

November 2nd, 2012

Stuck in the Middle?

Examining the role of food supply chain middlemen in farm to hospital initiatives

**Principal Investigator**

Kendra Klein, PhD(c)

130 Mulford Hall

Department of Environmental Science, Policy & Management

UC Berkeley

415-350-5957

kleindec@yahoo.com

**Organizational Affiliates**

San Francisco Bay Area Physicians for Social Responsibility

Health Care Without Harm

**Project Location**

National, with a focus on health care institutions in California

**Funding**

UC SAREP - \$5,000

## **I. Objectives**

This collaborative, action-oriented research responds to needs identified by Health Care Without Harm, a coalition of non-profit organizations spearheading the *Healthy Food in Health Care* program in the United States<sup>1</sup>. This research focused on the procurement of local, regional and sustainable food in farm to hospital initiatives with attention to the role of Group Purchasing Organizations (GPOs) in hospital food supply chains. I used semi-structured interviews, literature reviews, and document analysis to generate qualitative data aimed at identifying strategies to successfully navigate GPO-hospital relationships to develop and expand hospital sustainable food purchasing initiatives.

## **II. Summary**

The proliferation of sustainable food purchasing initiatives<sup>2</sup> in hospitals across the U.S. presents opportunities for scaling up sustainable and alternative food systems. However, institutional budget constraints, the logistical realities of mass feeder food service, and entrenched relationships connecting hospitals with consolidated, industrial food supply chains can impede new initiatives (Sachs and Feenstra 2008). This research brief presents qualitative data on a particular set of hospital supply chain actors called Group Purchasing Organizations (GPOs) with the aim of identifying strategies to develop and expand hospitals' capacity to procure local, regional, and sustainable foods.

GPOs act as gatekeepers to the healthcare market, negotiating transactions between hospitals and vendors for everything from gauze and gurneys to CT scan machines and frozen peas based on the premise that aggregating hospitals' purchasing power allows them to obtain lower prices and eliminate duplicative transaction costs. In food service, contractual obligations typically require that 80 - 90 percent of hospital food come through GPO channels. Currently, most local and sustainable food procurement is part of the allowed 10 to 20 percent off-contract purchasing. Although this represents significant achievements, local, regional and sustainable food procurement will remain a side note to the bulk of hospital food purchasing unless GPO contracts can be leveraged to increase the availability of these foods or renegotiated to increase flexibility in purchasing.

The relationship between hospitals and GPOs crystallizes the tension between new food goals rooted in social, health, and environmental values and hospitals' reliance on the efficiency, affordability, and standardization provided by a food system shaped predominantly by commercial and industrial norms and values.

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<sup>1</sup> During the course of my research, I was hired as an independent consultant by the San Francisco Bay Area Physicians for Social Responsibility, a member of the HCWH coalition, to work on their Healthy Food in Health Care and Food Matters programs.

<sup>2</sup> In this brief, 'sustainable' refers to the wide variety of food procurement initiatives that hospitals have undertaken in association with stated health, community, and environmental goals. It is used to distinguish new values-based procurement strategies from 'business as usual' procurement. Within hospitals, the focus has been on local and 3<sup>rd</sup> party certified products. For specific information about the sustainability criteria many hospitals are using, see the Green Guide to Health Care – Food Service Operations at [www.noharm.org/global/issues/building/guidelines.php](http://www.noharm.org/global/issues/building/guidelines.php).

### **III. Specific Results**

#### **A. Healthy Food in Health Care**

Healthcare facilities across the country are recognizing that the dominant food system is misaligned with dietary guidelines and is reliant on methods of production, processing and distribution that harm public health and the environment (Wallinga 2009; HCWH online). As institutions with both sizeable food budgets and moral authority, hospitals have the capacity to influence large segments of agricultural production and distribution as well as agricultural policy. As just one example, leading hospitals have begun to purchase meat and poultry raised without the use of antibiotics, while hundreds of clinicians and health professional associations actively support the federal Preservation of Antibiotics for Medical Treatment Act which would limit the use of medically-relevant antibiotics in livestock production.

