UNSUNG HEROES OF HEALTH CARE REFORM?: $36 BILLION IN ANNUAL SAVINGS LINKED TO “GROUP PURCHASING ORGANIZATIONS” IN MAJOR SURVEY OF OVER 400 HOSPITALS

GPOs Are a Proven “Solution at Hand” as President Obama, Congress Explore Health Care Cost Cuts; With Financial Woes of U.S. Hospitals Worsening, More Savings from GPOs Are Possible.

WASHINGTON, D.C.///April 29, 2009///When President Barack Obama and Congress weigh health care reform options to rein in runaway medical costs, they should take a close look at the largely unheralded work of “group purchasing organizations” (GPOs), which already are achieving over $36 billion in annual health care and related costs savings in the United States, according to a new study of 429 hospitals and over three million hospital admissions by Dr. Eugene S. Schneller, principal Health Care Sector Advances, Inc. and professor at the Arizona State University School of Health Management and Policy.

Dr. Schneller is Dean’s Council of 100 Distinguished Scholar at Arizona State University and co-director of the Health Sector Supply Chain Research Consortium. He has held teaching and research posts at Montefiore Hospital and Medical Center, Duke University Medical Center, Union College, Albany Medical Center, and Columbia University. Dr. Schneller is the author of over 35 journal articles as well as the co-author of Strategic Management of the Health Care Supply Chain (Jossey-Bass).

Group purchasing organizations are large national organizations and smaller regional entities that achieve health care cost savings by aggregating their health care buying volume and then using that leverage to negotiate 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 Sector Advances report by Dr. Schneller with data collection by Mathematica Research, Inc. finds the following results from GPOs as part of the $36 billion in projected direct price savings:

- $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 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 by Dr. Schneller 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. 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.

Dr. Eugene S. Schneller said: “Though largely invisible to the health care consuming public, GPOs are key players in health care reform. They literally save the country tens of billions of dollars annually through the power of aggregated purchasing volume and negotiated discounts with manufacturers, distributors and vendors.”

Commenting on the new report, Todd Ebert, president and CEO, Amerinet, Inc., a St. Louis-based investor-owned group purchasing organization, said: “GPOs are the unsung heroes of health care reform. This is an efficiency maximizing practice whose time has truly come. During this time of economic hardship, health care group purchasing is an ‘at hand-solution’ to one of the major financial crises facing this country – escalating health care costs. Related cost savings also ensure more Americans get the health care they need and deserve.”

Alan Yordy, president and CEO, Peacehealth Hospital, Bellingham, Washington, said: “The contract we have with our GPO produces significant, demonstrable savings for our hospital. GPO produced efficiencies could not be more important for our hospital, especially during this time of economic necessity. Dollars saved allow us to devote our scarce resources directly to patient care; it also enables us to hire more doctors and nurses.”

Curtis Rooney, president, Health Industry Group Purchasing Association, said: “Group Purchasing Organizations support President Obama’s call for providing high quality, affordable health care for every American. This study shows in concrete terms how GPOs support and deliver on the President’s agenda of providing significant efficiencies and maximizing savings in the health care system. There is more that GPOs can do … and we want to work with the President and Congress to do it.”

The Health Care Sector Advances survey and 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, multi-hospital systems 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.

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**EDITOR’S NOTE:** A streaming audio recording of the news event will be available on the Web as of 7 p.m. EDT on April 29, 2009 at http://www.GPOsSaveMoney.org