GPO purchasing of implants lags

On average, hospitals purchase 73% of their materials through group purchasing organizations (GPOs), with a wide range from 30% to 90%. But fewer—19%—purchase expensive orthopedic implants through GPO contracts, a new survey finds.

Eugene S. Schneller, PhD, a business professor at Arizona State University, Tempe, and a supply chain consultant, surveyed 28 systems representing 429 hospitals about their commitment to group purchasing, including savings, satisfaction, and perceived value. The study was financed by the Health Industry Group Purchasing Association (HIGPA), a GPO trade group.

GPOs are organizations that buy on a large scale and negotiate discounts from vendors. They also provide services like consulting and performance improvement efforts.

Survey highlights:
- Overall average savings attributed to GPO contracts: 18.7%.
- Percent of general med-surg supplies purchased through GPO: 82%.
- Average hospital supply expense as percent of net revenue: 18.5%.

On the labor impact of group purchasing, findings indicated the average hospital would have to hire 9 FTEs to replace services GPOs provide.

The average hospital in the study had 380 beds, 20,000 annual inpatient admissions, and $62 million in supply spending.

From the findings, Schneller projected that GPOs save the US over $36 billion in direct health care costs annually. More savings would be possible if GPOs were more widely used, he added.

He and others speaking at an April 29 news conference called GPOs “key players in health care reform” and said greater use of group purchasing could aid hospitals, which have been heavily hit by the recession.

Implant purchasing lags

For items such as total joint prostheses, pacemakers, and cardiac stents, group purchasing has not penetrated far (table).

These items, driven heavily by physician preference, are more difficult to consolidate for group buying than bulk supplies.

They are also a big cost challenge, accounting for about 60% of a hospital’s total materials spend, according to a 2007 report by Schneller and his coauthor Kathleen Montgomery.

For hospitals that do purchase these items through GPO contracts, estimated average savings are:
- 15% for orthopedic implants
- 17% for cardiac devices.

It’s hard to compare these savings with savings hospitals can get on their
The most common way hospitals use GPOs for physician preference items, employed by 50%, is as a starting point for negotiations, the survey found.

Over a third (37.5%) say they have a strategy to use GPOs for implant purchasing, even though only 19% buy their hip, knee, and spine implants mainly through GPO contracts.

The findings suggest many hospitals indicated they would like to go further, with over half (56%) saying they want to improve their GPO contract participation for these items.

**Why the gap?**

Why the gap between intentions and behavior on physician preference items? Schneller suggested several reasons: Some may believe there is an advantage in doing their own contracting, using GPO pricing as a benchmark, or they may be working with their GPO on custom contracting.

Schneller told *OR Manager* he sees collaboration increasing among orthopedic makers, hospitals, and GPOs, though that was not part of the survey.

“As some orthopedic suppliers have had issues with the Department of Justice and are less able to reach physicians, they have tended to collaborate more with hospitals,” he says.

He was referring to the Justice Department’s 2007 agreement with major implant manufacturers. In the deal, the companies avoided criminal prosecution and paid more than $300 million to settle claims over charges they had paid physicians kickbacks for use of their brand of implants. As part of the deal, companies were required to post on their web sites lists of consulting arrangements with physicians.

There have also been calls for stricter conflict of interest policies for physicians and industry, most recently by the Institute of Medicine.

Schneller says he has been “fairly vocal” about the need for transparency in implant pricing as well as a national registry to track implant use and outcomes. The outcomes data could be used to compare the effectiveness of various types of implants. Attempts to set up a registry have been slowed

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### GPOs’ role in physician preference items

<table>
<thead>
<tr>
<th>Category</th>
<th>% principally use GPO contracts</th>
<th>% have GPO assist in local negotiation</th>
<th>% use GPO for “reference pricing”</th>
<th>% use GPO price data as benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardiology (pacemakers)</td>
<td>16.7</td>
<td>16.7</td>
<td>8.3</td>
<td>20.8</td>
</tr>
<tr>
<td>Cardiology (stents)</td>
<td>29.2</td>
<td>8.3</td>
<td>8.3</td>
<td>20.8</td>
</tr>
<tr>
<td>Orthopedics (hips)</td>
<td>19.2</td>
<td>15.4</td>
<td>15.4</td>
<td>23.1</td>
</tr>
<tr>
<td>Orthopedics (knees)</td>
<td>19.2</td>
<td>15.4</td>
<td>15.4</td>
<td>23.1</td>
</tr>
<tr>
<td>Spine</td>
<td>19.2</td>
<td>11.5</td>
<td>11.5</td>
<td>15.4</td>
</tr>
</tbody>
</table>

by questions about funding, how to encourage participation, data privacy, and who would manage and own the data.

**Supply expense per discharge**

In the overall findings, hospitals with lower use of GPO contracts are likely to have higher expenses per adjusted discharge than hospitals with high GPO contract use, especially for general medical products, housekeeping, and other clinical products.

All of the reasons for this difference aren’t known, but Schneller says hospitals that aren’t making high use of their contracts “would be wise to review their current strategies.”

For every 1,000 admissions, a hospital underperforming in this area could save as much as $400,000, and a system could save almost $900,000, he noted.

In addition, he notes, hospitals give a high value to other services GPOs provide besides pricing, such as monitoring the market for drug shortages, identifying safety products, and managing suppliers’ failure to adhere to terms and conditions.

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**Reference**

