

# **A Qualitative Overview of the Expanding Value Proposition of Healthcare Group Purchasing Organizations**

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# A Qualitative Overview of the Expanding Value Proposition of Healthcare Group Purchasing Organizations

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# Executive Summary

The primary objective of Healthcare Group Purchasing Organizations (GPOs) is to enhance the efficiency and quality of the services their members deliver. In this capacity, GPOs are a vital part of the provision of healthcare in the U.S. GPOs help hospitals and other healthcare providers realize cost savings and create cost efficiencies that ripple through the entire healthcare sector. They do this by aggregating purchasing volume to negotiate discounts with manufacturers, distributors, and other vendors. The GPO marketplace places a premium on innovation. In response, the role of GPOs is rapidly evolving to offer more comprehensive services to clients. By expanding their service offerings, GPOs have become strategic partners in the health care delivery system.

**“In addition to group purchasing, today’s healthcare GPOs act as information powerhouses and empower buyers with strategic information, technology, and consulting services to identify opportunities for cost savings and prevent possible revenue leakages.” Saha, Seidman, Tilson, 2010.**

Dobson | DaVanzo & Associates, LLC was commissioned by the Healthcare Supply Chain Association (HSCA) to review the literature and conduct a series of interviews with people who have “up close” knowledge of how GPOs work and how they are positioning themselves to be key players in the future of healthcare delivery. The existing literature on GPOs has by and large not progressed beyond describing their role in group buying within the supply chain. The bulk of the academic literature finds that the performance of GPOs should be assessed by the tangible savings they afford their hospital members, which are consistent with Dobson | DaVanzo’s 2014 and 2018 studies of GPO cost-savings. However, a few recent articles did discuss the innovative areas GPOs are opening up. This study provides a “real time” overview of the emerging trends in the GPO value proposition, and

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tangible examples of the expanded roles GPOs seek to play as they move toward being trusted “value enhancing” partners to their healthcare provider members.

## Methodology

This qualitative study began with a focused review of the most recent literature on the evolving role of GPOs and their expanding value proposition for their members. The primary purpose of the literature review was to inform the development of our interview protocols. We built on our earlier studies in which we reviewed current literature concerning the role of GPOs and the amount of their documented savings. In addition to the academic journals as well as business and management publications, we reviewed reports from the Government Accountability Office (GAO) and the U.S. Department of Health and Human Services Office of the Inspector General (OIG) concerning GPOs. We reviewed the most recent HSCA Annual Report, as well as trade journal articles.

We then conducted a series of telephone interviews with a convenience sample of key respondents from GPOs and their members. The goal of the interviews was to determine the role GPOs could play for hospitals and nursing homes beyond traditional supply cost control. We wanted to focus on broader production efficiency. Our sample was by design highly focused on those individuals thought to be leaders in GPO service and innovation. Our five interviews were remarkably consistent in their views and their assessments.

## Summary of Findings

Supply expenses comprise approximately 15 percent of total hospital expenses, on average, but can be as high as 30 percent or 40 percent in hospitals with a high case-mix index, such as surgery-intensive hospitals.<sup>1</sup> Hospitals and providers are looking for a comprehensive approach to supply chain improvement. While they are generally looking for price points (which they have always looked for), more and more, they are also looking for data and field support.

GPOs help source and negotiate prices for drugs, medical devices, and other products and services on behalf of healthcare providers, including hospitals, nursing homes, ambulatory care facilities, physician practices, and home health agencies. Often, GPOs are owned by their provider members, many of whom procure medical supplies directly from vendors.<sup>2</sup>

**GPOs offer additional services, such as data collection and analyses. An industry insider stated: “We are providing more comprehensive services, outside the GPO, to these members as we see more same-store growth.”**

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<sup>1</sup> Abdulsalam Y, Schneller E. (2017) Hospital Supply Expenses: An Important Ingredient in Health Services Research. *Medical Care Research and Review*. <https://doi.org/10.1177/1077558717719928>

<sup>2</sup> Leibowitz J, O’Brien D, Anello R. (2017) Five things to know about the role of GPOs in the healthcare supply chain. *Managed Healthcare Executive*. Sept. 14, 2017. Modern Medicine Network.

