

## GPO's.....A Brief History...

Historically, informal groups such as cooperatives have organized to buy goods directly from a wholesaler at a discounted price. The official group purchasing model originated in the healthcare industry in 1910 when the first group purchasing organization (GPO) was established by the Hospital Bureau of New York specifically for their combined laundry services. By the last quarter of the 20th century, the importance of GPOs grew as hospitals were faced with rising expenditures due to phenomenal advances in care and an aging population, as well as falling reimbursements from both the government and private sector payers.

For many decades, healthcare GPOs grew slowly in number, to only 10 by 1962. Medicare and Medicaid stimulated growth in the number of GPOs to 40 by 1974. That number tripled between 1974 and 1977. With healthcare costs rising sharply in the early 1980s, the federal government revised Medicare from a system of fee-for-service (FFS) payments to Prospective Payment System (PPS), under which hospitals receive a fixed amount for each patient with a given diagnosis<sup>1</sup>. In 1983, the institution of the PPS focused greater scrutiny on costs and fostered further rapid GPO expansion. By 2007, there were hundreds of healthcare hospital based GPOs, affiliates and cooperatives in the United States. Ninety six percent of all acute-care hospitals and 98 percent of all community hospitals held a GPO membership.

Since the inception of the first GPO in 1910, group purchasing has moved into other areas such as the food and beverage industry, the industrial manufacturing industry, the agricultural industry, and the federal government, which formed GPOs to purchase raw materials and supplies at discounted rates.

It is important to note that GPO's for smaller entities are just now coming to the forefront. With small to midsized companies demanding the same considerations as their larger counterparts; GPO's are becoming more accessible through third party healthcare affiliations – like NeKY RHIO!

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<sup>1</sup> Frequently Asked Questions. Official Website of the Healthcare Industry Group Purchasing Association (HIGPA). Last accessed April 18, 2015. <http://www.higpa.org/?page=FAQ>