One indication of a growing health care sector commitment to purchasing food that aligns with social, environmental and public health goals is the 400 hospitals and health systems that have signed the *Healthy Food in Health Care Pledge* generated by Health Care Without Harm which states that healthy food is defined not only by nutritional quality, but by a food system that is economically viable, environmentally sustainable, and supportive of human dignity and justice (HCWH online). Hospitals are putting this vision into action by sourcing local, organic, and fair trade food, as well as purchasing grass-fed meat, cage-free eggs, and animal products produced without the use of antibiotics and added hormones. They are hosting farmers' markets on hospital grounds and building relationships with farmer's cooperatives, food hubs, and regional distributors and processors (For more details on hospital initiatives see Kulick 2005; Harvie, Moore et al. 2008; HCWH online).

Even small changes can have large impacts due to the purchasing power of hospitals. A single hospital can have an annual food budget upwards of \$3 million, while the health care sector as a whole spends \$12 billion on food and beverages annually (Harvie 2006). The scale of hospital food procurement offers great promise to both create change within the dominant food system as well as support the development of alternative food systems. However, the leap in scale from an individual choosing sustainable foods to an entire hospital or system making those choices is not simply one of numbers, institutional food procurement involves a far more complex set of economic, political, and logistical relationships.

#### **B. Group Purchasing Organizations**

Group Purchasing Organizations are among the most powerful actors in healthcare supply chains, yet they've received very little attention to date. According to a 2002 article in *Healthcare Purchasing News*, GPOs are the "strongest, the most profitable, and in the best position regardless of the state of the market" among all healthcare supply chain players (Werner 2002). The healthcare GPO industry is highly oligopolistic. Although over 600 are in operation, the six largest accounted for almost 90 percent of all GPO-negotiated hospital purchases in 2007 (GAO 2010). This represented 73 percent of all non-labor hospital purchases in 2008, totaling over \$108 billion (GAO 2010). The two largest GPOs by number of covered hospitals and

purchasing volumes, Novation and Premier, account for 60 percent of the market.<sup>3</sup> Other market-dominant GPOs include AmeriNet, HealthTrust, InSource, and MedAssets.

### ***1. GPOs and Hospital Food Service***

GPO contracts and the concentrated nature of GPO supply streams can limit hospitals' freedom to exercise choice in food procurement (Sachs and Feenstra 2008), however foodservice is an exceptional part of the overall GPO contract in ways that may lend to greater flexibility in purchasing.

First, foodservice is a relatively minor part of the overall GPO contract as it typically represents less than six percent of an acute care facility's contracted expenditures (Lawn 2005). The potential downside is that GPOs may not have a great deal of economic incentive to devote resources to developing new sustainable food choices. A potential benefit is the opportunity for increased flexibility in hospital food service decision-making due to less pressure from administrators to treat food service as a profit center.

Second, the nature of food itself distinguishes it from medical devices and other material commodities - it is perishable, its production is influenced by seasons and other environmental factors, and, as healthcare professionals are increasingly recognizing, its consumption is intricately bound up with the health of our bodies. The perishable nature of certain food categories like dairy, bakery and produce have contributed to keeping their supply chains more regionalized. While a small percentage of these items may come through the GPO, these categories are often left out of GPO contracts, allowing hospitals greater flexibility to contract with local or regional suppliers and distributors.

That food is bound up with bodily health means that foodservice departments are increasingly becoming sites to enact hospitals' fundamental healing mission. The increasing focus on links between food and health -- both through a traditional nutrition lens as well as through an ecological nutrition lens examining the health impacts of the entire food system -- is broadening the sphere of relevant criteria for food purchasing beyond cost and convenience to encompass health, social, and environmental concerns. When foodservice directors and hospital administrators stand behind this approach, it generates will to renegotiate and reshape hospital food procurement systems.

### ***2. GPO Basics: Contracts and Rebates***

Many hospital food service actors report positively on their relationship with their GPO, pointing to important cost savings<sup>4</sup> and efficiency gains.

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<sup>3</sup> According to their websites, Novation serves approximately 1,600 hospitals and 25,000 other healthcare sites including academic and medical centers, ambulatory care, physician clinics, home health and longterm facilities, while Premier serves 2,400 hospitals and 69,000 other healthcare sites. However, 2002 data from the GAO indicate that Novation members include 2,300 not-for-profit hospitals and Premier 1,800 (GAO 2002).

