



The Fight for Marketplace Leverage: Focus on GPOs

MAY 2017



Context/Environment

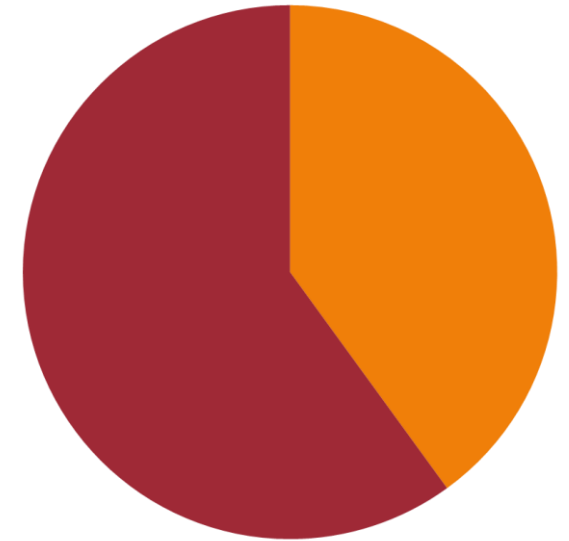
- Slow industry growth continuing
- Pentalex forecasts Independent operators to lead growth, led by large metro areas
- Importance of “street” business
- Contract business differing impacts
- The RFP/trade \$ asks continue unabated



