

The Broken Supply Chain: How Group Purchasing Organizations Are Sabotaging Healthcare

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As a neonatologist, publisher of NT, and Chair of Physicians Against Drug Shortages Inc., a pro bono patient advocacy group formed in 2012 to expose and address the root cause of drug shortages, I have an urgent ask.

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GPOs, including titans like Vizient (formerly Novation), Premier Inc., and HealthTrustPG, have amassed staggering influence, commanding the purchasing of nearly 90% of the \$250-\$300 billion worth of drugs, devices, supplies, and services utilized in healthcare facilities nationwide. Originating as cooperative ventures designed to aggregate purchasing power and negotiate bulk discounts, GPOs have veered dramatically from their founding principles.

Their ascent to dominance was marked by controversy and scrutiny. The late 1990s and early 2000s witnessed a surge of media exposés and Senate hearings unearthing their unfair and anti-competitive practices. From doling out exclusive contracts to the highest bidder to demanding exorbitant supplier kickbacks, GPOs have transformed into mercenary middlemen, prioritizing profit

over patient welfare and market integrity.

At the heart of this dysfunction lies a legislative oversight that proved to be a double-edged sword: the Medicare anti-kickback safe harbor enacted in 1987. This statutory provision inadvertently granted GPOs immunity from prosecution for their dubious dealings, creating fertile ground for malfeasance and corruption. What was intended to safeguard legitimate business practices instead enabled a culture of exploitation, rendering GPOs as profit-driven gatekeepers rather than facilitators of cost-effective procurement.

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The repercussions of this malaise are manifold and far-reaching. Generic drug shortages once whispered concerns confined to hospital corridors, have burgeoned into a full-blown crisis exacerbated by GPOs’ stranglehold on the market. Domestic production has dwindled precipitously, compelling healthcare providers to resort to risky imports from countries like China exposing the nation to significant vulnerabilities in its drug supply chain.

Moreover, the financial toll exacted by GPOs’ machinations is staggering. Healthcare supply costs have spiraled by 25-35%, translating to an annual burden exceeding \$100 billion. Essential drugs witness their prices inflated under GPO contracts, exacerbating the financial strain on hospitals and patients.

The drugs in short supply are mainly generic sterile injectables,

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including antibiotics (e.g., penicillin), chemotherapeutic agents (e.g., vincristine, cisplatin), nutritional IV solutions (e.g., sterile saline), anesthetics (e.g., propofol), and painkillers (e.g., morphine). These shortages are unprecedented in our post-WWII economy. They have caused needless patient deaths (including at least 76 from the 2012 fungal meningitis outbreak alone), complications, inferior outcomes, and more extended hospital stays. The independent evidence is overwhelming. It comprises federal and state investigations, antitrust lawsuits, congressional testimony, media exposure, and scholarly research. Virtually every patient in America and their physicians are potentially harmed by these artificial shortages. For more information and documentation, visit our website, www.physiciansagainstdrugshortages.com.

However, perhaps the most insidious facet of this saga lies in the collusion between GPOs and hospital executives, who profit handsomely from enforcing exclusive contracts. Extensive investigations have laid bare this cozy arrangement, wherein CEOs reap windfalls from vendor kickbacks, perpetuating a cycle of exploitation and opacity that corrodes trust in the healthcare system.

So, what is the remedy for this systemic malaise? It necessitates a multifaceted approach rooted in legislative reform and rigorous oversight. Repealing the flawed safe harbor provision, as envisaged in the bipartisan “Ensuring Competition in Hospital Purchasing Act” drafted in 2005, offers a viable path forward. This legislative initiative, which has languished in political limbo for far too long, embodies a blueprint for restoring integrity to the supply chain and revitalizing domestic drug production.

“As ongoing investigations by the FTC and HHS shed light on the murky practices of GPOs, the imperative for change grows more urgent. It is time to hold these entities accountable, dismantle their monopolistic stranglehold, and usher in a new era characterized by transparency, competition, and a steadfast commitment to patient well-being. Our healthcare system’s integrity, patients’ welfare, and the nation’s security depend on nothing less.”

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In a [November 22, 2022, letter to Chair Khan](#), PADS, the American Economic Liberties Project, an anti-monopoly think tank, Public Citizen, and six other advocacy groups urged her to open this investigation.

On February 14, Federal Trade Commission Chair Lina Khan and

Health and Human Services Secretary Xavier Becerra gave patients and clinicians a welcomed Valentine’s Day gift. They announced an investigation into the role of giant for-profit hospital group purchasing organizations (GPOs) and their big distributor partners in causing the chronic shortages of generic drugs.

Here is the joint FTC/HHS press release requesting public comment: <https://www.ftc.gov/news-events/news/press-releases/2024/02/ftc-hhs-see-public-comment-generic-drug-shortages-competition-amongst-powerful-middlemen>. If you have been affected by the ongoing drug shortages crisis and/or GPO contracting and pricing practices, self-dealing, and conflicts of interest, I urge you to submit comments here <https://www.regulations.gov/docket/FTC-2024-0018>. This could not be more important.

Please feel free to share this with colleagues, family, and friends and post on your social media pages.

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