<sup>4</sup> There is controversy in relation to cost savings provided by GPOs. See Goldenberg, D., Roland King (2009). A 2008 Update of Cost Savings and a Marketplace Analysis of the Health Care Group Purchasing Industry. Lauel, MD, Locus Systems, Inc. for Health Industry Group Purchasing Organization. **July**. GAO (2002). Pilot study suggests large buying groups do not always offer hospitals lower prices. Washington D.C., United States

For hospital foodservice, GPOs negotiate two to three-year contracts with *prime vendors*. These vendors, also known as *broadline distributors*, provide both food and foodservice supplies. Two distributors, US Foods and Sysco, have come to dominate the market as the largest GPOs have increasingly moved toward sole and dual-source contracts. For example, hospitals that are members of Premier and Novation must use US Foods as a prime vendor (Sachs and Feenstra 2008). According to a January 2005 article in *Food Management*, these contracts have “technically given USF a sole-source relationship with facilities controlling as many as two-thirds of all acute hospital beds [in the country]” (Lawn 2005). Some GPOs such as Amerinet and MedAssets maintain a more flexible sourcing model, contracting with multiple broadline distributors.

When ordering through a prime vendor, hospitals are provided with a large variety of choice of both on- and off-contract items. For example, on the online ordering form for US Foods or Sysco, twenty types of hamburger patties may be offered, while only a few will have a GPO symbol next to it indicating that it is an on-contract purchase.

	BEEF, PATTY GROUND 75/25 5:1 RAW FROZEN (7350579)	CATTLEMAN'S SELECTION	50/3.2 OZ	<a href="#">Get Price</a>
	BEEF, PATTY GROUND 75/25 6:1 ROUND RAW FROZEN (9483777)	CARGILL BEEF	120/2.65 OZ	<a href="#">Call for Price</a>
	BEEF, PATTY GROUND 75/25 8:1 ROUND SEASONED SCORED RAW IQF FROZEN SLIDER (7616663)	CATTLEMAN'S SELECTION	160/2 OZ	<a href="#">Get Price</a>
	BEEF, PATTY GROUND 75/25 AMERICAN KOBE 2:1 RAW FROZEN BLACK LABEL SNACK RTV (3944608)	FOOD INNOVATIONS SR	40/8 OZA	<a href="#">Get Price</a>
	BEEF, PATTY GROUND 75/25 AMERICAN KOBE 8:1 RAW FROZEN SLIDER BLACK LABEL SN (5976899)	FOOD INNOVATIONS SR	20 LBA	<a href="#">Get Price</a>

*NOV indicates a Novation on-contract item on a US Foods online ordering form.*

GPOs use rebate systems to encourage hospitals to purchase a high level of items on contract. After covering GPO operating costs, a portion of administrative fees charged to vendors are typically distributed to hospitals as rebates, creating financial incentives to stay within contract. Although the categories and tiers of a rebate system can be very complicated, in general, the greater the volume of GPO-contracted items hospitals buy, the higher the rebates.

#### IV. Potential Impacts on the Food System

Farm to hospital initiatives are being looked to as one way to scale up local food systems. In particular, due to their need for significant quantities of differentiated food products, hospitals and other institutions have been posited as a vital market for mid-sized farmers who struggle to survive in both direct and commodity markets (Kirschenmann, Stevenson et al. 2008). For a number of theorists and local food advocates, institutional purchasers are perceived as the key to the development of mid-scale food value chains that incorporate social values of trust, communication, and mutually beneficial alliances in addition to economic norms and values such as efficiency and economies of scale (Sachs and Feenstra 2008; Stevenson 2009).

Local and regional procurement raise the trickiest questions about the nature of GPO-governed hospital supply chains. The local food movement is arguably about changing the structure of the food system rather than substituting a sustainable product for a conventional product; it has been imagined as an inoculation against the forces of conventionalization that have undermined the original principles of, for example, the organic food movement (e.g. (Guthman 2004).