Chains and groups comprise >60%

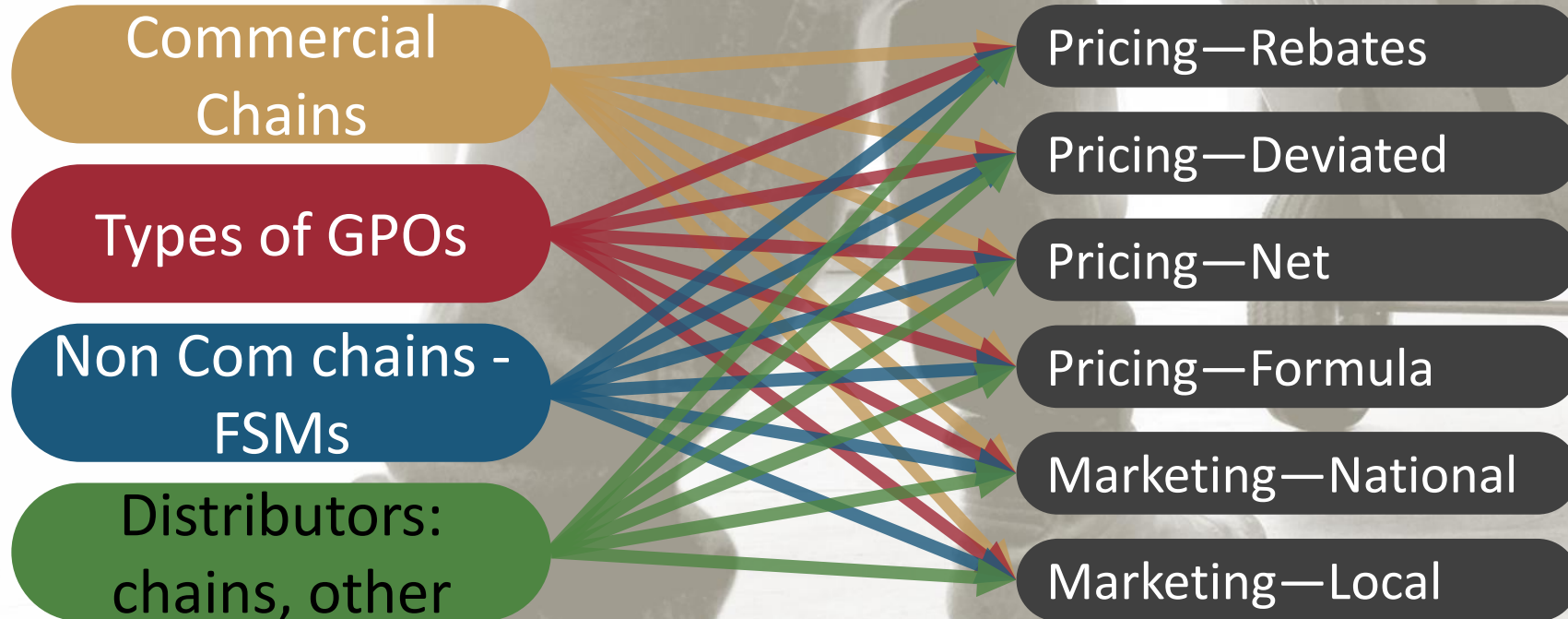


Purchase Volume

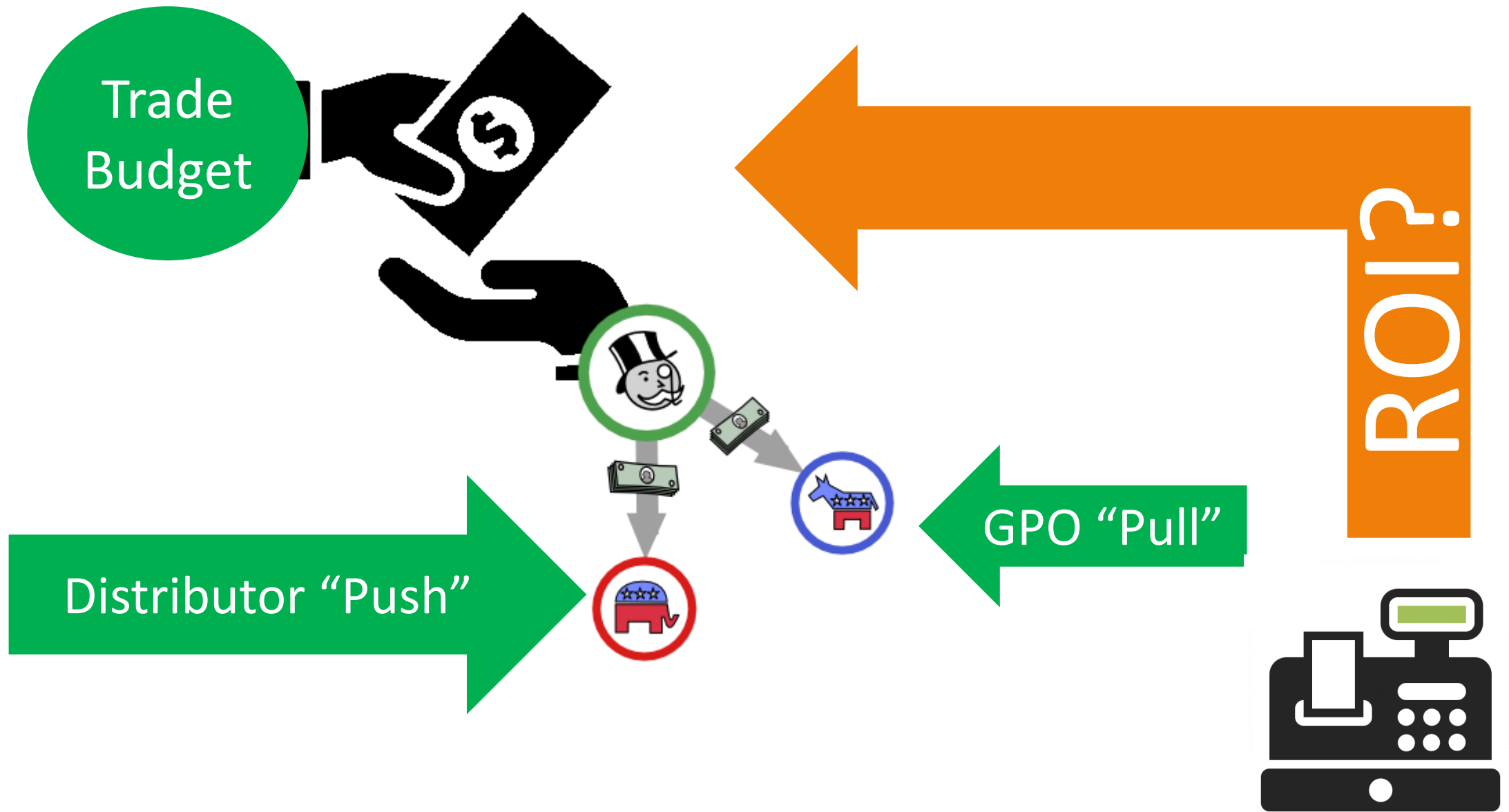


- Independents
- Chains & Groups

Issue: “Feeding Trading Partners”



