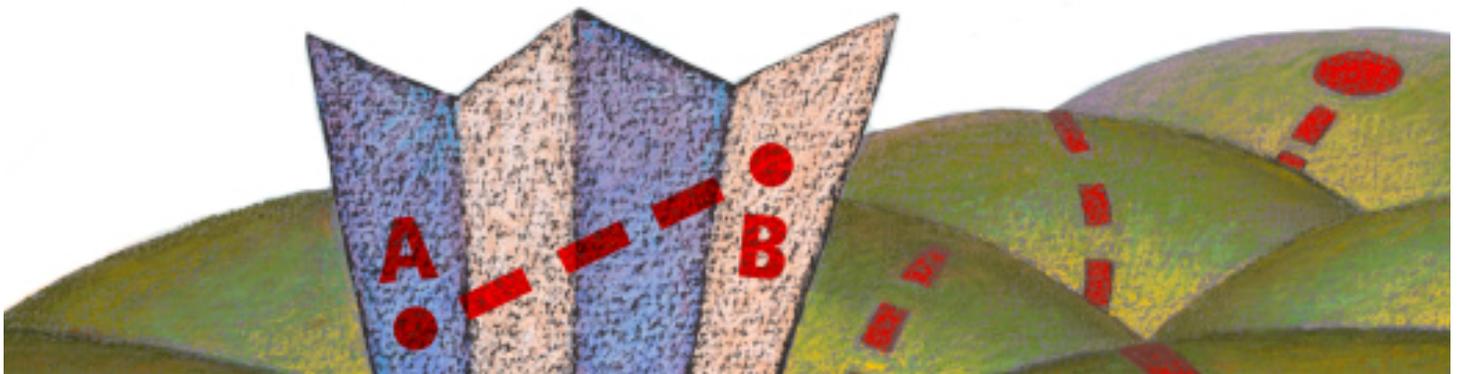


Strategic Initiatives

Mapping Success in the Food System
Discover. Analyze. Strategize. Implement. Measure.



The Hale Group's GPO Strategic Initiative Practice Group

IFMA'S FOODSERVICE 2020 STRATEGIC ISSUES SERIES: GPOs IN FOODSERVICE — LANDSCAPE & GROWTH OPPORTUNITIES

Summary of Forum Proceedings

The Hale Group is collaborating with the International Foodservice Manufacturers Association to present a series of topical forums for IFMA's membership, all related to The Hale Group's White Paper: **Foodservice 2020 – Global, Consolidated and Structured**, which examined its body of food system knowledge to identify future trends and success models. A forum was held February 9, 2012. Contributing were The Hale Group and Tibersoft.



Introduction

The Hale Group, in collaboration with the International Foodservice Manufacturers Association (IFMA), presents this Summary of Forum Proceedings capturing the presentation and discussion that took place at the recent forum in **IFMA’s Foodservice 2020 Strategic Issues Series: GPOs in Foodservice – Landscape and Growth Opportunities**. The agenda for the meeting follows.

Agenda Topics

- ➔ Welcome and Overview
- ➔ Antitrust Statement (Faegre Baker Daniels LLP)
- ➔ GPO Landscape (The Hale Group)
- ➔ Lessons from Healthcare GPOs (The Hale Group)
- ➔ Managing Information (Chris Martin, Tibersoft)
- ➔ Breakout Sessions (The Hale Group)
 - Breakout Session #1: Landscape of the Future
 - Breakout Session #2: Growth Through Visibility / Compliance
 - Breakout Session #3: Strategies & Execution

The Hale Group was represented by Bill Hale and Laura MacPhail, and was joined by healthcare GPO and supply chain partners from Basswood Partners, Tom Hughes and John Strong. Chris Martin represented Tibersoft.

Background: Foodservice 2020

In 2009, The Hale Group published a white paper: **Food-service 2020: Global, Consolidated & Structured**. It was first presented at the IFMA Presidents Conference.

A number of key conclusions emerged from this study:

- ➔ Consumers will focus on value
- ➔ Foodservice brands and supply chains will be global
- ➔ Operator purchasing will be significantly further consolidated
- ➔ Operator-manufacturer relationships will be more formally structured and governed

Another key finding, “operator demand will be aggregated,” is illustrated in the table to the right. **The Big are Getting Bigger.**

Regardless of whether purchasing will consolidate to this degree, the trend is clear.

	Share Controlled by Consolidated Operator Purchasing	
<i>Segments</i>	2009	2020 (P)
Restaurants	58%	72%
Lodging	70%	85%
Retail Foodservice	80%	90%
Recreation	55%	70%
Airlines	100%	100%
Business & Industry	75%	85%
Colleges & Universities	57%	65%
K-12	65%	85%
Healthcare	80%	95%
Others: Government, Agencies, Institutions	70%	80%
Total	62%	79%

Source: Foodservice 2020



Discontinuity in the market has created an opportunity for a new class of trade: GPOs and Co-ops. The table at right illustrates pricing discrepancies contributing to this trend. Therefore, The Hale Group believes conditions are right for GPOs to expand in foodservice over the period 2010-2020.

