

Managing Your Supply Chain

The Value of Group Purchasing Organizations

NACAS

2011 South Annual Conference



Agenda & Objectives

- Supply Chain Process & Overview
- Overview Group Purchasing Organizations (GPO's)
- Selecting a GPO & Purchasing Best Practices
- Benefits of a GPO
- Strategic Supply Chain Management
- Discussion
- Q & A

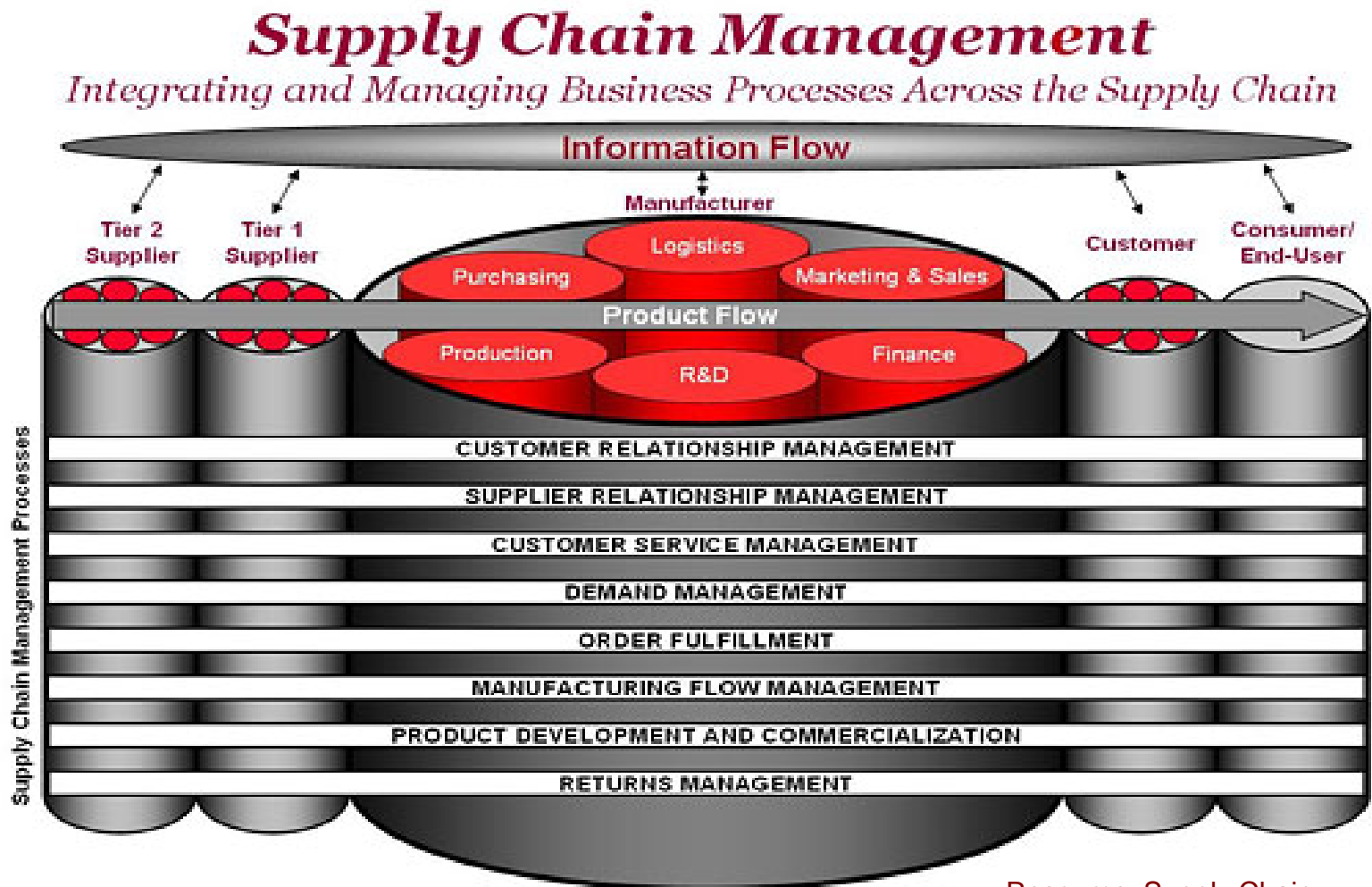


Supply Chain Management Defined

- **Supply Chain Management**
 - **is the integration of key business processes from end user through original suppliers that provides products, services, and information that add value for customers and other stakeholders.**



