HOSPITAL GROUP PURCHASING ORGANIZATIONS (GPOs)

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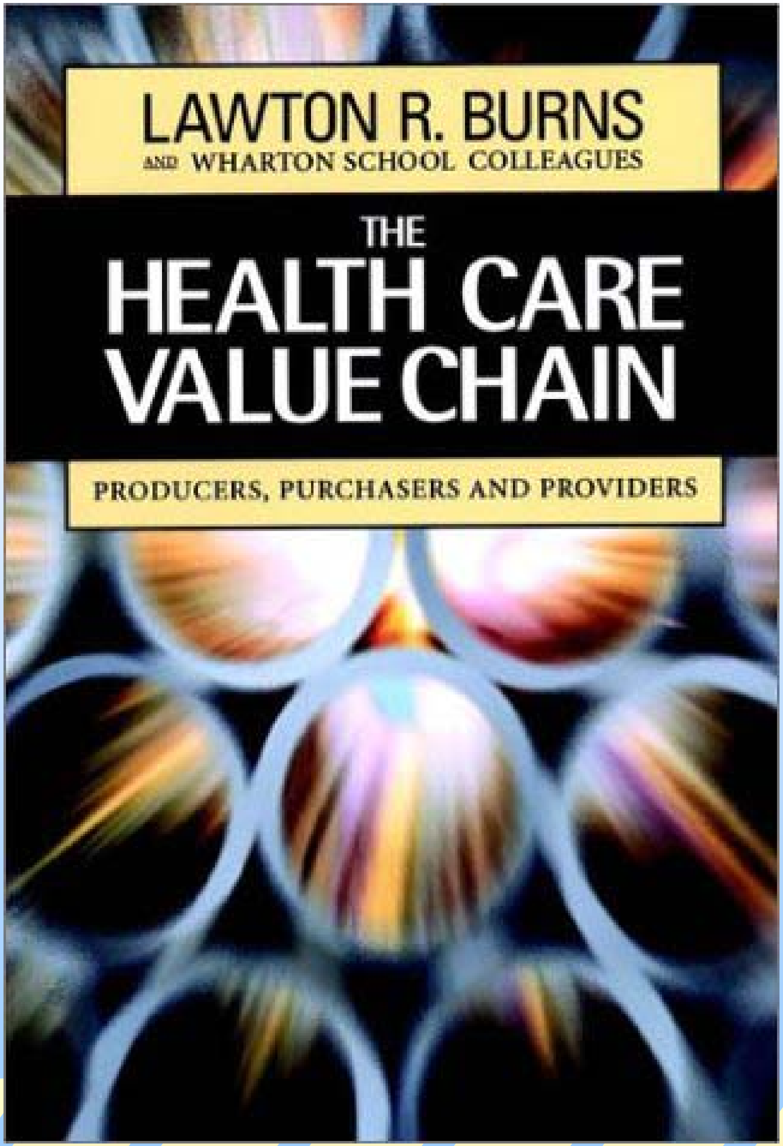
HOSPITAL GROUP PURCHASING ORGANIZATIONS (GPOs)

- Role of GPOs in the health care value chain
- Functions GPOs perform for hospital members
- GPO industry structure
- GPO revenues and market share
- Concentration of GPO industry
- Hospitals' views of GPOs


LAWTON R. BURNS
AND WHARTON SCHOOL COLLEAGUES
THE
HEALTH CARE
VALUE CHAIN
PRODUCERS, PURCHASERS AND PROVIDERS

THE HEALTH CARE VALUE CHAIN

Payers	Insurance Companies	Providers	Purchasers & Handlers	Producers
Government	Insurers	Hospitals	Wholesalers	Drug Manufacturers
Employers	HMOs	Physicians	Mail Order Distributors	Device Manufacturers
Individuals	Pharmacy Benefit Managers	Integrated Delivery Networks	*Group Purchasing Organizations*	Medical-Surgical Suppliers
Employer Coalitions		Pharmacies		Equipment Makers

FUNCTIONS GPOs PERFORM FOR HOSPITAL MEMBERS

- Strategic (pooling) alliance
- Pool purchasing dollars to exert leverage over suppliers
- Concrete avenue for economies of scale
- Lower unit costs for members
- Negotiate & manage contracts
- Update pricing changes
- Disseminate information from vendors under contract
- Cost reduction tools for members (MM, operations)
- Product standardization programs
- Product utilization programs
- Benchmarking data
- Designate authorized distribution agents (ADAs)
- Private label programs for smaller manufacturers

GPO INDUSTRY STRUCTURE

- 600-700 GPOs in healthcare industry
- 200-400 hospital-focused GPOs
- 7 GPOs account for 85% of hospital market
- Ownership differences (for-profit, nonprofit, public)
- Membership differences (hospital vs. alternate site market)
- Geographic differences
- Antitrust limits to GPO size
- GPOs hard to distinguish from IDNs

GPO REVENUES & MARKET SHARE ($ billions, 2000)

	Revenues	Share
Nonprofit		
Novation	$14.4	30.2%
Premier	$13.0	27.2%
AmeriNet	$ 4.6	9.6%
Consorta	$ 2.7	5.7%
HSCA	$ 2.6	5.5%
Investor-Owned		
HCA/Health Trust	$ 4.2	8.8%
Tenet/BuyPower	$ 3.1	6.5%
All GPOs	$47.7	100.0%

CONCENTRATION OF GPO INDUSTRY

AS PERCENTAGE OF GPO-PENETRATED SPEND

TOTAL GPO REVENUES	\$47.7B (est)
TOP FOUR GPOs REVENUES	\$36.2B
SHARE OF TOP FOUR GPOS	75.9%
CONCENTRATION LEVEL (TOP 7 FIRMS)	1926
CONCENTRATION LEVEL (TOP 10 FIRMS)	1981

AS PERCENTAGE OF TOTAL HOSPITAL SUPPLY SPEND#

TOTAL HOSPITAL SUPPLY SPEND	\$67.0B##
TOP FOUR GPOs	\$36.2B
SHARE OF TOP FOUR GPOs	54.0%
CONCENTRATION LEVEL (TOP 7 FIRMS)	978
CONCENTRATION LEVEL (TOP 10 FIRMS)	1006

Hospital spending on medical-surgical supplies and pharmaceuticals
Mid-range estimate between \$52 - \$75 B (Burns et al., *Health Care Value Chain*)

WHY THE BIG DIFFERENCE?

- **Direct contracting between supplier & hospital w/o GPO**
- **Moderate level of GPO penetration of hospital supply spend**
- **Lower level of hospital compliance with GPO contracts**
- **Great variation among nonprofit GPOs in their hospital compliance rates**
- **Hospitals belong to *multiple* GPOs**
- **Hospitals may shift loyalty from one GPO to another**
- **Hospitals may purchase directly through their integrated delivery networks (IDNs) and act as their own GPO**
- **Hospitals act independently of their GPO (even if they are shareholders) when it is in their own self-interest to do so**

HOSPITALS' VIEW OF GPOs

- GPOs have historically delivered lower prices than hospitals could have achieved on their own

- GPOs do not always deliver the lowest possible price
  - a) tiered GPO pricing
  - b) vendor willingness to discount GPO prices for large IDN customers

- Hospitals use GPO pricing as a benchmark and ceiling

- Hospitals increase revenues from GPOs that distribute CAFs back to them as a reward for contract compliance