Supply Chain 101

How Group Purchasing Organizations (GPOs) Bend the Healthcare Cost Curve

WHAT IS A GPO?

A GPO is an entity that helps healthcare providers - such as hospitals, nursing homes and home health agencies - achieve cost savings by aggregating purchasing volume and using that leverage to negotiate discounts with manufacturers, distributors and other vendors. In exchange, GPOs recoup a minimal administrative fee from vendors to continue providing savings.

Hospitals have used healthcare GPOs for over 100 years to provide end-to-end solutions throughout the continuum of care. To protect the savings GPOs enable for healthcare providers, Congress codified existing GPO business practices into the GPO Safe Harbor law in 1987.

A Common Model

GPOs are used in many other industries. Federal government agencies like the GSA, VA and DoD rely on the cost savings GPOs deliver, as do many private sector industries such as grocery, electronics, manufacturing, and the agriculture and non-profit communities.

GPOs Source Vital Needs

In addition to generating cost savings, hospitals across the U.S. rely on GPOs to help manage complicated purchasing decisions. GPOs have expanded their offerings to meet evolving hospital needs, including:

- Educating clinicians on best practices
- Food service + construction
- Electronic tracing of products
- Benchmarking data
- Market research
- Antibiotic stewardship + infection control
- Emergency preparedness

Savings By the Numbers

- **98%** of America's 5,000+ hospitals use **at least one GPO** [1]
- GPOs save the healthcare system between **$25-55 billion per year** [2]
- **90% of hospitals** are satisfied or very satisfied with their GPO [3]
- GPOs save each hospital an average of **10-18%** compared to direct purchases [4]
- From 2013-2022, GPOs will enable savings of **$392-864 billion to the healthcare system** and **$116-229 billion to Medicare** [5]

1. "Group Purchasing Organizations: Services Provided to Customers and Initiatives Regarding Their Business Practices," Government Accountability Office, page 4. August, 2010
2. "A 2014 Update of Cost Savings and Marketplace Analysis of the HealthCare Group Purchasing Industry," Dobson DaVanzo & Associates, July, 2014
3. "Hospital Supply Chain Executives' Perspectives on Group Purchasing: Results from a 2014 National Survey," By Lawton Robert Burns, Ph.D., MBA and Rada Yovovich, University of Pennsylvania, September, 2014. American Hospital Association survey of 1,200 hospital supply chain executives
4. "The Value of Group Purchasing," Eugene S. Schneller, PhD, April 2009
5. "A 2014 Update of Cost Savings and Marketplace Analysis of the HealthCare Group Purchasing Industry," July, 2014

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