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Group purchasing activity on upswing in veterinary medicine

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By: Edie Lau
For The VIN News Service

If you want to resonate with veterinarians running independent practices in today's fast-changing economy, offer them bargaining power with big corporate vendors and a way to compete financially with chain-owned hospitals and big-box retailers.

That's the hope, anyway, of many companies offering group purchasing for veterinarians, an arena in expansion mode. Coping with the growing pressures brought by big corporations is a recurring theme in marketing pitches such as these:

"As a strategic alliance of veterinary practices, we have the power to ... negotiate buying deals like VCA, Walmart, etc. ... As a member, you are now one of the big boys, getting the big boy discounted prices."

"Compete in the marketplace against big box stores, pharmacies and online providers."

"Competing with the corporate practices for the type of favorable pricing they receive has been impossible until now."

Group purchasing is not a new concept, but it hasn't been common in the veterinary community. However, the trend of consolidation — players becoming fewer as large companies buy out smaller ones, or entities merge — has opened what purchasing-group entrepreneurs perceive as a prime opportunity.

Richard Morris, CEO and co-founder of The Veterinary Cooperative, maintains that purchasing cooperatives and group purchasing organizations (GPOs) can save a consolidating profession from succumbing completely to mega-corporate ownership.

A former adjunct professor at the Lake Forest Graduate School of Management in Illinois and consultant to cooperative purchasing organizations, Morris said the average time it takes for independent ownership to disappear during a "roll-up" is 12 years, but that outcome isn't inevitable.

"When do independents survive?" he said in an interview. "What I've found in my research is that they survive when a cooperative — or a GPO, for that matter — inserts itself into the industry. The poster child is the hardware industry."

The hardware cooperatives True Value, Ace and Do-it-Best represent virtually all independent hardware stores in the country, according to Morris. Banded together by their respective cooperatives, the independents have been able to hold their own against the national chains Lowes and Home Depot, he said.

Another sector that relies heavily on group purchasing is human health care. According to The Veterinary Club, some of whose executives have backgrounds in health-care group purchasing, [72 percent](#) of purchases hospitals make are done under GPO contracts.

While trying to appeal to small, independent practices is common among purchasing organizations, some welcome practitioners and practices that are part of chains, as well. Generally, purchasing groups argue that they have the expertise to negotiate the best deals on behalf of their members, whoever they are.

"We bring clarity to the marketplace," said Dr. Scott Crawford, president of Veterinary Purchasing Group in Fall River, Mass. "It's a very foggy world."

For example, Crawford said, supply distributors are given discretion by manufacturers in what they charge for certain goods. "Every hospital out there is paying a different price for those products — syringes, gauze, generic antibiotics," he said.



Photo courtesy of Veterinary Hospital Association
Veterinary Hospital Association in Minnesota is one of two member-owned purchasing groups for veterinarians that operates its own warehouse. Purchasing groups negotiate discounts for their members, though most don't handle distribution.



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Leaders of other group purchasing organizations say the same.

"We've (seen) large referral practices paying more on an item-by-item basis than a single-doctor practice," said Dr. Richard Wilkes, president of Purchasing Services, Inc., based in St. Petersburg, Fla.

Jan Miller, president and co-founder of the Veterinary Group Purchasing Organization in Hillsboro, Ore., and a practice-management consultant, said practices often are assured by their vendors that they're getting great deals when, actually, they're not.

"More often than not, I hear, 'Oh, I'm getting special pricing from XYZ. I say, 'Tell me what that is,' and they give me an example, and I know for a fact that the guy down the road is getting it for half that," Miller said. "The sad situation is that the practice owner believes (the salesperson), that that's the best they can do, and they have no way of validating it."

To help practitioners navigate the expanding world of group purchasing, the VIN News Service has compiled answers to some basic questions and composed a guide to active players in the field.

Q: What is a group purchasing organization?

A: It's an organization that bargains with manufacturers and vendors for supplies and services on behalf of its members. The organization seeks better deals by leveraging the collective purchasing power of individual customers.

Q: How much can my practice expect to save?

A: That's variable, depending on the size of the practice. Purchasing groups estimates, when available, cite 10 to 20 percent savings on average.

Q: What's in it for the vendor?

A: Vendors see purchasing groups as a way to bring in new business and be promoted to prospective customers who might otherwise not know of them, according to purchasing group executives.

For a purchasing group to be successful at the outset, its vendors need to believe they will gain from the relationship. For that reason, group members need to be willing to switch, if necessary, or expand the circle of businesses they patronize.

"The ultimate goal for the vendor is to bring on new customers, not so much offer lower pricing to the ones they already have," said Dr. Chris Mau, president and director of member services at Veterinary Group Purchasing Services, Inc.

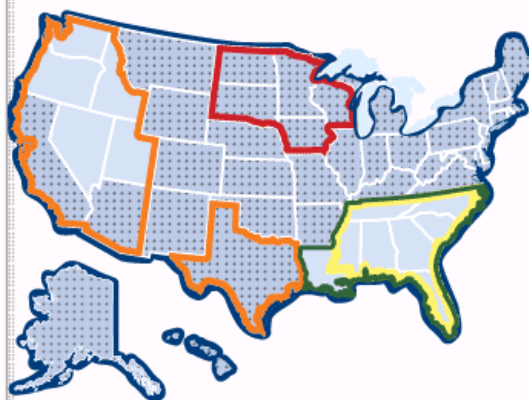
"When my partner and I go out to a new prospective member ... we say, 'If you're not willing to move your business to our contract vendors to save even more money, then this is probably not an organization that will benefit you,'" Miller said.