While some hospitals are purchasing nominal amounts of food directly from farmers, on the whole, the direct farm-to-customer structure typical of local food procurement is not feasible for large institutions (for more details see Klein 2012). Proponents of mid-scale food value chains welcome this as an opportunity to (re)develop food system infrastructure such as aggregators, processors, and distributors that can connect small and mid-sized growers with large-scale buyers. Whether these goals are compatible with GPO-governed supply streams remains to be seen. Although there is not data related to food, cases from the field of medical supplies demonstrate that GPO procurement structures may limit points of access for local and regional products. For example, smaller-scale manufacturers of safety needles and oximeters have been shut out of GPO-governed supply streams, both as a result of the emphasis on contracts with large manufacturers that can bundle goods as well as the administrative fees<sup>5</sup> GPOs charge, which smaller players may not be able to afford (Bogdanich 2002; Sethi 2009).

Hospitals should be clear about the aim of their sustainable procurement initiatives and act accordingly – in some cases pushing for new options through their GPO and in others seeking alternative supply streams. Different types of sustainability criteria or goals may be more or less compatible with GPO-governed supply streams. Third party-certified products such as 'organic' or 'fair trade' or government-regulated label claims such as 'produced without the use of rBGH' are more easily integrated into dominant supply networks, while the concentrated structure of those networks may run counter to certain social and economic goals associated with local or regional purchasing. At this point, if goals include supporting the local economy and creating value chains rooted in relationships of trust and transparency, then supporting alternative infrastructure such as food hubs and farmer cooperatives may be the most expedient and genuine way to achieve those ends.

## **V. Recommendations**

The vast majority of local and sustainable food procurement in hospitals is currently occurring outside of the GPO-hospital relationship. The following recommendations are aimed at helping hospitals increase procurement of local, regional and sustainable foods through their GPO.<sup>6</sup> While a small number of hospital foodservice directors interviewed envisioned greatly reducing their reliance on their GPO or even removing foodservice from the overall GPO contract, many stated that they would eventually like local and sustainable items to come through the GPO due to the efficiency of the procurement process. (As noted above, this may result in serious tensions

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<sup>5</sup> Charging administrative fees is allowed due to exemptions GPOs were granted from anti-kickback and anti-trust regulations under the Reagan administration. A series of Congressional hearings investigating anticompetitive behavior resulted in a voluntary, industry-defined code of conduct. Three bills were introduced that never came to a vote (Grassley 2010).

<sup>6</sup> These recommendations build on the purchasing guides available at [www.healthyfoodinhealthcare.org](http://www.healthyfoodinhealthcare.org), including *Increasing the Availability of Sustainable Food Options via GPOs and Distributors*.

between the social and environmental goals of the hospital and the economic and industrial norms of GPOs, particularly in relation to local purchasing.)

**1) Determine what is available:** *Communicate with your GPO and distributor representatives to determine what items are currently available and ask for regular updates. Encourage GPOs and distributors to adapt their catalogs to enable easy identification of items that meet hospital sustainability criteria.*

Some GPOs are responding to market signals by providing new sustainable food options. For example, FoodBuy (a division of Compass Group) has developed purchasing standards for sustainably-farmed shrimp in collaboration with the Monterey Bay Aquarium's Seafood Watch program and MedAssets offers organic options through a collaboration with independent distributor United Natural Foods. However, hospitals report that finding sustainable products in online ordering catalogs can be difficult. Products that align with hospitals' sustainability criteria may not be labeled as such and ordering systems may have poor search capabilities in relation to these criteria. This limits hospitals' ability to access sustainable foods as well as their ability to track and report their progress.

**2) Communicate preferences & work to align definitions:** *Discuss your purchasing preferences with your GPO and distributor representatives and provide written definitions of what constitutes 'local' and 'sustainable' for your hospital. Push for transparency and alignment of definitions throughout the supply chain.*

As GPOs and broadline distributors respond to market signals by offering sustainable and local food lines, the need to align definitions throughout the supply chain becomes a serious concern. For example, US Foods denotes products such as Doritos and Pepsi-Cola as local because they come from nearby processing plants. However, the agricultural production methods and ownership structures related to these products run contrary to many hospitals' reported goals for local purchasing including supporting local farm economies and supporting environmentally-preferable forms of production. At best, these are cases of discordant conceptions of sustainability, at worst, they are greenwashing.

