Optimize Group Purchasing Organization Relationships at Healthcare Providers to Increase Value

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Initiatives: Direct Material Sourcing and Supply Chain Services

The healthcare group purchasing organization landscape has changed significantly in the past decade. This research will help supply chain leaders at healthcare providers optimize their group purchasing organization relationships for the next three to five years.

Overview

Key Challenges

- Group purchasing organization (GPO) initial terms are often three to five years in length. Over the course of the term, it is not uncommon that some services end up underutilized while you still pay an annual fee for them.

- Some long-term GPO relationships originated under legacy policies and can make switching providers difficult — even if financial terms or services from a different GPO could add value to your organization.

- Many GPO relationships are not governed under master service agreements. Determining what you are spending for services rendered can be difficult to discern.

- Collaborative, outcome-based contracts with GPOs can prove elusive to obtain and administer.

Recommendations

Supply chain leaders responsible for collaborating better with suppliers and service providers to reduce costs, improve quality and increase agility at IDNs:

- Determine what you need as an end user for the next three to five years by evaluating whether the GPO can help you solve issues related to analytics and end-to-end cost savings.

- Assess three main areas of your GPO relationship by evaluating organizational constraints, overall goals of the relationship and the financial arrangement.
Construct a clear master service agreement (MSA) to govern your GPO relationship by clearly laying out the terms of your agreement across the services you will utilize.

Introduction

Many IDNs view their GPO partner as one of their most strategic relationships. Overall satisfaction is relatively high at 80% with these sometimes decades-long relationships (see 2020 Healthcare Provider GPO Outlook) (see Figure 1). However, the overall satisfaction looks to be greater than the sum of the parts. Sourcing satisfaction is the highest in this study with other services (data analytics platforms, consulting) being rated much lower. Our 40 interviews with supply chain leaders at integrated delivery networks (IDNs) underscored some frustration with the GPOs’ pandemic response to personal protection equipment (PPE) availability.

IDNs review their GPO relationships every three to five years, with some taking a critical look this year. This research outlines several challenges to be addressed in the structure of ongoing relationships or new ones, including underutilized services, lack of clarity around what IDNs are paying for and lack of collaborative, aligned goals. Making a change can be difficult because of political and financial ramifications that go beyond the MSA approach we propose.

To make the most of these relationships, supply chain leaders need to determine their needs for the next three to five years and identify how the GPO might fit into that strategic plan. They also need to review the aforementioned political and financial ramifications of making any changes. Whether considering a new provider or revising an existing agreement, an MSA is needed that captures the entire financial relationship between consulting, contracting services along with analytic and service platforms.
Determine Your Needs

Supply chain leaders need to think about their strategy, particularly on the sourcing and analytics side of the equation, to determine their needs for the next three to five years and how the GPO might fit into that strategic plan. Evaluate whether a GPO can help you advance your supply chain data analytics tied to cost and optimizing patient care along with the need for end-to-end cost savings. The pandemic showed the need for GPOs to play a role in global supply continuity issues that were not historically their main focus.

Sourcing Services Support

Review your internal IDN sourcing capabilities and how you use GPO services today to determine what role the GPO plays compared with your own contracting efforts. Evaluate whether the GPO is making the process more effective by enabling better contracts that benefit your end users. Some GPO relationships have outsourced resources embedded in the agreement. Determining the ongoing need for this support should be part of your decision process.

Analytics and Data Platform Support
Most IDNs are paying for GPO services around analytics and data, both on purchasing and benchmarking of services. Determine how many of these platforms and services you are actually using. Evaluate whether you need connected GPO tools or whether it is better to select a la carte best-in-class analytics solutions. Sometimes we see several hundred thousand dollars of program spend in these overarching GPO agreements, with limited use of those paid for services in some cases.

Financial Shareback

The financial relationship with GPOs can easily be obfuscated. Most GPOs will focus on the amount of shareback revenue you are receiving from the GPO relationship and less on the overall cost or amount of revenue they are capturing as an organization. In many cases, the amount GPOs are billing for additional analytics and program services is greater than the amount the GPO receives for its shareback and often receives less scrutiny than it should (see Figure 2). Supply chain leaders need to determine how much they are really paying for the services and whether they can be replicated at the same or lower cost if they didn’t have the GPO.

