

Group Purchasing & Administrative Fees

A broad range of industries harness group buying power to yield significant cost savings using the vendor-based contract administrative fee model.

Healthcare group purchasing organizations (GPOs) save hospitals and the patients they serve billions annually.

GPOs achieve savings in part through vendor-fee arrangements - a model that has existed for more than a century in healthcare, and has recently been widely adopted by other industries and by the federal government.

GPOs operate under a "Safe Harbor" to a federal anti-kickback statute that is unique to healthcare.

In 1987, Congress enacted the GPO Safe Harbor - which was one of 23 safe harbors enacted and reflected existing GPO business practices - to help hospitals and healthcare providers protect GPO cost savings critical to the overall healthcare supply chain.

Government and Many Industries Use Vendor-Based Fees to Reduce Costs to Consumers:

GOVERNMENT PROCUREMENT

Federal agencies such as the U.S. Departments of Defense and Veterans Affairs leverage group purchasing to obtain discounts and services on over \$5b in annual purchases. The U.S. Communities Government Purchasing Alliance, a private-sector GPO, serves more than 44,000 local and state governments, school districts, higher-ed institutions and non-profits, and charges suppliers a 1-2.5% admin fee to participate in the program, which funds organization operating expenses.



FOOD SERVICE

Food service GPOs focus exclusively on the \$400b+ food service marketplace. The largest, Foodbuy, has over 12,000 operator participants and contracts with more than 500 food manufacturers and distributors. Foodbuy generates revenue through administrative fees paid by suppliers once negotiated purchasing agreements and contracts are finalized.



ONLINE MARKETPLACE / ONLINE GROUP BUYING

eBay, the world's largest e-commerce marketplace, charges vendors a "final value fee" based on the final sale price of each item. Popular online GPOs such as Groupon and Living Social leverage volume purchasing across a broad range of products and services to obtain consumer discounts. Groupon and Living Social typically recoup from vendors an administrative fee of 30-50% of revenue generated from the sale.



CONSUMER CREDIT

Leading credit card companies charge an interchange reimbursement fee - or a fee paid between banks for the acceptance of card-based transactions - for credit card transactions. Typically, a merchant or vendor's bank pays the customer's bank a small percentage of the transaction value. In the United States, the interchange fee is usually between 1-3%, which the banks then also use to pay for cardholder perks like rewards programs.



HOSPITALITY INDUSTRY

International hotel chains Marriott and Hyatt formed group purchasing organization Avendra in 2001 to procure products and services for the hospitality and lodging industries. Avendra members leverage more than \$4b in annual purchases to obtain discounts. More than 7,000 hospitality businesses, including hotels, casinos, cruise lines, restaurants, and golf clubs access vendor-fee-based group purchasing through Avendra.



NON-PROFITS, SMALL BUSINESSES, CHARITIES AND CHURCHES

As donations and donors have declined, non-profit organizations, small businesses and charities have sought to offset declining revenue, and reduce program and administrative costs by leveraging the volume buying and discounts negotiated by group purchasing organizations. Non-profit GPOs negotiate fees with vendors, generally between 1-3% of the total purchase price.

