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des acheteurs publics & privés de la santé

## Role of Group Purchasing in the US

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# Health Sector Supply Chain Research Consortium (HSRC-ASU)

## ➤ Mission

To perform and disseminate in collaboration with multiple stakeholders, actionable research on strategic management of the health sector supply chain.

## ➤ Goal

To raise the standard of management, optimize cost effectiveness, and support excellence in clinical outcomes, safety and sustainability.

## ➤ We Bring Together

Clinicians, Distributors, Hospitals/IDNs, Information Technology Companies and Manufacturers

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# HSRC-ASU Members

- **GPOs**
  - Health Purchasing Group (HPG/HCA)
  - Novation
  - Premier
  - Yankee Alliance
- **IT**
  - Craneware
  - Lawson
  - GHX
- **Integrated Delivery Networks (IDNs)**
  - Catholic Health Initiatives
  - Ministry Health
  - Scottsdale Healthcare
  - University of Pittsburgh Medical Center (UPMC)
- **Distributors**
  - Owens & Minor
  - Medspeed
- **Suppliers**
  - Boston Scientific

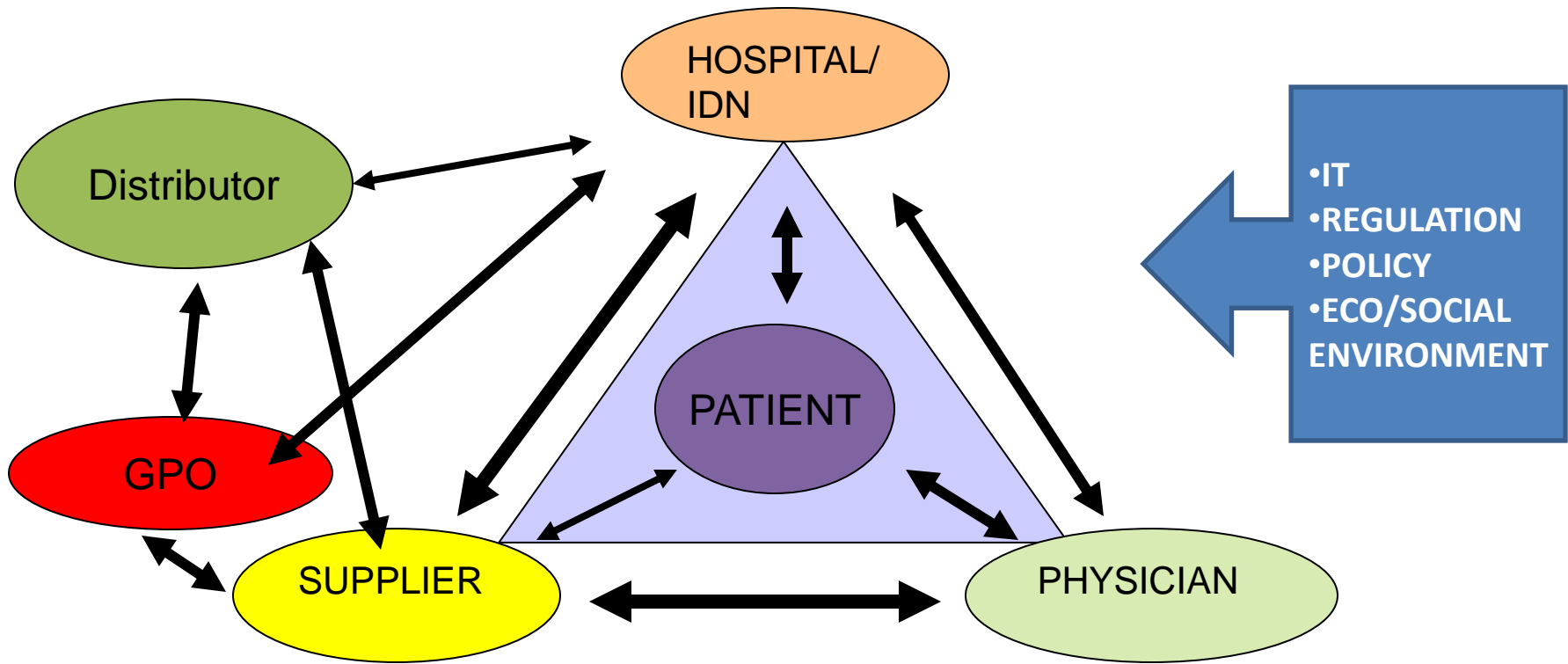
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# Health Care Supply Chain: Its Complex!