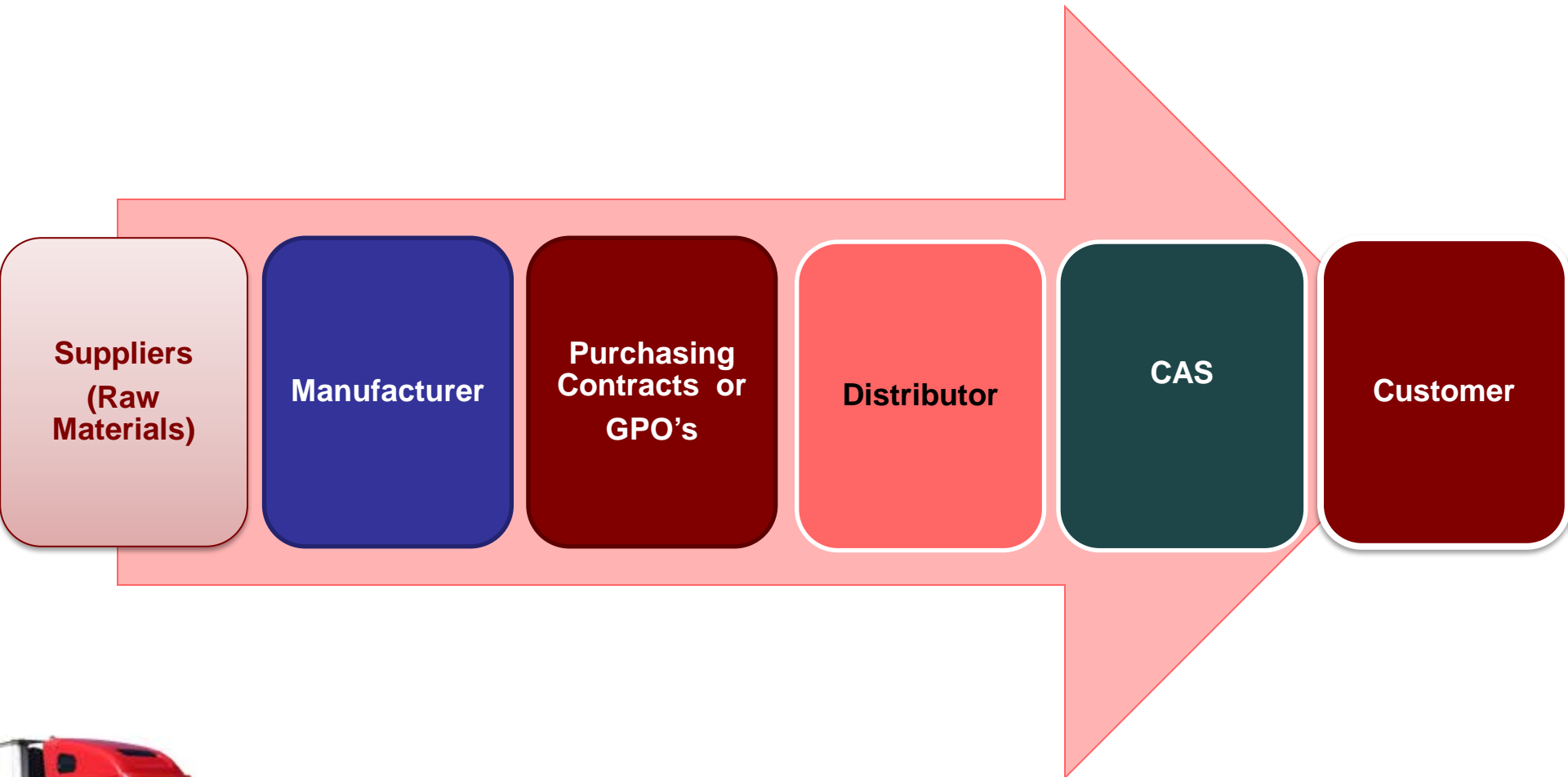
The Complete Supply Chain



Resource: Supply Chain Management Institute



Dining Service Focused Supply Chain



Understanding GPO's

- **Defined**

- An entity that is created to leverage the purchasing power of a group of businesses to obtain discounts from vendors based on the collective buying power of the GPO Members.

