

WHITE PAPER

PARTNERING WITH A GPO: A Guide for Community Health Centers

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CommonWealth
PURCHASING GROUP

— SAVING MONEY TOGETHER —

What is a GPO?

A group purchasing organization (GPO) helps members save money on the supplies, equipment and services they use every day. A GPO combines the collective buying power of individual members to negotiate the best possible prices for each of its members with manufacturers, suppliers, and other vendors under “group contracts”. In a GPO, vendors treat all members as part of a single entity and base contract pricing and other benefits on total sales to the group. Greater volume of sales allows contracting vendors to offer lower prices and higher levels of customer service.

GPO’s are common in a variety of industries such as education, healthcare, restaurants, nonprofits, agriculture, manufacturing, and electronics. The first GPO was created in 1910 by the Hospital Bureau of New York. Today, 96% of all acute-care hospitals and most community health centers belong to at least one GPO.

When a GPO member elects to use a group contract with a particular vendor, the process is indifferent from a normal vendor relationship with a supplier. Supplies are still ordered directly through the supplier— either by their online ordering platform, fax, email, or phone – and an account manager from the supplier is still the member’s main point of contact. Members (on an elective basis) simply have the GPO group contract and it’s corresponding discounted pricing attached to their account. On an ongoing basis, the GPO serves as a resource to handle issues or uncertainties that surface while offering insight and expert advice.

The benefit of belonging to a GPO is that the smallest health center pays the same amount for medical supplies as a large facility with multiple locations.

Misconceptions About GPO’s

The larger Health Centers Enjoy Bigger Discounts: A significant benefit of belonging to a GPO is that the smallest health center pays the same amount for supplies as a large facility with multiple locations. As long as you buy through the GPO you save more money and are better served.

You Have to Pay a Membership Fee to Join: Most GPO’s do not require you to pay a membership fee to join. In large part, GPO’s are supported by administrative fees paid by vendors.

You Have to Use a Certain Number of Contracts: Most GPO’s offer an a la carte menu of contracts so you can save money where you like. There are usually no spending requirements or minimums with a group purchasing organization.

A GPO Will “Lock Me In”: Most GPO’s do not contractually inhibit a member from switching GPO contracts or reverting back to an independently negotiated contract. In addition, vendors remain “GPO

neutral” in the GPO selection process or making changes in what GPO contract is utilized.

We Can Achieve Better Savings On Our Own: A GPO’s strength lies in its ability to pool member purchasing to negotiate the best possible price with vendors. Because of this significant buying power, your bills will almost always be lower with a GPO. A large part of a GPO’s discounted pricing are manufacturer contracts which in turn provide a lower cost to contracted distributors. A lower cost to the distributor on a group contract allows distributors to be able to lower pricing more deeply than an independently negotiated contract. Enabling these contracts to exist for the group requires a lot of contract administration as well as purchasing power which proves to be too much for organizations negotiating their own supplier pricing.

How to Best Use a GPO: Establishing an Effective Purchasing Strategy

In the community health center and alternate care environment, large centers often employ a purchasing agent to buy and order supplies and equipment of all types. On the smaller end, centers without a purchasing agent often divide up purchasing responsibilities among departments. The receptionist might buy the office supplies, a nurse might buy the medical supplies, and a dental hygienist might buy the dental supplies.

GPO’s greatly serve health centers engaging in both strategies for purchasing. For health centers employing a purchasing agent, GPO’s should not be viewed as a threat but rather as a partner, enabling purchasing managers to spend their time optimizing the inventory of the health center and managing initiatives that lead toward efficiency. Purchasing Managers often times deploy a strategy of cost savings by utilizing several vendors and price shopping items which is generally still not as effective as group contracts. This negatively impacts supplier relationship management, and increases the workload in accounts payable at the later stages of the purchase-to-pay process.

For community health centers not employing a purchasing manager, the benefits of a GPO are even more beneficial. In these centers, a GPO ensures that significantly discounted pricing is being accessed, and in an area where a skilled purchasing manager is not in place, the GPO can be called upon for effectively handling some core purchasing manager functions such as escalation, technical assistance, and vendor identification to fit specific procurement needs that surface.

A GPO’s strength lies in its ability to pool member purchasing to negotiate the best possible price with vendors.

It's critical that community health centers find a GPO that understands their nuances, the changing landscape, and their unique operational challenges.