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The traditional role of GPOs is to generate savings by reducing costs across sales and supply chains to providers using economies of scale, increased negotiating power, expertise in purchasing high value supplies, thereby reducing the administrative costs to providers for purchasing these products.

GPOs also use their purchasing power and clinical knowledge to work with physicians to standardize costly physician preference items (PPIs). While supply chain savings are likely to be especially valuable to smaller rural hospitals, virtually all of America's 7,000+ hospitals and the vast majority of its 68,000+ non-acute care providers use GPOs to deliver the most appropriate products for the best value for patients, providers, and taxpayers.<sup>3</sup> For example, one of our interview respondents reported helping a health system save \$3.6 million on high-cost implants by reducing pricing disparity across functionally equivalent products. Using its proprietary database of implant data, the GPO analyzed internal spend data and external pricing through cross-reference benchmarking, identified cost-savings opportunities, and helped the health system to implement an action plan.

**The key finding of our study is that the GPO marketplace is rapidly evolving to meet the expanding demands of members who are being challenged to demonstrate ever increasing value to payers and patients, and to a certain extent, taxpayers.**

The more recent literature on GPOs supports the idea that both economic impact and “more comprehensive services” are part of the value GPOs provide to their customers. Other benefits that GPOs offer that are described in the literature include providing an efficient sales channel, educational and information services, product evaluation, and standardized contracts.<sup>4</sup>

Several publications discussed the various benefits of working with a GPO offering a service of benchmarking information concerning savings across the entire membership to help the customer understand the broader market. This does not change the fact, however, that traditional GPO services still make up most of the revenue. For example, one large GPO reported that more than 65 percent of its billion-dollar revenue comes from the GPO function.<sup>5</sup>

Another publication discussed how GPOs are evolving and adding other services, especially market research, data collection, and data analysis that benefit their members.

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<sup>3</sup> O'Brien D, Leibowitz J, Anello R. (2017) *Group Purchasing Organizations: How GPOs Reduce Healthcare Costs and Why Changing their Funding Mechanism Would Raise Costs. A Legal and Economic Analysis.* Report to Healthcare Supply Chain Association.

<sup>4</sup> U.S. Government Accountability Office (2010, August) *Group Purchasing Organizations: Services Provided to Customers and Initiatives Regarding their Business Practices* (Publication No. GAO-10-738.)

<sup>5</sup> Bannow, Tara, “On the ground at J.P. Morgan's health conference,” January 7, 2019, <https://www.modernhealthcare.com/article/20190107/NEWS/190109937>, accessed 2.5.19.

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They are using the findings of these analyses to help inform their members about which products and services offer the best value. GPOs spend a lot of time thinking about what services their members need.<sup>6</sup>

## Interviews

We found a remarkable degree of consistency across the interviews. Respondents all agreed that GPOs have historically provided a great deal of value to their member providers in terms of unit cost savings and that this was created in large part by leveraging the economies of scale that bulk purchasing produces. That said, the evolving GPO business model is placing ever greater demands on GPOs to help the member identify the lowest cost, best practice and overall value proposition.

Our interviewees all noted that the data collected as part of being the supplier for these providers offered unique insight into clinical “best practices” when examined in coordination with the providers in an ongoing collaboration. The consensus was that the future of GPOs and healthcare in general will be enhanced through these collaborations.

Our interviews also shed light on the types of customers that GPOs serve. The GPOs with whom we spoke serve the healthcare sector although a few other sectors are present (education was mentioned in one interview). The whole continuum of healthcare is covered from physician offices to the hospital and through all of the various post-acute care settings. It does appear from our interviews that the non-acute (e.g., senior living arena, clinics, physician practices, home infusion) is predominant, with one interviewee stating that non-acute providers represent 60-65 percent of total business volume. This positions GPOs to gain an understanding of how the pieces fit together in the overall delivery system for all of their customers.