- **History**

- 1910 Hospital Bureau of New York
- 1930's GPO's dedicated to College/University
- In the 80's GPO's entered food & dining services
- Today 600 U.S. organizations that form GPO's; 30 are the large GPO's



Distributors' Role

- **Defined**

- An organization that distributes products to retailers (customers) on behalf of a manufacturer or manufacturers.

- **Role in Supply Chain**

- They provide the inventory of items that customers want from menus, food, equipment, supplies and deliver them on an 'as needed' basis

- **History**

- 1901: CONCO Food Service made deliveries in stern paddle wheelers on the Mississippi and along the bayous of Louisiana
- Total U.S. wholesale distributor sales are approximately \$3.2 trillion. The grocery and food-service distributors make up 13% of the total, or \$424.7 billion in revenues.
- A typical broad-line foodservice distributor serve from 1,000 to 6,000 accounts from a single distribution center and offer more than 10,000 items to meet specific operator needs.



How Do GPO's Generate Savings?

- Aggregate purchasing volumes between vendors (manufacturers) and purchasers (colleges/universities)
 - Negotiated discounts with manufacturers, distributors and other vendors
 - Plus incentives for distributor partners with GPO's such as:
 - Average Monthly Volumes
 - Prompt Payment
 - Average Order Size
 - Standardized purchases, e.g. commitment programs
 - Reduce supply chain management resources (contract negotiations, RFP's with each vendor, maintain vendor compliance data, vendor service issues, etc.)

Provide the right products, at the right time & for the right price



GPO Through an Request for Proposal (RFP)

- Partnerships with supply chain/procurement
- Supplier identification & qualifications (RFI or RFQ)
- Provide data that is meaningful to GPO:
 - Volumes (top 100)
 - Purchasing practices (e.g. days of week for deliveries)
 - Vendor lists and approximate spend with each
 - Any local vendor or condition “musts”
- Develop GPO selection & scorecard criteria:
 - Evaluate time line and resources to implement
 - Reporting and analysis tools (dashboards, etc.)
 - Expertise and support
 - Vendor infrastructure (local, regional and/or national)
 - Sustainable yet flexible terms, conditions, contract
 - Future offerings
 - Support of University/College programs and strategic direction
- Side-by-side or line-by-line bid analysis plus value – added services



Choosing the Right GPO

1. Define Strategic Purchasing Goals for foodservice:
 - Negotiate a single-source strategy
 - Enter a 3-year agreement
 - Lower total cost by 20%
2. Benefit to just department or whole organization?
3. Add value to organization & department
4. Allow redeployment of human resources
5. Enhanced technology & information systems
6. Measurable quality and cost outcome KPI's
7. Supports unique strategies, e.g. sustainable practices, diversification, local purchases



Performance Scorecard

		WEIGHT	CATEGORY	RATING	SCORE
35%	PRODUCT QUALITY		9.3	QUALITY/COST	SCORE KEY
	Absence of Defects	33.3%	9	Excellent	10
	Conformance to Specs	33.3%	9	Very Good	9
	Shipping Damage	33.3%	10	Good	8
				Average	7
30%	ON-TIME DELIVERY (Score = percent on time, 10)	90%	9.0	Below Average	6
				Poor	5
25%	TOTAL COST MGMT		7.6		
	Price Reductions/Rebates/Mark Up	36.4%	7	TERMS	SCORE KEY
	Kanban/Lean Initiatives	0%	N/A	3% 10	10
	Consigned Inventory	14.1%	5	2% 10	9
	Responsiveness	14.1%	10	1% 10	8
	Leadtime Reduction	14.1%	7	Net 60	7.5
	Evaluated Receipt Settlement	0%	N/A	Net 45	7
	Invoice Accuracy	7.1%	8	Net 30	5
	Bar Code Shipment	0%	N/A	C.O.D.	0
	Accept P-Card	7.1%	10		
	No Restocking Fees	7.1%	10		
10%	PAYMENT TERMS	5.0	5.0		
	YOUR SCORE	8.4			

Source: Kennametal Inc.



