

Group Purchasing

An examination of the growing group purchasing business model across multiple industries

I.	SUMMARY.....	3
II.	HISTORY	4
III.	EXAMPLES.....	5
	A. Online Group Buying	
	1. Groupon.....	5
	2. LivingSocial.....	6
	B. Foodservice	
	1. Foodbuy.....	7
	C. Government	
	1. U.S. Communities Government Purchasing Alliance.....	8
IV.	END NOTES	9

I. Summary

In the United States, a group purchasing organization (or GPO) is an entity created to leverage the purchasing power of a group of businesses or individuals to obtain discounts from vendors based on the collective buying power of the GPO members.ⁱ

Group purchasing or group buying is a simple concept that adheres to the mentality of “power in numbers.” In essence, groups of buyers come together and leverage their size to gain access to large discounts on products or services.

Group purchasing is used widely across many industries to purchase raw materials and supplies, and is common practice in industries that include:

- Federal government
- Industrial manufacturing
- Healthcare
- Electronics
- Agricultural industries
- Grocery industry

Many GPOs are funded by contract administrative fees paid by the vendors with whom GPOs conduct business and to whom GPOs provide a market for products. These fees can be set as a percentage of the total purchase or as an annual flat rate. Additionally, some GPOs are funded by fees paid by the buying members, a kind of subscription fee for the right to purchase these discounted items as part of the “group.” Still other GPOs are funded by a combination of both of these models.

Members participate based on their purchasing needs and their level of confidence in what should be competitive pricing negotiated by their GPOs. A common thread across all industries is the fact that GPOs are optional; the end buyer is never forced to use the GPO contract, but often finds it to be a better deal than one negotiated individually with the vendor.

Group purchasing organizations have evolved over time and have given way to many modern iterations, including online group buying or “social” purchasing, a rapidly expanding sector including such companies as Groupon and LivingSocial.

II. History

A Brief History of Group Purchasing

Historically, informal groups such as cooperatives have organized to buy goods directly from a wholesaler at a discounted price. The official group purchasing model originated in the healthcare space in 1910 when the first group purchasing organization (GPO) was established by the Hospital Bureau of New York.

Hospitals purchase a vast array and volume of products, and over time the GPO model became popular within the healthcare space, with 40 GPOs established by the mid 1970s and more than 100 by the 1980s. Currently, there are more than 600 organizations in the United States that participate in some form of healthcare group purchasing. About 30 of the 600 are true GPOs that negotiate sizeable contracts for their members. The remaining organizations may offer their members access to larger groups' contracts and negotiate agreements with regional vendors for some services.ⁱⁱ

Since the inception of the first GPO in 1910, group purchasing has moved into other areas such as the food and beverage industry, the industrial manufacturing industry, the agricultural industry, and the federal government, which formed GPOs to purchase raw materials and supplies at discounted rates.

While many companies have been able to aggregate purchasing within their own industries, individual consumers have not historically had a platform where they could organize themselves for group buying. The Internet has changed that, as groups have formed in chat rooms and message boards, and eventually, at the end of the twentieth century, companies emerged in the marketplace to facilitate group buying online.

Mercata.com, established in 1999, was one of the first group buying websites. The idea, then known as "demand aggregation," allowed consumers to group together and purchase goods at low prices through volume discounts from a selection of electronics, sports equipment, software, jewelry and appliances.ⁱⁱⁱ MobShop.com and Letsbuyit.com (a European company) were among the other major players in the market. These sites were free to use for consumers and earned revenues by taking a percentage from businesses that sold the products.