One interviewee spoke of helping clients tie their revenues and chargemasters back to their supply chain systems. The reason for this is that in the future, healthcare facilities will need to generate cost estimates for various procedures. Consumer-driven healthcare will cause people to comparison-shop. GPO member hospitals will need to estimate how much procedures will cost. An integral part of cost are the materials and services used on the patient.

**Since partnering with the GPO, one interviewee noted that his hospital has implemented 238 unique initiatives across a range of areas to optimize their supply chain operations, achieving \$15.7 million in annualized savings to date and increased overall inpatient satisfaction.**

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<sup>6</sup> “The Evolution of Group Purchasing Organizations”. <http://www.drugtopics.com/chains-business/evolution-group-purchasing-organizations>. Oct 10, 2016. Accessed 2.5.19

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## *Summary*

The key finding of our study is that the GPO marketplace is rapidly evolving to meet the expanding demands of members who are being challenged to demonstrate ever increasing value to payers and patients, and to a certain extent, taxpayers. Data and information are central to this proposition. In an innovative application, one interviewee helped a hospital reduce its sepsis mortality rate by 45 percent by conducting a comprehensive data analysis to identify areas of improvement, developing an action plan with concrete milestones, and creating a triage sepsis screening tool that assists in the early detection of sepsis in patients.

Disaster response and cybersecurity are also areas that interviewees identified as promising and in need of GPO expertise. As our interviewees noted, “the first GPO to the marketplace with information systems integrated with the overall process of care delivery will be the winner.” As of early 2019, not one GPO had yet achieved this goal, but the direction is very clear and the interviews suggest that major milestones are being achieved.

# Introduction

This study is a continuation in a series of studies commissioned by the Healthcare Supply Chain Association (HSCA). The previous studies were quantitative analyses of the economic impact (savings) of GPOs on the overall healthcare sector. This report presents an informed view into the future of GPOs as seen by carefully selected interviewees who are working to shape the future of GPOs, and the healthcare sector writ large. This study is most important as it points to the direction that HSCA members are just now taking and is suggestive of the expanded roles GPOs must undertake to remain viable in a value-based healthcare system.

**Continued GPO success into the future requires developing new services directed more broadly at healthcare delivery as a system as opposed to focusing on its constituent parts.**

### The Vital Nature of GPOs

GPOs play a significant and ongoing role in the U.S. healthcare system, consolidating purchasing power across providers and bringing efficiency to supply chains, resulting in overall cost savings to providers and patients. Recent estimates suggest that the vast majority of America’s hospitals, long-term care facilities, surgery centers, clinics and nursing homes utilize GPO contracts.<sup>7</sup>

GPO’s role in the marketplace is voluntary in that each provider may choose to use a GPO or not. This creates an extremely competitive environment in which individual healthcare providers select from multiple GPOs to work with, and often contract with multiple organizations.

Traditionally, GPOs operate by organizing providers into larger purchasing groups to consolidate market share and increase negotiation power and volume discounts. GPO

<sup>7</sup> Burns L, Kim JJ. (2014). The performance of group purchasing organizations (GPOs) in the health care value chain: A literature review. Report prepared for the American Hospital Association (AHA) & The Association for Healthcare Resource and Materials Management (AHRMM) under an AHA/AHRMM Research Grant to the University of Pennsylvania.

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members and customers receive financial benefits through up-front pricing discounts, patronage dividends and distributions, and reduced administrative costs. Another way GPOs help save money is through product standardization, an ongoing GPO effort as the number and complexity of physician preference items is continually being boosted by expanding technology. This means that GPOs are called upon to help providers understand the return on investment of extremely complex technologies.

