



ARTICLE

Healthcare Providers Have Spoken: FTI Consulting's 2nd Annual GPO Survey

FTI Consulting completed its second annual survey of supply chain personnel from healthcare organizations across the country. The objectives of the study were to determine the overall level of satisfaction with group purchasing organizations (GPOs), identify opportunities for improvement and assess trend data. Last year, the survey occurred during the height of the COVID-19 pandemic, whereas this year's survey took place after the peak pandemic period. The survey was open from May 25 to June 8, 2021, and a total of 40 participants completed the study.

A few themes emerged when analyzing the results. First, large hospitals and health systems are starting to shift from the status quo by bidding out GPO services, starting their own affiliate model or increasing the number of local contracts they pursue. This shift is long overdue. Many large systems have the resources and built-in capabilities to create value for their organization and can market this value to other organizations without the assistance of a GPO.

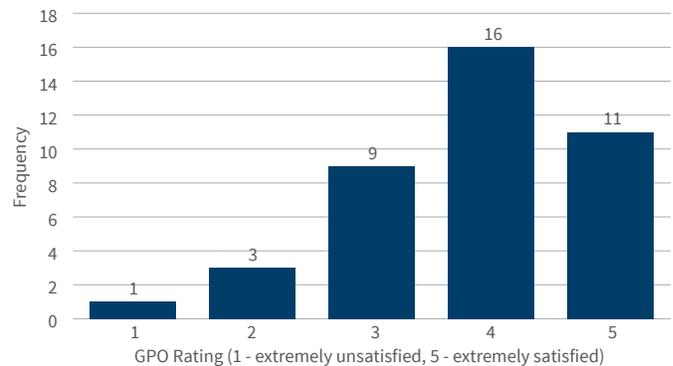
Next, hospitals and health systems both large and small are shifting their inventory strategy. The pandemic challenged the Just-in-Time (JIT) inventory trend, and many facilities will adjust to increase inventory on hand for items at risk of stockout. This creates new challenges, from inventory carrying costs to physical space constraints. Both only add to the tremendous financial pressure affecting the survey respondents.

Another major finding of the study was the high degree of dissatisfaction with the services and/or solutions that GPOs are providing hospitals and health systems in the areas of physician preference items (PPI), purchased services and, to a lesser extent, advisory services. Dissatisfaction was higher in larger hospitals with greater than 250 beds. The authors conclude that larger hospitals/health systems have built an infrastructure of experts to support the organization's supply chain efforts, especially for these high-impact categories. Purchased services and PPI require expert knowledge to implement results through clinician engagement, leadership support and strong negotiation skills. GPO price points are often great starting points for negotiations. No matter the size of the organization, those who manage key categories of spend without support/without a GPO yield better results.

In reviewing “overall satisfaction with your GPO,” respondents displayed an increase in satisfaction from the prior year, but the change remained within the margin of error. When answering the question of overall satisfaction, it is likely that respondents interpreted “satisfaction” differently. Satisfaction and performance are not synonymous. Satisfaction should not merely be a measure of convenience nor a measure of how smoothly a process is running. It should be a measure of performance relative to the optimum outcome. Because of this, hospitals should hold GPOs to performance standards, just as they would any other vendor.

Q. Please rate your overall satisfaction with your GPO

Overall, 68% of respondents were either satisfied or extremely satisfied with their GPOs; the prior year figure was 62%. Only 10% were unsatisfied or extremely unsatisfied. GPOs have penetrated organizations at all levels. When the survey participants were asked in a later question whether they are considering changing their GPO strategy (bid out the services, convert more contracts to local agreements, etc.), they largely responded “none of the above.” This leads to two potential conclusions—the survey respondents are comfortable with the status quo, or supply chain leaders do not have the ability to impact change.



Add n =40

Overall: 2020 Average satisfaction: 3.38 | 2021 Average satisfaction: 3.83

Q. Does your organization find your GPO or your Healthcare Alliance to be more effective in providing financial value?

Of respondents who participate in a healthcare alliance, 68% find the GPO more or equally effective than a healthcare alliance; 19% find the healthcare alliance more effective than the GPO. Healthcare alliances were originally regional affiliate groups set up by national GPOs to drive additional value at the regional level. Most alliances are owned and sponsored by a national GPO. Alliances tout being “member driven”¹, being “advocates of our members”², and being able to leverage GPO contracts at a regional level for additional savings. GPOs realized that alliances could be marketed as filling some of the gaps in their expertise of the GPOs and continue to generate cash flow and collect data from members.

Q. Does your organization participate in a regional purchasing coalition/Healthcare Alliance?

Among survey respondents, 53% are associated with a regional purchasing coalition or healthcare alliance. This figure is consistent with last year’s results, but less than anticipated: Organizations may be realizing that the alliances are not as beneficial as once perceived. Additionally, alliances may be difficult to exit, which could lead to dissatisfaction.