	Class of Trade and Case		
	Street Account	National Account	Premium to Street Accounts
Manufacturer Price to:	\$28.00	\$24.00	17%
Distributor Fee to:	\$5.60	\$2.40	133%
Operator Landed Cost	\$33.60	\$26.40	27%

Source: The Hale Group Estimates

The marketplace is attracted to GPOs and Co-ops since the pricing disparities between large consolidated purchasing groups, i.e., chains and smaller independent purchasers, is significant. In fact, the difference from large to smaller is as much as 40% delivered pricing. Furthermore, trade spending on promotional sales activities is now 18% of every dollar spent (includes promotions, trade shows, deviated pricing, etc.) and this is about evenly shared: 50% on distributors and 50% on operators. With manufacturer sales at \$165 billion, this equals \$29 billion in trade spend. Operators seeking / searching for savings in the “value-environment” have found GPOs can be a useful partner.

Pricing Disparity
Ample Source of Trade Dollars
+ Highly Receptive Operators
= Rich Targets for GPO

GPO Landscape

A recent report pegs GPOs at 10% of business today. The Hale Group projects GPOs’ market shares will be 15-18% of manufacturer sales by 2020. They gain share in a “battle for share” operating environment.

The leading GPOs control the majority of the marketplace. The foodservice GPOs – Avendra, formed by a collaboration between Marriott and Hyatt; Foodbuy, formed initially to meet Compass’s purchasing needs; and Entegra, with its roots in Sodexo – are extending their reach into new segments.

Restaurant chains are increasingly outsourcing purchasing, as well.

	Manufacturer Sales 2010 ¹		Share of Manufacturer Sales 2020 (P)	
	Sales (\$B)	Share (%)	Concensus ²	Foodservice 2020 ²
Top 250 Chains	\$58	35%	37%	39%
GPOs	17	10	15	18
Top 25 FSMs	12	8	10	11
Other Contracted	15	9	10	11
Total Contracted	\$102	62%	72%	79%
Street	63	38	28	21
Total	\$165	100%	100%	100%

Source: (1) Technomic; (2) Feedback from Foodservice 2020 Audiences; (3) The Hale Group’s Foodservice 2020



Examples: Group Purchasing Organizations

	Est. 2009 Food Purchases	3 Year Est. Growth	Est. Segment Focus / Penetration	Comments
<i>Company</i>	<i>(\$M)</i>		<i>Total</i>	
Premier	\$2,600	+15%	5,100	<ul style="list-style-type: none"> ▪ Largest foodservice GPO program ▪ Member-owned
HPSI	1,300	+10	7,800	<ul style="list-style-type: none"> ▪ Expanding into foodservice management (C&U, etc.)
Amerinet	600	+15	7,300	<ul style="list-style-type: none"> ▪ Focus on leveraging data to drive savings
Novation / HPPI	550	+20	1,200+	<ul style="list-style-type: none"> ▪ Expanding into C&U and B&I with Provista division
MedAssets.	500	+20	4,300	<ul style="list-style-type: none"> ▪ Contracts with 1,100+ manufacturers, distributors, other vendors ▪ Alliance with FoodBuy
Total Top 5	5,500	+15	25,700+	
All Other (29+)	1,650	+8	14,200+	
Total Healthcare-Oriented	\$7,200	+12%	39,900+	
Avendra	3,000 (all products)	+15	4,500	<ul style="list-style-type: none"> ▪ 900 suppliers ▪ Expanded beyond hotels to clubs, cruise lines, restaurants, etc.
FoodBuy	5,000 (all products)	+15	12,000+	<ul style="list-style-type: none"> ▪ Drives the procurement and distribution of goods and services on behalf of all Compass companies in the Americas
Entegra	2,000	+10	10,000	<ul style="list-style-type: none"> ▪ Serving hospitality, multi-units and non-commercial segments
Total Key Players	\$17,200+	+12%		

Source: Foodservice Director, The Hale Group Ltd. estimates

If GPOs grow their share of foodservice from 10% in 2010 to 15 - 18% in 2020, the financial scenario for foodservice manufacturers is quite significant. There will be a major impact on manufacturer margins.

Annual Cost of Incremental Foodservice Manufacturer Business in 2020	Annual Costs 2020 in Billions of Dollars
Gross Profit Margin Reduction	\$1.2 - \$2.0
Administrative Fees	\$0.2 - \$0.3
Marketing Fees	\$0.3 - \$0.5
Margin Reduction in 2020	\$1.7 - \$2.8

The scenario at left assumes industry growth in 2010 dollars of 1% annually; price reduction to "GPO versus Street" of 15%; GPO administrative fee of 3%; and GPO marketing / compliance fee of 4%.

The GPO will have a major impact on the market demand structure and financial returns for manufacturers.

Therefore, The Hale Group believes that current foodservice manufacturers tend to approach



GPOs on a tactical basis – “price” which will lead to broader margin erosion . . . a margin downward spiral. Foodservice manufacturers should approach GPOs strategically, i.e., decide what role GPOs will have in your customer portfolio; involve a total GPO business strategy and end with execution and measurement.

