



GPO Safe Harbor: Essential for Providers

The Issue

Healthcare providers rely on group purchasing organizations (GPOs) to reduce their costs and increase efficiencies by leveraging their aggregate purchasing power to negotiate discounts with manufacturers, distributors, and suppliers for products and commodities. Despite criticism leveled at the industry by a select few, the savings GPOs provide to healthcare providers have repeatedly been affirmed by providers themselves, the Government Accountability Office¹ (GAO), and other research.

All types of healthcare providers (home infusion providers, long-term care pharmacies, nursing homes, physician practices, home health agencies, hospitals, rehabilitation facilities, and others) join a GPO to access the most competitive prices for a full range of products, including pharmaceuticals, medical devices, and commodities like food and office supplies. While GPOs negotiate contracts and assist with value analysis, providers themselves always decide what drugs and devices they will purchase and use.

GPO participation is entirely voluntary for providers and manufacturers. Providers may purchase through GPO contracts, access contracts through multiple GPOs, or buy directly from a manufacturer. GPOs are funded by administrative fees that manufacturers pay as a percentage of purchases. Because Congress recognized the value of GPOs, Congress enacted “safe harbors” for

GPOs from laws and regulations that would otherwise prohibit them. Without these important safe harbors, providers would incur much greater costs in securing the drugs, devices, supplies, and services they need.

GPOs also help providers lower their overall costs by streamlining and standardizing their purchasing processes. GPOs help to reduce providers’ non-clinical staffing needs because providers do not need to negotiate with multiple manufacturers and suppliers. Few providers in today’s healthcare landscape have the staff or expertise to negotiate the large number of contracts necessary to supply their institutions. GPOs also help providers monitor and track supply spending as part of total expenditures, and identify opportunities to reduce overall expenses.

On average, GPOs save providers between 10% – 18% on purchases, which is why providers choose to work with them. A 2009 study found that GPOs save the U.S. healthcare industry up to \$36 billion in annual price discounts and more than \$2 billion annually in human resource costs.²

Our Position

Innovatix strongly supports the GPO safe harbor that enables providers to leverage their buying power to secure discounts. Congress should continue to recognize the importance of the safe harbor and preserve this invaluable structure.

1. Government Accountability Office. “Group Purchasing Organizations: Services Provided to Customers and Initiatives Regarding Their Business Practices” (August 2010). Available at: <http://www.grassley.senate.gov/about/upload/d10738.pdf>.
2. Schneller, Eugene S. “The Value of Group Purchasing 2009: Meeting the Need for Strategic Savings.” Health Care Sector Advances, Inc. (April 2009). Available at: <http://www.supplychainassociation.org/resource/resmgr/research/schneller.pdf>.