To optimize savings, community health centers need to focus on price, product, and efficiency. GPO contracts serve as a foundation of price savings optimization, and allow purchasing managers or those responsible for purchasing time for product substitution considerations and adjustments for better efficiency in the purchasing process. The strategy of “price savings above all else” ironically yields the smallest overall savings. Above price, substitution and efficiency is what will provide the greatest savings for a health center. A good GPO partner will greatly assist a purchasing manager in coordinating this strategy in both an initial and ongoing basis.

How to Compare GPO's

In establishing a GPO relationship as a long-term partner of your organization, it is important to have a careful process of reviewing and selecting a group. GPO's vary in scope, shape, size and focus. Some charge a membership fee to participate while others rely on fees paid by vendors to finance services. Some are owned by hospitals while others just serve proprietary facilities. For community health centers and other alternate care facilities, it's critical to find a GPO that understands their nuances, the changing landscape, and their unique operational challenges.

There are several criteria you should evaluate when comparing GPO's:

Vendors: Who are the important manufacturers and suppliers in your industry? Do your research to see if the GPO works with vendors who offer quality supplier contracts and have the buying power with their respective contracts to yield a significant discount.

Flexibility: Some GPO's require the use of certain “core” contract vendors and require minimum participation. Find a GPO that has no minimum participation requirements and leaves all purchasing decisions to the individual member.

Employee Discounts: Find a GPO that offers discounts on the goods and services that your employees use outside the office such as cell phones, home office supplies, computers, and electronics. The ability to pass down GPO contract discounts to a member's employees has been growing recently and has shown meaningful positive impacts in employee bases of GPO members.

Customer Service: An effective GPO should be easily reachable, able to meet with you in your center, and able to quickly assist or provide information when needed. An effective GPO should also be active in communications with their membership to make the group aware of new contracts, savings opportunities, best purchasing practices, and more.

Conduct a Cost Analysis: Ask a prospective GPO to conduct a complimentary cost analysis comparing your current pricing with a group contract's price. This is the most effective measurement of the quality of a group purchasing organization as the leading focus is lowering prices for their members. Current pricing vs. the discounted pricing the GPO can offer.

Mission Statement: Read the GPO's mission statement to make sure your goals and values are aligned.

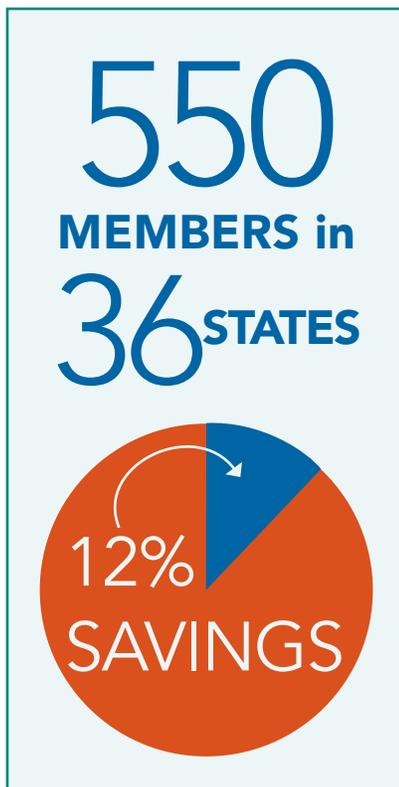
References: Ask for references from other member organizations of that particular group. A good group purchasing organization has several long-term relationships in many parts of the country. This should not be a challenge for a GPO to supply multiple references.

About Commonwealth Purchasing Group (CPG)

Founded in 1998 by the Massachusetts League of Community Health Centers, Commonwealth Purchasing Group has more than 550 members in 36 states, ranging from small single-site organizations to multi-site systems. CPG members typically save between 12% and 20% each year on medical, office, dental supplies and more. There is no cost to join CPG, and there are no long-term contracts, minimum purchasing requirements, or required contract participation. CPG is an elective GPO where members select when and where they want to use a CPG group contract.

All CPG activities and initiatives are designed to help community health centers and other non-profit human service providers save money and improve services. We contract with high-performing vendors in product areas where community health centers and similar organizations make the majority of their purchases. These long standing relationships provide us with direct access to senior managers and the ability to resolve member problems quickly and efficiently.

CPG's national Advisory Board—made up of members, including CEOs, CFOs, and COOs from national health centers and associations—meets quarterly to provide strategic advice, feedback on program performance and impact, ideas about additional product sectors and potential new vendors, and other similar issues.





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