

Healthcare Group Purchasing Organizations (GPOs): Research and Analyses on GPO Cost-savings, the GPO Business Model, and the Causes of Drug Shortages

As hospitals and other healthcare providers continue to search for ways to rein in costs, a variety of research has emerged over the years that affirm the value that healthcare group purchasing organizations (GPOs) provide. The following includes relevant research and analyses on GPO cost savings and the GPO business model conducted by academic experts, government agencies and other third party experts not affiliated with the GPO industry.

Studies Show GPOs Deliver Billions in Cost-savings to the Healthcare System

- ✓ [**Hospital purchasing alliances: Ten years after**](#), by Lawton R. Burns and Allison D. Briggs, The Wharton School of the University of Pennsylvania, August 2018. *(Research not affiliated with the GPO industry)*
 - Research conducted by supply chain experts found that **hospitals have remained overwhelmingly satisfied with their GPOs**, that they believe **GPOs achieve demonstrable cost-savings and margin-improvement**, and that **hospitals are increasingly relying on GPOs for services and value their expanding services**.
- ✓ [**Group Purchasing Organizations: How GPOs Reduce Healthcare Costs and Why Changing Their Funding Mechanism Would Raise Costs**](#), by Jon Leibowitz, Dan O'Brien, and Russell Anello, July 2017.
 - Former FTC Chair Jon Leibowitz examined the GPO market and determined that **GPOs save money for providers, patients and taxpayers**; that **GPOs promote competition** in the procurement services market; and that the current GPO funding model **supports lower costs and increased competition**.
- ✓ [**A 2014 Update of Cost Savings and Marketplace Analysis of the Health Care Group Purchasing Industry**](#), by Dobson DaVanzo & Associates, LLC, July 2014.
 - Healthcare economists Dobson DaVanzo & Associates analyzed CMS data and found that GPOs save the healthcare industry **\$55 billion annually** and will generate up to **\$864.4 billion in healthcare savings** over the next ten years. Additionally, GPOs will deliver up to **\$229 billion in Medicare savings** and **\$169 billion in Medicaid savings** over the same period.
- ✓ [**Hospital Supply Chain Executives' Perspectives on Group Purchasing: Results from a 2014 National Survey**](#), by Lawton R. Burns, The Wharton School of the University of Pennsylvania, September 2014. *(Research not affiliated with the GPO industry)*
 - A survey of more than 1,200 hospital supply chain executives found that **hospitals rely on group purchasing organizations to reduce costs**, that **hospitals are overwhelmingly satisfied with their GPOs**, and that **GPOs increasingly offer services beyond traditional chain management** to help meet hospital needs.
- ✓ [**The Impact of Group Purchasing Organizations on Healthcare-Product Supply Chains**](#), by Joice Hu, Leroy B. Schwarz, and Nelson A. Uhan, Krannert School of Management, Purdue University, May 2011. *(Research not affiliated with the GPO industry)*
 - Independent academic study found that GPOs **decrease overall purchasing costs for hospitals** and providers, particularly for small providers. The study also concluded that **GPO contract administrative fees have no effect on the total purchasing costs** of any provider, large or small; competition among GPOs in the same market for hospital business likely **lowers per-unit prices** for hospitals; and many large hospitals are part-owner of their GPO and **experience lower per-unit and total purchasing costs** as a result.