GPOs help their customers streamline their existing procurement processes and eliminate waste. An example from our interviews is one GPO that worked with a hospital to reduce inefficiencies in the hospital system, simplify processes, and generate additional cost-savings. The GPO developed a technology that analyzed the hospital's current spend, benchmarked operational data, evaluated contracts, and measured performance to improve cost transparency. Additionally, the technology allowed various hospital departments to adopt a system-wide integrated approach by standardizing utilization based on vendors that deliver the best products at the best value. Since partnering with the GPO, the hospital has implemented 238 unique initiatives across a range of areas to optimize their supply chain operations, achieving \$15.7 million in annualized savings to date and increased overall inpatient satisfaction.

Additionally, GPOs help to reduce administrative costs to providers, who would have otherwise been required to dedicate additional staff to these research, evaluation, and sourcing tasks.<sup>8</sup> One early study estimated that the shift in administrative responsibilities alone saves providers over \$2 billion annually.<sup>9</sup>

GPOs assist providers in conducting a broad range of activities including improvements in business processes for sourcing, procuring, receiving, storing, transferring, and consuming healthcare commodities.<sup>10</sup> These activities include quality control programs, training and education, information sharing/best practice guidelines (e.g., new models/methods to evaluate drugs, devices, therapies, and other products); appropriate staffing models; inventory control; product evaluations; emerging technologies; etc.), and new software systems (electronic infrastructure/connectivity) to streamline business processes and the movement of products. Some GPOs help their members tie their revenues and chargemasters back to their supply chain systems. The reason for this is that in the future, healthcare facilities will need to generate cost estimates for various procedures and will need ready access to this information.

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<sup>8</sup> Goldenberg D, King R. (2009). A 2008 Update of Cost Savings and a Marketplace Analysis of the Health Care Group Purchasing Industry. Locus Systems.

<sup>9</sup> Schneller, E. (2009). The Value of Group Purchasing- 2009: Meeting the Needs for Strategic Savings. Health Care Sector Advances, Inc.

<sup>10</sup> Skiba JL. (2016) Drivers of Group Purchasing Organization (GPO) Effectiveness and Efficiency: The Role of Organizational Collaboration Types. Unpublished dissertation.

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Another area in which GPOs assist providers is in helping them improve the quality of care delivered by going beyond the unit price of individual products and seeking a much broader focus on organizational systems and care processes.

By developing and sharing best practices, GPOs replicate and share success with all of their customers, creating a “Community of Knowledge.”<sup>11</sup> This broader focus on care continuity and care transitions under episodic care and ultimately, episodic payment systems, played a large role in our interviews. That is, our interviews were forward-looking. Respondents were not concerned as much with previous success but rather emphasized that continued GPO success into the future requires the development of new services directed more broadly at healthcare delivery as a system as opposed to focusing on its constituent parts.

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<sup>11</sup> Healthcare Supply Chain Association, 2018 Annual Report, page 5.

# Methodology

In order to identify the “value proposition” of GPOs to the U.S. healthcare system, we conducted a literature review of studies and reports released since 2009. Within the construct of “collaborative purchasing” we focused our review on third-party collaborative purchasing of which there is some extant literature. Third-party collaboration (e.g., GPOs) provides two primary types of benefits: 1) improving efficiency (through the ability to lower transaction costs and gain economies of scale), and 2) improving effectiveness (through the ability of the organization to learn from other organizations).<sup>12</sup>

We also conducted key informant interviews with a sample of GPO staff and their members. The goal of the interviews was to determine the effect that GPOs have on hospitals and nursing homes beyond traditional supply cost control and to focus on broader production efficiency. Our instrument included the following topics:

- 1) Traditional ways of providing patient care and improving patient experience/outcome/satisfaction.
- 2) Emerging methods of providing more efficient patient care and how GPOs can facilitate the transformation to more efficient protocols – the economic side of the operation - how more efficient protocols are identified/selected and implemented.
- 3) Regulatory agencies and Departments of Health requirements

Our study was not meant to be definitive, but rather to provide a quick overview of what the GPO business model might look like in the future in order that the HSCA membership can continue to collectively “reinvent itself.”

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<sup>12</sup> Kotler P, Keller KL. (2012) *Marketing Management* (14th ed.). Upper Saddle River, N.J.: Prentice Hall.