GPOs are a segment of business requiring a segment strategy.

GPOs as a segment will be significant in the foodservice industry, so, foodservice manufacturers should consider:

- ➔ Do GPOs provide real value and for whom?
- ➔ How to select the GPOs to partner with?
- ➔ What are the rules of engagement with a GPO?
- ➔ What is working or not working?
- ➔ Best practices for offensive strategies? Defensive strategies?
- ➔ Best practices in contracting? In achieving compliance?
- ➔ Also touch on trade promotional practices.

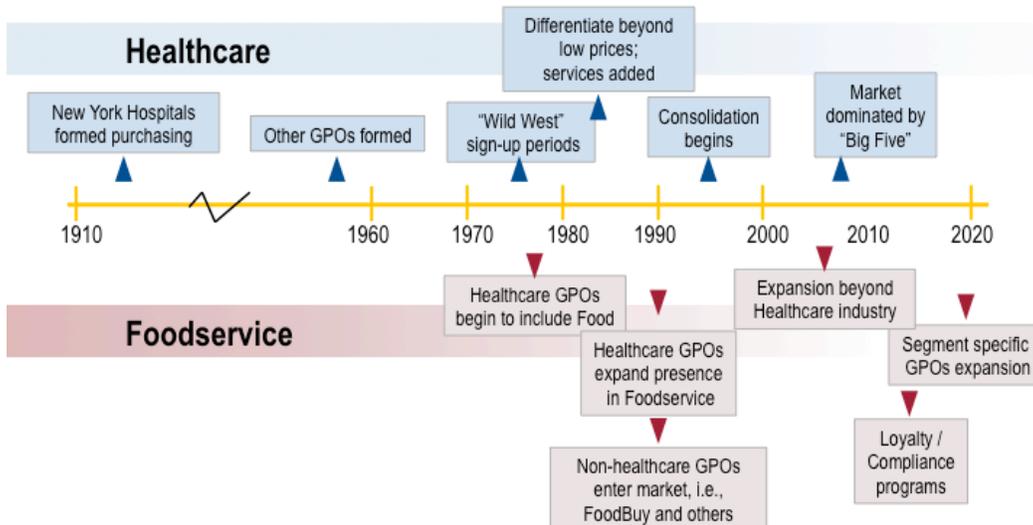
In essence, how do you change market reality into a business opportunity?
What are best strategies and best practices?

Healthcare GPO Model / Foodservice Insights

To gain insights into the GPO operating environment, The Hale Group decided the healthcare industry would provide a window on the foodservice GPO future. GPOs are well extended and developed in the healthcare supply chain – *75% of all purchases are through a GPO.*

Given the dominance and longevity of GPOs in healthcare, they can provide insights into the GPO business development strategies, future direction and practices. There are 9 topic areas below regarding the evolution of GPOs in healthcare, with an associated set of observations about likely foodservice evolution.

1. GPOs have a long history in healthcare.





GPOs in healthcare have been evolving over the last century and that evolution has significantly accelerated over the last five years.

In 1990, foodservice saw a significant increase in contracting through GPOs. At the same time, non-healthcare GPOs such as Foodbuy have grown very fast. Basswood Partners believe that the foodservice industry could catch up to healthcare in a very short period of time.

2. In the early 2000s the healthcare marketplace was dominated by 5 GPOs, accounting for more than 93% of transactions.

- ➔ Premier
- ➔ Amerinet
- ➔ HPG
- ➔ Novation/Provista
- ➔ MedAssets

“Offspring” or “child” relationships of these 5 GPOs have complicated the marketplace. They are typically regional or segment-specific. The key question is why would a manufacturer that has a national GPO give a better contract (price) to a regional GPO? The answer is: if there is more guaranteed compliance. But what happens when the national contract needs to be renegotiated?

The key question discussed was: Are the offspring the beginning of the end of national GPOs in the marketplace or a new beginning? That is why foodservice manufacturers need to be very strategic in their planning and disciplined in their execution.

Healthcare GPOs are limited in their percent of administrative fees (CAFs) at 3% because of government requirements called safe harbors. Not the same for other industries such as foodservice. They can charge anything the market will bear.

Foodservice insights

Watch for further development of parent-child GPOs; segment specific GPOs will further develop; and a tiered marketplace for manufacturers will emerge: Tier 1 - “Biggs,” Tier 2 - “Regional / Segment.”

3. GPO national pricing quickly becomes the street price, thus, many buyers will demand pricing lower than the national GPO contract.

GPOs are not selling product, but rather they are selling a price point and service. Therefore, to retain existing customers, distributors / manufacturers drop price to be competitive. This results in illogical pricing in the marketplace.

Foodservice Insights

Pricing transparency will be a reality at the operator level. If foodservice manufacturers do not develop pricing policies and strategies, pricing overall will continue to trend downward and margin and promotional dollars will be shared with GPOs. Pricing discipline by manufacturers will become top priority – pricing decisions at a strategic level, not at the field level.

