

Group Purchasing Organizations

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

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Presented by Merrile Sing, Ph.D.
Senior Health Policy Analyst, U.S. General Accounting Office

Why GAO Studied GPOs

- Requested by Senate Subcommittee on Antitrust, Competition Policy, and Consumer Rights, Committee on the Judiciary
 - Some small manufacturers' concerns
 - GPO industry is concentrated
 - Reduces competition
 - Stifles innovation
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GPO Industry Structure

- A few GPOs dominate the market
- Top 7 GPOs account for more than 85 percent of hospital purchases through GPO contracts
- 2 largest GPOs account for 70 percent of top 7 GPOs' total medical-surgical purchasing volume

Scope and Methodology

Scope

- Seven large, national GPOs
- Hospital medical-surgical products
 - Commodities
 - Clinical preference products

Methodology

- Interviews (information self-reported)
 - Literature review
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Contracting Strategies

- Used by GPOs to gain price discounts and by manufacturers to increase market share
 - Sole source contracting
 - Commitment
 - Bundling
 - Contracts of long duration
- Have potential to reduce competition when used by GPOs or manufacturers with a large market share

Sole Source Contracting

One of several manufacturers of comparable products has an exclusive right to sell a product through a GPO

Sole-Source Contracting

Sole-source contracts accounted for a substantial portion of purchasing volume for some GPOs

- Range: 2 to 46 percent
- Two largest GPOs: 19 and 42 percent
- For one of two largest GPOs: 82 percent of sole source volume for clinical preference products

Fiscal year 2002

Commitment

A specified percentage of purchasing volume that, when met by the GPO's customer, will result in a deeper price discount

Commitment

GPOs considered customer commitment to be important, but commitment requirements varied

- All 7 GPOs established some requirements
- One GPO required 80 percent of overall dollar purchases
- Some contracts included tiered commitment levels

Spring 2003

Bundling

Bundling links price discounts to purchases of a specified group of products

- Complementary products
- Unrelated products (“corporate agreements”)
- Structured commitment programs

Bundling

Most GPOs used bundling, and the two largest GPOs used it for a notable portion of their business

- 1 GPO reported no bundling arrangements
- 40 percent of purchasing volume of one of two largest GPOs from corporate agreements

Fiscal year 2002

Bundling (continued)

- In 2002, structured commitment programs accounted for 20 percent of purchasing volume of one of two largest GPOs
- Use of bundling arrangements may be declining
 - One GPO reported decline
 - Observations of 1 manufacturer and 2 distributors

Contract Duration

The two largest GPOs typically award contracts with longer terms (5 years) than the other five (3 years)

- Contract terms include potential renewal periods
- In the first quarter of 2003, one of two largest GPOs began excluding the optional contract extension periods from new contracts

2002

Summary: Contracting Strategies

- Contracting strategies have the potential to reduce competition when used by GPOs or manufacturers with a large market share
 - Some GPOs, including one of the two largest, used sole source contracts extensively
 - The two largest GPOs used either contracts or programs that bundle multiple products for a notable portion of their business
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For additional information

Statement for the Record available at
www.gao.gov/cgi-bin/getrpt?GAO-03-998T

Group Purchasing Organizations: Use of Contracting Processes and Strategies to Award Contracts for Medical-Surgical Products (July 16, 2003)

Marjorie Kanof, Hannah Fein, Mary Giffin,
Kelly Klemstine, Emily Rowe, and Merrile Sing