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# Issues Facing the Health Care Supply Chain

- Reformed Environment with stronger focus on reducing costs of care
- Supplies second to labor in hospital costs
- Supply intensive admissions (SIAs)
- Mergers and acquisitions
- Repositioning supply chain function to a more strategic level
- How to assess supply chain performance (Metrics)
- Relationships between stakeholders
- Optimal usage of IT
- Engagement of physicians

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# What Does our Research Tell Us About GPOs?

## The Value of Group Purchasing (2009): Meeting the Needs for Strategic savings

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# Key Goals and Methodology

- Goals
  - Focus on the reduction of transaction costs
  - Assess hospital strategies for utilizing GPO
  - Understand how hospitals and systems carry out key purchasing functions
  - Determine savings in reduced labor
- Methodology
  - Survey of 28 health care systems (429 hospitals) in US by Mathematica

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# Key GPO Related Findings

- Heterogeneity in Utilization
- Projected savings
- System and Hospital Workforce (FTE )Savings
- Purchasing Strategy using GPOs
- Meeting Customer Expectations
- Role in PPI Management
- Hospital Strategies Differ by “kinds of Products”
- Drug Cost Management Service
- Summary of Lessons Learned

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# Heterogeneity in GPO Utilization

- **Type 1 – GPO dominated purchasing** – characterized by high GPO involvement in Product selection and High use of GPO contracts.
- **Type 2- Strategic Outsourcing of Contracting** – characterized by low GPO involvement in product selection and High use of GPO contracts
- **Type 3 – Strategic manipulation of purchasing** – characterized by High GPO involvement in Product Selection and Low levels of GPO contracts.
- **Type 4 – Hospital/IDN dominated purchasing** – characterized by Low involvement of GPO in product selection and strategic sourcing and low use of GPO contracts.

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# Extrapolated US Savings in Hospitals

- 6.8 B in Pharmaceuticals
- 8.5 B in Medical Surgical
- 1.9 B in cardiology (10.4 B Market)
- 840 M in Orthopedic implant (7B Market)
- 1.8 B in traditional functions (e.g., strategic sourcing, contracting, etc.) due to reduced needs for labor

