

Group Purchasing Organizations Q&A

QUESTION

My School Food Authority (SFA) has recently been invited to join a Group Purchasing Organization (GPO). The GPO promises to save my SFA money by securing pricing for items that I use in my SFA at a deeper discount than I'm currently paying. Additionally, the GPO will automatically file for rebates, incentives and other discounts to which my School Nutrition Program may be entitled, and issue a check the SFA less a small administrative fee. Is this legal and may my SFA purchase from a Group Purchasing Organization (GPO) or other buying group of this type?

ANSWER

In general, a Group Purchasing Organization (GPO) is an entity that is created to leverage the purchasing power of a group of organizations (business, SFAs, etc.) in order to obtain discounts from vendors. GPOs are normally funded by administrative fees. These fees may be paid directly to the GPO, from vendors contracted by the GPO; or they may be paid directly to the GPO, by GPO members. Administrative fees may also be set as a percentage of the purchase, or as an annual flat rate. Some GPOs are funded by a combination of both of these methods.

A Purchasing Cooperative is an autonomous association of School Food Authorities (SFAs) that voluntarily cooperate in purchasing practices and share resources for their mutual economic benefit in gaining the greatest competitive pricing and discounts, as well as access to needed products, goods and services. Membership to purchasing cooperatives is voluntary; its membership is used to leverage buying power, share knowledge, and pool administrative resources.

Competition is always the key to any procurement activities. All SFAs must follow Federal procurement regulations when entering into contractual agreements with entities for purchasing goods or services. As a result, SFAs are required to conduct procurement transactions in a manner providing full and open competition, in accordance with Federal regulations 7 CFR 210.9, 210.21 and 2 CFR 200.319. Those requirements apply when an SFA seeks the services of an entity such as a purchasing cooperative, group purchasing organization or group buying organization, or an entity offering to facilitate access to those types of entities. This is true even when services are offered free of charge. Competition ensures the best quality product or service at the lowest price and ensures the lowest responsive offer or bid is always considered.

A SFA may participate in a purchasing cooperative comprised solely of SFAs if the local cooperative was created by the SFAs banding together to form a purchasing cooperative in order to increase purchasing power. This type of purchasing cooperative would follow Federal procurement regulations, including free and open competition for procuring goods and services for its members. In other words, a cooperative that is comprised solely of SFAs procuring as a collective group of SFAs must procure goods in the same manner as an individual SFA.

SFAs wishing to enter into a Group Purchasing Organization (GPO) must follow Federal regulations that require all procurement to be conducted in a manner providing full free and open competition, consistent with 7 CFR 210.9, 210.21 and 2 CFR 200.319. The SFA may only enter into a contractual GPO agreement for purchasing the services of the GPO that adheres to all Federal procurement regulations. Therefore, if an SFA wants to participate in a GPO that procures the goods and/or services of vendors, the SFA must competitively procure the services of the GPO.

Also, remember that Federal regulations prohibit contracts based on cost plus a percentage by SFAs; a firm, fixed price fee should be established during the competitive procurement process. Furthermore, when selling products to SFA members, it is not allowable for GPOs to collect administrative fees based on a percentage of an SFA's sales volume, rebates, incentives or other discounts from the vendors with whom they have negotiated a contract.

For further guidance please review USDA [Policy Memo SP 35-2012](#), Procuring Services of Purchasing Cooperatives, Group Purchasing Organizations, Group Buying Organizations.

Please contact your Zone Operations and Management Consultant about any questions you may have regarding GPOs and buying organizations.