



Highlights of [GAO-10-738](#), a report to the Ranking Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

Health care providers rely on group purchasing organizations (GPO) to negotiate contracts with vendors of medical products. In 2002, questions were raised about GPOs engaging in potentially anticompetitive business practices such as collecting excessively high contract administrative fees. In 2003, GAO reported that selected GPOs had adopted or revised codes of conduct to respond to the questions about their business practices, but that it was too soon to evaluate the impact of the codes of conduct.

GAO was asked to provide information on GPOs. In this report, GAO describes (1) the types of services that GPOs provide and how the GPOs fund these services, (2) initiatives that GPOs have implemented since 2002 to address the questions that had been raised about their business practices, and (3) the reported impact of the GPOs' codes of conduct and other initiatives. To do its work, GAO reviewed GPO documents and collected written responses to structured questions from the six largest GPOs based on their reported 2007 purchasing volume. GAO also conducted follow-up interviews with these six GPOs. GAO interviewed representatives from six GPO customers—hospitals—that varied in size, the GPOs with which they did business, and whether they had an ownership stake in a GPO. GAO also interviewed five medical product vendors of various sizes that do business with GPOs.

[View GAO-10-738 or key components.](#)
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GROUP PURCHASING ORGANIZATIONS

Services Provided to Customers and Initiatives Regarding Their Business Practices

What GAO Found

The six GPOs in GAO's review reported providing a range of services for their customers and funding these services in two ways. All six GPOs reported offering to their customers the following three services—custom contracting, clinical evaluation and standardization of products, and assessments of new technology. Other GPO services were not provided by all six of the GPOs in our review. For example, five of the six GPOs reported providing their customers with electronic commerce and benchmarking data services. Funding of these services, according to the six GPOs, was either through contract administrative fees received from vendors or by charging customers directly for the service. GPO representatives explained that the level of contract administrative fees collected from vendors can vary depending on the contract negotiated with a vendor. According to the GPOs, the average contract administrative fees paid by vendors in 2008, weighted by purchasing volume, ranged from 1.22 percent of customer purchases to 2.25 percent of purchases.

The GPOs in GAO's review reported implementing some new initiatives since 2002. Specifically, the GPOs reported that they have revised their codes of conduct and established a voluntary membership association focused on promoting best practices and public accountability among member GPOs. This association—the Healthcare Group Purchasing Industry Initiative (HGPII)—adopted a set of principles of ethics and business conduct that its GPO members are expected to follow. These include having a written code of business conduct, working toward high quality health care and cost effectiveness, working toward an open and competitive purchasing process, sharing best practices, and being accountable to the public. HGPII members are also required to annually report information on their policies and business practices.

The reported impact of GPOs' codes of conduct and other initiatives varied among GPOs, customers, and vendors. All six GPOs reported that their codes of conduct—which include conflicts of interest and other policies—and other initiatives have had impacts on GPO contracting practices, innovative product selection, contract administrative fees, potential conflicts of interest, and the transparency and accountability of GPO business practices. However, the impact of the GPO initiatives reported by representatives of customers and vendors GAO interviewed varied. For example, while some customers and vendors reported that GPOs are operating with greater transparency regarding their contracting practices, most customers and vendors did not comment on an impact associated with GPOs' initiatives to add innovative products to contracts.

In commenting on a draft of this report, representatives of the six GPOs and their trade association noted that the report was fair and balanced and most provided technical comments, which we incorporated as appropriate.