

A SAM's guide to working with group purchasing organizations

Increasing your strategic account relevance

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Business development professionals have long been tasked with the challenge of navigating corporate procurement channels, but today professionals also must face procurement's third-party providers. Not least among these agents is the group purchasing organization, which is composed of companies that use leverage to manage activity and cost on behalf of members. This article intends to provide strategic account managers with an understanding of GPOs, their connection to procurement and what business development professionals should do to optimize relationships with them.

The history of GPOs

For years aggregated purchasing solutions were looked upon as an effective way to identify cheap sources of supply. Not unlike the consultant-influenced rise of strategic sourcing or reverse auctions, buying consortia were widely embraced by corporate procurement groups. And like sourcing and auctions, buyer groups caused confusion and angst among the sales and account management professionals who sat on the other side of the desk.

While GPOs have existed in one form or another for years, the modern GPO emerged in the early 1990s

and blossomed later that decade when Internet technology created a platform that simplified interaction among members. Most early models were vertically structured, meaning the groups comprised members from a single industry sector. Notable examples of these types of groups were Covisint (automotive), Exostar LLC (aerospace), Avendra LLC (hospitality), WorldWide Retail Exchange LLC (retail), ChemConnect Inc. (chemicals) and RubberNetwork LLC (tires). These and other similar organizations were well-funded by their founding members and entered various marketplaces armed with billions of dollars in volume across a wide range of spend categories.

It wasn't long, however, before the cracks in the armor of these GPOs began to show. Collaboration among competitive firms, particularly as it related to the acquisition of direct materials (those used in finished products), proved difficult. Historic rivals were predictably unable to set aside their differences and work together. Despite their funding and initial support, many have altered their model or closed their doors.

While pointing to the lack of collaboration is a logical and somewhat accurate explanation for this general failure, it doesn't tell the whole story. Unlike the more successful predecessors in the medical and academic



arenas (organizations that notably do not compete on price), the legacy of corporate group buying focused on piece-price reductions, ignoring the opportunity to impact a company's whole supply chain. As the vertical GPOs began to ebb, many corporations realized that an opportunity may have been missed. Their needs have been addressed by the most recent iteration of the model, the horizontal GPO. Models like those of Life Services Network, O'Hare Group and Corporate United Inc. not only avoid the natural conflicts associated with competitive members but also address the shortsightedness of the early models by recognizing that collaboration with providers is as important to a GPO's success as collaboration among buyers.

By creating a truly collaborative forum the modern GPO aims to enable suppliers working with buyers to achieve levels of standardization that allow suppliers to more deeply penetrate their own supply chains. The intended result is a more effective and sustainable buyer-supplier partnership. The leverage, when applied strategically, works to the benefit of both buyers and suppliers. The net effect is that GPOs are re-emerging as a valuable component of corporate supply chains. With this re-emergence it is important for account managers to understand what makes buyers choose to utilize these groups as an extension of their own spend management organizations. Cleveland-based Corporate United is one of the organizations reinventing a more sophisticated approach that focuses not just on initial savings potential, and Corporate United's members see the impact on a much broader scale.

Instead of providing a sourcing-only solution, common among consulting firms, or a fully outsourced solution, Corporate United has identified a middle ground that allows its members to achieve the benefits of shedding responsibility for managing certain categories while mitigating the risks associated with a full-blown outsource. Members recognize this value and rarely

discuss cost savings when professing the advantages of belonging to the group.

The director of sourcing for a multibillion-dollar high-tech company says, "The greatest return on the investment and effort of getting involved in a GPO is that sourcing managers now can focus their time on more strategic assignments."

Corporate United provides members with more than a lower cost. They achieve those cost reductions through the establishment of partnerships with suppliers and strong collaboration among members that see the value in working together.

In addition to the expected business advantages of belonging to a GPO, participating organizations have also found the group to be an excellent

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source of networking and education. By bringing together large numbers of procurement professionals, organizations are able to share best practices, exchange information and otherwise benefit from the knowledge of a huge virtual organization. The value is enormous, albeit difficult to quantify.

A purchasing manager for a global medical systems provider says, "Bringing companies together to address supply, benchmark (and) share expertise and business volume while improving business efficiency and effectiveness is why we joined Corporate United, and we have not been disappointed."