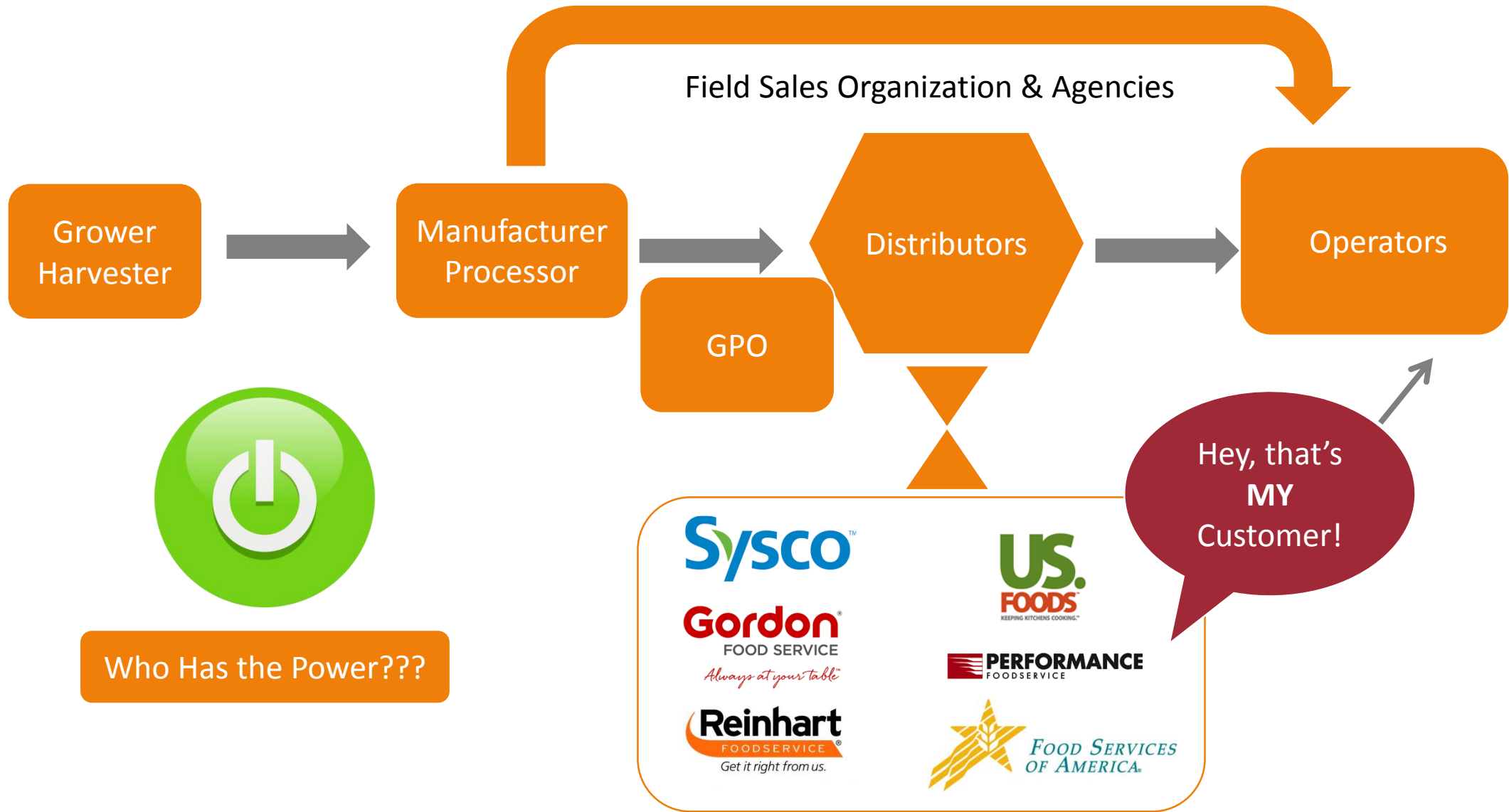
Trade Spending costs are not “fake news or alternative facts”!



Where to spend, where to claw back, how to build your own leverage???

GPOs & Distributors: Investment vs. Insurance





Every trading partner wants to influence & profit from independent operators

Manufacturer Challenge: where to “align & spend?”

Distributors?

- 45%+ of mega-distributor sales to Independents is DPL (and growing)
- DPL Strategic Sourcing translates to lower manufacturer margins
- DPL competes aggressively with manufacturer brands
- Sysco’s recent SS/DPL success increasingly will be emulated by others

GPOs?

- GPOs specify and promote manufacturer brands
- GPOs drive hard bargains but are motivated to keep them
- GPOs strive to compete with DPL’s “transactional advantages”
- Not all broadline distributors will follow Sysco’s lead (GPO enablers)

What works better with your brand strategy?

GPO “Pros”

- Line of sight to the users
- Relationship with users
- Advocacy for National brands
- Purchaser data and analytics
- Heavy “pull” spend
- RFPs with moderate risks

DPL “Cons”

- Limited line of sight to users
- Minimal relationship with users
- Competition for National brands
- Limited data and analytics
- Supply DPL at lower profit
- RFPs with large risks

GPOs continue to grow & prosper

GPO "Types"

"Source GPOs"
(Foodbuy, Entegra,
Premier, Avendra)

"Access GPOs"
(Dining Alliance,
Navigator, VGM/Client
Rewards, Source1)

"I-GPOs"
(Buy Right, Chow
Purchasing, DVPG, Pan
Gregorian)



GPOs growing with no natural predators

- National GPOs have scaled up via “access” GPOs (Foodbuy est. = \$21b, Entegra est. = \$11b)
- Push for price extendibility as well as segment/tier expansion
- I-GPOs, are growing as is expansion of national GPOs pursuit of independents
- Compliance more challenging with smaller/independent operators
- Independent operator growth in GPOs raises risks of operators in multiple GPOs
- Evolution continues from “specified suppliers” to hunting license



But: GPO's = Credibility with Operators

Credibility critical to support from operators



1. Reason for being is to lower costs
2. Offerings beyond food and non food
3. Reports make it seem like GPOs look out for operators
4. "Source of funds" perceived to come from GPO

Core Manufacturer Issues with GPO deals

- Push for price/deal extendibility
- Cost to participate is increasing with no guarantee of new volume
- Data reporting comes from distributors in a variety of formats
- Pursuit of Independent Operators with deals meant for FSMs
- Transparency & % of funds reaching operators