4. The GPO business model is very profitable, with a value proposition that can be quite compelling.

GPOs organizationally have a highly focused target customer set; and have highly-focused functional requirements, populated by highly specialized skills and competency requirements.



In addition they have no plant, inventories, receivables, very limited payables, credit risk or debt. Their revenue stream is driven by Contract Administrative Fee (CAF) 3% plus Promotional Income and Compliance Programs.

The barriers to entry for running a GPO are very low. There are three essential elements to successful GPO contracting.

- ➔ Enough volume to interest manufacturers
- ➔ Ability to drive compliance to the contracts/commitment to the programs operated by a GPO
- ➔ A contracting strategy that is generally focused on one or possibly two brands of product to drive the greatest level of member participation with a single supplier

Margins on revenue for most healthcare GPOs run in the 50% to 80%+ range. Other revenue is generated and/or collected by many GPOs. This revenue consists of:

- ➔ Cash Rebates. The manufacturer generally sends these rebates to the end customer (hospital). Some GPOs collect these, and are required to return 100% of the rebates to the member, because government reimbursement programs consider these “discounts” against the cost of products purchased.
- ➔ Promotional Fees. Some GPOs offer special promotions and collect additional fees from the manufacturer to cover the cost of the promotions. Some of these fees may go back to members for higher levels of compliance to a contract.
- ➔ Private Label Products. Two GPOs (Novation and Amerinet) operate “private label” or co-label programs for their members. There are additional fees charged to manufacturers for participating in these programs. Some of these fees may go back to members for higher levels of compliance to a contract.

The 80% gross margin allows the GPO to refund monies based on their member loyalty. So if hospitals commit to many GPO contracts, then the member/buyer will get a significant refund/rebate. Those monies are budgeted by the buyer so that next year they need to get at least the same refund. Pricing will be a downward spiral unless a strong strategic plan is developed.

Foodservice Insights

The operating cost of a GPO is in the range of \$0.22/case, and fee per case \$0.61 /case or more – ample room for rebates to members. This provides GPOs with an opportunity to provide lower prices plus rebate checks. GPOs’ financial model works well in the foodservice environment.

5. Manufacturers align with GPOs in healthcare for a number of reasons.

GPOs gain manufacturer interest for a number of reasons. The GPO allows for limited pricing fluctuation, so a known margin contribution – not negotiating every day and protects / maintains market share. They provide access to a select group of customers and reduced access to other non-GPO suppliers while providing another route-to-market and product advocates.



It is important to remember that GPOs vary in terms of their ability to effectively contract, implement contracts and gain member compliance to contracts. There are a number of reasons to consider using one or more GPOs as part of a national accounts sales strategy.

However, it is important to understand a GPO's contracting style before electing to contract with them. There are a number of variables associated with contracting style. These may include:

- ➔ Sole, dual, or multi-source contract awards
- ➔ Promotional programs offered by the GPO
- ➔ The GPO's field sales support
- ➔ Special commitment programs (such as cash bonuses) for achieving certain levels of compliance
- ➔ GPO "sub-groups," based on geography or affiliation

Foodservice Insights

GPOs can provide a mechanism to help retain existing business and potential to capture new business and access advocacy for a targeted set of customers. During the contract period, there is relatively stable business.

6. Selecting the GPOs to participate with is based on their target customer / member base and their ability to deliver business.

As a manufacturer approaches the GPO segment, it must decide on which GPOs. The decision should be based on fit with targeted customers / segments; ability of GPO to gain / drive compliance; "Size of the prize," in terms of volume they are able to generate; capability and willingness to share information on volume, transactions, etc.; and positive and disciplined working relationships.

Selecting the right GPOs as a part of your strategy is critical to insure good results. While there are six 'major' GPOs, there are also subsets of these national groups. Having a national contract with a GPO is generally required before participating with any of their sub-groups.

The size of a GPO is not an indicator of their style, strategy, or performance. There are several key factors to consider when examining the GPOs you may wish to work with. These factors include:

- ➔ The GPO's demands for member compliance
- ➔ The amount of contract marketing and support you will receive
- ➔ The GPO's contracting strategy:
 - Sole source
 - Dual source
 - Multi-source
- ➔ Whether you will be asked by geographic or other sub-sets of the group for a contract, based on the national agreement
- ➔ Demands for Contract Administrative Fees (CAF) versus the value you perceive you will receive
- ➔ The types of products you will place on contract
- ➔ Fit with your overall national accounts strategy
- ➔ Amount of volume the GPO is able to generate for you
- ➔ Pricing levels versus the markets the GPO is serving



In the final analysis, your perceived “fit” with a particular GPO is the key, along with your ability to have a solid working relationship with the selected GPOs.

Foodservice Insights

The foodservice GPO selection criteria will be similar to healthcare manufacturers. Over time, there must be a metric to measure ROI of participation with specific / individual GPOs.

7. GPO strategies cut across and impact the organization in many ways; so a clearly communicated, cross-functional implementation / execution of GPO strategy is required.

