The 3rd International Conference
ON Biomedical & Clinical Engineering

Do GPOs Really Save Money on Capital Medical Equipment?

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Who am I?

- CHTM, CBET, CCE, CPHIMS, CHTS-PW, fACCE
- 42 years in Biomed
- Managed large In-house, ISO and corporate Biomeds
- Active in certification of BMETs and CEs
- 1st Pres of NCBA (North Carolina branch) - 1980
- President, HTMA-SC
- Treasurer – HTMA-GA
- Member of all Biomed Associations
  - (honorary NC, KY, Utah)
- Board Member – SC, GA
- Advisor – OH, KY, TN, UT, VA, NC, Texas
- Write a daily blog for the HTMA-OH - www.HTMBlogg.com
- Train Biomeds in Developing Countries
- Medical Foundation (Guatemala)
- Provide them with tools, test equipment, manuals, supplies
- Biomeds Without Borders – Not-for-profit www.biomedswithoutborders.com
- Writes monthly for 24x7 and BI&T (AAMI)

Special Note

- I am not here to disrespect or find fault with GPOs.
- GPOs play a vital role in the economic success of healthcare in many parts of the world.
- They save billions of dollars in healthcare costs every year.

Today, In the US:

(From Hospital Supply Chain Organiztion FAQ)

- More than 72% of purchases are made through GPOs
- GPOs save between 10% and 15% of cost
- GPOs Save over $33 Billion annually
- 96% to 98% of US Hospitals use GPOs
- GPOs financed by fees from companies

Emphasis is on COMPANIES

Who am I?

- I have been a Biomed for 43 years (since mid-1970s).
- Worked for a large GPO for 21 years.
- I have been involved in purchasing medical equipment for hospitals for over 40 years.
- Seen medical equipment purchasing change through the years.

- Until about the late 1960’s, medical equipment was sold to individual hospitals by companies.
- Every company submitted bids on every purchase.
- Every company was invited to bid.
- Competition was intense.

- Then hospitals started to work together.
- “Let’s buy our 6 individual CT scanners together as a package and see if we can get a better price.”
- Guess what, it worked!
- Group purchasing was discovered.

Hospitals formalized the process, turned it into a business:

- Formalized competition for the contracts,
- Special pricing,
- Special incentives,
- Special terms and conditions.

Today . . .

- Companies compete to win a place on the preferred vendor list.

- In return, the company who is wins the GPO place:
  - must pay the GPO a % of all sales for new and previously existing customers,
  - must not deviate from the prices or terms negotiated.

- Their negotiating powers are very limited for the term of their contract with the GPO.

- With larger and larger demands, and more competition, they began feeling the losses from the discounts.
- Then the manufacturers decided to stop losing money.
- What did (do) they do to stop the losses?

- Must find ways OUTSIDE of the GPO agreement.

1. INFLATED PRICES

- MSRP (Manufacturer Suggested Retail Prices) are often inflated so that the ‘discounted’ prices can seem fantastic by comparison. (as much as 50% off of list price)

2. TRAINING of CLINICIANS

- Companies may charge premium fees for annual training of clinicians and help-line support to assist the clinicians while treating patients.

3. CONSUMABLES

- An easy revenue generator, consumables now account a major means of making up lost revenue of initial discounts. These prices are often not regulated under the terms of the GPO agreement.

4. PROPRIETARY PARTS

- Uniquely available parts can be sold at any price because there is no other source for them. Many repair parts are specially designed to be only available from the original manufacturer. These can then be priced at whatever the manufacturer desires, since there is no competition at play.

5. SERVICE CONTRACTS

- Bundled with equipment sales at “discounted’ prices. There is a fierce effort to make equipment serviceable only by the manufacturer. Then, contracts can be priced recoup the lost revenue from the discounts given up in the sales process.
- The service contracts are fantastically profitable (up to 90% profit) for companies and generate revenue for the life of the equipment (year after year after year).

Summary

Group Purchasing Organizations do not save hospitals money. They use their status as preferred providers to impose a host of charges upon the hospital that actually increase the cost over what should have been a straightforward, uncomplicated purchase.

But . . . . .

Phenomenon:

- Companies NOT on GPO contract have more pricing flexibility than the companies on the GPO contract.

- GPO Companies must hold to negotiated pricing for the term of the contract, but non-GPO companies are free to price as low as they want to go.

- Result: Better pricing is often available from companies NOT AWARDED THE GPO CONTRACT.

Thank You

•Questions?

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