Independent Restaurant Research

Independent Operator Perspectives

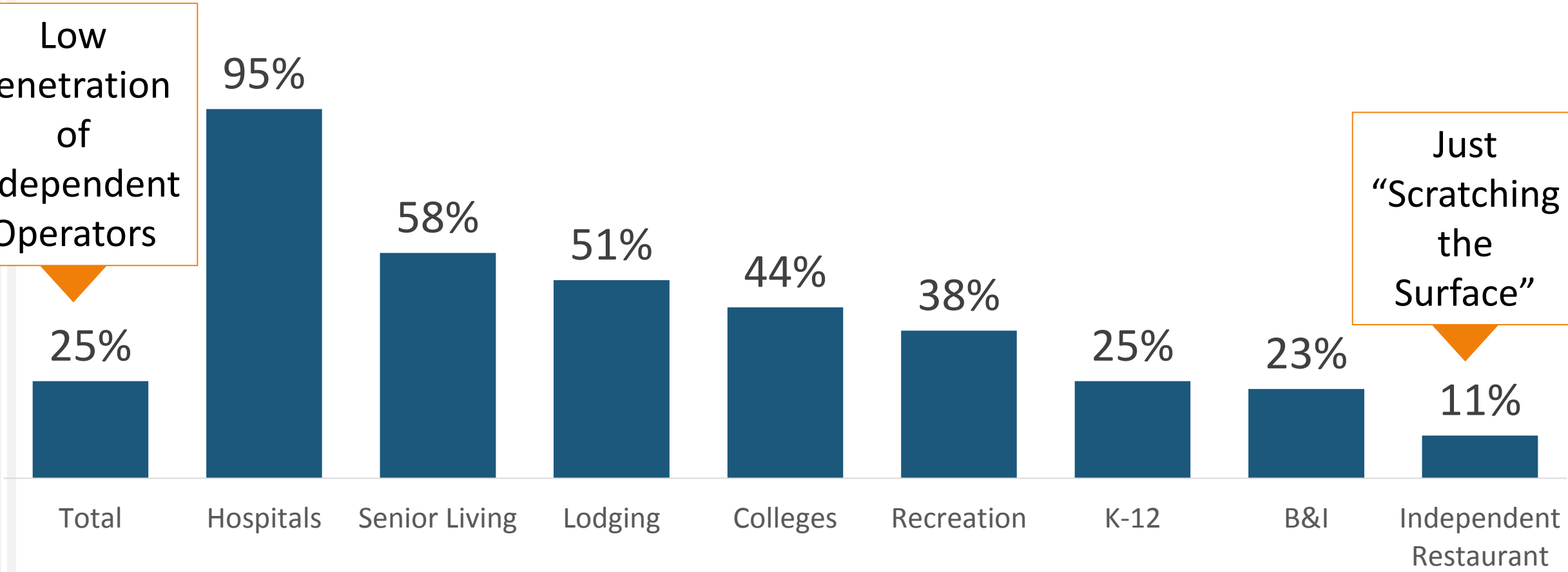
- Survival = Net profit & growth
- Lower COGs is a very high/important focus
- Want great service: on time, accurate
- Want choice: national brands and/or DPL



35-40,000 Independents (including some “non-restaurants”) currently affiliated with GPOs

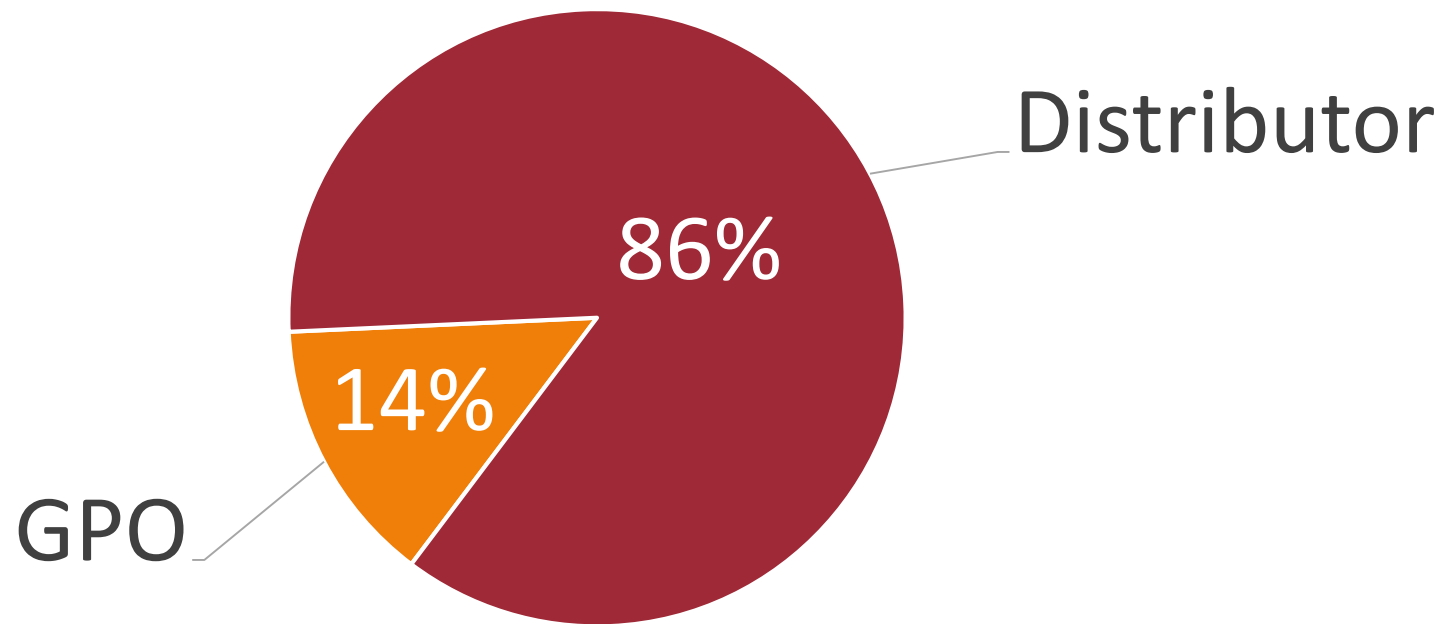
Low Penetration of Independent Operators

Just “Scratching the Surface”



Independents depend heavily on distributors and value their support

Most important relationship



DSRs play a very important role

Who is the best?

