GPO food buys rise 2.4% in fiscal 2005

Total foodservice spending increases 8%.

Food purchasing activity at 41 group purchasing organizations participating in the annual FSD GPO Industry Census and Performance Report increased just 2.4% in 2005, reaching $5.26 billion. Most of the groups in the top 20, however, recorded increases in food purchases ahead of that pace—sometimes far ahead of that pace.

For example, Shared Services America, a GPO based in Atlanta with 917 hospitals and 270 long-term care facilities among its membership, spent $54 million on food last year, up 80% from the prior year. Med Assets in St. Louis recorded $50 million more in food buying (up 25%), while Hospital Purchasing Services in Middleville, MI, spent 24.3% more.

Total foodservice purchasing (including equipment, supplies and other non-food items) among the FSD Census participants went up 6%, hitting $6.16 billion.

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To that end, Novation has inventoried its national contract portfolio and compiled a list of more than 500 organic product lines. Rubin says the organization—with nearly 1,000 members and purchasing power of $443 million in food—will now look at gaps in the portfolio to see what items need to be found.

“We have several high-interest needs,” she notes, “such as fair-trade coffees and organic yogurt. The demand for organics is growing, but it’s still spotty. We’re seeing it most in the Northeast, some spots in the Midwest, and California.”

Christopher Mantel, senior director for contracting at Consorta Inc., agrees with Rubin’s assessment. “We’ve seen a significant increase in requests for organic items,” he explains. Consorta has about 2,000 members, whose food purchases total $150 million. “For us, the requests are centered around milk and vegetable categories. When members want organics, we special-order them; they are viewed as just another vendor product. We’ve had no problem getting items, although the cost is still significant.”

Understanding and standards: The bigger issue, Mantel adds, is two-fold: There is not an intimate understanding of organics among members, and not many standards governing this aspect of the business. “There isn’t any strong definition of what organic is, and members don’t know a lot about organic products, so we are trying to educate our customers as best we can.”

Rubin notes that the desire among members for more locally grown or produced foods has Novation exploring ways to identify local farmers and enter into purchasing agreements with them. The GPO is currently piloting such a program in Livermore, CA, with Portland, OR, being eyed as another potential market.

IFDA Issues GPO Study

GPO foodservice purchases are valued at nearly $16 billion when factoring in the volume of the purchasing arms of three major hospitality companies, according to an International Foodservice Distributors Assn. study released this month.

The IFDA study, titled “The Impact of Group Purchasing Organizations on the Foodservice Industry,” itemizes that $16 billion in the following manner: $5.7 billion from the PSD Census (2004 data); $5 billion from Foodbuy, the GPO for Compass Group; $3 billion from Entegra, Sodexho’s purchasing division for non-contract clients; and $2 billion from Avendra, the GPO owned by the Hyatt, Marriott and Fairmont hotel chains.

The study ($95 for members, $285 for non-members) is available at ifdaonline.org.

Technology Key to Managing Expectations

GPOs clamor to meet members’ needs for sales, savings and education.

There’s no question that the Internet has made food and foodservice pricing more transparent, as foodservice buyers can take advantage of the Web to comparison shop. This transparency means that operators may challenge their group purchasing organizations or other buying representatives more frequently on issues of concern to them.

“We’re learning that we have to educate our members on the whole process of financial flow,” says Denise Rubin of Novation. “They need to understand exactly how we operate. Our incentive is not just to drive sales but also to drive cost savings to our members. We need to communicate that to them better.”

Lots of info, fast: Christopher Mantel says that Consorta’s customers are looking for information—lots of it, and as fast as possible. “There is an increasing need for data and analytics, instantly,” he says. “It seems that as people become more edified about [purchasing], the more desire there is for even more information. They expect us to mine the data and get it out to members as quickly as we can, and we’re trying to do that.”

Rubin notes that Novation is using technology to try to speed its contracting process. “Novation as a whole has been looking at what it takes to implement a contract,” she explains. “At present, it can take nine to 12 months to complete the process. Well, in today’s marketplace, a year is a long time for operators. So we’ve hired a consultant to help us streamline that process.”

Looking beyond: Another area of focus for GPOs is the broadening of the customer base. Most GPOs have concentrated on the healthcare industry, and historically that has meant acute-care facilities.

“Up to now, our contracts have been very focused on products for acute-care facilities,” says Rubin. “But with the growing senior population in our country, we are asking suppliers to focus more on non-acute care, on the types of products nursing homes need, such as texture-modified foods and portion-controlled items.”

Mantel adds that his company also has seen a growing desire on the part of not-for-profit organizations and institutions, such as camps and convents, to become part of a GPO.

“As we expand our classes of trade, making sure we can satisfy all of our members will become a challenge,” he explains. “Acute-care agreements are not portable to a convent, for example. We will have to redefine our supply chain strategy.”