and tools to improve and manage purchases.

- *“I don’t want an outside entity knowing about my pricing and ordering practices.”* When dealing with a GPO, it is important to vet its confidentiality agreements. A valid GPO is a neutral party without an agenda and a history of protecting its members’ information.

Group Purchasing Benefits

As with any successful relationship, there must be reasons for all parties to participate in GPOs; long-term benefits are only achieved if both parties gain.

The combined purchasing efforts of a GPO can be an essential part of any foodservice operation. The advantage created by its membership, provides the kind of buying power that leads to better pricing. The sum of the parts is greater and small operations cannot match that scale. Focusing the larger volume on specific commodities leads to lower prices.

Assume a single operator planned to buy 25 cases of a specific type of chicken. The distributor would provide a product price at a 25-case rate. However, if a foodservice operator is part of a GPO that has a contract with a poultry supplier, the price will be much lower because it is connected to the aggregated volume of all of the members of the GPO; volume speaks.

The benefits of such a group go well beyond pricing. A GPO member can save time, research, resources and bid preparation. The administrative and management costs are usually borne by the GPO. Group buying provides lower net cost savings based on purchase rebates, contract pricing or a combination of the two. Group purchasing also provides important market knowledge of what other manufacturers are providing in the market and price points. This information is invaluable when managing menu and service offerings.



Other advantages include:

- Reduced internal skilled resource commitment:

Members do not have the time to utilize internal resources to prepare RFI/RFPs, score and award supplier agreements. Management can refocus resources on more strategic opportunities: Brand, Customer Service and Growth.

- Increased coverage:

GPOs typically cover a broad range of products and/or services (for example, food, supplies, disposables, smallwares, warewashing, maintenance parts, office supplies, etc.)

- Reduced administrative burden:

GPO's provide technology resources not core to foodservice and hospitality organizations in tracking spend over the entire organization utilizing multiple distributors. GPOs internally track member purchases, file and collect rebates without additional administrative requirements on members.

- Purchase reviews:

Most GPOs will provide information on programs available to members as an alternative to currently purchased products that meet quality standards at a better value. The financial analysis, shipping of product samples for cuttings, and stocking of a the new product through a distributor if required, should be facilitated through the GPO service provider.

- Common item coding:

As part of the rebate filing process similar products are categorized and identical products are cross reference to a common description item number over multiple warehouses and distribution providers. This greatly reduces internal data cleansing requirements and makes the data valuable for ongoing analysis, compliance and quality monitoring.

- Market intelligence:

GPOs can provide market intelligence on new products offerings, industry trends, economic and market price conditions, product recalls, etc.

- Single contact point:

GPOs manage the relationships between hundreds of manufacturer representatives. Members do not need to meet directly with sales representatives or brokers.

- Choice:

While some GPO restrict purchases to designated suppliers others offer flexibility and choice of products and suppliers. This is a key differentiator in some food service markets.



Manufacturer/Supplier Benefits:

Manufacturers benefit greatly from GPO relationships. They, in fact, are the fuel behind the GPO engine. The GPO communicates product information, promotions, newly released products, and a myriad of other information disseminated by the food manufacturer.



Because of this relationship, manufacturers can anticipate growth in new markets, customers, access, loyalty and opportunities.

The GPO thus provides an audience that creates new opportunities while sustaining long-term relationships with food operators. In this way, the entire GPO channel has turned into a highly effective sales strategy for involved manufacturers.

Here are some other benefits to manufacturers:

- Long-term relationship with the user and decision maker
- Increased market share providing sustained sales growth
- Administrative simplification – fewer one-off deals to negotiate, track and pay
- Access to decision makers – joining a GPO involves a commitment from the top. Instead of building from the field up, manufacturers get access to top down officials thus creating speed and financial responsibility in the decision process.
- Compliance – the final decision is made at the top level and communicated and throughout the organization. Compliance can be tracked through the GPO and insure compliance to quality and financial standards.

Group Purchasing Types

Are there different types of GPOs?

GPOs vary greatly in size, type of ownership and the services. Sometimes the ownership of GPOs is by distributors, foodservice organizations, or independent service providers. In addition, some GPOs specialize in certain types of foodservice: healthcare, lodging, multiunit restaurants, etc.

Group Purchasing Organizations:

- Purchase Consultants - Independent third-party consultants that manage portions or the entire outsourcing of supply. Group purchasing opportunities are limited to the client's combined business pool unless teamed with another GPO. These consultants may also provide additional services in auditing, RFP's and distribution oversight. As third-party representatives, these consultants purchasing pool is limited to their own customer base.
- Dedicated Purchasing Organizations – Organizations which were initially focused to meet internal company needs, which have extended the reach to new markets. The leading GPOs control the majority of the marketplace. For the foodservice GPOs, this includes: Avendra, formed by collaboration between Marriott and Hyatt, Foodbuy, formed initially to meet Compass's purchasing needs, and Entegra, with its roots in Sodexo. They began as internal but grew to be external offering their programs to others.

A teal-colored rectangular box containing white text. The text reads "Group Purchasing Organizations Provide Great Procurement Opportunities" in a bold, sans-serif font, arranged in four lines.

Trade Associations:

- Groups of similar entities working together to bundle purchases. These groups loosely focus on products, services and or distribution agreements. They represent entities like K-12 schools, universities, independent restaurants and health care.
- Additional associations focus on non-profit, community-based organizations working together to help lower costs.