Collegiate Issues

- Understanding of collegiate needs
- Deviated pricing programs preferred
- Breadth of items under contract
- The systems used to provide information
- Access to the “right” personnel
- Sustainability, local sourcing



The GPO That is Right for You

- State laws and rules/regulations
- Volume leverage with manufacturers
- Strength of savings – various pricing programs
- Flexibility to add items
- Services and products offered



Support Beyond Pricing— Value Added Distributor &/or GPO

- Purchasing practices & evaluations
- In-service education
- Benchmarking services
- Inventory management systems
- New product research & introductions
- Routine pricing audits
- Extra mile resources—disaster and major event support



Operator Perspective: What Makes a Good GPO Supplier Partner?

- Through the Selection Process:
 - Requirements of participation
 - Contract portfolio
 - Flexibility
 - Bid process
 - Contracting/purchasing staff
 - Terms and conditions of the contracts
 - Verify GPO meets State and/or University requirements



Operator Perspective: What Makes a Good GPO Supplier Partner?

- Beyond the Selection Process:
 - Additional incentive programs
 - Minority/small business involvement
 - Level of input
 - Level of support



Operator Perspective:

How can a good GPO protect our organization?

Key Terms and Conditions	GPO	Local Agreements
Firm Pricing	<ul style="list-style-type: none"> • Yes 	<ul style="list-style-type: none"> • No
Market Competitive Language	<ul style="list-style-type: none"> • Yes 	<ul style="list-style-type: none"> • No
Shipping	<ul style="list-style-type: none"> • FOB Destination: Supplier pays shipping and absorbs risk of loss in transit. 	<ul style="list-style-type: none"> • FOB Origin: Member pays shipping and carries risk of loss in transit.
Termination	<ul style="list-style-type: none"> • 3 year term with Member ability to terminate without cause on 60 days notice 	<ul style="list-style-type: none"> • 2 years with no Member right to terminate without cause
Warranty	<ul style="list-style-type: none"> • Comprehensive for defects in material, workmanship, design & manufacturing 	<ul style="list-style-type: none"> • Enclosed with the delivery of each Product, but not in terms and conditions
Insurance	<ul style="list-style-type: none"> • Must provide at least \$2,000,000 occurrence/\$10,000,000 aggregate 	<ul style="list-style-type: none"> • Will provide "Adequate" insurance
Indemnification	<ul style="list-style-type: none"> • All claims, liabilities, damages, actions and costs arising from product sale/use • Includes claims of intellectual property/infringement 	<ul style="list-style-type: none"> • Limited to claims with personal injury, death or property damage • Does not include intellectual property/infringement claim
Return of Product	<ul style="list-style-type: none"> • No restocking fees or return shipping costs • Any limitation of liability contained in return goods policy are null and void 	<ul style="list-style-type: none"> • Returnable if shipped in error or after expiration date • Specifically authorized for return within 15 working days from date product received • Restocking fees may apply
Limitation of Liability	<ul style="list-style-type: none"> • Language not in template. 	<ul style="list-style-type: none"> • Neither party liable to other for special, incidental, consequential, or indirect damages in connection or performance of this Agreement.
Confidentiality	<ul style="list-style-type: none"> • No disclosure except to Members and GPOs 	<ul style="list-style-type: none"> • No disclosure to any third party



The Purpose of Supply Chain Management

The “financial” rationale for supply chain management:

1. Lower prices
2. Price protection
3. Monitoring market conditions
4. Reduced contracting cost

The “non-financial” rationale for supply chain management:

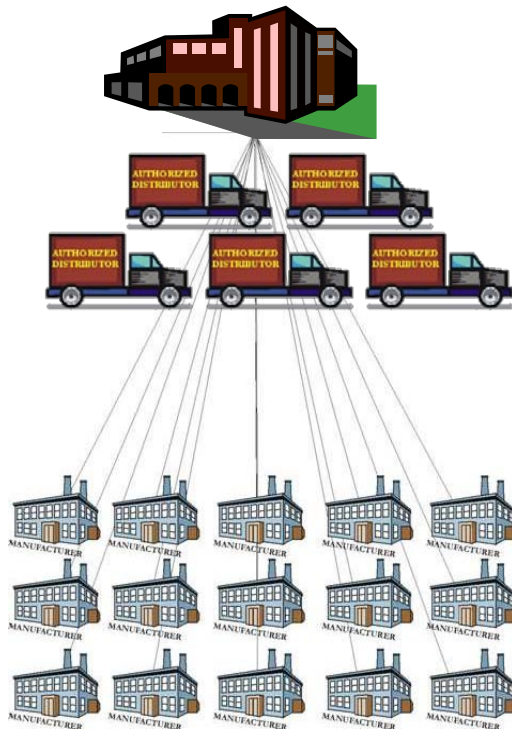
1. Improved quality control programs
2. Maintaining high levels of service from providers
3. Managing footprints of products from growing, production regions to campus
4. Controlling product mix to maximize student satisfaction