Q. How do you think the growth of GPOs through the acquisition of independent solutions and consolidation of GPOs will impact your organization?

Sixty-three percent (63%) of respondents believe consolidation has a positive impact on the marketplace, whereas 18% believe the impact will be negative.

The GPO market has consolidated during the past 10-15 years with two very large GPOs, GPOs and nine medium-sized purchasing coalitions (average of 168 hospitals, 25,609 beds), which account for the majority of hospital and health system purchases.³ GPOs have acquired other GPOs, companies with Purchased Services benchmarks as a way to fill an identified gap, as well as companies with Procure to Pay solutions to help bolster their technology offering. While most survey respondents believe the consolidation of GPOs and services to be positive, there were comments indicating GPOs should not lose sight of their fundamental goal of saving healthcare organizations money; with so many different offerings, it will be impossible to be good at everything. Fundamentally, decreased competition leads to unfavorable financial outcomes.

¹ Supply Chain Solutions: Captis. Vizient Inc. 2021. <https://www.vizientinc.com/our-solutions/supply-chain-solutions/aggregation-solutions/captis>

² Improving healthcare performance through supply chain. Acuity Inc. 2021. <https://www.acuity.com/about/>

³ Definitive Healthcare. June 2021. <https://www.defhc.com>

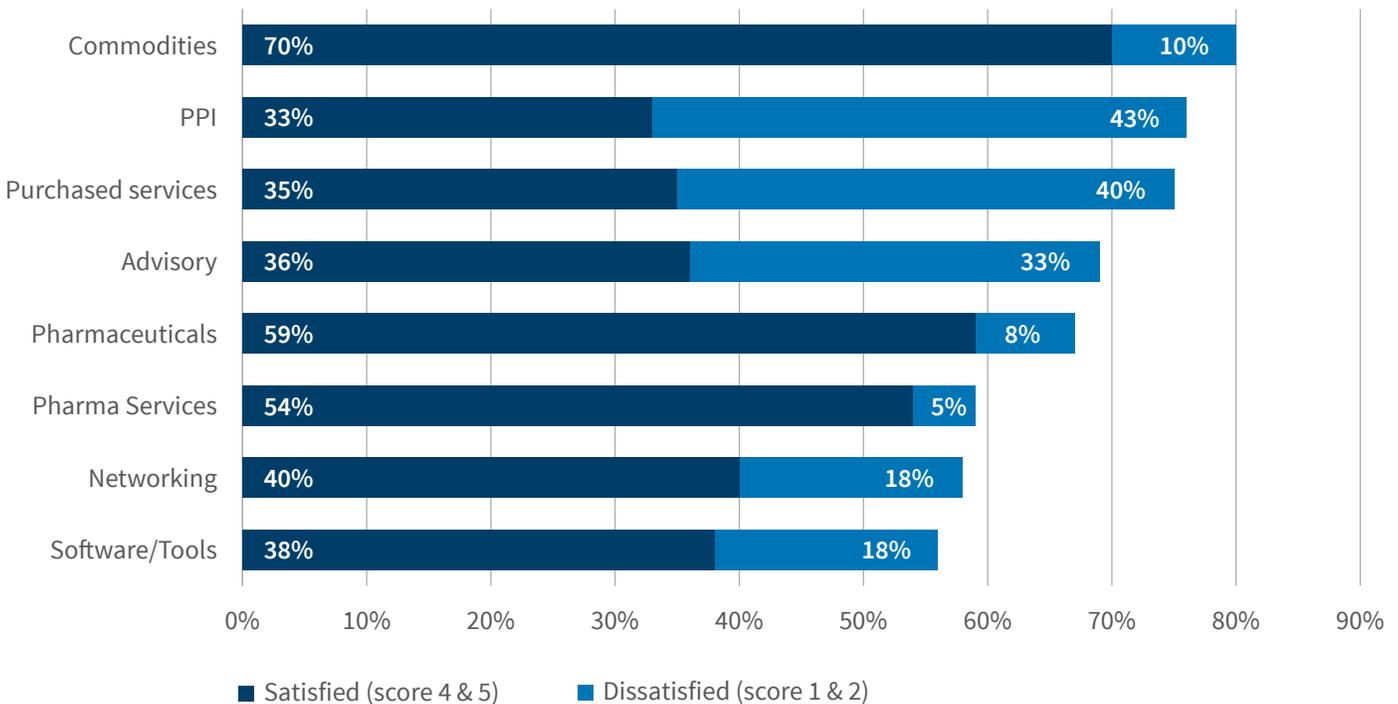
Healthcare organizations should remain vigilant and view their GPO as a vendor. If you are considering adding a GPO service such as procure-to-pay or purchased services consulting, you should leverage a formal RFP process and work with agnostic third-party experts to institute service-level agreements and key performance indicators. As advised for any vendor relationship, be wary of service bundling and limitations on the ability to pivot in another direction.

