

# Group Purchasing Organizations

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Pilot Study Suggests Large Buying Groups Do  
Not Always Offer Hospitals Lower Prices

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# Background: Overview of GPOs

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- Negotiate contracts with vendors (e.g., manufacturers) on behalf of members (e.g., hospitals)
  - Expected to use volume purchasing to negotiate lower prices
  - Vendors pay GPOs administrative fees based on sales
    - Fees finance operations
    - Surplus fees distributed to owners or used to finance new ventures
  - GPOs vary by size, scope of services and ownership type
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# Background: Antitrust Issues

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DOJ & FTC guidelines include **2 tests** to help gauge whether an arrangement is likely to raise antitrust concerns:

1. Purchases through a GPO must account for less than 35 percent of the total sales of the product or service (such as pacemakers) in the relevant market.
  2. The cost of purchases through a GPO by each member hospital that competes with other members must amount to less than 20 percent of each hospital's total revenues.
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# Background: Anti-kickback Issues

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To each participating member, a GPO must disclose:

1. That fees are to be 3 percent or less of the purchase price, or the amount or maximum amount that each vendor will pay.
2. At least annually, the amount received from each vendor with respect to purchases made by or on behalf of the member.

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# Background: Why We Did The Study

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- Requested by Senate Subcommittee on Antitrust, Competition, and Business and Consumer Rights, Committee on the Judiciary
  - Small manufacturers of medical devices had alleged that:
    - Contracting practices of some large GPOs block their access to hospital purchasing decisionmakers
    - These practices deny patients access to innovative or superior medical devices
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# Objectives, Scope, and Methodology

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- **Research questions**

- To what extent did hospitals in one market buying pacemakers and safety needles save money when using a GPO contract?
- To what extent did these hospitals purchase pacemakers and safety needles from small manufacturers?

- **Methodology**

- Interviews
  - Analyses of 18 hospitals' price and purchase data for select devices in one greater metropolitan area
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# Finding 1: GPOs Did Not Always Obtain Better Prices for Member Hospitals

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*Compared to hospitals purchasing on their own:*

- Median GPO-negotiated price ranged from:
  - 1 to 5 percent higher for safety needles
  - 26 percent lower to 39 percent higher for pacemakers
- Hospitals using contracts negotiated by large GPOs often paid more than those buying on their own

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## **Finding 1: Savings Depended on the Size of the Hospital**

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*Compared with their peers purchasing pacemakers on their own:*

- Four small hospitals always did better with a GPO contract
- Eleven medium-sized hospitals did better with a GPO contract for 40 percent of the models
- Three large hospitals rarely did better with a GPO contract



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# Finding 1: Savings Offered by Large GPOs Varied by Device

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*Compared to median price paid by hospitals using smaller-sized GPOs:*

- Median price was nearly always lower for hospitals using a large GPO's contract to buy safety needles
- Large GPO contract infrequently yielded better prices than smaller GPO contracts for pacemaker purchases

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## Finding 2: Hospitals Rarely Purchased From Small Manufacturers

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- Hospitals bought pacemakers and safety needles predominantly from large manufacturers—whether using a GPO negotiated contract or not
- Almost all hospitals in our sample belonged to GPOs—we could not tell whether GPOs’ contracting practices influenced these decisions or not

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# Concluding Observations

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- Data from pilot study raises questions about one of the intended benefits—lower prices—from having large GPOs
- More evidence on GPOs and their effects is needed
- At the Subcommittee's request, we plan to obtain data from a broader array of geographic areas and for other medical/surgical supplies and devices, hospitals, and GPOs.

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## For additional information

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- Statement for the Record available at [www.gao.gov/cgi-bin/getrpt?GAO-02-690T](http://www.gao.gov/cgi-bin/getrpt?GAO-02-690T) (Group Purchasing Organizations: Pilot Study Suggests Large Buying Groups Do Not Always Offer Hospitals Lower Prices)