

# Supply Management Executives Are Discovering Fresh Value In Group Purchasing Organizations

By Julie Murphree

## A Traditional Tool Gets More Attention

Group purchasing organizations have a legacy of serving industry micro-segments, and Jason Busch, managing director of consulting firm Azul Partners, points out that GPOs, at least in their current incarnation, have not been well known outside of the healthcare sector, a fact that has helped obscure their broader applicability. "When one hears the word 'GPO,' it is easy to get the wrong impression," says Busch, who is also editor of the highly trafficked blog Spend Matters. "But modern GPOs can take on any form – industry-specific or not – and often go beyond just leveraging group buying power to drive negotiated prices. Many offer technology, reporting and other benefits to their participants as well."

## "Stealth Outsourcing"

Busch believes that even for companies with world-class procurement capabilities, GPOs can play an important role for non-strategic or non-core categories where it does not make sense to develop expertise in-house, and where developing a custom outsourcing agreement is not necessary. "In fact," Busch says, "one might say that GPOs are a 'stealth' outsourcing procurement play – and a model that can make more sense than a traditional outsourcing mode, depending on the buying organization's background and situation." Busch points to Corporate United and ICG Commerce as two proven GPOs with a track-record of cutting across industry and vertical segments.

David Clevenger, vice president with Corporate United, one of the largest U.S. group purchasing organizations, echoes Busch's statements. "This type of procurement is a hybrid outsourcing solution," Clevenger says. "Instead of outsourcing indirect procurement to one provider, consortium buying allows organizations to select specific categories to outsource." A horizontal, third-party provider of group purchasing, Corporate United currently provides 16 different indirect spend contracts to its 80-plus member base.

## Not Just the Tool, But the Greater Sophistication Behind Its Use

Professionals who are including group purchasing organizations in the mix of tools for their cost reduction strategies are taking a realistic, sophisticated approach to using GPOs. First, they don't surrender autonomy, nor are they backing off their involvement, to ensure continued aggregation and effectiveness of the contracts.

One example of this realistic approach: Syngenta. A global agribusiness and supplier of seeds and crop protection products, Syngenta has had great success in achieving indirect spend savings goals over the years. With \$8 billion in sales last year, the 19,000-employee company continues to look for ways to drive out costs. As a member of Corporate United since 2003, Syngenta taps into CU's pharmacy benefit management contract, which has saved approximately 8 percent on the organization's pharmacy costs. Syngenta also uses Corporate United's safety supplies contract. Art Carter, purchasing manager in commercial services for Syngenta Crop Protection, says that a contract in a group purchasing situation must be "stronger than what the company can come up with itself and allow for the same level of supplier relationship involvement."

Another strategic sourcing professional, who must remain anonymous due to corporate policy, believes the better GPOs increase return on investment (ROI) through increased knowledge and understanding of how certain commodity or spend areas work by collaborating with other companies with more experience in that commodity or spend area. "The fact that Corporate United forms committees staffed with sourcing professionals in certain commodity areas and allows members to participate gives me a brain trust I would not otherwise have," this professional says, adding, "There is expertise within GPOs on spend categories, marketplace status and sourcing strategy that supplements the expertise within the member base. This synergy optimizes the effort to get the best deal possible."

Using Corporate United's office products, copier and industrial supplies contracts, William J. Northup, C.P.M., director of sourcing for Hubbell Inc., says that the greatest return on the investment and effort of getting involved in a GPO is that his sourcing managers now can focus their time on more strategic assignments while retaining the value of the expertise (the outsourcing) on the supplier's pricing strategy with off-contract items – and keeping the pricing in line with expectations on lower overall spend. "For us, using a solid GPO has allowed us to eliminate the need to add in-house purchasing resources," says Northup. "We intend to expand the number of agreements and participate more actively on the teams working with the GPO developing and renewing the agreements."

### How to Get Out of the GPO What You Really Want, Besides Savings

While savings continue to be the major magnet for new members to a GPO, additional benefits cited by those interviewed for this article include speed to market, subject matter expertise, the ability of a new member to immediately join a consortium's master agreement, third-party management of the agreement, opportunities for customization and supplier relationships, and redirection of resources to more critical sourcing requirements.

Ron Watt, second vice president of Trustmark Insurances' Contract Management Office, evaluated three group purchasing organizations before picking Corporate United for his company's office supplies contract. "They had better entry costs, allowing us to quickly realize savings. Plus, tapping into the expertise of member companies was a great benefit to us."

Hubbell's Northup gives a pragmatic user's view and highlights several ways a GPO can fit into an organization's strategy. "If an organization is decentralized and does not want to add headcount at the corporate

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level, a GPO provides an opportunity to leverage spend with minimal additional resource allocation," he says. "If an organization has a reasonable amount of spend in a commodity area, but not enough to fully leverage the spend on its own, the GPO provides the opportunity to combine this spend with similar spend from other companies. Finally, a centralized organization can focus on leveraging the areas of its spend that provide the greatest return and let a GPO handle the less strategic areas of spend."

Corporate United's Clevenger cautions against forcing the GPO into a box and limiting its power. "It is true that matching a sourcing strategy to a category is the most important point when implementing a GPO solution," he says, "but that makes it no different from any sourcing solution. The value of GPOs goes beyond the non-strategic, non-core...high-cost categories. Companies that are utilizing GPOs to manage indirect spend are unlocking value in dozens of smaller-cost categories that have historically gone un-sourced and under-managed. Despite their size, in aggregate, the savings add up to millions across the enterprise. Furthermore, the GPO is most valuable for its ability to proactively manage agreements, not just for the leverage they provide initially."

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