# Supply Chain 101

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

# WHATIS 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. Healthcare providers have used 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 nonprofit communities.

### **GPOs Source Vital Needs**

In addition to generating cost savings, providers across the U.S. rely on GPOs to help manage complicated purchasing decisions. GPOs have expanded their offerings to meet evolving provider 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<sup>1</sup>
- GPOs save the healthcare system up to \$34.1 billion per year 2
- 90% of hospitals are satisfied or very satisfied with their GPO<sup>3</sup>
- GPOs reduce supply-related purchasing costs to providers by 13.1%<sup>4</sup>
- From 2017-2026, GPOs will enable savings of \$456.6 billion to the healthcare system and \$116.3 billion to Medicare



<sup>1. &</sup>quot;Group Purchasing Organizations: Services Provided to Customers and Initiatives Regarding Their Business Practices," Government Accountability Office, page 4.

August, 2010

"A 2018 Update of Cost Savings and Marketplace Analysis of the HealthCare Group Purchasing Industry," Dobson DaVanzo & Associates, April, 2019

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