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United States Government Accountability Office
Washington, DC 20548

January 29, 2010

The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate

Subject: *Group Purchasing Organizations: Research on Their Pricing Impact on Health Care Providers*

Dear Senator Grassley:

Hospitals and other health care providers use purchasing intermediaries—group purchasing organizations (GPO)—as a way to control the cost of various medical products. Through GPO-negotiated contracts, hospitals and other health care providers can purchase everything from commodities, such as cotton balls and bandages, to high-technology medical devices, such as pacemakers and stents.¹ By pooling the purchases of these products for their customers, GPOs are in a position to negotiate lower prices from manufacturers, distributors, and other suppliers, which may in turn benefit health care providers and, ultimately, consumers and payers of health care such as insurers and employers.

Members of Congress and others have recently raised questions about the extent to which GPOs negotiate lower prices for health care providers. GPO and other trade associations have funded studies on the impact of GPOs.² However, these studies have limitations.³ You asked us to review research on the impact of GPOs on pricing for hospitals and other health care providers. This report summarizes the peer-reviewed and nonpeer-reviewed literature on the impact of GPOs on pricing for hospitals and other health care providers that we identified in our literature review.

¹A stent is a device used to provide support for tubular structures like blood vessels. It can be made of rigid wire mesh or may be a metal wire or tube.

²See, for example, E.S. Schneller, “The Value of Group Purchasing – 2009: Meeting the Needs for Strategic Savings” (2009); D.E. Goldenberg & R. King, “A 2008 Update of Cost Savings and a Marketplace Analysis of the Health Care Group Purchasing Industry” (2009); H. Singer, “The Budgetary Impact of Eliminating the GPOs’ Safe Harbor Exemption from the Anti-Kickback Statute of the Social Security Act.” Two of the articles (Schneller, and Goldenberg & King) were funded by the Health Industry Group Purchasing Association and estimate savings that GPOs produce for hospitals or other providers and federal programs, respectively. The third study (Singer) was funded by the Medical Device Manufacturers Association and analyzes the expected effects on federal expenditures if certain statutory protections for GPOs were changed.

³For example, the study by Schneller relies on estimates of savings reported by hospitals in a survey, but does not report the survey response rate or how the respondents were selected, although the author states that smaller hospitals were underrepresented. In addition, the article states that because of variation in how hospitals calculated their savings, it is difficult to precisely estimate savings to hospitals nationally. The Goldenberg & King and Singer studies apply varying assumptions to national expenditure data to model the effects of GPOs on providers or federal expenditures.

To identify the peer-reviewed literature on the impact of GPOs on pricing for hospitals and other health care providers, we conducted a literature review. To conduct this review, we searched 11 reference databases, such as EconLit and Medline, for articles published between January 2004 and October 2009. In our search, we used a combination of search terms such as “group purchasing” and “prices.”⁴ We considered an article relevant to our review if it discussed the pricing impact of GPOs on hospitals and other health care providers. Using the articles we identified as relevant to our review, we then determined which of these articles were published in peer-reviewed journals. To confirm that our search captured all of the relevant literature that met our criteria, we reviewed the bibliographies of the relevant articles to identify other potentially relevant studies. We did not assess the methodologies of the studies we identified or review the reliability of the data used in these studies.

We conducted our work from October 2009 through January 2010 in accordance with all sections of GAO’s Quality Assurance Framework that are relevant to our objective. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

In our review, we identified one peer-reviewed article on the impact of GPOs on pricing for health care providers that was published between January 2004 and October 2009.⁵ The authors of this article concluded that according to hospital directors of materials management who are responsible for hospitals purchases of medical supplies, alliances between hospitals and GPOs can contain rising health care costs by reducing product prices, reducing transaction costs through commonly negotiated contracts, and increasing hospital revenues via rebates and dividends. The findings in the article are based on a national survey of hospital directors of materials management.⁶ While we did not assess the methodology of this article, the article identified some limitations to the analysis, including that the findings rely on the perceptions of materials managers identified through a survey and do not include empirical analyses of hospital cost savings. The article also stated that the survey yielded a low response rate of 16 percent. However, the article reported that, although the response rate was not high, the researchers found little evidence of survey bias introduced by the low level of response and employed additional techniques to correct for any potential bias.

In the course of our review we also identified other, nonpeer-reviewed articles on the impact of GPOs on pricing that were published between January 2004 and October 2009. The articles provide mainly anecdotal and other information related to the impact of GPOs on pricing for hospitals and other health care providers and do not include the results of empirical analyses. (Enclosure 1 provides a selected list of these articles.)

⁴Our search terms included the following: “group purchasing,” “purchasing alliance,” “health,” “hospital,” “cost,” “pricing,” “prices,” “price,” “money,” “medical,” “physician,” and “nursing home”.

⁵See L.R. Burns & J.A. Lee, “Hospital purchasing alliances: Utilization, services, and performance,” *Health Care Management Review* (2008).

⁶The survey was administered to all members of the seven alliances and individual members of the Association of Healthcare Resource & Materials Management, a professional society of materials managers affiliated with the American Hospital Association. According to the study, the seven alliances accounted for nearly 93 percent of hospital purchases through alliances, and the population of materials managers surveyed was approximately 5,014.

As arranged with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days after its issue date. At that time, we will send copies to other interested parties. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Please contact me at (202) 512-7114 if you have any questions. Major contributors to this report were Kristi Peterson, Assistant Director; Kye Briesath; Kelly DeMots; and Krister Friday.

Sincerely yours,



Linda T. Kohn
Director, Health Care

Enclosure

Enclosure I

Selected Nonpeer-Reviewed Articles on the Impact of Group Purchasing Organizations on Pricing for Hospitals and Other Health Care Providers

Becker, C. "A shift for VHA; New approach aims to give members more cash back." *Modern Healthcare*, vol. 35, no. 19 (2005).

Birk, S. "Millions saved with purchasing coalition." *Materials Management in Health Care*, vol. 18, no. 3 (2009).

Long, G. "Pursuing supply chain gains." *Healthcare Financial Management*, vol. 59, no. 9 (2005).

Page, L. "Buying en masse: Hospitals unite for purchasing power." *Materials Management in Health Care*, vol. 14, no. 6 (2005).

Neil, R. "From the buyer's perspective: A survey of materials managers about their GPOs." *Materials Management in Health Care*, vol. 14, no. 9 (2005).

Rhea, S. "MedAssets' Colo. connection; State group creates regional GPO to reap savings. (Colorado Hospital Association's group purchasing program)." *Modern Healthcare*, vol. 37, no. 24 (2007).

Rhea, S. "Shopping close to home; Illinois Hospital Association's regional GPO is off and running, but it's already facing competition from locals and nationals." *Modern Healthcare*, vol. 37, no.26 (2007).

Roark, D. "Managing the healthcare supply chain." *Nursing Management*, vol. 36, no. 2 (2005).

"Study documents savings from e-commerce." *Hospital Materials Management*, vol. 29, no. 7 (2004).

Weinstein, B. "The Role of Group Purchasing Organizations (GPOs) in the U.S. Medical Industry Supply Chain." *Estudios De Economía Aplicada*, vol. 24, no. 3 (2006).

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