



Group Purchasing Organizations Work! Study Shows GPOs Save Nation \$36 Billion Annually

Group purchasing organizations (GPOs) are large national organizations and smaller regional entities that achieve health care cost savings by aggregating their healthcare buying volume and then using that leverage to negotiate contracts that include discounts with manufacturers, distributors and other vendors. GPOs negotiate on behalf of hospitals and affiliated health care providers to contract for the best value in their purchase of supplies and services. Titled, “*The Value of Group Purchasing 2009: Meeting the Needs for Strategic Savings*,” the new Health Care Associates report by Dr. Eugene Schneller of Arizona State University with data collection by Mathematica Research, Inc. finds that GPOs directly contribute to \$36 billion in projected annual price savings, including:

- \$6.8 billion for hospital pharmaceuticals;
- \$8.5 billion for medical/surgical purchases;
- \$1.9 billion in attributed savings in the \$10.4 billion cardiology implant marketplace (either directly or indirectly by providing members with GPO purchased goods or reference pricing from directly engaging the marketplace); and
- \$840 million in attributed savings in the \$7 billion dollar orthopedic implant marketplace (either directly or indirectly by providing members with GPO reference pricing for directly engaging the market).

Other savings arising from the work of GPOs include over \$1.8 billion in reduced hospital purchasing costs. These savings are realized by eliminating the need for hospitals to comprehensively carry out strategic sourcing, contracting and other key GPO activities for inpatient pharmacy, general medical products, orthopedic products, other clinical products, and housekeeping products.

The study also makes it clear that there are further potential savings that could be achieved through wider use of Group Purchasing Organizations. According to the new report, over half of U.S. hospitals and systems use GPO pricing as the benchmark for starting their own negotiations for physician preference items – the most expensive items that they purchase. Similarly, over half report the desire to improve GPO contract penetration.

The need for health care cost reductions at the hospital level is now urgent in the U.S. Over half (54 percent) of hospitals had negative total margins during the first quarter of fiscal year 2009, including 80 percent of hospitals with 500 or more beds, according to a nationally representative survey by the Healthcare Financial Management Association (HFMA). They also found that eight in 10 hospitals report declines in non-operating revenue since the economic recession began last summer, and seven in 10 report fewer days’ cash on hand. Four in 10 hospitals report a decline in net patient revenue and investment losses of 25 percent or more.

The report conducted by Dr. Schneller was carried out with financial support from the Health Industry Group Purchasing Association (HIGPA), a broad-based trade association that represents 16 group purchasing organizations, including not-for-profit and for-profit corporations, purchasing groups, associations and health care provider alliances. HIGPA provides educational opportunities designed to improve efficiencies in the purchase, sale and utilization of all goods and services within the health



industry and to promote meaningful dialogue between GPOs. For more information about this report, visit <http://www.GPOsSaveMoney.org> on the Web.

METHODOLOGY

The research encompassed 28 hospital systems representing 429 hospitals. Health care organizations were surveyed as to their commitment to purchasing from GPO contracts for commodities, pharmaceuticals, physician preference items such as orthopedic implants, and capital equipment (e.g., beds, etc.), as well as the savings achieved by levels of commitment (i.e., percentage of contract purchased off a GPO contract). The study is unique in that it considers the extent to which GPOs reduce transaction costs associated with the employment of supply chain personnel for a variety of categories of products at both the hospital and system level. It also documents the various added-value strategies associated with hospital/system GPO expectations, including outsourcing, utilizing GPO price as a benchmark for individual hospital contracting, and utilizing GPO pricing to obtain custom contracting.