# Methodology

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## Focused Review of the Literature

A comprehensive review of the literature was out of scope for this study. Rather we undertook a focused review of recent journals and government reports for the purpose of developing our interview protocols. Our goal was to build on our reviews for earlier studies (which primarily concerned reports of GPO financial savings as this was the focus of our earlier studies) and determine the role of GPOs in helping their members provide patient care more efficiently.<sup>13</sup>

We looked for evidence of ways GPOs were developing new data-related services to offer their members, especially in the areas of benchmarking and standardizing procurement and other processes. Much of the literature we found was qualitative in nature.<sup>14</sup>

We found several discussions of how GPOs are being transformed into informational powerhouses by gathering more and more market and product information and transactions data that can play a significant role in the decision making of buyers/providers. The information and the tools will not only help reduce transaction and search costs further but also alter the quality of those decisions and how those decisions impact patient quality of care.<sup>15</sup>

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<sup>13</sup> Hu QJ, Schwartz LB (2011), Controversial role of GPOs in healthcare- product supply chains," *Production and Operations Management*, 20 (1), 1-15.

<sup>14</sup> Skiba J. (2016) *Drivers of Group Purchasing Organization (GPO) Effectiveness and Efficiency: The Role of Organizational Collaboration Types*. Dissertations, Theses, and Student Research from the College of Business. <http://digitalcommons.unl.edu/businessdiss/53>

<sup>15</sup> R. L. Saha, V. Tilson and A. Seidmann, "A Research Agenda for Emerging Roles of Healthcare GPOs and Their Evolution from Group Purchasing to Information Sharing to Strategic Consulting," *2010 43rd Hawaii International Conference on System Sciences (HICSS)*, Koloa, Kauai, Hawaii, 1899, pp. 1-9.

# *The Future of GPOs*

Dobson | DaVanzo's interviews were purposely limited to a small number of individuals highly knowledgeable about GPOs' strategic thinking. The goal of these interviews was thus to identify how GPO insiders viewed the current state of play regarding how GPOs can build upon the already established cost-savings they provide in their marketplaces. We wanted to understand respondents' vision of where GPOs are likely to go in the future based upon lessons learned from past and current activities.

In the view of one interviewee GPOs are "solutions consulting companies that have a GPO." This interviewee went on to indicate that the majority of revenue currently available to the GPO comes from its business, rather than consulting, model. This means that the traditional GPO business must serve as the foundation and be leveraged in the formation of new business models. A consensus insight is that a GPO is more than a unit price management tool, it is a comprehensive data warehouse whose "true" value is the information that it collects as part of its ongoing interactions with healthcare providers.

A supporting story is presented in the 2018 Annual Report of the Healthcare Supply Chain Association. In the story, one GPO provided help to a critical access hospital in changing an outdated purchasing culture. This culture change included not only assistance in updating the hospital's procedures for purchasing supplies and equipment, it also included a new inventory/stocking plan, training for management staff, and integration of new IT. The plan also included tactical changes such as centralized purchasing and just-in-time inventory management. The GPO employed a strategic planning tool which allowed the hospital to add specific measurable tactics along with specific timelines. This story is one example of how the GPO acted as a partner to the provider in accomplishing its objective of delivering quality patient care.

Exploration and taking advantage of the GPO's existing information bases are important activities for the future of the GPO business model. GPOs are using the findings from

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data analyses to help inform their members about which products and services offer the best value.

The stakeholders interviewed focused their comments on three primary areas of information:

1. The economic/expenditure side of the operation;
2. Patient or resident experience/outcome/satisfaction; and
3. Regulatory agencies and Departments of Health requirements specific to line of service.

Findings from these three areas are presented below and can provide the foundation for future GPO consulting and “partnership” endeavors.

