

## What is Group Purchasing Organization or GPO?

A **Group Purchasing Organization** is a system or platform that allows any business to join a group of buyers who are interested in the same **goods** and **services**. By joining a **GPO**, you're able to take advantage of the collective buying power of a group of businesses to get discounts from [vendors](#), which means you can take advantage of those larger discounts without actually purchasing more.

Group purchasing can be used in many industries to purchase raw materials and supplies, but it is common practice in the grocery, health care, consumer durable, non-durable, industrial manufacturing and agricultural industries.

In recent years, group purchasing has taken root in the non-profit community. Group purchasing amongst non-profits is still relatively fresh but is quickly becoming popular as the objective of nonprofits is to reduce overhead expenses. Especially in the healthcare field, GPOs have most commonly been accessed by acute-care companies, but non-profit Community Clinics and Health Centers have also been engaging in group purchasing.

## Why group purchasing?

The group purchasing method of sourcing motivates vendors to give GPO members a discounted pricing. Businesses save on average 20-25% on products and services through group purchasing. You also save time and effort in gathering data, interviewing vendors and choosing suppliers.

Some GPOs provide full-service, customized consulting contracts with subjective experts who can work on-site. In fact, the Pandion team can perform outside validation and detailed reviews of policies, procedures, and purchasing files to ensure your business is following best practices, maximizing expense reduction, and streamlining supply chain solutions.

## How GPO makes money?

Some **GPOs** are collecting administrative fees that are paid by the suppliers that GPOs oversee, some GPOs are collecting participation fees from the buying members, and some may do both. These fees can charge money as a **percentage of the purchase** or set as an **annual flat rate** or can be a **one-time payment** that's paid upon joining the **GPO**. Members take part based on their purchasing needs and their degree of confidence in what should be competitive pricing consulted by their GPOs.

# Types of Group Purchasing Organization (GPO)

There are **two** types of GPOs.

1. **Vertical Group Purchasing Organizations (GPOs), and**
2. **Horizontal Group Purchasing Organizations (GPOs).**

**A vertical GPO** assists companies and organizations within a specialized industry or market segment. We commonly found this type of GPO in the healthcare and hospitality industries and the Dental and Veterinarian segments.

**A healthcare group purchasing organization (GPO)** helps promote quality healthcare relief and assists diverse providers in effectively managing expenses. Healthcare GPOs typically provide negotiated discounts on medical supplies, nutrition, pharmacy and laboratory equipments.

**A foodservice or grocery GPO** focuses only on the foodservice marketplace. Purchases include; chicken, fresh vegetables, frozen food products, fresh and frozen meats, candy and snacks, dairy and bakery products, dry foods, disposables and beverages products, etc.

**A Hospitality Group Purchasing Organization** concentrates on solving [procurement](#) and sourcing problem for hotels or vacation rentals by aggregating the demand for products and services used to furnish and stock guest units and operate hospitality businesses.

**Industrial manufacturing GPO** meeting the demand for products and services used in the manufacturing and [production](#) process and delivering heavy savings on raw materials, services and components by issuing rebates, discounts, and preferred pricing to its buying members. The group buying power helps companies save money on their acquisitions and more effectively competes against the largest global manufacturers.

**Non-profit Group Purchasing Organizations** are almost like regular GPOs, but they are made of a board of non-profit, community-based organizations working collectively to help lower their purchasing costs.

**Horizontal Group Purchasing Organizations (GPOs)** serve organizations covering all types of markets and industries. This type of GPO works with businesses of all shapes and sizes, offering help on a broad spectrum of goods and services, mostly linked to indirect spending.

Horizontal GPO members exist in many industries, but they purchase a lot of the same types of goods and services to manufacture their products and run their businesses.

# How Group Purchasing Organization (GPO) Works

Buying groups set up and manage GPO contracts for **indirect and direct** services or products—and they also build and manage long-term relationships between the three parties: the **GPO itself, its members and its suppliers.**

**Indirect spend** refers to any company expenditures that are required for running a business – such as office supplies, temporary labor and industrial supplies, but they are not directly related to the production of a company's products or services.

The working of GPOs can be described in the following 3 stapes:

## **Step 1: Membership, leverage and savings**

The group purchasing organization creates a membership base comprising businesses seeking to channel spend using the GPO's agreements. The combined spend of these businesses and the acquisition of multiple buyers at once – create leverage. That leverage motivates suppliers to offer their best-negotiated pricing and service levels to the GPO.

Businesses have historically used GPOs to gain quick access to get a decent discount. Although still true, this conventional view of GPOs doesn't fully appreciate the sustainable value that a modern GPO provides. Savings decline over time, so a modern GPO continually looks for ways to bring more value by upgrading their agreements and supplier performance.

## **Step 2: Generate better Pricing and Contract Terms**

With a continuous stream of spending in place, these GPOs can now source negotiations with the right suppliers or those that can provide better pricing and best terms than GPO members can get on their own. Suppliers generally give up their margin opportunities because GPO membership reduces the costs associated with bringing in new business.

The leverage of combined spends affects the purchase of office products, safety supplies and other products. However, modern GPOs can also increase procurement's spend influence in areas like HR services and IT.

## **Step 3: Continuous improvement to reduce risk**

As suppliers and buying members continue to use GPO agreements, the GPO constantly updates contracts. As more members join and more spending flows through the agreements, these GPOs can arrange even greater discounts and revised terms and conditions with suppliers. By doing this, the GPO can further reduce risk and create a path toward continuous improvement by meeting with multiple people at multiple levels throughout supplier organizations.

# Terms related to Group Purchasing Organization

## Procurement

**Procurement** is the process of acquiring goods and services. Procurement is commonly a part of the input for a company that uses the gained goods or services in the making of their own final product. This makes procurement a very vital function of any business.

Procurement involves activities such as identification of needs of the company, sourcing from vendors, selection, price negotiation, ordering, receiving, and payments. [Read more>>](#)

## Procurement vs Purchasing

**Procurement** and **purchasing** are similar terms. Many people use it interchangeably, but they do have a different meanings. There are differences between procurement and purchasing in their purpose, the tasks they cover, which people are involved, and what they accomplish. [Read more>>](#)