



# GROUP PURCHASING ORGANIZATIONS

## Use of Contracting Processes and Strategies to Award Contracts for Medical-Surgical Products

Highlights of [GAO-03-998T](#), a statement for the record for the Subcommittee on Antitrust, Competition Policy and Consumer Rights, Committee on the Judiciary, U.S. Senate

### Why GAO Did This Study

Hospitals have increasingly relied on purchasing intermediaries—GPOs—to keep the cost of medical-surgical products in check. By pooling purchases for their hospital customers, GPOs—in awarding contracts to medical-surgical product manufacturers—may negotiate lower prices for these products.

Some manufacturers contend that GPOs are slow to select products to place on contract and establish high administrative fees that make it difficult for some firms to obtain a GPO contract. The manufacturers also express concern that certain contracting strategies to obtain better prices have the potential to limit competition when practiced by GPOs with a large share of the market.

GAO was asked to examine certain GPO business practices. It focused on seven large GPOs serving hospitals nationwide regarding (1) their processes to select manufacturers' products for their hospital customers and the level of administrative fees they receive from manufacturers, (2) their use of contracting strategies to obtain favorable prices from manufacturers, and (3) recent initiatives taken to respond to concerns about GPO business practices.

### What GAO Found

The seven GPOs we studied varied in how they carried out their contracting processes. The GPOs were able to expedite their processes for selecting products to place on contract, particularly when they considered these products to be innovative. The GPOs also reported receiving from manufacturers administrative fees in 2002 that were generally consistent with the 3-percent-of-purchase-price threshold in regulations established by the Department of Health and Human Services. However, for certain products, they reported receiving higher fees—in one case, nearly 18 percent.

The seven GPOs also varied in the extent to which they used certain contracting strategies as leverage to obtain better prices. For example, some GPOs, including one of the two largest, used sole-source contracting (giving one of several manufacturers of comparable products an exclusive right to sell a particular product through the GPO) extensively, whereas others used it on a more limited basis. Most GPOs used some form of product bundling (linking price discounts to purchases of a specified group of products), and the two largest GPOs used bundling for a notable portion of their business.

In response to congressional concerns raised in 2002 about GPOs' potentially anticompetitive business practices, the Health Industry Group Purchasing Association (HIGPA) and GPOs individually established codes of conduct. (See figure.) The conduct codes are not uniform in how they address GPO business practices. In addition, some GPOs' conduct codes include exceptions and qualified language that could limit their potential to effect change.

**Figure: Business Practices Addressed in Codes of Conduct**

Business practice	HIGPA members					Non-HIGPA members	
	GPO A	GPO B	GPO C	GPO D	GPO E	GPO F	GPO G
Product selection contracting processes	●	●		●	●	●	
Contract administrative fees	●	●		●	●	●	
Sole-source contracting	●	●		●	●	●	
Bundling	●	●	●	●	●	●	
Commitment level requirements	●	●		●	●	●	
Contract durations	●	●		●	●	●	

Identified in HIGPA code of conduct     
 Identified in both HIGPA and individual GPO code of conduct  
 Identified in individual GPO code of conduct     
 Not identified in code of conduct

Source: Codes of conduct provided by HIGPA and the seven GPOs in our study.

Note: A code of conduct was determined to identify a business practice if it was mentioned in the code's text.

[www.gao.gov/cgi-bin/getrpt?GAO-03-998T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-998T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Marjorie Kanof at (202) 512-7114.