ASC industry no longer the stepchild of group purchasing organizations

Group purchasing has long been a tradition for hospitals. Now ambulatory surgery centers (ASCs) are beginning to adopt the practice, and the reason is simple: Group purchasing organizations (GPOs) are noticing their needs and recruiting them as members.

“We are evolving services,” explains Randy Piper, vice president of nonacute contracting for Amerinet, a national GPO. Currently about 2,900 ASCs are Amerinet members. Premier, another national GPO, used to avoid recruiting ASCs, partly because its hospital members considered them competition, but today it has an advisory board representing ASC members.

Numbers game
For many years, the major GPOs ignored ASCs and other nonacute care facilities. Group purchasing was a numbers game. The more purchasing volume a GPO could guarantee, the better the deals it could negotiate with manufacturers and distributors.

ASCs, small and independent, were left to manage on their own, paying higher prices for medical-surgical devices. Very few could afford to dedicate staff to investigate suppliers and products. Their physician owners were concerned about revenue and expenses, but they also had strong loyalties to particular products and sales representatives.

During the 1990s, hospitals began to merge with other hospitals and nonacute facilities to form integrated delivery networks (IDNs). Some were large enough to negotiate supply contracts on their own, obtaining GPO-sized discounts for all of their affiliates.

GPOs began to concentrate on the members that benefited most from GPO membership: small acute-care hospitals. Like today’s ASCs, the smaller hospitals had limited clout with suppliers because of their relatively low purchasing volume. Even as group members, they often found themselves on the highest contract pricing tiers—“the higher the volume, the lower the price” was the rule. One implication of the Patient Protection and Affordable Care Act (ACA) is there will be increasing focus on nonsalary expense savings.

Although the law makes few actual references to medical-surgical supplies (except for a controversial tax on devices), it does call on the healthcare system to reduce costs to patients and insurers such as Medicare. Reduced reimbursement, shared savings programs such as accountable care organizations (ACOs), and value-based purchasing (also known as “pay for performance”) are likely to narrow the gap between revenue and expense. It will be essential for ASCs to continually improve efficiency and trim costs.

Sharing the wealth
GPOs earn much of their revenue from administrative fees they charge to contracted vendors in return for publicizing and marketing those contracts. Healthcare providers pay nothing to belong, though they are often charged for additional services such as
as consulting and analytical software. As members, they also are entitled to share in distributions or rebates when the administrative fees exceed the GPOs’ expenses.

The Department of Health and Human Services (HHS) reported in 2005 that 3 unidentified national GPOs together received $1.8 billion from vendors over a 5-year period and distributed $898 million of that to their members during the same period. To reward purchasing loyalty, vendors often give rebates directly to GPO members based on spending volume. HHS found in the same audit that 21 hospitals received a total of $285 million in vendor rebates.

All those rebates are perfectly legal, thanks to a safe-harbor provision in the federal anti-kickback law. However, Congress apparently did not foresee the eventual outcome of its decision. As GPOs became more dependent on vendors for their income, vendors became more powerful, making demands such as exclusive national contracts that shut out smaller companies. They insisted on confidentiality clauses in contracts so that no hospital would know whether it was getting the best price or even average prices. Patients and physicians were kept equally in the dark.

By 2005, the Health Industry Group Purchasing Association (HIGPA) had about 140 members, of which 115 were manufacturers, distributors, and other suppliers. Only 25 represented GPOs and large IDNs.

Meanwhile, the industry had become a center of controversy as small suppliers made headlines with accusations of discrimination by GPOs. HIGPA later banished suppliers as regular members and began lobbying efforts in response to Congressional investigations. HIGPA is now called the Healthcare Supply Chain Association (HSCA). It has 14 members, all GPOs, and a strong lobbying arm. Visit www.supplychainassociation.org.

**An unusual luxury**

With the growth of the nonacute market, including ASCs, GPOs are turning their attention to attracting nonhospital members and, in deference to legal challenges, smaller suppliers. They largely abandoned sole-source contracts, a move that gives members a wider choice of products and the option of keeping some physician preference items.

Standardization—brand loyalty for commodity products such as suture and gloves—remains the best way to obtain substantial discounts.

As LeeAnn Puckett of Evansville (Indiana) Surgery Center explains, “You don’t have to pay $6 for a box of needles when you could get it for $3. It’s ridiculous.” Puckett holds an unusual position for an ASC: full-time materials manager. She is the point of contact for the 2 facilities with suppliers and GPOs, despite Evansville’s affiliation with Deaconess Hospital, which also belongs to a GPO. She had worked with several GPOs, including Novation and MedAssets, before selecting Premier in 2010. The reason, she says, is that Premier had organized a regional group of ASCs and allowed them to aggregate their purchasing volume so as to qualify for better pricing under Premier contracts. Before joining the group, called Alliant, she says, her ASC was very small. “As an ASC, even if we were 100% committed to a contract, we wouldn’t qualify for the best tier because of our low volume.” Suddenly, Evansville’s $60,000 annual suture spend was merged with Alliant’s $1 million, producing a large discount.

**Help with contracts**

Even as a full-time materials manager, Puckett says she appreciates the fact that Alliant provides help with contract management, which is critical to obtaining the full advantages of GPO participation. When a contract expires, for example, often
distributors will continue to deliver products, but at precontract prices. To take advantage of new contracts, facilities must complete forms called letters of commitment.

“You need a GPO or full-time materials manager to track contract dates,” she says. “Most ASCs just don’t have the tools to do it.”

Alliant and similar regional groups have staff on hand to alert members to available contracts and arrange for letters of commitment.

Converting to Premier contracts was not easy, Puckett notes, because staff had to get used to new products and a new prime distributor, Medline Industries in Mundelein, Illinois. It was worth the effort, however; in the first year, Evansville’s 2 centers converted to Alliant contracts for suture, surgical packs, medical supplies, and pharmacy products, and saved a total of $91,000.

“When we did that, I was a rock star here,” Puckett recalls.

While Evansville concentrates on expense reduction, GPOs have been expanding their offerings to include services other than purchasing for both hospitals and ASCs.

“We’re basically helping take care of the details, so you can focus on patient care,” Amerinet’s Piper explains. Amerinet offers benchmarking services to track inventory turnover and par levels, consultants who work with physicians to standardize to the extent possible on expensive preference items such as implants, and regional groups of its own. Nonmedical contracts cover telecommunications, energy, office supplies, computer hardware and software, facility management, and financial management.

It offers staffing services, employee training, and employee benefits, he says, and even makes some of its contract discounts available to employees.

—Paula DeJohn

References