



Rockin' HIT Sales

Episode Transcript

Inside GPOs: How Health IT Actually Gets Evaluated and Purchased

Guest: James Ludwig, Premier GPO

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Transcript edited lightly for clarity and readability. Intro and outro omitted.

David Hacker (00:01)

Welcome to the podcast, James. Let's dig right into group purchasing organizations, shall we?

James Ludwig (00:06)

Let's do it.

David Hacker (00:08)

How would you explain to someone who is new to healthcare what a group purchasing organization is and how it is structured, especially in terms of members, partners, suppliers, and the other moving parts?

James Ludwig (00:22)

The easiest way to describe a GPO, or group purchasing organization, is to think of it as a bridge—maybe even a toll bridge. On one side, you have health systems. On the other side, you have suppliers. Commerce moves back and forth across that bridge. Suppliers want to sell products and services into hospitals, and hospitals and healthcare providers want to buy from those suppliers. I say toll bridge because, in essence, the way a GPO works is that it takes an administrative fee from suppliers and shares some of that fee back with the health systems that participate in the GPO. That administrative fee supports the GPO's work in contracting and competitive bidding for the products and services that flow into those health systems. The GPO manages that transaction platform. In exchange, there is a toll—an administrative fee—that suppliers pay in order to participate on the other side of the bridge and transact with those health systems.

David Hacker (02:01)

What are the most common misconceptions vendors have about GPOs, especially technology vendors? What do you find yourself having to correct over and over again?

James Ludwig (02:17)

One common misconception is that anyone can show up and get a GPO contract, and that is just not the case. Most of the products and services that flow through that bridge are part of some type of competitive bid process. That said, a competitive bid is not the only way to get a contract with a GPO. Another path might be that you are providing services to a standalone hospital that really likes your software and sees it solving an important healthcare problem. If that provider has leverage or influence within the GPO, they may be able to go to their GPO partners and say, 'We would like to put this vendor on contract so that everyone within the GPO can use them.' There are special circumstances where you may be able to get on contract without going through a full competitive bid process, but you should not assume that simply showing up is enough.

David Hacker (03:32)

When a new technology first comes onto a GPO's radar, what has to be true before it is considered seriously for evaluation?

James Ludwig (03:45)

The biggest thing is that it has to be solving a problem for healthcare providers. Healthcare GPOs were originally set up as large purchasing groups to help drive down the cost of supplies. Over time, GPOs moved into other areas of spend, including services. That could mean facilities or cleaning services, or it could mean intellectual services such as IT services, consulting services, and advisory services. The first thing any company that wants to sell through a GPO has to do is identify a problem that is common across healthcare and show that its solution can solve that problem. That is the biggest key to becoming something that is widely used. If you can clearly identify the problem your niche or technology solves, it becomes much easier to start getting into healthcare from there.

David Hacker (04:57)

Are there specific points of evidence—clinical, operational, financial, or otherwise—that matter most when a GPO looks at new and emerging Health IT solutions?

James Ludwig (05:13)

When GPOs look at Health IT solutions, it comes back to the same question: what problem does the product solve for the healthcare ecosystem? There seems to be a new problem in healthcare every day, but many of the most persistent problems are related to data management, cost reduction, and making sense of information. As reimbursement gets cut and federal and state budgets create ongoing cost pressure, hospitals are always looking for solutions that help identify areas of spend that are ripe for cost reduction. Another major area is data management. Over the last several years, GPOs have been looking for solutions that help them make sense of the data they collect from hospital systems. GPOs collect a lot of spend data, and as they have expanded into advisory services and other areas, they have begun collecting even more data. The question becomes how to make that data meaningful. At Premier, which is the second-largest national healthcare-focused GPO in the United States, we were always looking for solutions that could help us make sense of the data we were collecting. Premier has solutions today that focus on clinical trial management and help pharmaceutical companies unlock data in ways that can become meaningful to patient care.

David Hacker (07:25)

How do member health systems and GPO teams typically interact around technology decisions? Who does what, and how does information flow back and forth with all the moving parts?

