



Federal Trade Commission's Health Care Workshop: Hospital Group Purchasing Organizations

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The Role of Group Purchasing Organizations in the Health Care Supply Chain

- ▶ **GPO Overview**
- ▶ **GPO Savings**
- ▶ **HIGPA GPO Code of Conduct**
- ▶ **GAO Report**
- ▶ **Industry Assessment**

What is a Group Purchasing Organization?

- ▶ Purchasing agent or buying cooperative for hospitals and other health care providers
- ▶ Most GPOs are owned by hospitals
- ▶ All GPOs are responsible to hospitals
- ▶ GPOs have existed since the early 1900s

What Do GPOs Do?

- ▶ Aggregate buying power to negotiate discounts
- ▶ Survey the marketplace for clinically-desired products
- ▶ Negotiate and administer supply contracts on behalf of hospitals
- ▶ Lower hospitals' operating costs
- ▶ Streamline the purchasing process
- ▶ Promote safety and quality of care

Support for GPO Business Model

- ▶ Seller-based fees and buying cooperatives are widely accepted competitive business models in many industries (agriculture, real estate, insurance and USG)
- ▶ GPOs typically return fees in excess of expenses to hospital members

Support for GPO Business Model

- ▶ In 1986 Congress sanctioned the GPO model for health care programs by exempting supplier-paid administrative fees from Medicare/Medicaid anti-kickback statutes
- ▶ The statutory exception and safe harbor regulation requires disclosure to members of the vendor fees paid to GPOs, but allows competition to determine the level of vendor fees

Importance of GPOs to Hospitals

- ▶ One-third of hospitals in America have negative operating margins
- ▶ Falling Medicare reimbursements continues to financially challenge hospitals
- ▶ GPO business model of seller fees saves hospitals millions of dollars in administrative costs
- ▶ Average savings range from 10% to 15% on supply costs

Importance of GPOs to Hospitals

- ▶ Promotes efficiencies in negotiating and administering contracts for buyers and sellers
- ▶ Allows hospitals to allocate more resources to patient care and the uninsured

Competitive Impact of GPOs

- ▶ GPOs compete fiercely against each other to attract members
- ▶ On average, hospitals belong to 2 to 4 GPOs and buy directly from suppliers
- ▶ The barriers to entry for GPOs are low—two of the larger GPOs are new entrants
- ▶ GPOs disclose vendor fees to hospitals

Competitive Impact of GPOs

- ▶ No GPO has a market share larger than 15%
- ▶ Only two have market shares exceeding 10%
- ▶ GPO incentives to hospitals to buy under GPO contracts are pro-competitive

(Prof. Herbert Hovenkamp, "Competitive Effects of Group Purchasing Organizations," April 2002)

Importance of GPOs to U.S. Health Care System

- A one percentage point decline in the rate of GPO savings would:
 - Increase total public and private expenditures for health services and supplies between \$1.9 billion and \$2.34 billion in CY 2002

(Data provided by Muse & Associates, September 2002)

Importance of GPOs to U.S. Health Care System

- ▶ A one percentage point decline in the rate of GPO savings would:
 - Increase federal health care spending by at least \$886 million
 - Increase spending by state and local governments by at least \$249 million in CY 2002

(Data provided by Muse & Associates, September 2002)

GPOs Importance to Federal Health Care Programs

- ▶ A one percentage point decline in the rate of GPO savings would:
 - Increase Medicare and Medicaid spending by \$1 billion annually
 - Veterans Affairs would face additional CY 2002 expenditures of at least \$61 million

(Data provided by Muse & Associates, September 2002)

HIGPA's GPO Code of Conduct

- ▶ Recent concerns regarding business relationships between GPOs and vendors pointed out the need to reassure the public that the industry does, and will continue to, practice the highest ethical standards

HIGPA's GPO Code of Conduct

- ▶ Code focused on several areas:
 - Eliminating appearance of conflicts of interests
 - Ensuring open communications between members and vendors
 - Establishing guidelines for the use of contracting tools

HIGPA's GPO Code of Conduct

- ▶ Code focused on several areas (cont):
 - Reinforcing full disclosure to members of all vendor payments
 - Establishing reporting and education programs, including surveys to quantify the value of GPOs
 - Demonstrating cost savings

HIGPA's GPO Code of Conduct

- ▶ **Baseline for the industry**
- ▶ **Now in the implementation phase**
- ▶ **Individual GPOs are adding their own principles based on their business practices**

GAO Study

- ▶ GAO is conducting a new study of the industry
- ▶ HIGPA is working with GAO officials on this new study and has contributed information for their use in structuring the report's methodology
- ▶ The new report is expected in 2003

Industry Assessment

- ▶ HIGPA has commissioned two renowned and independent health care research firms to assess the industry
- ▶ HIGPA commissioned a study that concluded GPOs facilitate significant expert clinical input in group purchasing decisions

Forecast

- ▶ GPOs may continue to attract interest, but the end-game will be a reaffirming of the fundamental value GPOs provide – the best products at the best price for the patients they ultimately serve



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