GPOs require sales, program management, marketing, administration services, promotional / marketing, and finance and IT support. Further, they overlap other segment, product, and distributor strategies; thus, require coordinating mechanisms, and often create new pricing levels in the market and thus, impact existing levels.

Understanding the exact business strategies of the GPO is critical for long-term success. The GPO needs to understand your business and sales strategies as well. Once you have a GPO contract, your work is only beginning. If you do not plan for implementation, and utilize your national accounts and field sales force together, you cannot optimize the benefits of the contract. The incentives of your national accounts and field sales forces should be aligned. Consider incentives for others in the organization that will play a key role in contract implementation, including areas such as customer service, sales training and marketing. *Everyone* in your organization should be aware of the contract and why you have it; what products are covered; how it is being implemented; and who to contact with questions.

Unfortunately some GPOs only sell “price.” Therefore, it is important that you completely understand your competition’s GPO strategies, and how they vary from group to group. Focusing on a limited number of GPOs that can bring you the best results can be a very viable strategy, especially when you are just getting started with GPOs.

A focused approach has a number of advantages. Focus brings with it a better allocation of your limited resources and more effective use of the field sales force. The ability to gain key learning about what works well, and what does not *for your organization*, is important to improve.

Foodservice Insights

Foodservice manufacturers should recognize that a GPO strategy is more than a price, if it is to be successful and sustainable. A GPO strategy impacts your other business partners such as distributors. So GPO strategies must be business strategies and holistic in their position.

8. The success model associated with structuring and executing a GPO contract all starts with understanding the nature and operational capabilities of the GPO.

This includes but is not limited to: sales and marketing assistance, willingness to be a partner, compliance levels, number of contracts per category, etc. Consider and understand the contract rewards and the defined KPIs. Next, link contract with a well-conceived and articulated strategy and action plan to include contract roll-out plan. Build in measurement of results to assure performance and executional refinements and align incentives for field sales force to support implementation.



In addition, you should insure that you understand and are using all of the tools that the GPO provides to you for contract implementation. This includes things such as:

- ➔ “Splash” pages announcing the contract
- ➔ High visibility in the GPO electronic catalog
- ➔ Introduction and training of your contract to the GPO’s sales and customer support staff
- ➔ Special launch promotions
- ➔ Assistance with targeting significant accounts, to gain contract traction

Foodservice Insight

It appears that the success factors associated with the healthcare model are the same for foodservice GPOs strategies.

9. In dealing with and through GPOs, always be prepared with a defensive strategy in case the contract is not awarded.

A defensive strategy would include having an up-to-date list of GPO members / customers and contact information, and having a brand loyalty retention program ready to launch if there is a loss of GPO contract.

Preparedness if the contract is not granted comes from ongoing activities. Conduct quarterly meetings with the GPO when you have a contract and regular meetings with them even if you do not. Also, maintaining GPO member contact lists monthly when you have a contract to insure that your company and representatives are well-known within the members of the GPO.

Avoid “Hail Mary” type moves at the last minute if you learn you are not going to be awarded or re-awarded a GPO contract. By then, it is too late.

Foodservice Insight:

For foodservice manufacturers, a defensive strategy would be quite similar to the healthcare experience.

Executing a Successful GPO Strategy: Sample Questions to Ask Yourself

There are many strategic elements and choices related to your GPO strategy. The first question is: do I want to use a GPO at all or do I want to place most/all of my business through GPOs? Of course there are several strategies in between. However, if you choose to participate in the GPO segment remember that successful relationships are based on mutual trust and mutual measurement against pre-established goals. Goals should be clear and stated upfront so they are understood. These goals might include developing a pricing strategy to

improve and maintain margins. The goal might be to rapidly introduce products through collaboration with your GPO partners and gain market share by developing a GPO business strategy and execute with discipline.

If you have seen one GPO, you have seen one GPO. Thus, you need to ask what products should I put on contract and what market segment should I focus on when working with the GPOs.



Executing a Successful GPO Strategy: Continuum of National Accounts Contracting



1. Before you start, have a **Comprehensive National Accounts Strategic Plan**. Consider all your alternatives for all the GPOs you are interested in before you start writing contracts. Chances are you will need a strategy for each one—they are all different, and you may not want to contract with everyone. Know your targets.
2. A **Consistent Defensible Pricing Strategy and Value Proposition** is critical. You do not want to find yourself in a position where some of your best customers are price disadvantaged in the market. Pricing has a way of becoming exposed rapidly, and with the advent of electronic data interchange and new software it can happen faster than ever. Be prepared — no one is going to want to listen to excuses.
3. If you do not have an **Effective Contract Implementation Strategy** the GPO will not either. It is critical that you have a playbook, and everyone within your organization knows how it will work. Manage the details down to the individual account.
4. You must have **Aligned Incentives Across Your Organization**. If you do not, you may find various areas working at cross-purposes against each other to retain profits, commissions and pricing levels that are no longer called for in the GPO contract. Everyone who plays a role in contract implementation and management should receive recognition for their part if the results are positive.
5. Have **Tools to Measure Performance** before you get started. Set goals, and watch KPIs on a monthly basis. Be transparent, and include everyone in your organization who needs to know when you distribute the KPIs.
6. Be in a position to handle unexpected events. Have a **Defensive Strategy to Retain Business** in case of Non-Award or Re-Award. Understand your position before the award or re-awards are made; be in a position to understand where your business is, and how running scenarios can defend it.