	DSR	Mfr. rep/broker	GPO rep
Visibility	80%	11%	9%
Product knowledge	42	50	9
Merchandising ideas	52	34	14
Product recommendations	60	31	9



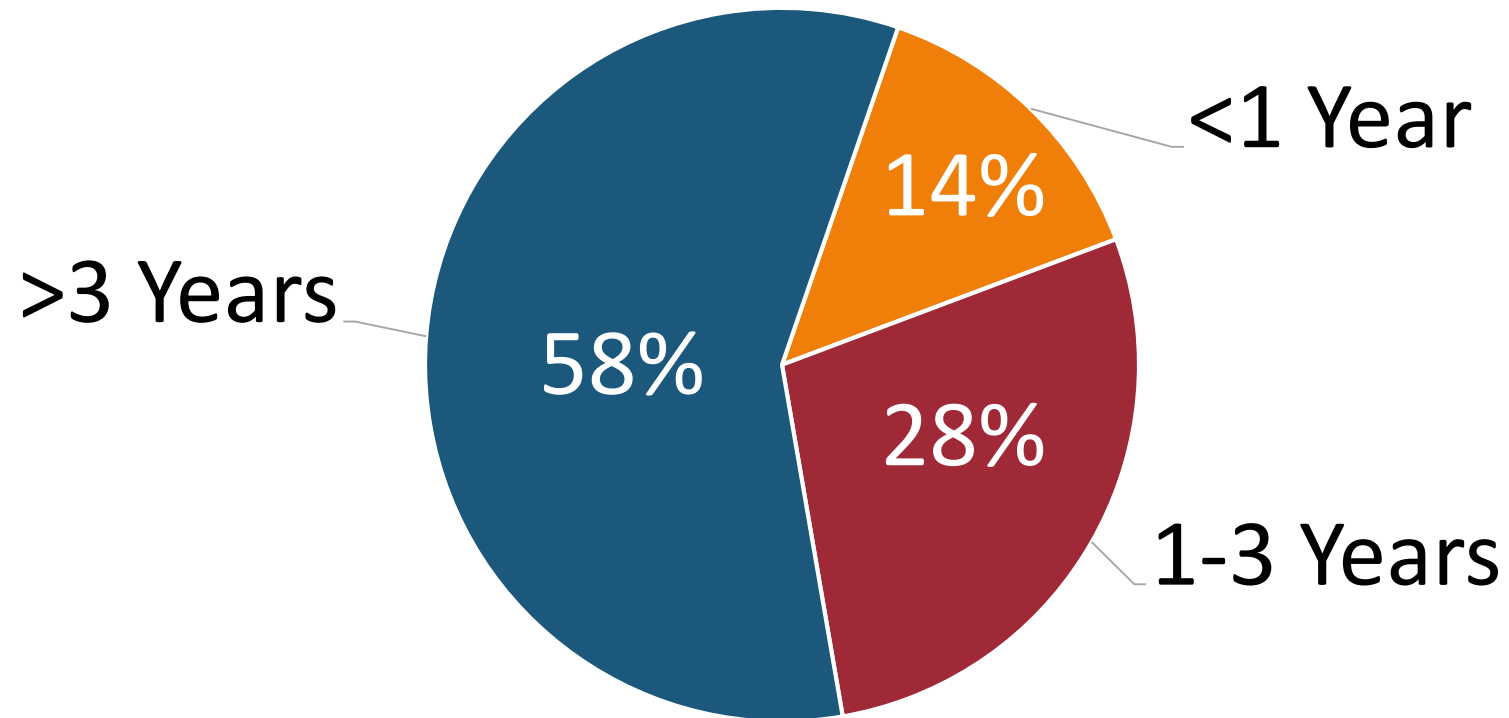
GPO members reflect fragmented universe

- No GPO has >10%
- Operator Co-ops in certain markets
- Local market GPOs exist
- Source GPO extension
- 19% don't know affiliation



