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GPOs Provide Measurable Savings to Health Care Providers, The Lewin Group Reports

Arlington, VA (May 21, 2003) - In a new study released today by the Health Industry Group Purchasing Association (HIGPA) the results of three different analyses support the conclusion that group purchasing organizations (GPOs) provide measurable savings as well as non-financial benefits to hospitals and health systems.

The study, entitled Assessing the Value of Group Purchasing Organizations, was conducted by The Lewin Group, a health care consulting and research firm based in Falls Church, Virginia. The study was financially supported by HIGPA.

Lewin researchers reported that GPOs generate savings for health care providers in several ways:

- GPOs offer generally favorable pricing on goods purchased and they seem to influence suppliers to keep prices lower in the market overall;
- GPOs deliver patronage dividends and shareholder distributions; and,
- GPOs reduce purchasing administration expenses for many hospitals and health systems.

"The Lewin report clearly demonstrates both the financial and non-financial benefits that group purchasing organizations bring to health care providers. Three separate analyses reach the same conclusion that the presence of GPOs in the health care marketplace is extremely valuable to hospitals and other health care institutions," said HIGPA President and CEO Robert Betz, Ph.D.

"As hospitals' costs continue to rise due to lower Medicare reimbursement, implementation of federally mandated regulations, such as HIPAA, and increases in malpractice insurance and staffing costs," Mr. Betz said, "hospitals must be able to manage their expenses more efficiently and GPOs provide this critical service. Because non-labor costs comprise a sizable portion of a hospital's budget, group purchasing is a highly effective mechanism to control such expenses and, thus, to enhance a hospital's ability to manage its hard-pressed finances."

Interviews with Hospital Executives: Value GPO Relationships for Financial and Non-Financial Reasons

In the first analysis, Lewin researchers surveyed a national sample of hospital and health system supply-chain executives representing 183 hospitals in 33 states and the District of Columbia. The responses showed that these executives value their relationships with GPOs, for both financial and non-financial reasons. Significant findings include:

- U.S. hospital and health system supply chain executives estimate that GPOs save their institutions an average 10.4 percent on supply costs, which includes price savings on goods purchased through GPOs, patronage dividends received from GPOs, and labor costs avoided by using GPOs.
- Ninety percent of hospital executives surveyed purchase between 60 and 90+ percent of their products on GPO contracts.
- Smaller hospitals or hospital systems typically purchase 20 percent more supplies through a GPO than a larger hospital system because of the cost savings. Larger hospital systems sometimes can negotiate on their own for better pricing using the GPO price as a base.
- Future reliance on GPOs will continue to be strong - with close to two-thirds of hospitals indicating an expected increase in purchases through GPO contracts.
- Approximately nine out of ten (87 percent) hospital and health system executives' responses indicated the absence of GPOs would lead to higher prices of between 10 and 35 percent for medical supplies?either industry-wide or within their own organizations.
• GPOs offer flexibility and commitment with contracts. Nearly 85 percent of respondents stated that they are not subject to a minimum level of compliance on GPO contracts.
• Based on the average number of full-time hospital staff the respondents said would be needed to supplant GPO services, if GPOs did not exist, Lewin researchers estimated that the direct costs of adding a purchasing staff would amount to $198,000 per organization.
• GPOs have helped to create a "Wal-Mart effect" in the health care supply chain, which means the GPO's best price makes prices lower for products not on GPO contract. An overwhelming four out of five respondents (82 percent) indicated that GPOs were effective in lowering medical supply prices on all or some items.
• In addition, non-financial services, such as professional education and technology assessment, contributes to the value of a hospital joining a GPO, over and above financial savings.

Those interviewed for this analysis were drawn from a random sample of purchasing executives representing hospitals and health systems across the nation. The results were compiled by researchers who solicited the following information: nature of GPO membership and participation, extent of savings on the costs of hospital goods by product type, additional rebates/discounts made available to GPO members, and the extent of non-financial value by type of service provided.

**Comparative Pricing Study: Hospital GPO Contracts Produce Savings for Medical/Surgical, Laboratory and Pharmaceutical Supplies**

In the second analysis, Lewin researchers compared GPO and non-GPO pricing across a subset of product models within three major product categories: medical/surgical supplies, laboratory products and pharmaceutical supplies - to estimate the dollar savings obtainable by hospitals through GPO contracting. The researchers concluded that the use of GPO contracts by health care providers saved money across all three product categories. Significant findings include:

• Providers purchasing a set of top-selling medical/surgical, pharmaceutical and laboratory products from GPOs at the best price and the base price could save 26 to 17 percent, respectively. In many instances, providers contracting with GPOs received better prices regardless of whether purchases were made at best or base tier levels.
• Of all categories, pharmaceutical products had the smallest variation and laboratory products the highest variation between best and base tier, and non-GPO pricing.
• Providers purchasing 100 units of the selected pharmaceuticals at either base or best price could achieve overall cost savings of about 16 percent compared to wholesale acquisition cost.
• Purchasers of 100 units each of the products in the laboratory sample through a GPO contract could realize cost savings of 60 percent at best price and 10 percent at base price.
• Medical/surgical supplies purchased at 100 units of each could achieve cost savings of approximately 42 percent at best price and 29 percent at base price.

**Efficiency Analysis: Hospital GPO Participation Yields Savings of up to 11 Percent**

In the third analysis, to quantify the cost savings associated with the use of GPOs, researchers compared reported costs between hospitals relying on GPOs and those not using GPOs. Focusing on three classes of purchases: materials management, laboratory supplies and pharmacy products, the Lewin researchers found that participation in a GPO is associated with substantially lower hospital costs per case, yielding savings between eight and 11 percent. Of the hospitals in the national Medicare database of hospital costs that Lewin surveyed, those that participated in a pure GPO for all three categories saved $7.4 billion in total supply expenses.

"Contrary to what some stakeholders have argued," Mr. Betz added, "the findings of this three-part study supports the clear view that GPOs have strongly advocated all along - GPOs are needed by providers to control costs and furnish patients with the best products at the best price.□h

He concluded, "Additionally, with the newly adopted industry Code of Conduct almost fully implemented, GPOs have made positive changes that are certain to foster even more savings and
even greater availability of the best products. HIGPA continues to challenge all entities engaged in group purchasing to join with the Association’s GPO members in demonstrating the highest ethical business standards by becoming a member and abiding to the Code.

To obtain a copy of this study visit the Association’s web site at www.higpa.org or contact HIGPA's Director of Communications, Carolyn Hickey, at (703) 243-9262.

HIGPA is a chartered trade association of approximately 170 health care purchasing and supply chain organizations. HIGPA’s Industry Members include purchasing groups, associations, and health care provider alliances. HIGPA’s Trading Partner members include many of the world's leading health care product manufacturers, distributors, wholesalers and related suppliers.

To learn more about HIGPA or the group purchasing industry, visit www.higpa.org or call 703-243-9262.