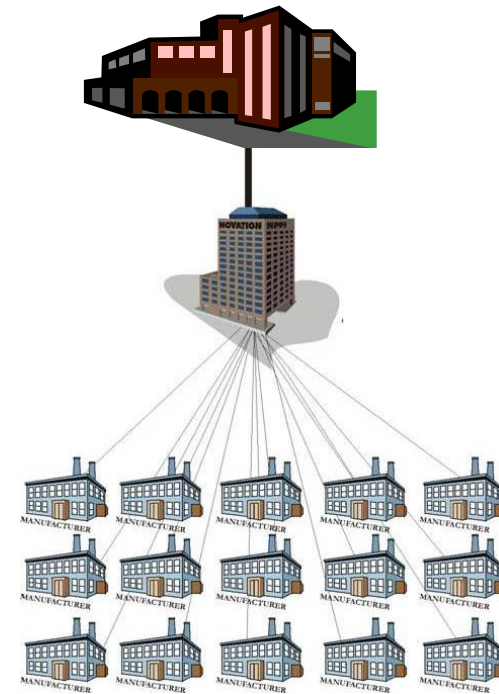
The Starting Point

Business Models

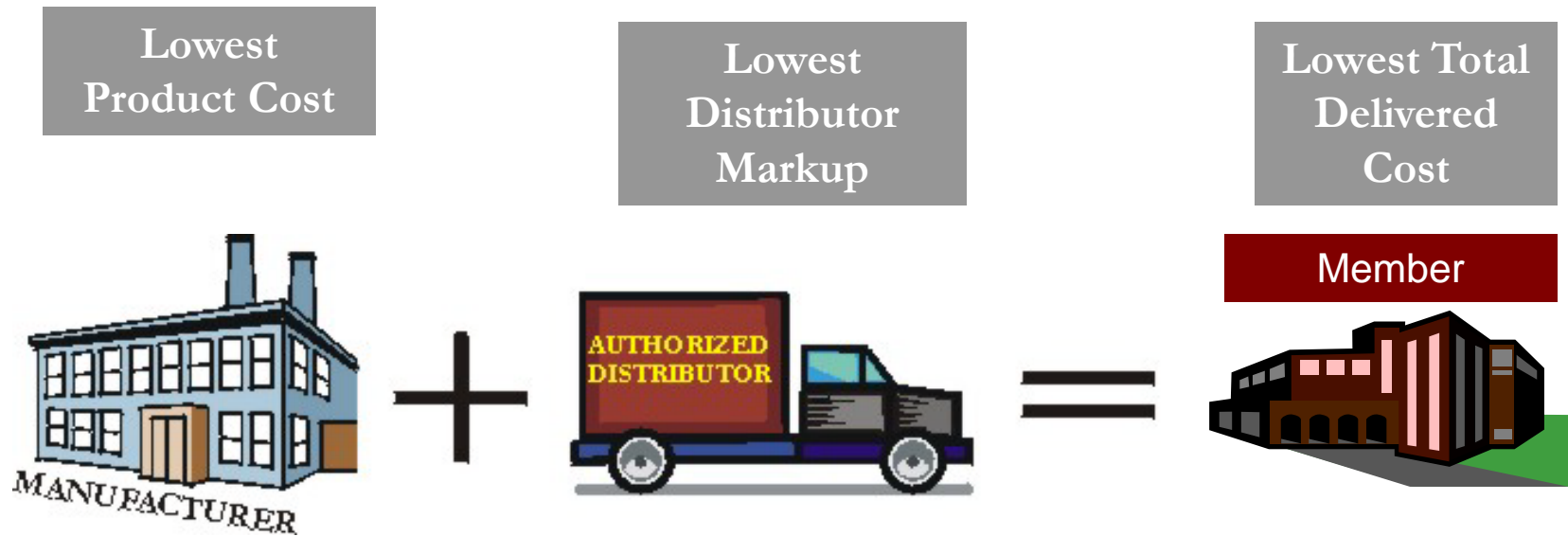
INDEPENDENT



WITH SUPPLY CHAIN COMPANY

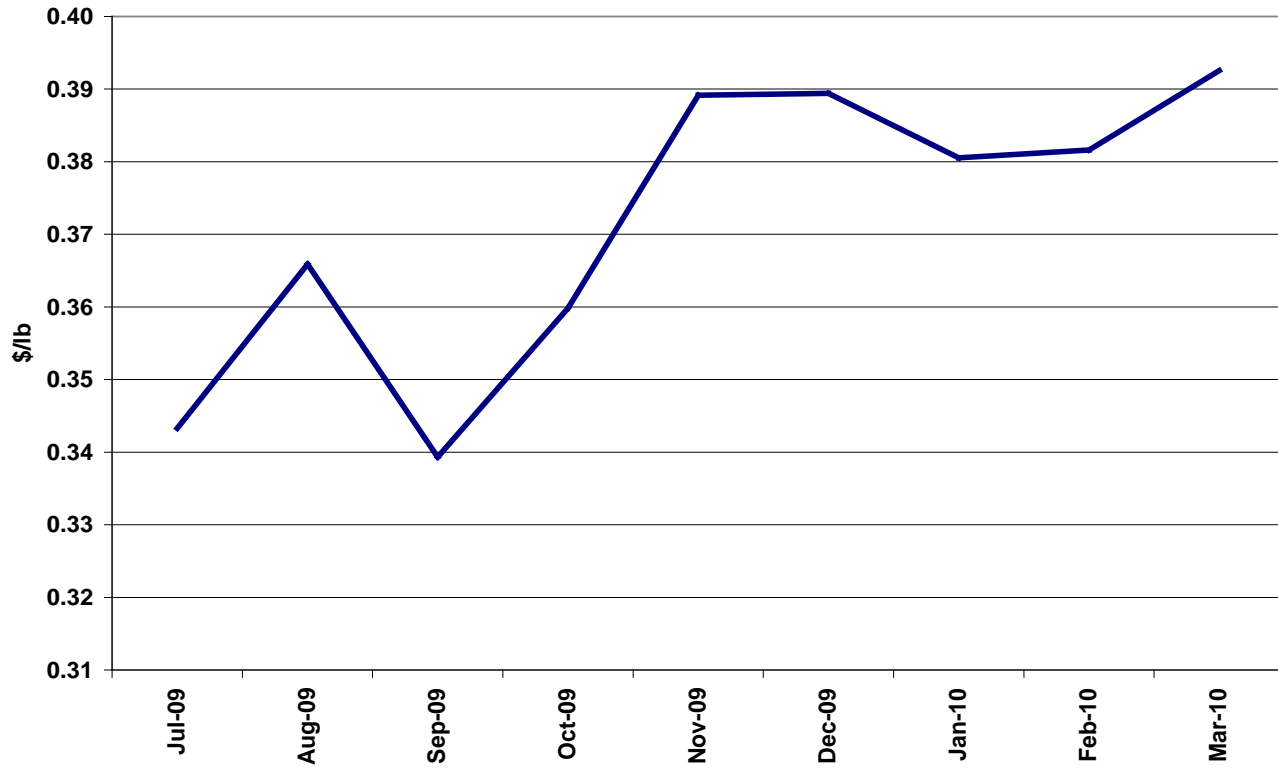


Breakdown of Pricing



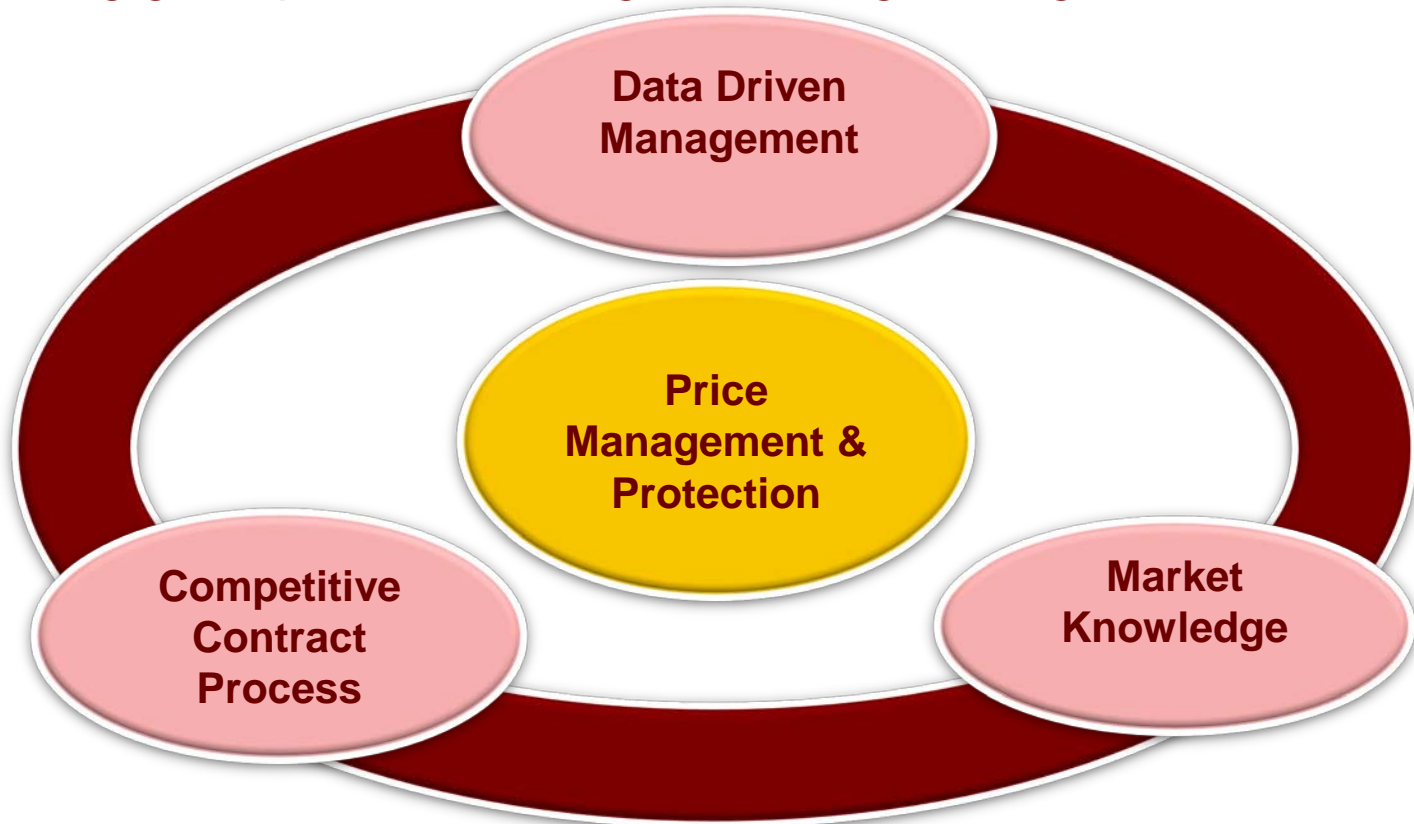
Soybean Oil

SOYBEAN OIL
Source: Nearby CBOT futures



Price Management

- Award, manage, and protect product pricing
- Price roll-backs during deflationary periods
- Ensuring great prices remain great throughout agreement



Orange Juice Concentrate



Supply Chain Partner Characteristics

SCALE	Local, State, Niche	Multi-regional limited national	National
BID PROCESS	Negotiated	Combination negotiated & public	Public, competitive bid
SPECIALIZATION	Sole-segment	Compatible segments only	Multi-segment
SEGMENT COMMITMENT	No specialization	Moderate specialization (task force)	Dedicated focus
PERSONALITY	Cost structure, transparency, committed vs. voluntary, member involvement, flexibility, environmental stewardship		



Resources & References

1. Wikipedia.org
2. Supply Chain Management Institute
3. *The Value of Group Purchasing 2009: Meeting the Needs for Strategic Savings*, Dr. Eugene Schneller
4. NACUBO—National Association of College & University Business Officers
5. IFDA-International Foodservice Distributors Association
6. Kennametal Inc.



Questions, Ideas to Share.....



Thank You!



Presenters

- **Stephen Hull**, President, Summa Purchasing Group
- **Michael Schwalm**, Senior Director-Education, Provista



Discussion

- How do I get started in this process?
- What makes a GPO the right fit for an organization?
- How does the distributor fit into this process?
- What are some new services or programs being developed?
- What can be customized in the process (GPO, Distribution, etc.)
- Why is the supply chain not just a commodity?
How can procurement understand this?