It is important to have patience with a new contract. It generally takes 12 to 18 months to gain significant traction, even with the best contract implementation plans. Keep score of implementation successes and failures — and use them to modify your approach.



Breakout Sessions

Workshop attendees were assigned to tables designed to foster discussion by balancing companies by product type. There were three breakout sessions. Each table discussed the topic amongst themselves and then shared key observations with the group.

The topics addressed were:

- ➔ Landscape of the Future
- ➔ Growth Through Visibility / Compliance
- ➔ Strategies and Execution

Breakout Session #1: Landscape of the Future

Breakout groups discussed the following questions:

- ➔ Do we think foodservice will follow the healthcare trajectory?
 - Why or why not? How do you see it?
- ➔ What lessons resonate with you from this morning?

A number of themes emerged during the breakout groups' report-out.

Foodservice Following Healthcare GPO Trajectory

- ➔ The trajectory seems clear, with most agreeing the GPOs will continue to gain share
 - However, given the consolidated purchasing power that already exists in multi-unit operators, GPOs' opportunity to gain share in foodservice is constrained.
 - Rebates are seen as the engine of operator growth. "Golden handcuff" effect is seen after a very large operator (such as a healthcare system) receives a six to seven figure rebate check.
 - The counterpoint to this is that many, if not most, operators do not run their business on a day-by-day basis making decisions based on rebates.
- ➔ Given that healthcare, as a foodservice segment, comprises only 5% of the market; there was some agreement that this segment "is already there."
- ➔ There is a great deal of nervousness in the distributor community about the growing influence of GPOs, given:
 - The "street's" share of the market is already shrinking given chain growth
 - There is a great deal of "churn" with operations closing and opening all the time.
- ➔ It is expected that GPO penetration will vary dramatically by segment, thus requiring suppliers to incorporate this into their strategies.
 - On a segment-by-segment basis, those that require the most support by suppliers, e.g. schools with their nutritional needs, may have some insulation from GPO membership.

Lessons that Resonated

- ➔ Taking a strategic approach, with a well-thought out plan, consistently executed, is an absolute requirement for dealing with GPOs.
 - Make the choice to contract with GPOs – an informed choice based on research and information.
 - Determine resource requirements in advance, rather than constantly putting out fires.



- Data and information are critically important.
- Must build compliance tracking mechanisms into contracts.
- ➔ GPOs have nothing to do with food or with the consumer experience. It is all about \$\$\$ and not at all about food, which provides some protection in that street operators want and need flexibility in their purchasing to maintain their competitive position.
 - Club stores and cash-and-carry stores provide options for street operators to buy outside of a contract.
- ➔ As suppliers, dealing successfully with GPOs will require a new approach to doing business that emphasizes service and incorporates pricing strategies and negotiating postures that are new.
- ➔ As new GPOs are spun-off or otherwise emerge, it will be important to negotiate contracts to accommodate.
- ➔ Allying with GPOs to market to operators represents a new, un-defined model, but one that is seen to have real value.
 - Incorporating consumer insights to increase demand and market the value of product offering.
- ➔ The point was also made that operators will make demands on GPOs to evolve their business model to meet operators' needs, e.g., allow for the very necessary task of keeping the menu fresh with new items.
- ➔ Choosing GPOs to partner with whose membership fits well with your product offering is key.
 - Focusing resources on the appropriate GPO to provide the best results, based on best fit with business.
- ➔ The point was also made that manufacturers, rather than considering distributors "just drayers", should work with their distributors to help them differentiate to better serve operators' needs, thus precluding the operators' desire to join GPOs.
 - In the case of multi-source GPO contracts, the distributor is the one who chooses which manufacturers to stock.
- ➔ Foodservice can benefit from healthcare's learning along the way. Manufacturers are getting smarter. Negotiating proper details up front is critical, e.g., hook pricing to data transparency.
- ➔ Commitment versus compliance raised concerns.
- ➔ The best defense against GPOs is having products that are "sticky," i.e., operator demand for product transcends contract concerns, and / or having brand loyalty that also transcends the GPO contract.
 - A recognized, demonstrable value proposition based on brand strength and / or product quality / performance.

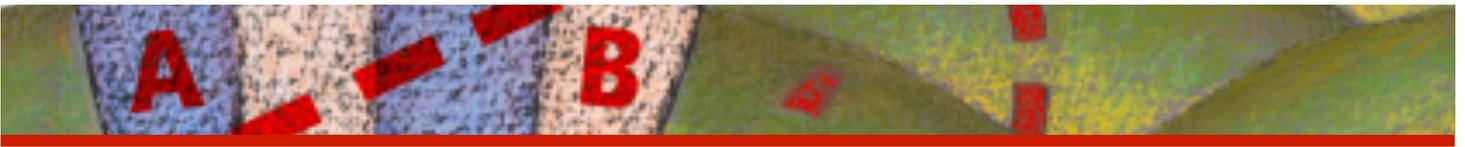
Breakout Session #2: Growth Through Visibility / Compliance

The individual tables discussed the following questions.

