

[PURCHASING]

# STRENGTH IN NUMBERS

IS A BUYING GROUP MEMBERSHIP RIGHT FOR YOU?  
HERE'S HOW THEY WORK AND WHAT THEY CAN OFFER

By Tony Callahan

**B**uying groups, also known as Group Purchasing Organizations (GPOs) exist in just about every industry, including home building. Some have come and gone; others have stood the test of time. To know if membership in a GPO is right for you, start with some soul-searching. Are you willing to share cost information, change from your existing suppliers and trades, and alter your material specifications? If not, you're unlikely to benefit. You may be able to join one that offers "me, too" rebates that you could obtain on your own for materials that you already buy, but why share the rebate with the GPO?

A GPO leverages the spend of its members. It does this by lowering the cost of materials or services. For example, let's look at framing. A GPO can leverage its members' forecasted volume of lumber in a local market through a competitive bid. Members then purchase their dimension lumber at a lower cost than they could on their own with their individual volume. Some GPOs can even provide material take-off services to estimate the amount of dimension lumber that members need to frame their homes. A good GPO leverages the spend of its members at the highest aggregated level possible. It will have deals with manufacturers at the national level, suppliers at a regional level, and trades at a local level.

#### MAKE SURE A GPO SHARES YOUR ETHICS AND VALUES.

Remember how your parents warned you about hanging out with the wrong crowd? That advice is GPO-relevant. Joining a GPO known for unethical tactics may bring your business's ethics into question. Do your research. GPOs are only as good as the members they include and the organizations that represent them. Some screen prospective members to make sure they pay their bills on time, engage in ethical business practices, and are in good standing in the community. Other GPOs will let anyone with a bank check be a member.

Ask suppliers that have agreements with the GPO if members honor the commitments made by the buying group. Do members pay their bills on time? Look at the members' reputation in the local marketplace. Are they held in high esteem or are there some shady characters in their ranks? Do they have long-term members or is there constant turnover?

#### BEFORE YOU JOIN, MAKE SURE YOU'LL SAVE MONEY.

The main purpose of a GPO is to get members a better deal than they could get on their own. What type of agreements does it enter into? Does it truly leverage the spend of its members through exclusive single-source agreements or does it fragment members' spend through agreements with a long list of companies in the same category? How good of a deal

can you really get on appliances if the GPO has an agreement with every appliance manufacturer?

When considering a GPO's potential to save you money, beware the rebate peddler. A good GPO is going to compare the cost of any material or service less the rebate. Never self-fund a rebate by paying more for material. There's no point: You pay more every time you buy, only to get part of it back four times a year (without interest). No thanks. Make sure the GPO you're evaluating takes upfront price, installation cost, and the cost of poor quality into consideration.

#### A GOOD GPO IS AN EXTENSION OF YOUR COMPANY.

It should work to expand your trade base, as well as identify and pre-qualify new sources of supply. In the current labor-and resource-constrained climate, this can be a significant boon. Some GPOs facilitate best-practice sharing among their members and offer access to trades who extend volume discounts to members. Others hire industry consultants to teach best practices. Look for a GPO that has monthly meetings. Regular interaction with your peers in the industry enables you to build relationships that can pay off when you're facing tough business problems and want insight from others. Finally, some GPOs provide software and support for their members.

#### MAKE SURE THAT BENEFITS OUTWEIGH COSTS.

Be aware of fees before you join, and do a cost-benefit analysis. GPOs often have an initiation fee or application fee to set you up in their system. Some charge a percentage of savings while others charge an ongoing membership fee. Some are forthright about the costs of their memberships while others don't disclose the true cost. Talk with the GPO about the savings you can expect. Will they be reflected in the upfront purchase price, rebates, or other incentives?

A successful experience with a GPO requires identifying the right one for you. If you're serious about saving money, you must be willing to make changes. If you like buying lumber from Johnny and would never change, regardless of how much you could save, then a GPO isn't right for you. Some home builders use certain products because of gifts or trips they receive from the supplier. It would be wise for them to do a competitive bid to see if they're really coming out ahead.

Buying groups aren't for everyone. But anyone interested in the potential savings that they can provide should research the options. **PB**

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