## ***The Economic Side of the Operation***

GPOs help their member providers to stay competitive by creating “economies of scale” from which the GPO negotiates on behalf of its members. This is done by helping providers plan for the future and find areas for greater efficiency and improved patient outcomes. The means for doing this comes in “many flavors.” GPOs have a lot of different products that are sold on contract. These sales have an effect on the price of goods that GPOs make available to their members directly and to the larger healthcare supply chain in general. If one wants to purchase a product, GPOs can save money on buying any product, these savings in turn, help to drive down the cost of that good throughout the whole marketplace.

**“GPOs can create an advantage by steering physicians toward items that perform effectively and are more standard with others in their organizations. This can save money if the GPO can overcome the physician’s resistance...Doctors will usually head in the right direction if the data is good.”** Interview Respondent

Some of the savings derive from product standardization. An example is physician preference items (PPI), which are “big ticket items” that are important to overall healthcare costs and often have their own line item on Medicare Cost Reports (MCR). If each physician has his or her own preferred item, the ability to bulk buy is compromised. Because physicians get attached to what they're doing, both the practice of medicine and the tools used in their practices, they are reluctant to change. GPOs can work with them to learn about items that work effectively and are more consistent with items used by other physicians in their organization.

Total joint replacement (TJR) is a good example of this. One interviewee had 17 suppliers for TJR. A GPO began working with end users (i.e., surgeons) and it became clear they were not quite ready to standardize to a significantly smaller number of suppliers. By using capitated pricing, the surgeons were able to agree on a fair and equitable pricing based on the price comparably-sized organizations usually paid for a particular product in the market. Several years later, the data were better and working relationships among the

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surgeons were stronger. When the issue of standardizing was revisited, the physicians themselves said they could commit 80 percent of their purchases to two suppliers.

One interviewee stated: “Standardization and utilization opportunities have ‘risen to the top.’ Greater benefit is in the reduction in variation. If you can reduce variation in product practice protocol, then ‘you are in a far better place;’ it's not just about the product.”

One respondent noted that another area GPOs help providers is in understanding the price-end effectiveness of new technologies. GPOs provide specialists that focus on IT (e.g., from robotics in OR suites to payroll systems). Robotics and other technologies can create better patient outcomes, making providers seem more (theoretically) successful from a Medicare point of view. “When we bring up a new technology or product, it's ‘imperative’ that we create the attached ROI, especially high-cost high-tech products.”

GPOs can also support financial needs to source funding (e.g., customer needs to buy capital equipment but does not have budget). This is expanded upon using “BI” (business intelligence) which can take the form of regular members meeting to educate themselves on new technologies and developments.

Using the integrated healthcare model discussed above, a small provider can negotiate with payers, which allows that provider to work as an integrated network for product purchases, revenue cycle, etc. The bottom line is that GPOs and their providers have data that allow a quality tool to be built, which allows the GPO and the provider to look beyond inputs toward patient outcomes.

## ***Patient or Resident Experience/Outcome/Satisfaction***

As GPOs evolve, the clinical needs of patients must continue to be top of mind. The data that GPOs collect as part of their supply chain work helps clients understand “best practices” by measuring outcomes as well as costs. By providing rapid and reliable communication between providers and suppliers, GPOs can help with right on time inventory and mitigate drug shortages. For example, one GPO partnered with a health system to help develop an artificial intelligence technology to reduce pharmaceutical costs by monitoring market demand signals, predicting shortage risks, and recommending optimal inventory levels for pharmaceuticals. The system enabled timely insights on potential price increases, drastic price changes, and margin capture opportunities.

Not every provider is at the stage of readiness to implement these due to the current healthcare environment and the fee-for-service (FFS) model. GPOs are able to work with the supply community, however, to deliver more tailored solutions. GPOs help these members get closer to “best practices.”

Price and total patient outcome can be combined to help drive standardization, utilization, and product choice. At heart, physicians are scientists and scientists are data driven. If the

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data is good, it is powerful. Price is one of the data points but so is understanding the benefits and costs of new technologies and best clinical and administrative practices.

