Group Purchasing Organizations:

Former FTC Officials Find that GPOs Reduce Healthcare Costs and that Changing their Funding Mechanism Would Raise Costs

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Jon Leibowitz, former Chairman of the Federal Trade Commission and partner at Davis Polk; Dan O'Brien, former FTC Senior Economic Policy Adviser and partner at Bates White; and Russell Anello, an associate at Davis Polk, recently published a comprehensive legal and economic analysis of the role, funding model, and impact of healthcare group purchasing organizations (GPOs).

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.

Leibowitz, O'Brien, and Anello used empirical evidence and economic analysis to confirm that GPOs operate competitively and reduce healthcare costs. In addition, they examined the GPO funding mechanism – the vendor-paid administrative fee, which Congress authorized to help GPOs cut healthcare costs – and reached the following conclusions:

GPOs save money for healthcare providers, patients, and taxpayers.

- ✓ GPOs create value by **negotiating lower prices** and **lowering transactions costs** (e.g., eliminating thousands of negotiations). Providers typically realize **savings of 10% to 18%** by using GPOs.
- ✓ These cost savings are especially **valuable to smaller and rural hospitals**.
- ✓ Providers **pass these savings on** to patients and ultimately to taxpayers.

GPOs promote competition in the market for procurement services.

- ✓ Evidence indicates that GPOs operate in a **highly competitive market**. Many national, regional, and local GPOs compete with each other to reduce costs and deliver high-quality products and services.
- ✓ Providers **voluntarily decide whether to join a GPO** and, after joining, decide whether to purchase a particular item from that GPO, from a competitor GPO, or directly from the manufacturer. Providers can **choose to use multiple GPOs** simultaneously to further reduce costs, and commonly do.
- ✓ Many GPOs are owned by their provider members, which means GPOs have **strong incentives to offer competitive prices**.

The current GPO funding model supports competition and lower costs.

- ✓ GPOs and their vendor administrative fee model **produce costs 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 it would likely **raise costs for providers, consumers, and taxpayers**.

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