It wasn't until Groupon was established in 2008 that group buying evolved into its present form online. The site's success has led to a number of similar sites; there are over 200 group-buying sites in the U.S. alone, including LivingSocial, Gift City, and Tippr, whose parent company, Kashless, acquired Mercata's portfolio of group buying patents.^{iv}

III. Examples of Group Purchasing

A. Online Group Buying

Groupon

How it Works:

Groupon is the market leader in the online “group buying” industry. Available in 140 cities worldwide, Groupon offers deals in more cities than any other group buying company. For every city, every day, Groupon presents a discount for a niche market item (such as a spa, restaurant, or products such as paintings or tiles), and if enough people sign up for the deal, the coupon is activated and the consumers get the discount. The coupons are then sent to the buyers by email. Conversely, if the quota is not reached, the deal is off, and no one is charged for what they promised to buy.

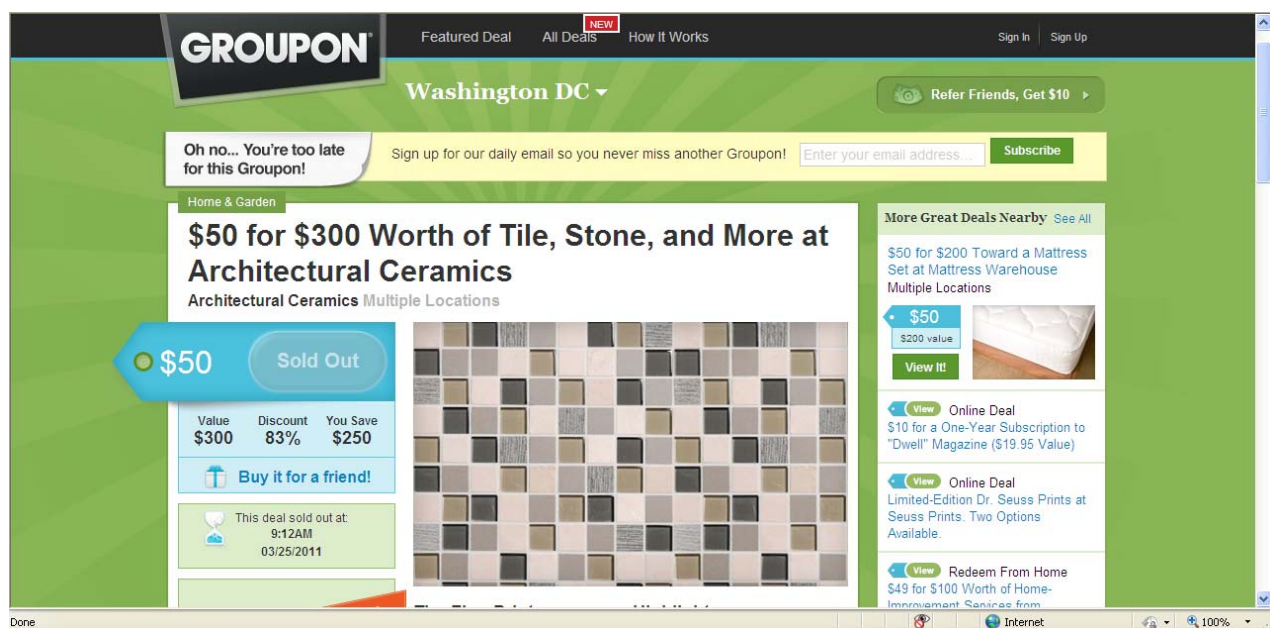
Consumers subscribe to Groupon for free and receive the daily discount deals through email. Consumers can also see deals on the Groupon website (pictured below). Groupon features deals involving products/services offered by local businesses in some selected locales based on the target consumer base.

How it Generates Revenue:

Groupon’s revenue methods are not unique - consumers pay Groupon by purchasing the deal. Groupon then pays the local businesses after taking an administrative fee—typically a 40%-50% share of the revenue generated by the deal. Consumers then redeem their coupons with local businesses and receive their discounts.

Value of Company:

Groupon, still only three years old, was recently valued at a minimum \$6 billion and as much as \$25 billion, and is now in almost every major city across the US. It is preparing for an IPO, possibly in 2011.



