Investigation of GPOs yields mixed opinions

Group purchasing organizations (GPOs)—companies that negotiate product and service purchasing contracts for health care groups—came under fire recently from members of Congress, a government report, medical device manufacturers, and the media.

Lawmakers held a hearing in late April to address whether GPOs serve the best interests of their member hospitals and patients or if financial ties the groups have with their suppliers influence contract negotiations.

What's at issue. The New York Times reported several stories in March and April that probed into the financial interests of the two largest GPOs, Premier Inc. and Novation. According to the newspaper, Premier executives had benefited from stock options they received from one of the GPO’s drug suppliers, and Novation had pumped millions of dollars into an electronic commerce company in which some of the GPO’s executives own stock.

The General Accounting Office (GAO), the investigative arm of Congress, in April released the results of a pilot study suggesting that GPOs do not always save hospitals money. However, the study examined only purchasing data for pacemakers and safety needles from 18 hospitals in one metropolitan area.

David McDonough, spokesman for the Health Industry Group Purchasing Association (HIGPA), a trade group that represents GPOs, said his organization disagrees with the GAO report. “It does not fully represent the GPO negotiating process,” he said. “It was very limited in scope.”

The Medical Device Manufacturers Association has alleged that certain practices by the larger GPOs limit competition and innovation to an extent that ultimately harms patients by depriving them of the latest advances in medical care.

How GPOs operate. Many GPOs were created and are owned by hospitals. About 96–98% of hospitals use GPOs for at least some contract negotiations, according to HIGPA. Manufacturers and distributors pay a percentage of each hospital's purchases to the GPO that negotiated the contracts (see figure). The Social Security Act was amended in the mid-1980s to allow such payments that would otherwise be considered illegal kickbacks.

GPOs are required to report annually to each member hospital the fees received from each vendor regarding purchases made by or on behalf of the member hospital. Often, GPOs return a portion of administrative fees to their member hospitals after paying overhead costs.

According to GAO, some small manufacturers have charged that GPOs, by relying on vendors’ fees, become agents of manufacturers and assist them in limiting competition.

Mitchell Goldstein, a neonatologist at Citrus Valley Medical Center in West Covina, California, testified before Congress that, despite his lobbying efforts, GPOs have refused to place a specific pulse oximeter on their pricing lists. “Where medical care has become subservient to contracting demands, our ability to practice medicine is curtailed,” he said.

McDonough noted that a recent study commissioned by HIGPA found that GPOs and their member hospitals conduct extensive clinical reviews when de-

Flow of money when a hospital buys supplies through a group purchasing organization (GPO). Adapted from the testimony statement presented April 30, 2002, by William J. Scanlon, director of health care issues at the General Accounting Office, before the subcommittee on antitrust, competition, and business and consumer rights of the Senate Committee on the Judiciary.

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ciding which products to list in purchasing contracts.

That study, he said, reported that GPOs and health systems rely on the advice and knowledge of pharmacists, nurses, and physicians when evaluating medical products and supplies.

But Senator Herbert Kohl (D-Wisconsin) accused GPOs of having contracting policies that keep “many good products out of circulation while enabling large manufacturers to entrench their market position.”

Kohl chairs the Senate antitrust, competition, and business and consumer rights subcommittee that held the April hearing and called on GAO to examine GPOs. He, together with Senator Mike DeWine (R-Ohio), have asked the Justice Department and the Federal Trade Commission to reexamine the guidelines that often protect GPOs from federal antitrust scrutiny.

Users’ views. Trisha Barrett, a nurse and value-analysis facilitator for the University of California San Francisco Medical Center (UCSFMC), in testifying before Congress, urged lawmakers to “proceed very carefully” in considering any new laws that affect GPOs.

UCSFMC is a member of the University HealthSystem Consortium (UHC), a group that, with VHA Inc., owns Novation. The medical center also uses the GPO to negotiate 50% of its contracts, Barrett said.

“Without companies like Novation, I am concerned that health care organizations, and ultimately patients, would pay more for health care,” she told the subcommittee.

Most of the issues targeted by Congress and the media have pertained to contracts for medical devices. But a substantial amount of GPO-negotiated contracts for hospitals are for drug products.

Pharmacist Richard Hartenstein said medical device manufacturers and the media are “stirring up smoke where there is no fire.”

Before becoming pharmacy director for Ochsner Clinic Foundation of New Orleans, Hartenstein oversaw materials management for the hospital.

“If someone had this great device, sooner or later it will get in front of someone who will go to bat for it,” he said.

While acknowledging that he is “not the biggest fan” of GPOs, hospitals “would be crazy to negotiate contracts without them,” Hartenstein said.

“If we didn’t have GPOs contracting on our behalf, I can’t imagine what it would be like with the thousands of generic products we would have to make contract decisions about,” he said.

Al Patterson, pharmacy director for Children’s Hospital of Boston, Massachusetts, said hospitals have control over the contract decisions they negotiate with GPOs.

“They don’t ram this down our throats,” he said. “We know what we are doing.”

Hospitals can choose to go outside of the GPO negotiating process when needed, Patterson said.

“My responsibilities to my patients supersede any contractual arrangement,” he said. “We make sure we have the safest drug therapy for our kids. We don’t always choose a drug based on price. If there are long-term fiscal realities that we have to deal with later, then we will. We will always make sure we have the highest quality of drugs with or without a GPO.”

Patterson, whose hospital uses Premier to negotiate contracts, argued that the GPO’s investments in one of its suppliers was a legitimate venture.


“There are getting to be fewer and fewer companies that make injectable generic drugs,” Patterson said. “No one else is willing to put the money into these drugs.”

Andrew Wilson, pharmacy director of the Medical College of Virginia Hospitals in Richmond and associate dean at the pharmacy school, said he would like to see some reform in the GPO payment structure so that hospitals could see more savings.

But, he added, most hospital pharmacies track drug prices and know if a GPO has not offered the best price on a drug product.

“We are an outspoken bunch, and we will call them on it if we have to,” he said.

Wilson said GPOs know the marketplace for products and services, saving hospitals time and resources on contract negotiations. Also, GPOs can protect hospitals from making expensive mistakes with contracts.

“They keep us from getting stuck with bad contracts, like in a long-term contract for a drug just before it goes off patent,” he said.

Wilson’s hospital uses Novation to negotiate its contracts for products and services.

Pharmacists, he said, should not have to spend their time negotiating contracts.

A view from within. “Pharmacists are much more interested in being clinicians than involving themselves with the purchase of products,” said Jody Hatcher, Novation’s vice president of marketing.

Hatcher argued that there is a “misunderstanding about what [GPOs] do.”

He said negative publicity in the media has characterized the business model of seller-paid fees used by the GPO industry as unique. Real estate, he said, has used that system for many years.

“The governance accountability we have to the members guides our practices,” Hatcher said. “Our board is comprised of member organizations. We have more than 25 councils that represent over 400 health care professionals from across the country whose job it is to provide us input into decision-making. And with that kind of input, that level of involvement, it’s extremely difficult to stray.”

He added that member hospitals view GPOs’ services as “inherently valuable” or they would not rely on the companies for contract negotiations.

An alternative approach. Iowa Health System of Des Moines, a 10-hospital system with $1.4 billion in assets, stopped