Figure 2. GPO Example Fee Breakdown

GPO Example Fee Breakdown

<table>
<thead>
<tr>
<th>Total Admin Fees for Contracting</th>
<th>$6 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees Shared Back to IDN</td>
<td>$4.2 million</td>
</tr>
<tr>
<td>Fees Kept by GPO</td>
<td>$1.8 million</td>
</tr>
<tr>
<td>$500,000</td>
<td></td>
</tr>
<tr>
<td>Total Fees to GPO</td>
<td>$2.3 million</td>
</tr>
</tbody>
</table>

Answer
- Fees for Contracting = -80% ($1.8 million/$2.3 million)
- Fees for Additional Services = -20% ($500,000/$2.3 million)

Collaborative Relationship Commitments on Cost and Improved Care

Most GPO agreements that Gartner reviews are light on shared savings or service improvement goals. Having a more collaborative aligned goals component of your agreement makes sense to help you achieve your savings and service improvement and business continuity sourcing goals. Defining these
parameters, and putting goals together that are tangible, measurable and actionable will yield better results for your organization.

Assess Three Main Areas When Optimizing Your GPO Relationship

The organizational constraints, financial arrangements and overall goals of the relationship all play a role in determining how best to optimize a GPO relationship. Analyzing all three in unison will lead you to the best path forward.

Organizational Limiters

Nearly all IDNs have a GPO relationship (see 2020 Healthcare Provider GPO Outlook). Making a change in a GPO relationship can't be done in a vacuum because of organizational constraints. Understanding these constraints will help determine whether making a change is possible. Before embarking on thinking about any changes, supply chain leaders need to understand:

- Any equity ownership your health system has in the GPO
- Advisory board relationships
- How your CFO views the annual shareback payment

Like any component of strategy, doing a stakeholder analysis once you understand these potential limiters is the next step to change management communication. In some cases, you may want to reach out to the market to see what is available from other GPOs, as long as it does not put you in immediate conflict with senior leadership.

Use of Services/Platforms Outside of Contracting Services

The next step involves evaluating which platforms and programs you are using and how you view the GPO relationship. The primary function for many IDNs has been help with contract compliance for large categories of products. In many cases, GPOs provide the legal framework and platform for free collection that make it easier for an IDN to start its own negotiation with suppliers.

Even if the GPO is viewed primarily as a contracting relationship, IDNs often find value beyond the contracts. An IDN may be able to negotiate a better price. It finds value in how efficient the GPO structure can make the IDN sourcing team by knocking down some of the legal and contractual barriers.

Many GPO contracts that Gartner reviews have a combination of services that an IDN purchases from a GPO such as analytics and clinical tools, and additional programs to manage spend that over time GPOs have acquired. Overall, a decision needs to be made in support of a GPO solution-centric ecosystem that your organization supports in hopes of future connected programs that support your IDN's strategy.

Financial Deal Structure
A variety of financial arrangements exist, usually disconnected from each other. They include:

- Fee for service payment made for the technology and data and service applications an IDN may buy from a GPO
- Fee for consulting services and in some cases embedded employees outsourced for the IDN through the GPO relationship.
- A shareback component of the administrative fees collected by the GPO. (See Supply Chain Brief: How Healthcare Providers Can Get Better Value From GPO Services.)
- An equity ownership vesting schedule that has a value to the IDN and may incentivize it to support that GPO over a longer period of time.

**Revise Existing Agreement or Seek a New GPO With an MSA**

Based on any organizational constraints and what you are seeking in a GPO relationship, the next step involves determining whether to revise your existing agreement or go out to the market with an RFI or RFP. In either event, an MSA is needed that captures the entire financial relationship between consulting contracting services and analytic and service platforms (see How to Structure Supply Chain Outsourcing Master Service Agreements).

Many IDNs are not using the services for which they contracted. Determine what the IDN supply chain will use to craft a relationship that is guided and aligned to the benefit supply chain is trying to provide the IDN. Evaluate whether you are seeking a transactional relationship with your GPO or a strategic partner where you will invest in the relationship because you value the connected suite of products and services it provides.

The MSA should align with those goals and allow supply chain leaders to measure the tangible results and hold both parties accountable over a longer period of time. The best IDN-GPO relationships have clarity of purpose, whether it's a transactional arrangement or fully integrated strategic partner. Either can yield a reasonable amount of value. IDN-GPO relationships struggle when they are not clearly defined and lack a clarity of purpose. This results in IDNs underutilizing the services they are paying for.

**Recommended by the Authors**

How to Structure Supply Chain Outsourcing Master Service Agreements

2020 Healthcare Provider GPO Outlook