The influence of procurement is here to stay

Now you know some of the major reasons procurement professionals

are interested in joining GPOs, but why should you care? With very few exceptions, sales and account management professionals who spent the majority of their careers dealing with functional stakeholders now deal with procurement. Because of the economic pressures facing so many companies, this trend is unlikely to stop. So although you may be inclined to try to circumvent this new point of entry, recognize first that corporate leaders probably won't allow that to happen and second – and more surprisingly – that you and procurement may have many of the same goals.

While account managers have spent years cultivating relationships with leaders in functional areas like human resources, marketing, finance and operations, procurement professionals within your customers have been doing the same thing. It may surprise you to find out that these individuals are interested in a lot more than saving money. Procurement is focused on adherence to contract terms, enterprise-wide compliance and developing supplier relationships. Unfortunately, procurement's involvement with all spend categories across its organization has been viewed as a negative by both internal stakeholders (who fear a loss of control) and suppliers (that feel they are being commoditized). Procurement has historically been bad at selling its value to either group, causing these misunderstandings to fester and ultimately leading to an environment of mistrust and ineffectiveness.

Regardless of where these relationships currently stand, procurement's influence continues to expand. If account managers are to have continued success within their installed base of customers, they are going to have to learn to coexist with this new constituency.

The first step in building this bridge is to recognize the similarity in your objectives. Account management and procurement professionals each have a vested interest in supporting enterprise-wide compliance to established

agreements. For account managers the purpose is clear: Higher compliance means more revenue. But procurement has its own set of reasons for creating a compliant environment. Off-contract or "rogue" spending, along with internal entities creating independent agreements, represents risk factors for an organization that procurement always seeks to mitigate. This is an especially touchy issue in this era of heightened sensitivity brought on by Sarbanes-Oxley legislation. As a result, procurement has been given more authority to ensure that organizations are compliant with their agreements.

This compliance to corporate agreements means procurement essentially assists the account manager in his job. With that said, the majority of procurement organizations are badly resource-constrained, leaving them searching for options. One such option is the GPO, and though participation simplifies the buyer's life, a new wrinkle is added for account managers, who have gone seemingly overnight from dealing with a stakeholder to dealing with procurement to dealing with a third party. This can possibly create relationship issues, so it is crucial for all involved to do what they can to prevent those from coming to fruition. Some suppliers have taken advantage of this dynamic and used the third party as a new channel to procurement.

Jack Craven, director of business development for Weichert Relocation Resources Inc., an employee relocation and assignment management company, says of his experience with Corporate United, "The credibility of and endorsement by the GPO allows for an introduction to procurement we may not have been able to secure independently."

The account management reaction

The best thing for an account manager to do when dealing with a GPO is to educate oneself on the organization's structure and approach. Structure is a crucial element in understanding how a specific GPO works, as ownership and



COLLABORATION WITH PROVIDERS IS AS IMPORTANT TO A GPO'S SUCCESS AS COLLABORATION AMONG BUYERS.

control have a major impact on how the group will view the supply community. This insight is also important in understanding what you are getting yourself into.

Corporate United's supplier of the year is staffing firm Volt Services Group, whose Regional Vice President Jerome Gerber says of his experience, "A GPO is one of the most complex organizations that you will ever find. The pressure of supporting the members ... is enormous. If any member is dissatisfied we risk losing the support of the whole membership. It serves as the ultimate level of accountability."

While Gerber recognizes the added pressure and complexity of working with more than 20 of Corporate United's 100-plus members, he knows there are benefits to this hard work.

"The model has been highly successful for us because of the interest it generates within the membership. Could we win the business without the GPO? Maybe, but not without significantly more effort and time invested in the process."

Most vertical GPOs are owned by a subset of participating members. On

the positive side, this often means compliance to established agreements among participating companies is high, as the owners have the most to gain from aggressive rollouts. While this would naturally work to the advantage of the awarded supplier(s), account managers shouldn't assume that member-owned GPOs are in their best interest.