- ➔ What types of information do you need to build and execute a viable GPO strategy?
- ➔ What do you see as barriers to compliance?
- ➔ What tools might be useful to build compliance?

Report-Outs

- ➔ A great deal of information is required to build and execute a viable GPO strategy. The following were noted (but this is not necessarily a comprehensive list).



- At the front end, detail what the GPO will provide as their contribution to the contractual relationship.
- How the GPO is structured.
- How the GPO goes to market.
- What alliances the GPO has.
- How they monitor and control compliance. How they assure compliance.
- What type of sales resources they deploy in the market.
- Strength, by segment
- Membership list, to the unit level. Characteristics of members.
- Is the RFP for Single-Source or Multi-Source?
- Determine if it's worth taking margin / case to go through a GPO who is selling to your existing customers on the "promise" of incremental case sales
- ➔ Barriers to compliance noted by the group included:
 - Number one is simply lack of information or information that is essentially useless.
 - The learning curve to working effectively with a GPO is 18 to 24 months.
 - Internal sales structure. The focus has to be on how to leverage GPOs' sales force.
 - Distributor relationship can be a barrier. The supplier needs to "matrix out" products and volume. A GPO will not be able to force stocking of a product if the volume is less than 5 cases per week, for example.
 - Lack of distributor control. Understanding what's happening at the level of individual DCs.
 - Reluctance to invest in data management system and / or staffing required to manage data and information.

Tools for Compliance

Tools to build compliance include:

- ➔ Product evaluations.
- ➔ Insist on compliance reporting that drills down to product category so that it is meaningful.
- ➔ Work closely with internal GPO compliance team.
- ➔ Robust claim information to the unit level, allowing for identification of duplicate claims.
- ➔ Data and information. One of the questions to be answered is who bears the cost of collecting and analyzing the data.
- ➔ Create a strategy that is based on an exercise of evaluating, by segment and by category, where sales are today.
- ➔ Staff appropriately to be able to handle compliance tracking and reporting.

Additional points made during this discussion included:

- ➔ It is important for suppliers to ensure that their internal teams are all on the same page when it comes to their GPO strategy.
- ➔ The amount of regionality in product offerings today makes it very difficult for a GPO to do justice to their members when it comes to national contract.



- ➔ GPOs, by design, constantly change the players involved in contracting to prevent the development of relationships.

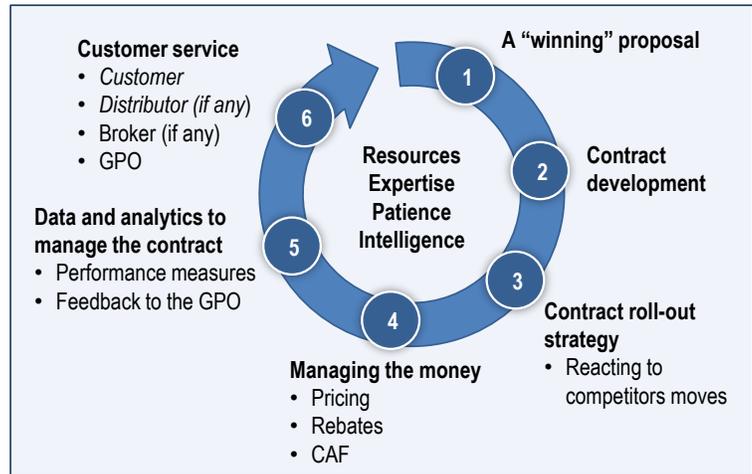
Breakout Session #3: Strategies & Execution

The groups were asked to review the model presented by The Hale Group as Six Success Factors for Executing a GPO Strategy.

- ➔ Does this model work?
- ➔ What would you add / delete?

The following observations were made:

- ➔ A key step in the process is a comprehensive situation analysis.
 - Evaluating the business potential for a contract, including new business potential and margin erosion, must be undertaken.
- ➔ “Intelligence” should be moved to the top in the center of the diagram, indicating the crucial importance of this strategy component.
 - Intelligence regarding the GPO, the industry / competitors, and internal circumstances.
- ➔ Regarding performance, paying incentives to surpass the previous year was noted as an important consideration for addition to the contract.
- ➔ The point was made repeatedly, as it had been during the day, that a comprehensive pricing strategy with defined bands or tiers is necessary, not just a strategy for GPO pricing.
- ➔ For long-term success, accurate data available to know whether incremental growth is delivered by the GPO is critical. “You only know who you pay trade income to; you don’t know where the product goes on the street.”