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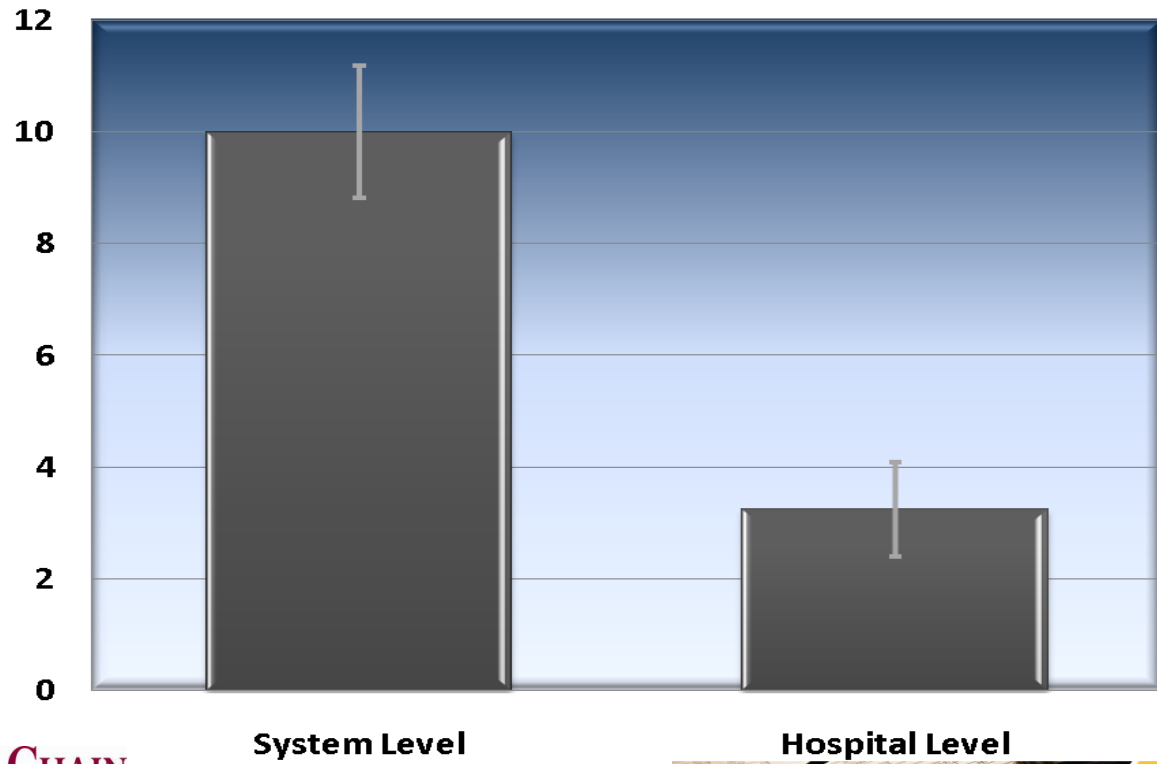
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# System and Hospital Workforce (FTE )Savings

## Total FTEs Saved



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# Purchasing Strategy

<b>PURCHASING STRATEGY FOR</b>	<b>% Expressing a Strategy to Outsource to GPO</b>	<b>%Use GPO as Starting Point for Negotiation</b>	<b>% Utilize GPO pricing to Seek Custom Pricing</b>	<b>%Desire to Improve GPO Contract Penetration</b>
<b>All products (C4a)</b>				
Hospital	76.5	35.3	50.0	88.9
System	68.4	42.1	47.1	100.0
<b>Commodities (C4b)</b>				
Hospital	77.8	33.3	38.9	88.2
System	78.9	44.4	44.4	100.0
<b>Pharmaceuticals (C4c)</b>				
Hospital	82.4	29.4	44.4	89.5
System	83.3	35.3	47.1	94.4
<b>Capital Equipment(C4d)</b>				
Hospital	35.5	40.0	52.9	58.8
System	47.1	52.4	58.8	62.5
<b>All PPI (C4e)</b>				
Hospital	37.5	50.0	43.8	56.3
System	35.3	57.1	58.8	58.8

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# Meeting Customer Expectations

TRADITIONAL GPO ACTIVITIES	IMPORTANCE OF GPO*	EXPECTATION SCORE+
<b>Pricing (overall)</b>	<b>4.4</b>	<b>3.6</b>
Lowest prices on med/surg products	4.9	3.8
Lowest prices on pharmacy products	4.9	3.9
Lowest prices on PPIs	3.6	2.7
Lowest prices on commodity items	4.9	3.9
High guaranteed savings	4.2	3.4
Financial returns – administrative fee	4.2	3.7
Managing supplier terms & conditions	4.2	3.6
<b>Contracting (overall)</b>	<b>4.4</b>	<b>3.7</b>
Providing contracting flexibility	4.2	3.7
Providing breadth of portfolio	4.6	3.9
Identifying new products	4.2	3.5
Support contract management	4.4	3.6

\*1= Not at all Important 5= Extremely Important

+1= Does not Meet Expectation 5= Exceeds Expectation

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# Role in PPI Management

EXPANDED GPO ACTIVITY	IMPORTANCE OF GPO*	EXPECTATION SCORE+
Physician Preference Item Management (overall)	3.7	3.3
Provide support for local PPI negotiation	3.6	3.4
Low price on PPI products	3.5	3.0
Help engage physicians on product utilization	3.3	3.1
Support assessment of competing products	4.0	3.3
Assist in Value Analysis Team Activities	3.6	3.4
Provide clinical analytical tools – peer benchmarking, etc.	4.1	3.5