LivingSocial

How it Works:

Groupon's main competitor, LivingSocial currently operates in 26 cities across the United States. The LivingSocial model is slightly different from Groupon's, as there is no minimum number of people required to make a deal valid. Like Groupon, the discount can only be activated—and then used by the purchaser—after the deal's run-time has expired. LivingSocial typically offers each deal for exactly 24 hours on weekdays.

The company's fortunes turned when Amazon.com invested \$175 million in LivingSocial, then partnered to form a deal that gave purchasers \$20 in Amazon merchandise for \$10. This deal brought in over 1.3 million sales, or 1.3 million new LivingSocial members.^v

How it Generates Revenue:

Nearly identical to Groupon, the consumer pays LivingSocial when the deal is purchased. LivingSocial then pays the local businesses after taking an administrative fee, typically a 30%-50% share of the revenue generated by the deal. Consumers then redeem their coupons with local businesses and receive their discounts.

Value of Company:

Reportedly seeking a \$2 billion valuation, LivingSocial recently received a \$2.9 billion valuation, after it was reported that it generates close to \$50 million in monthly revenue.^{vi}



B. Foodservice

Foodbuy

How it Works:

Foodbuy is a foodservice/grocery GPO that focuses exclusively on the \$400 billion foodservice marketplace^{vii}, including food and food-related purchasing for multi-unit foodservice operators.

Foodbuy is the in-house purchasing operation for the foodservice section of Compass Group North America, a division of UK-based foodservice provider Compass Group. With a purchasing volume of over \$5 billion, Foodbuy has over 12,000 operator participants and over 400 suppliers.^{viii}

How it Generates Revenue:

It is estimated that Foodbuy generates around \$60 million in revenue annually.^{ix} Foodbuy generates its revenue through administrative fees^x paid by suppliers/manufacturers once negotiated purchasing agreements and contracts are finalized.

Value of Company:

FoodBuy is a private company and information regarding its value is currently unavailable.

foodbuySM | [About Foodbuy](#) | [FAQ](#) | [Contact Us](#)

[Home](#) | **Home**

- [Operator Programs](#)
- [Member Access](#)
- [Information for Suppliers](#)
- [Contact Foodbuy](#)
- [Concierge by Foodbuy](#)
- [Canada](#)

Customized Programs, From The Industry Leader

With \$10 billion in annual purchasing volume, Foodbuy is the largest procurement organization in the U.S. dedicated to foodservice. We offer customized purchasing programs that save you money by augmenting your existing supply chain and business strategy.

From our network of **more than 500 leading national, regional and local providers**, we bring you comprehensive coverage of virtually all Food and Beverage categories, as well as Operational Supplies and Equipment, Administrative Services, Maintenance Products and Comprehensive Technology programs.

When you work with Foodbuy, there's **no broad bundling of programs or unrealistic compliance minimums**. Instead, we offer you the freedom to customize the portfolio of products and services that will best deliver real economic value immediately – and seamlessly – to your business. Pricing stability, savings, product safety and assured product availability are just a few of the Member benefits we deliver, without any upfront fees.

Our vast data resources, including proprietary tracking and analytical systems, enable our team of professionals to provide your organization added insight that will drive greater economic value and savings.

And for those who need it, we offer industry-leading sustainability programs, local sourcing options and minority supplier support.

C. Government

U.S. Communities Government Purchasing Alliance

How it Works:

U.S. Communities Government Purchasing Alliance is a national group purchasing service/government purchasing cooperative, providing government procurement resources and solutions to local and state government agencies, school districts (K-12), higher education institutions, and non-profit organizations.^{xi} U.S. Communities was founded by five national sponsors and over 70 state, city and regional organizations.

U.S. Communities has over 44,000 participating agencies, from both the public and nonprofit sectors. U.S. Communities combines the purchasing power of these agencies and gives discounted pricing on thousands of brands from suppliers nationwide. There are no costs or fees for these agencies/organizations to participate.