GPO members tend to be longstanding

GPO membership



Importance of rebates

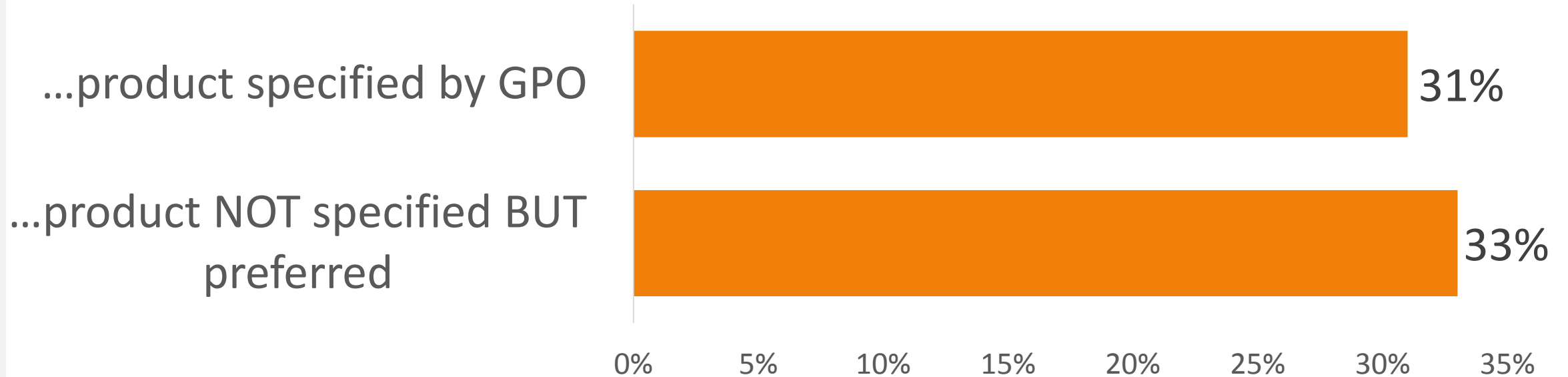
- Rebates #1 reason operators in GPO
- Perceived savings = 15%* (~\$5/case)
- Many don't know actual savings



* On eligible purchases

GPOs definitely influence purchases

Likelihood of purchasing



Only 17% say GPOs have “too much influence”

GPOs tend not to have mandates; when they do, enforcement is limited

GPO mandates

	Yes	No
Designated distributor	54%	46%
Minimum purchases	39 ^{/1}	61
Purchases through designated distributor	33 ^{/2}	67
Enforced compliance	34	66

^{/1} minimum = 60%

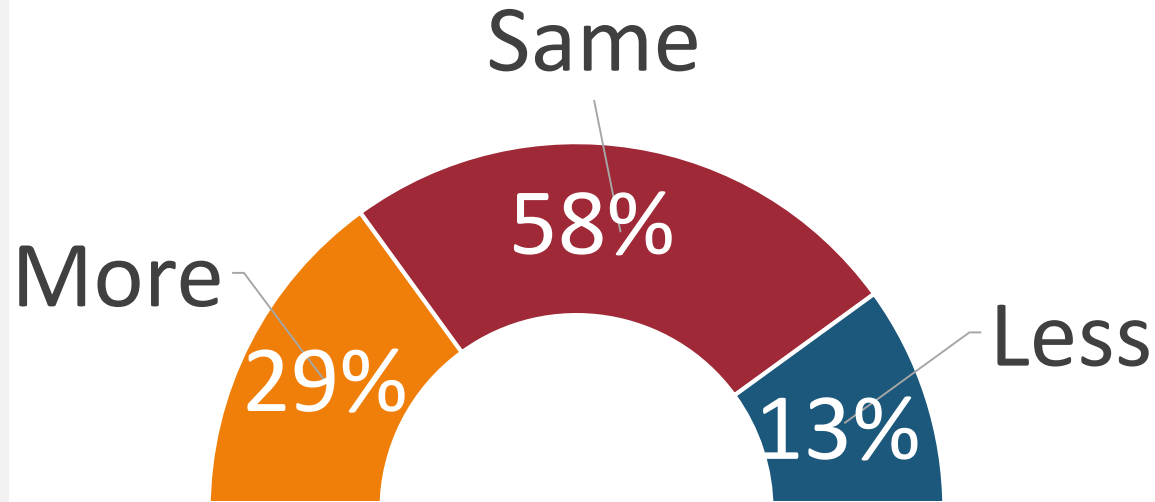
^{/2} minimum = 70%



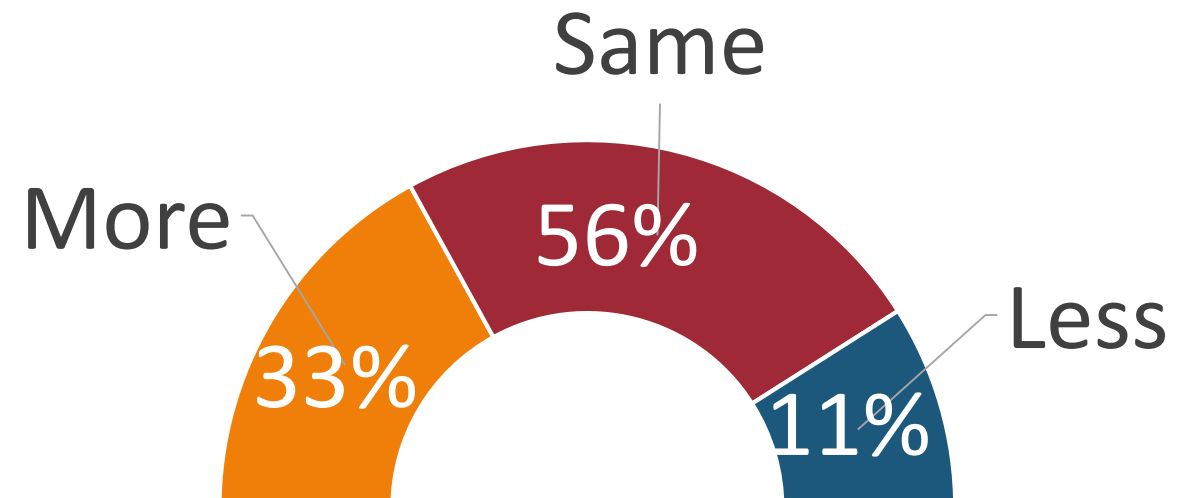
There's a slight move toward more GPO approved products and distributor brands

