

“Dinosaurs in the Industry”? Some Hospitals Save Money Without GPOs

A group purchasing organization (GPO) is an entity that assists hospitals, home health agencies, nursing homes, and other healthcare providers in maximizing savings and efficiency by using purchasing volume to negotiate discounts with distributors, manufacturers, and vendors. However, some health systems have found that when it comes to the bottom line, they're better going it alone.

Texas's Baylor Scott & White saving tens of millions by negotiating on its own

An example of this dynamic is Dallas-based Baylor Scott & White, the largest not-for-profit health system in Texas, operating hospitals. According to Tony Johnson, chief supply chain officer and senior vice president, when it came to light that the organization was procuring certain medical products (like artificial hips and knees) at above-average prices, the company decided to explore alternate purchasing avenues.

“The way I would describe us two years ago is a loose confederation of states when it comes to the supply chain—every hospital basically made its own decisions,” Johnson told *Modern Healthcare*. “If you are a large health system, why not bring everyone to the table?” He also noted that different health systems were being charged different prices by the same supplier.

So Baylor Scott & White took the purchasing reins away from its GPO with some of its service lines and engaged in negotiating on its own behalf...and quite fruitfully. Last spring it bundled devices and supplies relating to cardiovascular medicine and replacement joints and logged a remarkable \$32 million in savings. And last summer it saved \$20 million by creating new categories of devices and supplies to be bundled. It has also recently opened a distribution facility.

“It takes time but I don't think anyone can argue with \$32 million,” Johnson said. “On top of that, it is helping to evolve our health system's thinking and ‘systemness.’”

Amazon is model for health system's e-commerce site

Beyond looking to save money at the point of purchase, Baylor Scott & White is planning to open a repair center so that it can control the maintenance of the equipment, thereby saving money on an ongoing basis. The health system plans to facilitate the in-house supply and repair model later this month by going live with an e-commerce website (that emulates, in part, Amazon's platform).

Baylor Scott & White is not the only health system to use benchmarking tools to determine it's not getting the most competitive price on some medical supplies; nor is it the only one flexing its own purchasing muscle when it comes to common medical supplies that prove easy to bundle. Still, GPOs are active and engaged in the healthcare industry. And sometimes, that engagement comes in the form of strategic consultation, especially in the case of devices and supplies that aren't used every day and sophisticated, “physician-preference” products.

GPOs branch out into consultancy; “they are following the money”

Rick Conlin is a partner and supply chain specialist at the Advisory Board Company. He told *Modern Healthcare* that often GPOs work to assist doctors, administrators and staff to reach agreements on supplies and streamline the purchase of less commonplace supplies and devices. “Physician-preference items rely heavily on consulting engagements and the manpower required for more personalized service instead of offering catalog-like services. GPOs are offering these localized consultant-esque agreements frankly because they are following the money.”

As healthcare providers have discovered, the traditional approach of high-volume purchasing power doesn't guarantee the best price in every case. Many GPOs are therefore working to diversify and adapt to a changing landscape. Will that adaptation be enough?

“They must change to survive”

Rob Austin is the associate director at the consultancy organization Navigant. “GPOs are really dinosaurs in the industry,” he told *Modern Healthcare*. “They are working to change, but the whole model is based on aggregated volume—they must change to survive.”

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