In allying with purchasing groups, vendors make business partners of their customers, in the sense that the customers are guided to perceive the vendors' success as their own.

As Crawford said: "A GPO is not going to last if they do not get their members to comply; to drive usage to the vendor. If they don't do anything with the (vendor) partners, they're actually hurting the group long-term."

Given sufficient numbers and member loyalty,

Who's who in veterinary group purchasing



The VIN News Service identified 10 active organizations that negotiate group discounts for veterinarians on supplies and services. Some operate nationally, others regionally. They vary widely in structure and scope of services. Not all define themselves as group purchasing organizations (GPOs), but all have a group-purchasing component.

- CapsuleNet**
The Veterinary Club, LLC
The Veterinary Cooperative
Veterinary Group Purchasing Services, Inc.
Veterinary Management Groups
All states
- Veterinary Purchasing Group**
All states except AL, FL, GA, ID, LA, MS, NV, NC, OR, SC, TN, UT, WA
- Veterinary Group Purchasing Organization**
AZ, CA, ID, NV, OR, TX, UT, WA
- Veterinary Hospitals Association**
IA, MN, ND, SD, WI
- Purchasing Services, Inc.**
AL, FL, GA, LA, MS, NC, SC, TN
- Veterinary Products, Inc.**
AL, GA, FL, MS, NC, SC, TN

Note: A few groups have international members and/or vendor contracts that apply outside of the United States.

[Click here](#) to download a directory with brief profiles of each organization.

a purchasing group may become a vendor's required portal to customers within a particular market. Says Miller of GPOs: "The bigger you get, the better you get."

Along the same lines, Crawford noted that manufacturers negotiating with a small purchasing group may offer a discount only if the group exclusively represents that manufacturer, and not its competition. However, he said, larger, stronger GPOs have the leverage to bring to their members multiple vendors of the same product or service.

Q: Why do some organizations serve specific regions rather than the whole country?

A: Because economics and the cost of living varies from region to region, many manufacturers vary their pricing accordingly, Crawford said. For that reason, it makes sense for purchasing groups to work regionally. But regional price differences aren't so entrenched that a purchasing organization can't operate nationally. Some do, although some of their vendor contracts may apply only to certain regions. At the other end of the spectrum, organizations such as The Veterinary Club and CapsuleNet have some deals that apply internationally.

Another reason for regional service relates to delivery. Two member-owned purchasing organizations — Veterinary Hospitals Association in Minnesota and Veterinary Products, Inc., in Georgia — own warehouses, so the majority of their members are located relatively close to their respective warehouses.

Q: What does it cost to join?

A: Price varies widely. Some, such as CapsuleNet, allow free access to all licensed veterinarians. The group with the greatest upfront cost is The Veterinary Cooperative, which charges a one-time, \$2,500 membership fee but has no continuing charges. (The membership fee may be discounted or waived during promotions.) Groups with ongoing membership fees range from \$35 to \$65 per month. Member-owned groups provide annual rebates when financial conditions allow.

Q: How are the companies that don't charge membership fees supported?

A: Their compensation comes from the vendors, usually in the form of "administrative fees" based upon the value of purchases made by their members. Essentially, the organization gets a percentage of the sales. Most purchasing groups use a combination of membership and vendor fees. The vendor fees aren't uniform, but vary by contract. Some organizations may negotiate fees from one vendor but not another.

Q: Can I get details about the pricing deals a particular group offers before deciding to join?

A: Most organizations require their members to keep contract details confidential. Many don't identify their vendors publicly. Group executives encourage curious practitioners to inquire directly to learn more.

Q: I've heard stories of purchasing groups going out of business. Is this a stable field?

A: As in many fields of business, a number of companies have come and gone. Perhaps the best-known failure is that of Professional Veterinary Products (PVP), a veterinarian-owned distributing company. At its peak, PVP had 2,000 shareholders who received discounted goods and annual rebates. [PVP went bankrupt](#) in 2010 after nearly 30 years in operation.

Other entities in the group-purchasing realm have had much shorter lives. [GroupDVM](#), an online buying group similar to Groupon, came on the scene in 2011. By the following year, it had disappeared. Its CEO, Darryl Schraad, was reported in an Aug. 14, 2012, [write-up](#) in National Hog Farmer to be the new president of North American animal nutrition and health for Kemin, a manufacturer of feed ingredients. Schraad did not return phone calls from the VIN News Service.

Another purchasing company, Vet GPO Services, appeared in an [article](#) by Veterinary Advantage Magazine in 2010, but the company currently has almost no presence online. Its CEO, Brandon Vaughan, told the VIN News Service that Vet GPO Services is still in operation, with some 5,300 members and 450 vendors, but is not seeking new members at this time.

Of 10 organizations that the VIN News Service identified as offering a group-purchasing component, half were founded within the past four years. The rest are older than 10 years, with the oldest dating to 1984.

Q: I'm considering trying group purchasing. How can I tell which organization is best for me?

A: Factors to consider include: whether the organization serves your location; ownership structure and philosophy; cost to join; vendors represented; scope of services; purchasing and confidentiality obligations. Brief descriptions of each active group are contained in a [downloadable directory](#).