## COMPREHENSIVE NEW ECONOMIC ANALYSIS BY FORMER FTC CHAIR AFFIRMS THAT HEALTHCARE GROUP PURCHASING ORGANIZATIONS REDUCE COSTS AND ARE PROCOMPETITIVE

*Former FTC Chair Jon Leibowitz and Former FTC Deputy Director, Bureau of Economics Dan O'Brien Conduct Empirical Analysis of the Role, Funding Model, and Impact of GPOs; Determine that GPOs Reduce Healthcare Costs and that a Change to the GPO Funding Mechanism Would Likely Raise Costs*

**Washington, DC (July 10, 2017)** – The Healthcare Supply Chain Association (HSCA), which represents the nation's leading healthcare group purchasing organizations (GPOs), today published a comprehensive new economic and legal analysis by Jon Leibowitz, former Chairman of the Federal Trade Commission (FTC) and partner at Davis Polk; Dan O'Brien, former FTC Deputy Director of the Bureau of Economics and partner at Bates White; and Russell Anello, an associate Davis Polk, on the role, business model and impact of GPOs. The analysis affirmed that GPOs save money for healthcare providers, patients, and taxpayers; that GPOs promote competition in the market for procurement services; and that the current GPO funding model supports competition and lower costs.

"A comprehensive economic and legal analysis of the role of healthcare group purchasing organizations reveals that GPOs reduce costs for healthcare providers, patients, and American taxpayers. Providers generally realize savings of 10% to 18% by using GPOs; these savings are likely to be especially valuable to smaller, rural hospitals; and providers pass these savings onto patients and ultimately to taxpayers," said report co-author Jon Leibowitz, former FTC Chair and partner at Davis Polk. "GPOs operate in a highly competitive market and have strong incentive to offer competitive prices. Many GPOs are owned by their provider members, GPOs compete with one another for provider business, providers can use multiple GPOs to further reduce costs, or providers can purchase directly from a manufacturer."

Key findings of the economic and legal analysis include:

- **GPOs save money for healthcare providers, patients, and taxpayers**. GPOs create value by negotiating lower prices and lowering transaction costs (e.g., eliminating thousands of negotiations). Providers, including hospitals, long-term care facilities, surgery centers and clinics typically realize savings of 10% to 18% by using GPOs.

- **GPOs promote competition in the market for procurement services**. Providers voluntarily decide whether to join a GPO, can choose from multiple GPOs, and also can, and commonly do, use multiple GPOs simultaneously. Providers often own their GPOs, and they can also procure supplies directly from vendors. As a result, the supply procurement market is highly competitive.

- **The current GPO funding model supports competition and lower costs**. GPOs and their vendor administrative fee model produce cost savings. Vendor funding is common in other industries, and, for GPOs, collecting fees from vendors is likely more efficient than other models. Changing the GPO funding mechanism would be less effective than the current model and would likely raise healthcare costs for providers, consumers and taxpayers.

"At a time of great change for the healthcare system, when American hospitals and their patients face uncertainty and significant new challenges, GPOs are delivering the best products at the best value and providing critical cost-savings that allow hospitals and other healthcare providers to focus on their core mission: first-class patient care," said HSCA President and CEO Todd Ebert, R.Ph. "This report confirms what GPOs and their hospital and provider members see every day: that GPOs reduce costs, operate in a highly competitive market, and increase competition and innovation in the healthcare marketplace."

"Congress took deliberate action to support the current GPO funding model in order to encourage the cost savings that GPOs provide. Our analysis of the vendor-paid administrative fee funding model, which is common across a broad range of industries, finds that it likely reduces healthcare costs, and a disruption to the model would likely raise healthcare costs for American consumers and taxpayers," said report co-author Dan O'Brien, former FTC Deputy Director, Bureau of Economics and partner at Bates White.

GPOs negotiate prices for drugs, devices, and other medical products and services on behalf of healthcare providers, including hospitals, ambulatory care facilities, physician practices, nursing homes, and home health agencies. Virtually all of America's 7,700+ hospitals and the vast majority of its 68,000+ non-acute care providers use GPOs to deliver the best products at the best value for patients, providers, and taxpayers.

For the full report, "*Group Purchasing Organizations: How GPOs Reduce Healthcare Costs and Why Changing Their Funding Mechanism Would Raise Costs*," click here.

Much of the research from this report was originally published in an article in the American Bar Association's *Antitrust Source*. You can access that article here.

### 

**About the Healthcare Supply Chain Association (HSCA)**
The Healthcare Supply Chain Association (HSCA) represents the nation's leading healthcare group purchasing organizations (GPOs), which are critical cost-savings partners to America's hospitals, nursing homes, nursing home pharmacies, clinics, home healthcare providers and surgery centers. GPOs deliver billions in savings annually to healthcare providers, Medicare and Medicaid, and taxpayers. HSCA and its member GPOs are committed to delivering the best products at the best value to healthcare providers, to increasing competition and innovation in the market, and to being supply chain leaders in transparency and accountability. For more information, visit www.supplychainassociation.org. Follow HSCA on Twitter @HSCA.

HSCA MEMBER COMPANIES



1341 G Street NW, Suite 600    Washington, DC 20005    Phone (202) 629-5833    Fax (202) 466-9666
Web www.SupplyChainAssociation.org    Email info@SupplyChainAssociation.org