To address these issues, many GPOs offer a portfolio of solutions that are not “cost of goods” solutions but are more akin to consulting. The consulting tools offered by GPOs assess the situation both from an economic and a process standpoint, then offer a remedy/opportunity to “get providers where they want to go.” Everyone has a GPO contract; part of the consideration is not just cost of the product but also being able to reduce expenditures on labor, and productivity/efficiency improvements, etc. Each offering provides remedies to address the needs of each individual stakeholder.

Physicians are used to employing certain products and have relationships with the suppliers of those products. Developing new ways of doing things disrupts their long-standing habits. This disruption needs to be defended from a clinical perspective, which is where some of the data the GPOs collect comes into play. The “scientist” aspect of physicians’ nature will allow them to see the newer products and ways of doing things as beneficial if there is convincing support data.

Another interviewee mentioned that there are myriad ways that GPOs impact efficiency and best practices by expanding value-based purchasing. GPOs evaluate the market periodically to see what new products or practices are brought to the market and how the future might develop. There is perpetual financial pressure within the marketplace and GPOs are getting better at analytics and keeping hands on the prices while explaining “real-life value” to their members. Every GPO runs an analysis of the price a hospital pays and what actions the GPO can take. If GPOs don’t go back to see what they did the year before because data is so big, that is a problem for the GPO and its members. Whoever “gets there first” in hospital analytics has the best advantage going forward.

The view is that GPOs should start with clinical input instead of just a supply-chain initiative or a unit price analysis. Ultimately, the patient outcome is the only result that matters. By vetting purchases upfront and understanding their effects on the clinical side, as well as the economic side, what does or doesn’t work becomes evident, and then solutions that work become the priority.

GPO consulting also includes developing clinical best practices. Clinical value teams from each of the member hospitals often work together within the GPO to make thoughtful and clinically supported decisions. One interviewee launched an initiative to improve maternal health by analyzing hospital discharges, the number of annual births, and a number of other data points to assess, build, implement, and share tools and best practices on maternal care. The GPO designed and implemented a 12-month optimal care model that includes pregnancy, labor and delivery, and post-partum care.

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## **Regulatory Agencies/Departments of Health Requirements**

GPOs also can help with providers' concerns about readiness for accreditation. The approval process is long and tedious. GPOs help member providers by using "mock surveys" and other tools to help prepare providers for actual joint commission surveys. By doing this, GPOs help small and/or independent providers achieve regulatory compliance.

## **Future of GPOs**

Given the above baselines, our next area of inquiry focused on how GPO insiders saw the future of the industry. There was remarkable consistency in the views of the individuals we interviewed. The role of GPOs as consultancy partners was mentioned several times although some of the interviewees did not like the word "consultant." On this front, although all of our interviewees thought that their organization was unique, all basically reported the same things. To quote one: "We will have the data that others do not."

This particular interviewee did go on to state that they thought others would begin to do this but did not believe that others were all the way there yet. All agreed that this is a fairly new development, over the last 2 to 3 years or so.

As value-based purchasing expands further into healthcare, the role of GPOs will continue to expand as well. All of the activities discussed above, such as achieving unit price savings, propagating best practices and helping providers see how they fit into the larger world through consultancy, will mean the role of GPOs will continue to expand. We asked if it would be better if everyone got into consulting or if a handful of groups should get in first and "blaze the trail?" Needless to say, all interviewees wanted their organizations to "get there first," and several seemed to be well on the way.

The blending of economies of scale on unit price and the information GPOs collect on outcomes can produce a data set that will allow GPOs to do more than just help their members stay competitive. This combination begins to create an *integrated health system*. Integration then allows the GPO to look at the overall "cost of care" and "reduction in variation" in addition to the unit price of a given product, and to go beyond the traditional product utilization/standardization.

These advances will require a fluid governance process within the GPO. In one example, the CEOs of every member hospital sit on the GPO board. The CFOs of every member hospital also sit on the executive steering committee. These are disciplined and rigorous meetings that are not "honorary memberships" but real working groups where tangible, impactful, decisions are made. Subject matter experts from each of the hospitals are brought together with the GPO acting as the consultant.