\*1= Not at all Important 5= Extremely Important

+1+ Does not Meet Expectation 5= Exceeds Expectation

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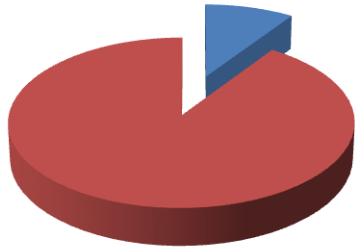


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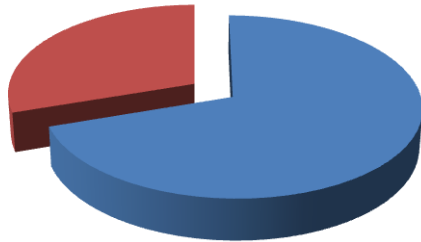


# GPO Strategies Differ by “kind of Products”

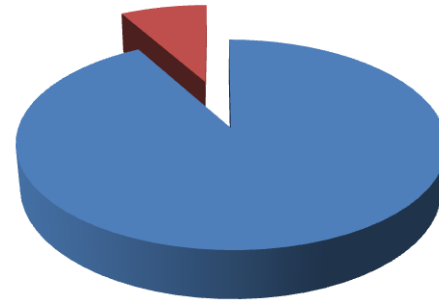
## Pharmacy Spend



## Cardiac Spend



## Orthopedic Implant Spend



Estimated spend via self contracting

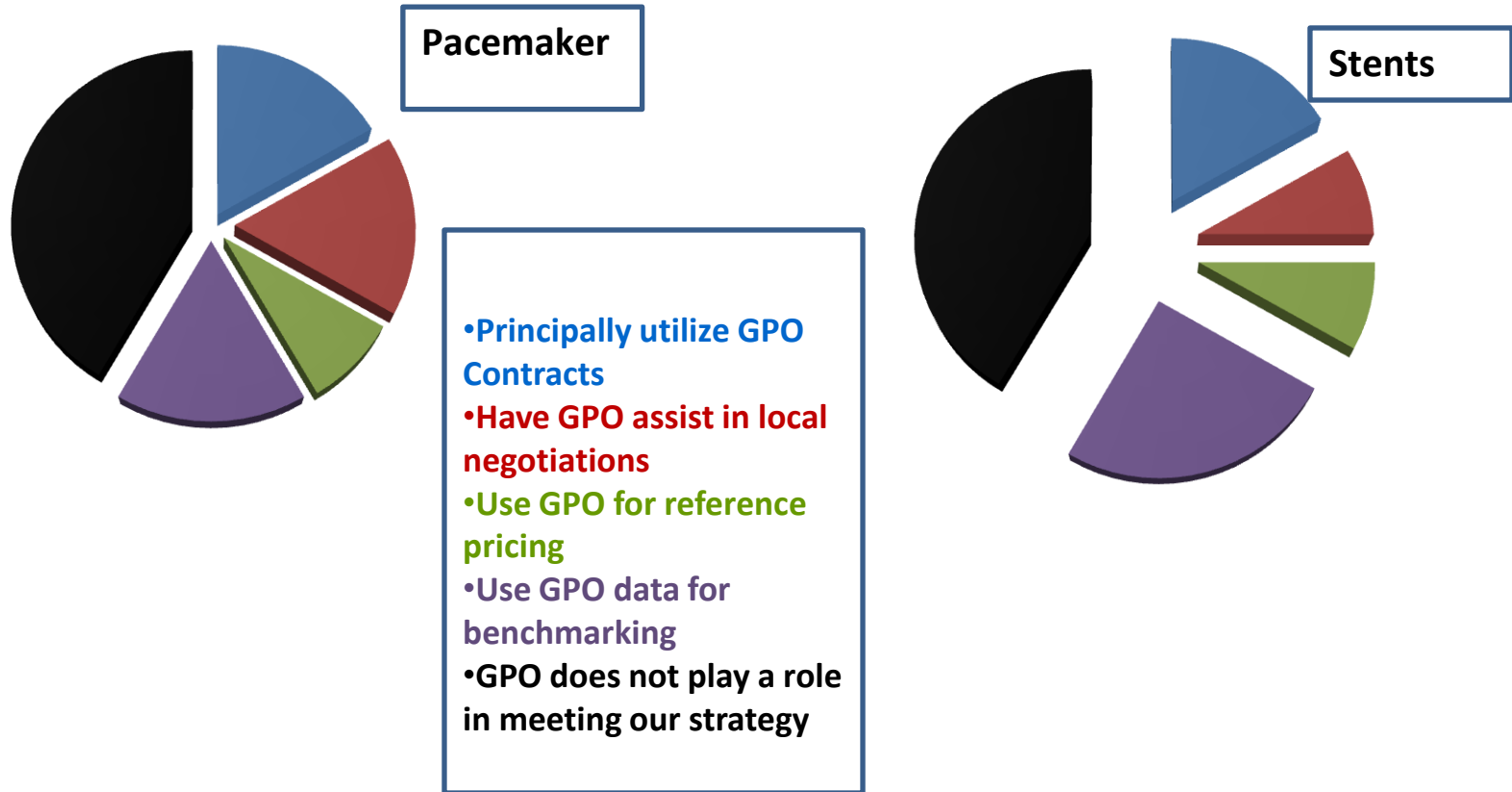
Estimated Spend via GPO Contracts

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# Utilization of GPOs in Cardiac Sourcing



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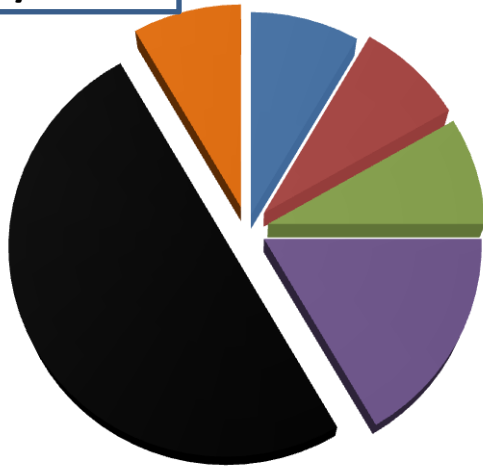