One potential pitfall of working with member-owned GPOs is that the owners – not the whole group – have control over buying decisions. This sort of oligarchic arrangement can leave certain members feeling disenfranchised, causing participation to suffer. Additionally, many of these companies staff the groups themselves rather than setting up an independent organization. This can be a challenge due to the lack of supplier management resources available to work with providers on anything other than negotiations. GPOs that demonstrate little to no concern for their ongoing relationships with suppliers should be avoided by selling organizations.

As with any challenge, the worst thing account managers can do is ignore the situation. You have spent time explaining your value proposition

to stakeholders and procurement; be certain the GPO understands it, as well. If you expect to be viewed as a valuable partner, it is incumbent upon you that you take time to work with all the relevant parties within a GPO to ensure they, too, understand the depth and breadth of your capabilities. The added education can fuel the GPO's promotional strength.

Brian Bair, director of key accounts for imaging company Konica Minolta Holdings Inc., a two-time Corporate United supplier of the year, recognizes the value of increased visibility.

"The marketing efforts of the GPO serve to reinforce our engagement process by constantly reminding the members of our capabilities as a supplier," he says.

This investment of time is not without its return. A GPO is like any customer: The more it knows about your value proposition, the more apt it is to solidify a partnership and promote your offering. Suppliers need to be aware of a GPO's interest in hearing from them.

"Both parties need to invest the time to understand each other's strategy and business model," says Craven. "A good GPO encourages frequent reviews with suppliers to understand new services and approaches the supplier may be taking and provide knowledge-sharing forums to keep business development staff current on offerings and service enhancements."

It is important to note that although structure is important, revenue is king. Some GPOs generate their income through annual membership fees, others are paid administrative fees by participating suppliers, and still others employ some combination of these methods. While the first method allows for greater transparency, the second provides an advantage for suppliers seeking to align their goals with those of the GPO. If greater participation in and compliance to your agreement translates directly into more revenue for the GPO, you've just established an excellent new channel to promote your solution.

The value of being proactive

If nothing else, most account managers see GPOs as a means to efficiently gain access to a large audience of potential customers. But ask yourself if volume is really what you're looking for. Buyers are not the only ones existing in an environment of economic pressures; suppliers also feel the crunch. Providers tasked with not only increasing volumes but also margins have been conditioned to see procurement and its service partners as enemies to providers' cause. Once again, however, GPOs may be more of a solution than a contributor to this dilemma.

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To be truly effective at aggregating spend, GPOs need to do more than bring a lot of dollars to the table. Groups must be capable of standardizing. By creating adherence to a common set of specifications or service requirements, GPOs afford supply partners the opportunity to scale their business and increase margin while they increase volume. If done effectively, this savings translates into improved total cost to buyers, so everyone wins.

"The pressure, complexity and accountability add up to a 'win' for all parties involved," says Bair. "The GPO delivers significant and immediate value to ... members. In turn the member receives a best-in-class program with robust service-level agreements, market-correct pricing and a commitment to continuous improvement. The supplier benefits from a compressed sales cycle and accelerated revenue recognition."

A common misunderstanding is

that this principle is only effective in commodity markets, but this is patently untrue. Historically buyers have focused on reducing the purchase price of goods and services, a trend largely influenced by consultants paid for individual sourcing projects. GPOs, however, present members with a long-term value proposition designed to aid in the identification and realization of savings throughout the tenure of an agreement. Because a GPO is going to be around for the long haul, its credibility is at risk if it works with suppliers that are simply the "cheapest" option and provide little overall value.

The modern GPO concentrates on a total-cost-of-ownership model, encouraging members to work with suppliers to identify qualitative – not just quantitative – improvements in the model. This approach initially puts more pressure on the account manager tasked with identifying and tracking against the total cost components in her particular area. Ultimately, though, attention is shifted away from price as the only component of meaningful evaluation. By creating and managing all aspects of total cost, the supplier is able to forge a partnership and demonstrate its full value.

Know when to walk away

I am often asked by prospective members why a buyer wouldn't use a GPO. The answer is simply a matter of corporate culture. Some companies take a very insular approach to business. They do not use outside resources, they do not benchmark, and they do not use consultants. There is absolutely nothing wrong with this approach; some of the world's most successful organizations operate on these principles. These companies would, however, be a terrible fit for a GPO.