One interviewee who was a buyer stated that from the perspective of his organization, he would like to have multiple choices in terms of purchasing. However, as a stakeholder in

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a GPO, he wanted to get his organization up and running quickly. “There is a massive first-mover advantage.” This idea seems to afford larger GPOs, who are better resourced an “advantage.” They are positioned to make investments and will probably get to market first. One thing that would hold back GPOs is the “natural cloudiness” of trying to manage healthcare. Getting independent organizations to work and think together is difficult and takes time.

# Discussion

In order to meet changing market demands related to value-based purchasing, GPOs are increasingly moving in the direction of providing data-driven leadership with critical information gained from the supply-chain role. One interviewee stated: “We are trying to lead members to clinically integrated supply chains.” But the challenge is not just supply chain decision-making anymore. It is working with clinicians and physicians in a more collaborative way to drive partnership and consensus in decision-making. One aspect of this is to encourage members to think of patient health in an episodic way with services bundled together.

In this endeavor, GPOs can develop and apply quality adviser tools in which various members submit data and have the GPO assimilate it over a particular disease state or protocol and perform comparative work across providers, settings, and populations. Once there is a significant amount of clinical vetting and buy-in, then GPOs can progress from performing economic negotiations to serving as clinical content advisors.

Disaster response is an area into which GPOs can expand and assist in the public health sphere as well as their customers. This expansion has already occurred in hurricane-ravaged Texas and Puerto Rico where GPOs helped set in place a 100 percent uninterrupted supply chain for the supplies that were needed, both before the storms arrived and during the cleanup. Pre-storm, this included stockpiling of blood for a mass casualty event, sterile gowns and gloves for an infectious disease event, and water and foodstuffs to prevent thirst and hunger in the event of a widespread breakdown in logistics. Once a disaster strikes, GPOs set up direct communication with providers and their larger networks. The GPOs worked with the providers to prepare for anticipated problems and ensure the rapid delivery of supplies once conditions were safe.

Cybersecurity is another area of growing importance as our healthcare system integrates and comes to rely more heavily on information technology for services such as telemedicine. Medical devices need to keep up with advances in information technology. As more devices are connected to the network, the security of protected health information (PHI) becomes paramount. Networked medical devices can become a point of vulnerability for an organization. GPOs can help in the mitigation of this by informing providers of the state of the art in IT capabilities and the availability of related supplies. GPOs work with providers to secure networks and ensure the appropriate people have the necessary training. This also consists of providing backup solutions, encryption and password protection for all IT vulnerabilities.

As part of cybersecurity, GPOs have entered into agreements to recommend only devices that comply with security standards and to work with providers to resolve any security threats. These threats can include malicious software that is preinstalled in the devices as well as any other preexisting vulnerabilities. GPOs will also remain up to date with current industry security standards.

The main takeaway is that GPOs are moving beyond traditional products such as office supplies and pharmaceuticals. Companies are looking to increase their use of GPOs in non-traditional categories like HR, facilities and IT. These companies should not automatically expect a GPO to deliver better prices on existing categories, however; instead, they must take time to review untapped categories with the GPO to potentially expand procurement's influence."<sup>16</sup>

Over the last decade it has become apparent that patient transitions and continuity of care across settings is seriously flawed in the U.S. healthcare system. Centers for Medicare and Medicaid Services (CMS) and other payers are supporting demonstrations and pilots in an attempt to address care transition quality and efficiency issues. Our interviewees were unanimous in their collective opinion that GPOs with their understanding of the supply chain process across settings and associated data capabilities are positioned to become partners with numerous provider types to not only purchase more effectively but to design more efficient care systems. The ultimate reality is that GPOs “will need to continually re-invent themselves” if they are to be market leaders in markets where payers are demanding enormous value from providers and where purchasers have abundant alternatives.

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<sup>16</sup> The Hackett Group, “Group Purchasing Organizations Help Busy Sourcing Teams Boost Influence, Reduce Spend, February 13, 2016, page 4.