Q. Please indicate how satisfied you are with the following services provided by your GPO.

GPO satisfaction varies for each of the services provided.

With commodity, pharmaceutical and pharmaceutical services, 70% of respondents were satisfied; relatively few were dissatisfied. Unsatisfactory results for physician preference items and purchased services could be due to a variety of factors, including hospital dynamics, physician engagement, subject matter expertise and regional suppliers.

With networking, software/tools and advisory services, fewer survey participants were satisfied and more were dissatisfied. The largest areas of opportunity for improved satisfaction were noted as physician preference items and purchased services.



Add n =40

GPO satisfaction varies by size.

The sample was divided into two cohorts based on size: small to very small hospitals with up to 249 beds, and medium to large hospitals with 250 beds or more. Satisfaction levels were lower in the medium-to-large cohort, particularly with regards to physician preference items, purchased services, software/tools and advisory services. While small organizations are likely use their GPO as an outsourced service or staff extender, larger institutions are more likely to have internal supply chain expertise for category management, inclusive of benchmarking performance and contract execution.³

³ Definitive Healthcare. June 2021. <https://www.defhc.com>

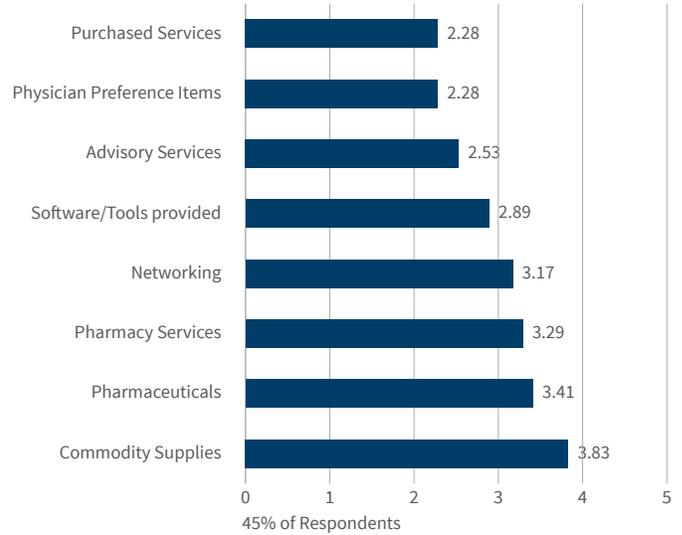
**Small Hospitals (<250 Beds) Group
Average Satisfaction**



Add n = 40

1 - extremely dissatisfied, 3 - neutral, 5 - extremely satisfied

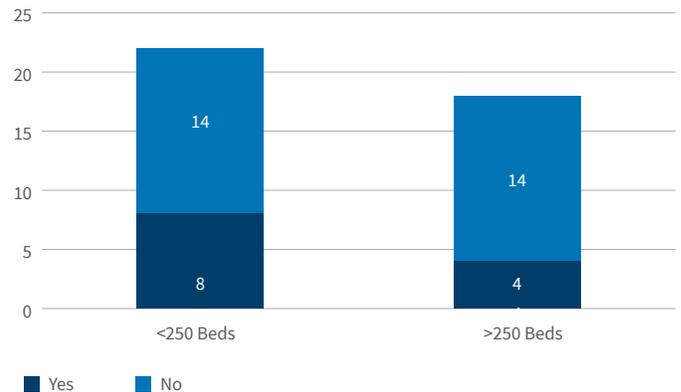
**Large Hospitals (>250 Beds) Group
Average Satisfaction**



45% of Respondents

Q. Has your organization adjusted your inventory strategy in the last 12 months?

Panic buying and stockouts were not unusual during the initial phase of the COVID-19 pandemic, and this stressful experience likely caused 70% of respondents to adjust their inventory management strategy. As a *Modern Materials Handling* article suggests, better inventory control can be achieved by “using fresher, short-term demand data, by adjusting slotting, or simply by gaining greater accuracy though solid data capture and verification processes”.⁴