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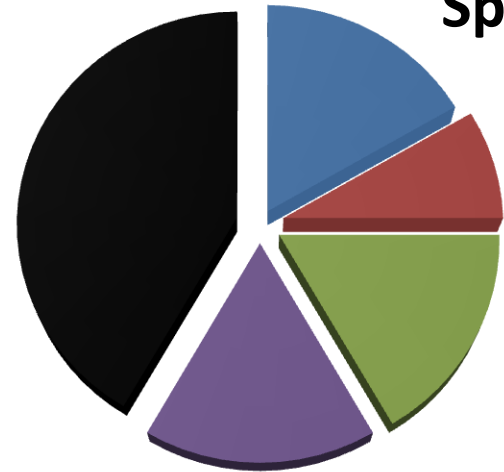


# Utilization of GPOs in Orthopedic /Spine Sourcing

Hips/Knees



Spine



- Principally utilize GPO Contracts
- Have GPO assist in local negotiations
- Use GPO for reference pricing
- Use GPO data for benchmarking
- GPO does not play a role in meeting our strategy
- Hospital does not have a strategy in these areas

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# GPOS & Pharmaceuticals

- High level of pharmaceutical contract compliance
- 67% of systems use the **Drug Cost Management service** provided by their GPO
  - Satisfaction level with this service is 4.25
- 50% of systems use **the Drug Shortage Monitoring Service** provided by their GPO
  - Satisfaction level with this service is 4.00

Scale: (1 to 5, 5 being very satisfied)