Overview of The Hale Group

The Hale Group provides strategic counsel to the food system focusing on mapping and navigating opportunities for profitable growth – discover, analyze, strategize, implement, measure. Founded in 1986, its client base is global in nature and progressive in thoughts and action. The underlying philosophy of the firm’s efforts on behalf of its clients, and in collaboration with them, is to formulate strategies that enable clients to break through the market clutter and identify platforms for growth.

Our products and services include:

- ➔ Strategy
- ➔ Organizational Effectiveness
- ➔ Strategic Planning Facilitation
- ➔ Opportunity Analysis
- ➔ GPO Strategy Development
- ➔ Go-to-Market Strategies
- ➔ Evolution of the Foodservice Distributor and Implications for Manufacturers
- ➔ Operator-Oriented Strategies



The Hale Group's GPO Strategic Initiative Practice Group Staffing

➔ **William C. Hale, President**

Mr. Hale, the founder of The Hale Group, Ltd., has an extensive history of providing strategic counsel to the various participants in the food system. He has consulted with clients ranging from first stage processors and food manufacturers to chain restaurant operators and retail grocers. Recognized as an expert in the food industry, Mr. Hale is well known for his ability to identify emerging trends and new opportunities within the food system. Mr. Hale has conducted benchmark studies concerning strategic business and market planning, economic and competitive assessments, identification of market opportunities, and development of go-to-market strategies and programs. Mr. Hale received his B.S. in Food Science and Technology from the University of Massachusetts, Amherst and his M.B.A. from Boston College.

➔ **Robert C. Veidenheimer, Principal**

Mr. Veidenheimer has over twelve years experience in the food industry working in both the foodservice and consumer segments. Prior to joining The Hale Group, he held senior marketing positions at Pepperidge Farm, Reckitt Benckiser's French's Food Division, and James River Corporation. His areas of expertise include growth strategy development, go-to-market alignment, and new product opportunity assessments. Mr. Veidenheimer received his B.A. from Trinity College, CT and his M.B.A. from the University of Virginia's Darden Graduate School of Business Administration.

➔ **Laura MacPhail, Principal**

Ms. MacPhail has a twenty-plus year consulting career in the food industry. Her practice has centered on marketing strategy development, brand awareness and positioning, product innovation, and customer satisfaction. Her particular expertise is foodservice operators: their needs, their business practices, and their approach to supply chain partners. She is a former Board Member of the Womens Foodservice Forum, was chair of that group's Research Committee, and currently serves on the Virtual Events committee. For her contributions to the foodservice industry as Chair of the Market Data Committee of IFMA, she received the IFMA Sparkplug Award. Ms. MacPhail received a B.A. from Cornell University and an MBA from Michigan State University's Broad College of Business, with a concentration in the School of Hospitality Business. She is the Founder of Foodservice Immersion™, a professional development program for foodservice suppliers. She spent several years in restaurant operations.

The Hale Group is pleased to include on its GPO team two consultants from the healthcare sector, representing Basswood Partners.

➔ **Tom Hughes**

Mr. Hughes is the Executive Director of the Strategic Marketplace Initiative (SMI), responsible for the overall operation of a consortium of healthcare providers, medical device manufacturers and distributors; the moderation of bi-annual Forums; and oversight of industry initiatives. He brings nearly 40 years of industry experience to the group. Hughes was the Vice President of BD Healthcare Consulting & Services and the founding principal of Concepts in Healthcare. He is recognized for pioneering new approaches for hospital-vendor partnering to reduce total delivered cost of supplies and GPO strategies for the healthcare industry. He has a B.S. in Business Administration and an M.B.A. from Suffolk University, Boston. Hughes is a respected industry advisor and academic instructor. He is a past president of HCMMS, a member of AHRMM, and a recipient of its Leadership Award in 1994. Hughes was recently recognized by Healthcare Purchasing News as being among supply chain management's most influential people.



➔ **John Strong**

John is a 38-year veteran of the healthcare industry with leadership experience in healthcare providers, suppliers and service providers, and group purchasing organizations. The Bellwether League honored John for “his outstanding contributions over the years to healthcare supply chain management, development, innovation and leadership.” He combines talents that include hospital administration, entrepreneurship, national accounts contracting, group purchasing, the role of President and CEO, and healthcare industry consultant. John retired from Nexera, Inc. a wholly owned subsidiary of the Greater New York Hospital Association, where he was Senior Vice President of Management Services. John served as the founding President and Chief Executive Officer of Consorta, a \$5 billion dollar group purchasing organization serving more than 350 hospitals for more than ten years. Prior to Consorta, John served in a number of senior executive positions at Premier, Inc., a leading national healthcare alliance. He was a key architect of Premier’s contracting programs, member service and marketing operations for the group purchasing program, increasing purchasing volume to more than eight fold. John received his Master’s Degree in Business Administration from DePaul University, Chicago, Illinois. He received a Bachelor’s Degree in Business Administration University of Wisconsin-Eau Claire.

For more information about The Hale Group or to view Strategic Initiatives, visit our website at www.halegroup.com, call us at 978.777.9077, or email us at hale@halegroup.com.