Healthcare Business News

Healthcare GPOs promote positive influence ahead of GAO report

By Jaimy Lee
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The healthcare group-purchasing industry has released a pair of reports highlighting its role in helping hospitals reduce their costs—and pre-empting a federal report examining the use of fees and exclusionary contracts in their business.

Group purchasing organizations contract with medical suppliers, drug companies, and manufacturers of other nonclinical services and products used by hospitals on behalf of healthcare providers. Aggregating volume, they say, helps maintain and lower costs.

The Healthcare Supply Chain Association, a trade group for GPOs, asked a consulting firm to gather questions posed by the Government Accountability Officer for its forthcoming report and use those same questions to generate a **report on behalf of the industry (PDF)**.

A second industry report (PDF) also came out this week. The Healthcare Group Purchasing Industry Initiative, a voluntary organization that monitors the ethical and business practices of some GPOS, on Monday released its annual report. The initiative was formed in 2005 by GPOs to offset concerns among some members of Congress about their business practices.

Both reports seek to defend GPOs' role maintaining ethical contracting practices with hospitals, medical suppliers and drug companies while also promoting the GPOs' position helping hospitals preserve and lower supply costs.

The GAO report, expected to be released in November, was requested in 2012 by Sen. Ed Markey (D-Mass.) and five other members of Congress over concerns that the contracting practices of GPOs contributed to the ongoing drug shortage crisis in the U.S. and the ensuing reliance on compounding pharmacies. Compounded drugs became a subject of intense scrutiny when a contaminated batch of methylprednisolone acetate was distributed to 20 states and sickened hundreds of people. Sixty-four people died.

In a **Nov. 2012 letter to GAO Acting Comptroller General Gene Dodaro**, the lawmakers suggested exclusionary contracts and high fees between GPOs and generic drug makers have caused some manufacturers to exit the market because there is little incentive to continue doing making those drugs. When a sole-source manufacturer of a drug faces a recall or shutdown then, it can cause a shortage.

HSCA President Curtis Rooney has said previously that any attempt to link GPOs to drug shortages is an "irresponsible and dangerous distraction." GPOs say shortages are a result of manufacturing and quality issues.

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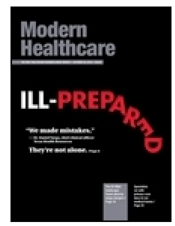

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Applied Policy, a Washington-based health policy firm that conducted the survey on behalf of the HSCA, gathered information from five GPOs: Amerinet, based in St. Louis; HealthTrust, in Brentwood, Tenn.; MedAssets in Alpharetta, Ga.; Novation, in Irving, Texas; and Premier, in Charlotte, N.C. The report was publicized at the trade group's annual expo last week in Washington.

“As payment reforms from both public and private payers have migrated away from a more traditional fee-for-service system to a prospective, or bundled payment system, hospitals face increased pressure to reduce costs,” the authors concluded. “GPOs have proven to be valuable partners supporting virtually every hospital across the country.”

The report found:

- At least 96% of U.S. hospitals are customers of a GPO and use GPO-negotiated contracts for some portion of their purchasing.
- Aggregate purchasing volume for the five GPOs was $130 billion in each company's fiscal 2012.
- The fastest growing contracting area is nonclinical purchases, such as food and beverages and health IT services. This category had a weighted-average growth of 10% from 2008 to 2012.
- The weighted-average administrative fee was 1.7% in 2012. GPOs earn most of their revenue from administrative fees, which are can be as much as 3% of the contracts they negotiate with suppliers on behalf of hospital customers.

In recent years declining reimbursement rates and lower patient utilization have compelled hospitals to seek new ways to reduce supply costs, which usually make up a hospital's second largest expense.

This has led to a shift in the types of services that many GPOs offer, as well as the formation of several new GPOs over the last two years. Many GPOs now count nursing homes and other non-acute care facilities as customers, and they increasingly offer data and analytics technologies and services.

“The hospitals who essentially are the GPO owners are asking for more and are under lots of pressure to perform,” Rooney said. “They are asking the GPOs to perform along with them.”

*Follow Jaimy Lee on Twitter: **@MHjlee***

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