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## des acheteurs publics & privés de la santé

### **Pooling Hospital Procurement through Group Purchasing Organizations (GPOs): The U.S. Experience**

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# Health Care in U.S.

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- **U.S. health care expenditures totaled over \$2.3 trillion (approximately 17% of GDP) in 2007**
- **Health care spending in the U.S. is about 25 percent of federal spending/budget**
- **Medicare and Medicaid spending was \$749.8B in Fiscal Year (FY) (October) 2009**
  - **Compared to federal health care spending was \$333.9 billion in FY 2002**

# Health Care in U.S.(continued)

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- **Approximately 5000 hospitals in U.S:**
  - most are not-for profit
  - some are investor-owned and
  - a few are public
- **Physicians are either employed by the hospital or have “privileges” to see patients in that facility**

# What is a Group Purchasing Organization (GPO)?

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- **GPO's help health care providers (such as hospitals, ambulatory care facilities, nursing homes, etc.) realize savings and efficiencies by aggregating purchasing volume and using that leverage to negotiate discounts with manufacturers, distributors and other vendors**
- **The GPO industry is 100 years old**
  - **1910: The first GPO was created by the Hospital Bureau of New York**
- **GPO membership is voluntary--hospitals can (and do) -switch from one GPO to another**

# What is a GPO?

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- **GPO-member hospitals can purchase supplies “off-contract” negotiating their own prices with suppliers**
- **GPOs do not purchase supplies, member hospitals do, under the terms of GPO-negotiated contracts**
- **GPO contracts with suppliers typically last 3-5 years (may be terminated by either side, with notice)**
- **GPOs charge vendors, rather than health care providers, an administrative fee**

# The GPO Market

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- **96 to 98 percent of all U.S. hospitals belong to 1 or more GPO**
- **GPO contracts account for approximately 73% of non-labor purchases a hospital makes**
- **Hospitals use an average of 2-4 GPOs per facility**
- **Approximately 600 GPOs in the US – in 2007**

# The GPO Market (continued)

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- **6 GPOs made up nearly 90% of the total GPO contract volume (\$108B in 2008)**
  - **Novation (cooperative owned by VHA and UHC)**
  - **Premier (Limited Liability Corporation owned by about 2200 shareholders and members)**
  - **HealthTrust (owned by Health Corporation of America)**
  - **MedAssets (publicly traded)**
  - **Broadlane Group (investor owned: Tower Brook & Tenant Hospitals)**
  - **Amerinet (investor owned: InterMountain Healthcare and Administrative Resources, Inc.)**
- **60% of volume from the two largest GPOs is from the top 2 GPOs**
- **Industry Revenue: Approximately \$1.9B (includes “share backs”)**
- **Average weighted contract administrative fee ranged from 1.22% to 2.25%**

# The GPO Market (continued)

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- **GPO services include:**
  - **Custom contracting**
  - **Clinical evaluation and standardization**
  - **Technology assessment**
  - **Electronic commerce**
  - **Materials management consulting**
  - **Benchmarking data**
  - **Market research**
  - **Clinical Medical Education**
  - **Materials management outsourcing**
  - **Patient safety**
  - **Marketing products or services**
  - **Revenue cycle management**
  - **Insurance services, etc.**

# GPOs & the Law (Medicare)

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- **The “Medicare and Medicaid Patient Protection Act of 1987” created GPO “Safe Harbor” which requires:**
  - (1) The GPO must have a written agreement with each hospital or healthcare provider, that provides for either of the following agreements:
    - (a) The vendor from which the hospital or health care provider will purchase goods or services will pay a fee to the GPO of 3 percent or less of the purchase price of the goods or services provided by that vendor, and**
    - (b) In the event the fee paid to the GPO is not fixed at 3 percent or less of the purchase price of the goods or services, the agreement specifies the exact percentage or amount of the fee.****
  - (2) The GPO must disclose in writing to the hospital or health care provider at least annually, the amount received from each vendor with respect to purchases made by or on behalf of the hospital or health care provider.**

# GPOs & the Law (Antitrust)

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- **U.S. Department of Justice and U.S. Federal Trade Commission regulate market competition**
- **The Agencies will not challenge, absent extraordinary circumstances, any joint purchasing arrangement among health care providers where two conditions are present:**
  - **(1) the purchases account for less than 35 percent of the total sales of the purchased product or service in the relevant market; and**
  - **(2) the cost of the products and services purchased jointly accounts for less than 20 percent of the total revenues from all products or services sold by each competing participant in the joint purchasing arrangement.**
- **Overall, GPOs account for no more than roughly 12% of all national health care expenditures, and even for GPO purchases alone, no single GPO accounts for more than 15% of total GPO-enabled purchasing. Even the largest GPO is still small in relation to total purchasing volume and the large number of competing GPOs**

# Future Challenges & Opportunities

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## **2001: Issues Raised related to:**

- **Conflicts of Interest**
- **Administrative Fees**
- **Sole-sourcing of Products**
- **Bundling of Products**
- **Antitrust**

## **Opportunities:**

- **Cost containment is key priority**
- **Improvements to supply chain are coming:**
  - **GS1 Standards**
  - **hospital physician incentives are changing**
    - **Accountable Care Organizations**
    - **Bundling of Payments**
- **2025 Supply Chain Projected to Overtake Labor as #1 cost**