Purchase trends *

GPO approved products



Distributor brands



* Note: 50% of purchases are through GPO

Favorable customer satisfaction should benefit GPOs

Satisfaction drivers

Satisfaction levels ^{/1}

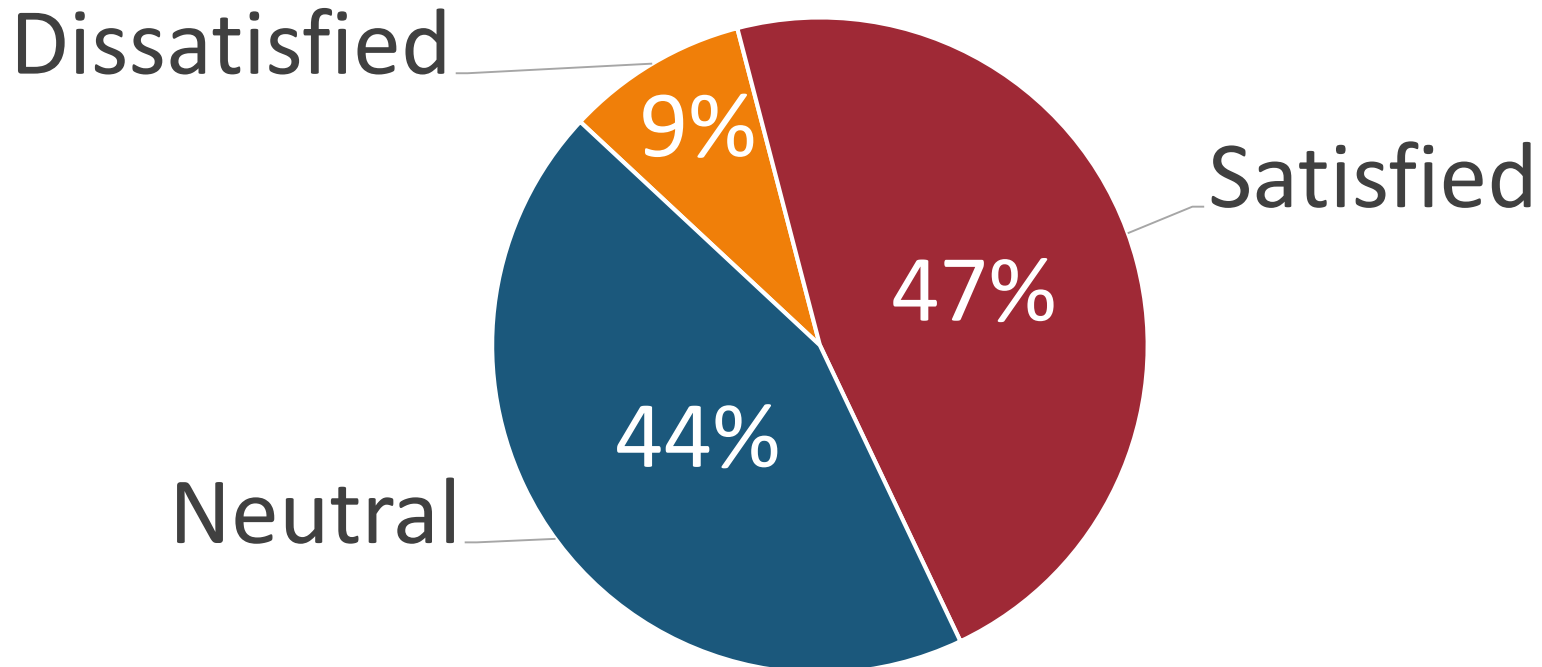


25% believe their GPO participation leads to better distributor service

^{/1} Satisfied less dissatisfied

GPOs are doing a decent job but have room for improvement

Satisfaction with GPO



*1 = totally dissatisfied, 5 = totally satisfied **Average = 3.4***



Members have mixed views on GPO services

GPO services

Service	Valuable	Not valuable
Cost saving analysis	42%	19%
Market insights	37	24
Menu services	33	26
Specialized distribution	32	28
Newsletters	30	27
Supply chain support	28	33

Note: Financial services, and benchmarking data valued by <25%.



Forecast: GPO Penetration of Independent Restaurants

	2017	2022
Number of members	~35,000	55-60,000
Manufacturer “Compliance”	10-15%	15-25%



Strategic & Tactical Challenges

Distributors Covet Independents

- Many would love to take back the operator leverage
- Have “keys to castle” but have commoditized data
- Top 3-5 have most of the GPO business, some geographically aligned
- (How) can a DGPO succeed?



Best Practices = a Range of Desired Outcomes...

- ... reduce spend via “claw-backs”
- ... make spend more effective or efficient
- ... Inhibit or deflect spend increases
- ... incent/position for specific business building outcomes



Pentalllect POV: These “to dos” are on you!