How it Generates Revenue:

Each contract supplier pays a 1% - 2.5% administrative fee to participate in the program; these fees fund the operating expenses of the organization.^{xii}

Value of Company:

U.S. Communities is a non-profit organization.

The screenshot shows the homepage of the U.S. Communities Government Purchasing Alliance. At the top left is the logo, a stylized 'U' with a red-to-blue gradient, followed by the text 'U.S. COMMUNITIES™ GOVERNMENT PURCHASING ALLIANCE'. To the right are links for 'FAQ | CONTACT US | LOGIN' and a search bar. Below the header is a navigation menu with 'PRODUCTS & SUPPLIERS', 'ABOUT US', 'NEWS & EVENTS', 'PURCHASING RESOURCES', 'SHOP NOW', and 'REGISTER'. The main banner features a blue background with binary code and the text 'U.S. COMMUNITIES ONLINE MARKETPLACE, MAKES PURCHASING EASIER!' with a 'SHOP NOW' button. Below the banner is a row of partner logos: independent stations, PREMIER, US, THE FLOORING EXPERTS, RICOH SAVIN LANIER, Insight PUBLIC SECTOR, Hertz Equipment Rental, and KONE. At the bottom is a 'PRODUCT CATEGORIES' section with five categories: FACILITIES SOLUTIONS, OFFICE AND CLASSROOM SOLUTIONS, TECHNOLOGY SOLUTIONS, RECREATION AND ATHLETIC SOLUTIONS, and SPECIALTY SOLUTIONS, each with a representative image.

IV. End Notes

-
- ⁱ Group Purchasing Organizations. *Wikipedia*. Last accessed April 18, 2011.
http://en.wikipedia.org/wiki/Group_purchasing_organization
- ⁱⁱ Frequently Asked Questions. Official Website of the Healthcare Industry Group Purchasing Association (*HIGPA*). Last accessed April 18, 2011. <http://www.higpa.org/?page=FAQ>
- ⁱⁱⁱ Groupon Research Report. Conducted by Next Up Research. Last accessed April 18, 2011.
<http://www.scribd.com/doc/48117058/Sharespost-Groupon-Research-Report>
- ^{iv} Groupon Research Report. Conducted by Next Up Research. Last accessed April 18, 2011.
http://www.nextupresearch.com/Site/nextup_files/Groupon%20V1.0.pdf
- ^v Why Group Buying is Leaving Local Business Behind. *Mashable.com*. Written January 20, 2011. Last accessed April 18, 2011. <http://mashable.com/2011/01/20/group-buying-local-business/>
- ^{vi} LivingSocial financials leaked: \$2.9 billion valuation, \$50 million monthly revenue. *Venturebeat.com*. Written April 16, 2011. Last accessed April 18, 2011.
<http://venturebeat.com/2011/04/16/livingsocial-valuation-leaked/>
- ^{vii} Zoominfo Profile: Foodbuy, LLC. Last accessed June 23, 2011.
<http://partners.zoominfo.com/Search/CompanyDetail.aspx?CompanyID=14795175&cs=QF4cGn08&pc=indeed>
- ^{viii} Foodbuy Statistics & Bios: Official Foodbuy Website. Last accessed June 20, 2011.
<http://www.foodbuy.com/foodbuy/company.aspx>
- ^{ix} Indeed Company Profile: Food Buy. Last accessed June 21, 2011.
<http://www.indeed.com/cmp/Food-Buy>
- ^x MedAssets 10-K. February 26, 2010. Last accessed June 21, 2011.
http://www.faq.s.org/sec-filings/100301/MEDASSETS-INC_10-K/
- ^{xi} About Us: U.S. Communities Government Purchasing Alliance official website. Last accessed June 23, 2011.
<http://www.uscommunities.org/about-us/>
- ^{xii} Frequently Asked Questions: U.S. Communities Government Purchasing Alliance official website. Last accessed June 23, 2011.
<http://www.uscommunities.org/about-us/faq.aspx>