Organizations that stand to benefit the most from a GPO are those that understand and appreciate the value of collaboration. This idea extends to suppliers, as well. If your organization feels it's better off independently

pursuing opportunities without providing a leveraged solution through a GPO, then do not go down this path. While you and the GPO may have strong value propositions, corporate cultures are difficult (and painfully slow) to change. Parties may enter a relationship with the best intentions, but if the fit isn't right the marriage will surely fail.

Perhaps more important to a supplier's decision whether to engage with a GPO, or a customer's decision to utilize one, is to educate oneself on a number of the key points mentioned above. For example, GPOs with no supplier management organization should represent a major red flag. If no investment has been made in working with the suppliers that provide services to members, this is a tacit admission that supplier relationships are not very important.

Be cognizant of the GPO's pricing methodology. Understanding the way a GPO does business with its members will be a strong indication of whether you will be able to do business with it. Having the same or at least similar interests is at the heart of every successful business relationship.

Craven advises account managers to steer clear of programs that require suppliers to pay for "preferred supplier" status and are then forgotten.

"The beauty of the Corporate United model is that they are truly motivated to introduce our offering to members. Their model does not work unless the supplier is retained by their members."


Finally, be certain the GPO is not in the business of minimizing the value you provide. While many buyers utilize GPOs to reduce the strain on themselves, GPOs are not meant to act as artificial barriers between the supplier and buyer. If a GPO is not interested in learning about or communicating your value proposition to members, then the fit is unlikely to be a good one.

Summary

From an account management perspective, it's simply too easy to lump all procurement services providers together. Sourcing consultants, e-sourcing, e-procurement, spend analytics and GPOs all appear as obstacles to your success.

This assumption is not entirely without merit, for each of these firm types acts (primarily) as an advocate for the buyer in various stages of the spend management process. The goal is clearly not to make your life easier but to complete the work procurement has been tasked to do by its employers. While this may not sit well with sales and account management professionals, it is not going to change. What may change is the account manager's ability to see that not all of these solutions are created equally and that some of them actually mirror his objectives. By investing time and resources in relationships with like-minded GPOs, account managers can scale their efforts like never before, accomplishing goals that would be out of reach working independently.

Craven has found that Weichert's relationship with Corporate United has been as much to his benefit as it is to Corporate United's members.

"By consistently calling on their members and introducing new offerings, it invariably reduces our cost of prospecting and sales. They identify an interested member and then we work together to outline the benefits of the offering." 

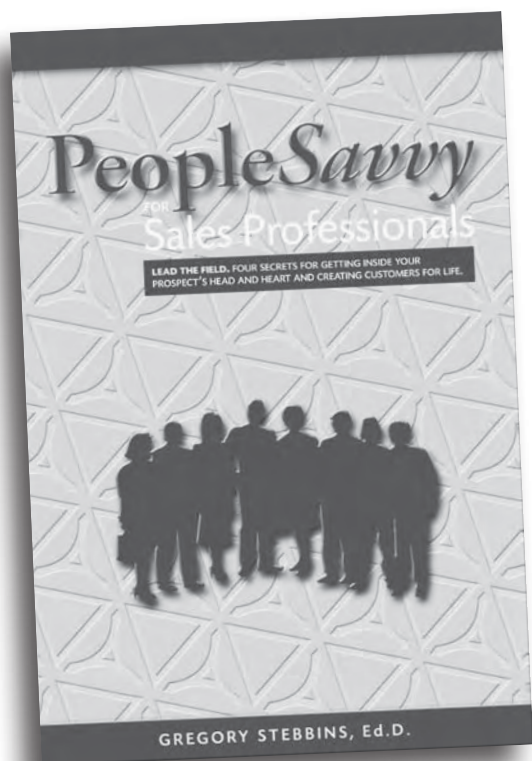
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Additional resources

For more information on this subject in SAMA's library, the editors recommend: Brian Menzies, "On-demand webinar: the RFP antidote—how to retain strategic accounts in times of adversity," Feb. 21, 2008, www.strategicaccounts.org; and Dan Kosch and Mark Shonka, "Breaking the rules: dealing with the rise of purchasing," *Focus: Account Manager*, Vol. 4, No. 2, Fall 2007, www.strategicaccounts.org.

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