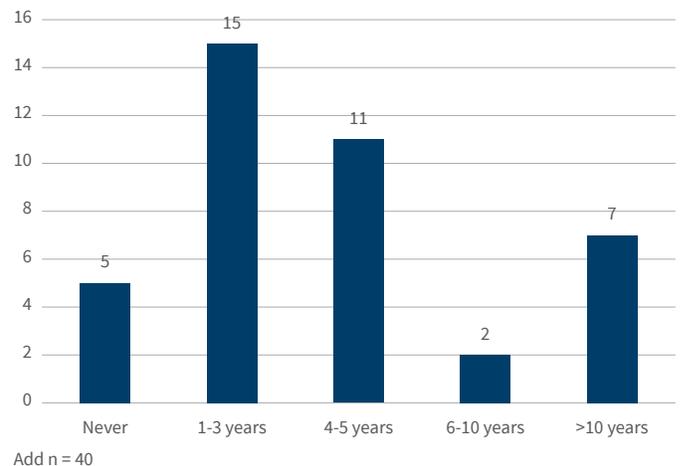


Q. When was the last time you bid GPO services?

GPO contracts are “sticky.”

The average duration of a GPO contract is four to five years or more, with 30% of respondents not having bid out GPO services for more than 10 years. In contrast, 35% of respondents have bid out GPO services in the past one to three years. This is an increase since last year, when only 14% of survey respondents had bid out GPO services in the past one to three years. Most survey respondents last year had not bid out GPO services in five to 10 years.

It is important to define and monitor the terms of a GPO contract. Analytic tools and purchased services should not be commingled with other fees. Most purchased services agreements are independent.



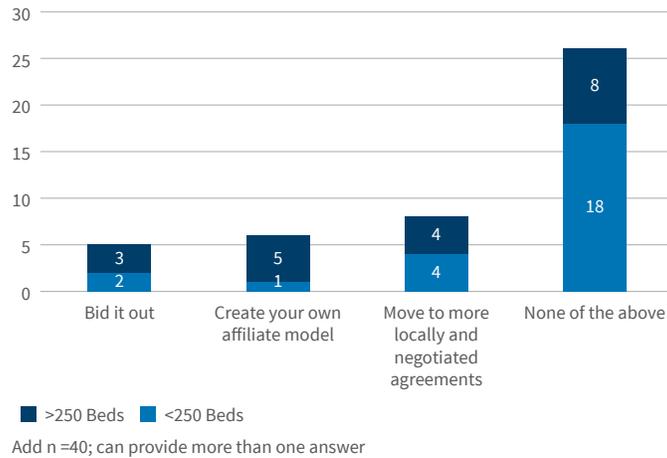
Add n = 40

⁴ Time to tighten up on inventory management. Modern Materials Handling; January 11, 2021. https://www.mmh.com/article/time_to_tighten_up_on_inventory_management

Q. Do you expect to change your GPO strategy in any of the following ways?

Approximately one-third of respondents are considering bidding out the GPO contract, creating an affiliate model or shifting to regional/local cooperatives. In general, medium to small hospitals with up to 249 beds do not plan to bid out GPO services. The one-third of respondents who are considering bidding out their GPO services, creating an affiliate model or shifting to local contracts represent organizations that are thinking about this correctly. Affiliate models can be set up a few different ways, one of which is allowing other hospitals to leverage your locally negotiated contracts in exchange for annual fees or a percentage of savings. If an organization is moving towards more locally negotiated agreements, this means they are managing the sourcing and using their own contract terms and conditions. This is unlike leveraging a GPO contract; in this scenario, the organization is relying on the GPO to negotiate the terms and conditions (T&Cs) and access pricing from that agreement.

The GPO's terms and conditions are hard to find, and once you do locate them, there are critical terms missing. Although doing local contracts for every category of spend may not be achievable for every organization, at a minimum you should closely review the details of the T&Cs that GPOs have in place with any vendor agreements you are considering joining.



Q. If there is anything you could change about your GPO, what would it be?

In response to this question, 58% of respondents suggest improved competitive pricing options for supplies. Cost savings are a function of volume and administrative fees. Improved services is an area in which GPOs scratch the surface. However, lacking the incentive to be vendor agnostic or to decrease pricing prevents a GPO from being a trusted advisor.



Conclusion:

The 2021 GPO Survey results demonstrated overall satisfaction with GPOs at 68%, with continued strength in commodity pricing. As noted, satisfaction does not necessarily indicate performance. Consistent with last year's survey, GPO improvement opportunities were noted for PPI, purchased services and advisory services. Smaller hospitals and health systems are likely to maintain the status quo, whereas larger organizations appear willing and able to capitalize on these improvement areas. One thing is clear: Regardless of size, each organization should have a GPO strategy in place. Strategic supplier relationships are built on clearly defined performance indicators, accountability and shared goals. Organizations should hold their GPOs to high service standards and press for shared goals that show full transparency and are able to be easily tracked.

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- PPI management
- Price parity audit
- Process improvement
- Procure-to-pay process optimization
- Procure-to-pay recovery audit
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