- ✓ [**Does Your GPO Deliver the Goods?**](#), by *Hospitals & Health Networks Magazine* and the Association for Healthcare Resource & Materials Management (AHRMM), July 2010. (*Research not affiliated with the GPO industry*)
 - **American hospitals share near universal satisfaction** with their GPOs and hospitals give GPOs particularly **high marks for pricing and cost savings**, according to a 2010 survey of hospital materials managers.
- ✓ [**Hospital purchasing alliances: Utilization, services, and performance.**](#), by Lawton R. Burns and J. Andrew Lee, The Wharton School of the University of Pennsylvania, July 2008. (*Research not affiliated with the GPO industry*)
 - Independent study found that **GPOs succeed in reducing healthcare costs** by lowering product prices, particularly for commodity and pharmaceutical items. It also found **alliances between hospitals and GPOs reduce transaction costs** through commonly negotiated contracts and **increase hospital revenues via rebates and dividends.**

GPO Model and Business Practices Thoroughly Examined by Government Agencies, Courts, and Academics

- ✓ [**Activities and Perspectives of the Office of the Inspector General in the U.S. Department of Health and Human Services Regarding Group Purchasing Organizations \(GPOs\)**](#), by Richard P. Kusserow and Thomas E. Hermann, March 2013.
 - The former Inspector General of the Department of Health and Human Services and another former official from HHS conducted a retrospective review of **Congressional enactment of the GPO safe harbor** and other GPO-related OIG activities. The authors note a **Governmental understanding of the benefits GPOs bring** and state that “the mandated disclosure and reporting of cost savings that health care providers achieve through the use of GPOs ensures that **Federal health care programs also benefit from lower costs.**”
- ✓ [**Group Purchasing Organizations, Monopsony, and Antitrust Policy**](#), by Roger D. Blair and Christine Piette Durrance, 2013. (*Research not affiliated with the GPO industry*)
 - Independent academic study found **GPOs to be procompetitive**, and noted that potential conflicts from GPO funding mechanism may be **more apparent than real.**
- ✓ [**Group Purchasing Organizations: Federal Oversight and Self-Regulation**](#), U.S. Government Accountability Office (GAO), March 2012.
 - The GAO report found that the federal government has **sufficient ability to monitor and investigate** GPOs, and that **the government has exercised its oversight capacity** and found **no evidence of anticompetitive GPO behavior.** The report reaffirmed that **GPOs have proactively taken steps to self-regulate** and to increase transparency and accountability in the healthcare supply chain.
- ✓ [**Group Purchasing Organizations: Services Provided to Customers and Initiatives Regarding Their Business Practices**](#), U.S. Government Accountability Office, August 2010.
 - The GAO examined the steps taken by GPOs to **ensure transparency, fair contracting and discount product pricing**, and concluded that **98 percent of American hospitals** voluntarily contract with GPOs; the average administrative fee paid was **1.22-2.25%**; all GPOs offered a **broad range of services** to hospitals; and, all GPOs interviewed had programs to **evaluate and quickly bring to market innovative technologies** that could provide a meaningful benefit to patients.
- ✓ [**Southeast Missouri Hospital v. Bard Inc.**](#), U.S. 8th Circuit Court of Appeals, August 2010.
 - The U.S. 8th Circuit Court of Appeals in 2010 found that hospitals pay **16 percent less** by buying under GPO contracts; **GPO membership is voluntary** for hospitals; hospitals can (and do) switch GPOs; and, **96-98 percent of the 5,000+ American hospitals** voluntarily belong to one or more GPO.

Federal and Industry Stakeholders Identify Quality Control Problems and Manufacturing Issues as Primary Causes of Drug Shortages

- ✓ [**Drug Shortages Infographic**](#), U.S. Food and Drug Administration (FDA)
 - The FDA identified **quality control problems, manufacturing issues, and barriers to getting new suppliers on line** as the primary causes of drug shortages.
- ✓ [**The Causes and Non-Causes of Drug Shortages**](#), by Alex Brill, January 2017
 - Research conducted found that **quality control concerns in manufacturing and capacity constraints were the primary causes of drug shortages. The report also determined that GPOs do not contribute to drug shortages.**
- ✓ [**Drug Shortages: Public Health Threat Continues, Despite Efforts to Help Ensure Product Availability**](#), U.S. Government Accountability Office, February 2014.
 - The GAO examined the causes of drug shortages and determined **the primary causes to be manufacturing difficulties and quality problems.**