Fees

When deciding which GPO to join, be certain to understand how the fees work and the specifics of what you earn. Select a GPO that is fully transparent on this issue. Members fund GPOs in basically one of three ways:

1. A monthly fee based on a percentage of total spent on purchases
2. A percentage of the rebates collected on behalf of members
3. Bundled GPO /distributor program. A fee charged to member's purchases added to the distributor's cost and bundled in the delivered price.

What to look for in a Foodservice GPO:

Choice of distribution providers:

Many GPOs link the manufacturer programs to the distribution provider. This practice reduces the visibility of product cost from the manufacturer, may hide fees paid to the GPO and restricts distribution options.

Ability to work directly with manufacturers:

Direct relationships with manufacturers are important in areas where a member has significant volume, special needs or branding and marketing opportunities.

Visibility into fees:

Member should explicitly understand and have visibility to GPO fees. This includes the on amount of rebates retained by the GPO as a fee and / or any additional distributor paid fees.

Term:

GPO agreement term should be as short as possible. Members are paying for the product and need to have flexibility to opt in or out of a GPO relationship if not meeting the member's specific needs.

Customer Service:

Be sure that the GPO has continued support through the life of the agreement. Some GPOs use sale's representatives that sign members and move to the next opportunity. Be sure service is more than processing rebates.

Access to programs outside of food and supplies:

Although not a show stopper it is always good to have coverage in other purchasing areas such as non-foods programs covering; uniforms, office supplies, equipment, hygiene and ware washing, hotel amenities, cleaning services.

Specification Management:

Using the right product for the required use is paramount to consistency and maximizing the return on the product purchase price investment. (Don't use U.S. Fancy grade oranges if the menu calls for a peeled product. Additional costs are in the look of the peel that will be thrown away). Be sure that the GPO provides guidance on product options outside of contracted products for additional savings.

Market Intelligence;

GPO's are on the frontline of the industry. Be sure they assist in managing your quality and creativity with market forecasts, recalls, pricing updates, trends and new products.

Timely payment of rebates: Rebate payments should be provided to members as soon as possible. Monthly is preferred over quarterly or annual payments.



Case Studies:

Case Study 1: Multi-Unit Restaurant

- Spend: \$4.2 million
- Locations: 8
- Distributor(s): 2
- Manufacturers: 215
- Number of SKU's (stock keeping units): 456

- Cost Improvement: ~\$204,000 or 4.9%
 - Rebates / Incentives ~\$68,000
 - Contract pricing ~\$75,000
 - Alternative products / Specification mgmt. ~\$61,000



Case Study 2: Foodservice / Concessions

- Annual Spend: \$22 million
- Locations: 50
- Distributor(s): 18
- Manufacturers: 875
- Number of SKU's (stock keeping units): 7247

- Cost Improvement: ~\$1,374,000 or 6.2%
 - Rebates / Incentives ~\$175,000
 - Contract pricing ~\$135,000
 - Alternative products / Specification mgmt. ~\$1,064,000

Case Study 3: Retirement Community

- Annual Spend: \$12.5 million
- Locations: 157
- Distributor(s): 4
- Manufacturers: 311
- Number of SKU's (stock keeping units): 2570

- Cost Improvement: ~\$706,000 or 5.7%
 - Rebates / Incentives ~\$100,000
 - Contract pricing ~\$236,000
 - Alternative products / Specification mgmt. ~\$370,000



Case Study 4: Multi-Unit Franchise

- Spend: \$7.5 million
- Locations: 57
- Distributor(s): 1
- Manufacturers: 265
- Number of SKU's (stock keeping units): 911

- Cost Improvement: ~\$803,000 or 10.7%
 - Rebates / Incentives ~\$35,000
 - Contract pricing ~\$150,000
 - Alternative products / Specification mgmt. ~\$618,000

Case Study 5: Lodging

- Spend: \$30.2 million
- Locations: 15
- Distributor(s): 9
- Manufacturers: 656
- Number of SKU's (stock keeping units): 3632

- Cost Improvement: ~\$1,068,000 or 3.5%
 - Rebates / Incentives ~\$200,000
 - Contract pricing ~\$168,000
 - Alternative products / Specification mgmt. ~\$700,000



Case Study 6: Lodging / Casino

- Spend: \$8.7 million
- Locations: 1
- Distributor(s): 4
- Manufacturers: 201
- Number of SKU's (stock keeping units): 529

- Cost Improvement: ~\$401,000 or 4.6%
 - Rebates / Incentives ~\$78,000
 - Contract pricing ~\$228,000
 - Alternative products / Specification mgmt. ~\$95,000



Conclusion

“The only thing that is constant is change,” said Heraclitus who sounds more like today’s purchasing director than the Greek philosopher he was.

As the foodservice industry continues to change at a rapid pace, the purchasing executive’s job becomes more complex and unwieldy.

Group Purchasing Organizations help to fill that gap and provide assistance to beleaguered purchasing executives, restaurant owners and chefs by providing a multitude of benefits including: flexibility, cost-savings, streamlined administration, greater choices and market intelligence.

No matter which segment of the foodservice industry you are part of, joining a GPO is now a primary consideration that will keep you in line with the marketplace.



About Us

Much more than Group Purchasing

Axis Purchasing offers you multi-billion dollar group buying power for food, beverages and supplies without the restrictions of other organizations or the requirement to change distribution partners.

Our programs include manufacturing incentives, low contract pricing and a deep analysis of your purchases so you get more product options. You maintain complete control; keep your current distributor with no out of pocket expense. Best of all we provide a complete satisfaction guarantee.



Our happy customers appreciate our true value, not just cheap prices. That is why we have quickly grown to thousands of foodservice locations across North America.

Give us a call 703-310-7607 or drop us a line at info@axispurchasing.com today.