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# What Have We Learned

- Many Roads To Satisfaction
- GPO Services beyond contracting have low perceived value
- Important for GPO to:
  - Manage and monitor drug shortages
  - Identify and support contracts for safety products
  - Manage failure to supply terms and conditions of contracts
- Pricing would go up significantly without GPO
- PPI efforts have not been successful

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# What Have We Learned

- Hospitals have very different competencies and capacities
  - Not clear that this diversity is recognized or catered to by GPO
- Mixed responses to GPO as a fully outsourced strategy
- Costs and benefits of mixed strategies require clarification
  - What is the ROI on internal staff
  - What is the ROI on managing a choice strategy

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# Thank you

- For detailed view of the report , please visit:  
[GPOssavemoney.org](http://GPOssavemoney.org)
- For questions regarding HSRC-ASU and access to research reports

[wpcarey.asu.edu/hsrc-asu](http://wpcarey.asu.edu/hsrc-asu)

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# Supply Chain Management Transformation

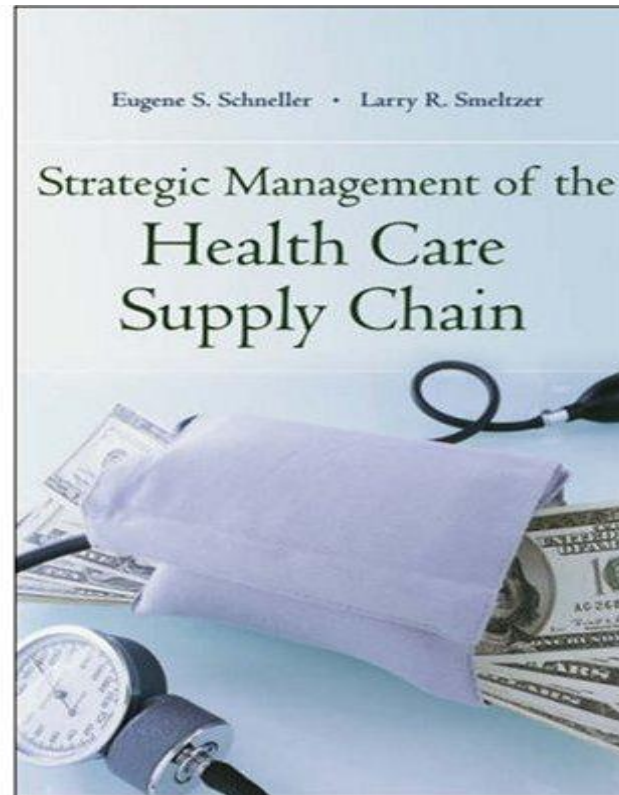
1999	2009
<b>Material Management Orientation</b>	<b>Supply Chain Management Orientation</b>
<ol style="list-style-type: none"> <li>1. Product, Commodity Oriented</li> <li>2. Price Focused</li> <li>3. Operational Expense</li> <li>4. Silo Perspective</li> <li>5. Material Manager</li> <li>6. Inefficient Processes</li> <li>7. Many Touches</li> <li>8. Decentralized</li> </ol>	<ol style="list-style-type: none"> <li>1. Process Focused</li> <li>2. Cost Orientation (Total Cost)</li> <li>3. Clinical Outcome and Revenue Focused</li> <li>4. Information Based</li> <li>5. Supply Chain Management</li> <li>6. Efficient Process</li> <li>7. Paperless</li> <li>8. Centralized</li> </ol>
<b>Material Management Professional's Orientation</b>	<b>Supply Chain Management Professional's Orientation</b>
<ol style="list-style-type: none"> <li>1. Reactive</li> <li>2. Specialist</li> <li>3. Operator</li> <li>4. Manager</li> <li>5. Accommodator</li> <li>6. Specialized Education</li> </ol>	<ol style="list-style-type: none"> <li>1. Proactive Integrator</li> <li>2. Health Care Business Mgr.</li> <li>3. Strategic Analyst</li> <li>4. Leader</li> <li>5. Influencer (Collaborator)</li> <li>6. Broad Based Business and Health Care Education</li> </ol>

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- **My Book**

Jossey-Bass - Wiley  
Publishers - 2006



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