- Separate GPO strategy & tactics from an in depth and maintain a ferocious claw-back effort
- Reach out: there are many best practices. Don't just focus internally
- Watch your contracts: in negotiation, in fulfillment. What's in what's out, swim lanes, when you pay & when you don't
- Seek to only pay once on each case. Eliminate multi-dips
- Beware “price up – deal back”, it is not infinite
- Zero base or YOY budget, “question” trade spend rationale



More on You!

- ◆ Know the data you want & how/who will use it. Meet asks with facts!
- ◆ GPO trade share growing, getting your value or just a bigger cost?
- ◆ ID your best trade spend ROI's (who most influences operator purchasing?). How can you get more of it?
- ◆ Do all you can to measure & drive compliance.
- ◆ ID & how to use your “Critical Strategic Metrics”.



Marketplace Leverage

Opportunities for leverage improvement include:

- Building meaningful differentiation
- Increase customer position via increasing “Pull” and operator loyalty
- Improve decision support

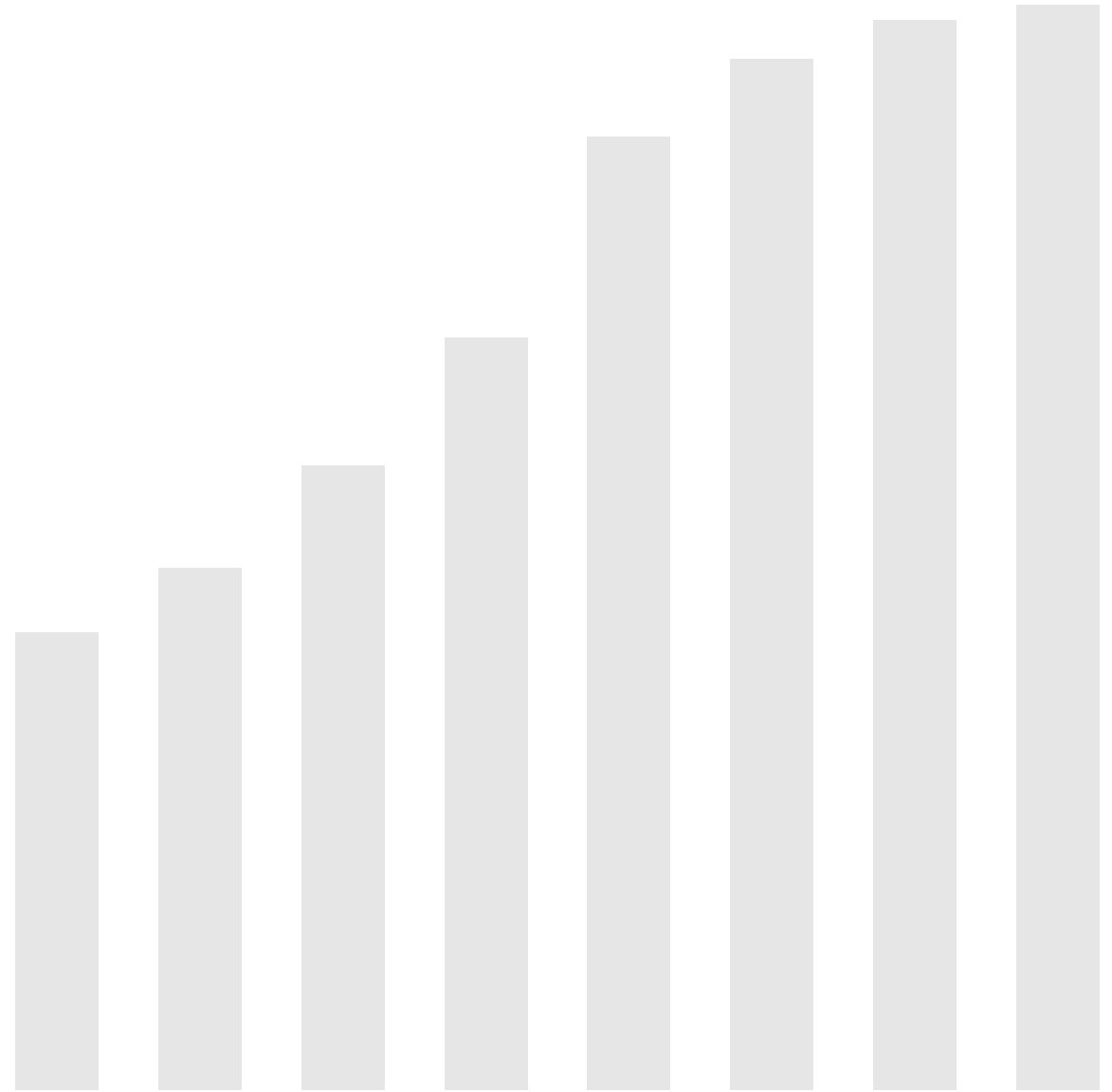


Conclude at the core questions

Critical issues: Achieving “value” from trade spend.....

- How can I drive profitable growth?
- How can I drive incremental volume & compliance?
- How can I get performance (Investment Vs. Insurance) & ROI?
- How can I “reclaim/clawback” ineffective funds?

Continuous Improvement....every day



Thank You

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