For many hospitals, definitions of 'sustainable' are aligned with third party certification labels such as organic or fair trade and USDA-allowed label claims such as 'produced without the use of rBGH' or 'produced without the use of added hormones'. Definitions of local range from 'produced within 150 - 300 miles' to 'produced within the state'. Many hospitals report using the best practices listed in the Green Guide for Health Care or the Healthier Hospitals Initiative as the basis for their definitions.<sup>7</sup>

**3) Include sustainability criteria in contracts and bidding processes:** *Ask your GPO to include sustainability criteria in RFPs/RFIs for distributors.*

A set of suggested sustainability contract conditions for GPOs have been developed through a collaboration of Practice Greenhealth and Health Care Without Harm. These Environmentally

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<sup>7</sup> See [www.noharm.org/global/issues/building/guidelines.php](http://www.noharm.org/global/issues/building/guidelines.php) or <http://healthierhospitals.org/hhi-challenges/healthier-food>

Preferable Purchasing Food Guides detail environmental disclosure questions that can be included in RFPs/RFIs to help inform purchasing decisions.<sup>8</sup>

**4) Take charge of your contract:** *Remember, the hospital is the client of the GPO, not vice versa.*

Leading hospitals report an important conceptual shift in recognizing that they can take charge of their contract and relationship with their GPO. GPO contracts are a guideline for purchasing, not a legally binding quota. It is up to hospital food purchasers to determine whether or not to choose on-contract items. (However, depending on the hospital, there may be a higher or lower level of pressure from hospital administrators to achieve a certain level of rebates.)

One leading hospital reported renegotiating their contract by decreasing the overall spend expected through their GPO in order to allow a greater percentage of purchasing outside of the GPO relationship. Other hospitals have employed contract waiver provisions to increase procurement of sustainable foods - if a GPO is not able to supply a given product, hospitals are granted waivers to source outside of their negotiated contract. For example if rBGH-free yogurt is not available on contract, a hospital may claim a waiver for yogurt. Yet another hospital reported choosing a different GPO for their foodservice department from their medical supplies GPO based on the fact that the alternate GPO provided more flexibility and support for sustainable and local purchasing.

**5) Participate in GPO sustainability efforts:** *Sit on committees or present at GPO meetings*

Most GPOs have committees made up of representatives from member health care facilities that help make contract decisions. These are important venues for educating both GPOs and the other hospitals around the table about sustainability issues. Hospitals can ask that environmental or ecological health attributes of food products be considered during the bidding and contracting processes

**6) Create alliances both within and beyond your hospital**

Many successful foodservice departments have built connections within their hospital to generate support for sustainability goals, for example by joining hospital Green Teams or Wellness initiatives, engaging material managers, and educating administrators on the connections between sustainable foodservice and the hospital's healing mission.

Creating alliances with other hospitals provides important opportunities to shift the marketplace. While a single hospital may not be able to generate enough financial pressure to change a supply stream, the combined purchasing power of multiple hospitals aligned around the same goal can have significant impacts. For example, a collaboration of hospitals led by Maryland Hospitals

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<sup>8</sup> See [www.healthyfoodinhealthcare.org/resources.php?pid=121](http://www.healthyfoodinhealthcare.org/resources.php?pid=121)

for a Healthy Environment<sup>9</sup> succeeded in getting Murray's Chicken on their GPO contract with Premier. Murray's chicken is produced without the use of antibiotics or arsenic and is Certified Humane Raised & Handled by Humane Farm Animal Care. In this way, hospitals can leverage the same principle underlying the formation of GPOs -- pooling purchasing power -- to demand changes in the food system.

## V. Dissemination of Findings

The results of this research will be shared with the regional coordinators of the Healthy Food in Health Care project as well as with hospital staff and nonprofit organizations working on environmental health and sustainable food efforts through health and food-related listservs. Reference to this work is made in an article I published in *The Nation*, *A New Prescription for the Local Food Movement*, on October 12th, 2012. It will also be included in a forthcoming journal article on farm to hospital supply chains. Results will be presented at Health Care Without Harm's FoodMed/CleanMed conference which draws hospital staff and health professionals from across the country.

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<sup>9</sup> A member organization of Health Care Without Harm's *Healthy Food in Health Care* program. See [www.noharm.org/us\\_canada/news\\_hcwh/2011/sep/hcwh2011-09-06.php](http://www.noharm.org/us_canada/news_hcwh/2011/sep/hcwh2011-09-06.php) for more information on the Murray's Chicken campaign.