James Ludwig (07:39)

In almost all cases, whether the category is products or services, there is an element of the GPO team identifying products and services that may fit the healthcare ecosystem and then working with member organizations to put them through a value analysis process. The goal is to determine whether those products and services have applicability in the healthcare environment. Whether it is a niche product category or a specialized services category, there are advisory teams made up of both GPO administrative teams and healthcare provider teams. They collaborate to determine whether the solution fits the healthcare environment. The same is true when a company is being considered for a contract award. Before that award is made, the product or service has passed through a number of hands internally within the GPO and in collaboration with health systems. They are looking at fit, but they are also looking at whether the solution can be deployed at scale. That is important. Just because you have a solution that solves a healthcare problem does not mean you are a fit for the GPO environment if you cannot support potential rollout to hundreds, if not thousands, of health systems.

David Hacker (09:36)

Let's shift gears a little. You have seen models where a GPO and a member hospital partner around investment and co-development for new technologies. At a high level, how does that kind of model work?

James Ludwig (09:53)

When I was at Premier, I spent time as vice president of strategy and corporate development, and we put together a number of joint ventures, mainly on the product side. By product, I mean actual physical products, not intellectual products. We formed joint ventures to stand up manufacturing for critical shortage products, including shortage drugs and products such as exam gloves. For example, after the pandemic, we stood up a commercial partnership with a large Fortune 500 company to produce domestic exam gloves. On the IT side, I did not necessarily see us set up joint ventures in the same way. What Premier did on a fairly regular basis was license technology. In some cases, Premier would license the technology and also invest in the company that produced it. There are examples of Premier buying equity in a company while also licensing its technology for deployment within the healthcare ecosystem. One example is work I did with Qventus, a company that brings AI enablement to the electronic medical record. In that instance, Premier made an investment in Qventus and also licensed the technology for deployment within some advisory services clients. That is a good example of a solution that could be used by an advisory services team to drive cost savings and cost takeout within healthcare clients.

David Hacker (11:57)

When does that type of partnership make sense from the company side? When is it too early, and is it ever too late?

James Ludwig (12:10)

It is too early if you are not ready to handle the large volume of clients that can potentially come your way in healthcare. It is also too early if you are not ready to sell at scale. Just because you get a contract with a GPO—or get 'on contract' with a GPO—does not mean the GPO is going to sell your product. It means they have made it easier for you to transact with healthcare partners. They have put a contract in place with you, and if a health system activates that contract, the health system also has a contract with your company. Essentially, it gives you a license to hunt and provide services to those clients. If you are early stage and not ready to sell at scale, handle large volume, or support meaningful deployment, you are probably not a good fit for a GPO contract. If you are ready, then it is smart to start thinking about your GPO strategy. Once you are past the startup phase—maybe year two or three post-startup—it is probably time to think about what that strategy should look like. There is roughly \$200 billion in spend on products and services flowing through GPOs, whether that is Vizient, Premier, HealthTrust, smaller niche GPOs, or aggregation groups. That is a lot of spend, and a lot of health systems and providers are accessing it. It is a space you want to be in if you are trying to accelerate growth.

David Hacker (14:34)

Some IT vendors worry about becoming a commodity once they are in a GPO contract. What can they do to maintain a value-based story while still fitting into the GPO model?

James Ludwig (14:50)

Being in a GPO or being a contracted supplier through a GPO does not take away your identity. If anything, it makes it easier for you to transact with the organizations you want to serve. Instead of negotiating a one-off contract with a hundred hospitals, the GPO contract serves as a pre-negotiated contract for those hospitals and potentially many more. It gives you a license to hunt within that GPO's base of members. That does not mean you give up on innovation. It does not mean you stop iterating or creating better versions of your solution. It means you have made the administrative function of putting contracts in place easier. The goal should be to keep that contract renewing over time by continuing to add differentiation to your solution, rather than stepping outside the GPO network and negotiating every contract on your own.

David Hacker (16:19)

James, we are going into what I call the lightning wrap. I have three quick-hit questions for you. First, for leaders who are considering GPO engagement, what are two or three to-dos you would strongly recommend?

James Ludwig (16:40)

First, you want to have a solution that solves a problem for healthcare, and you want to have proven that at a few health systems. That might be one large health system, or it might be a couple of smaller systems. You want to make sure your solution can fit the broader healthcare ecosystem once it is deployed. Second, start networking with the GPOs. They are widely accessible at events such as the IDN Summit and other conferences. It is usually possible to attend those conferences, go to their booths or meeting rooms, and meet some of those teams. If you are uncomfortable doing that directly, you can find people—myself and others—who can help make introductions.

David Hacker (17:51)

On the flip side, what are two or three don'ts? What makes it harder for a GPO to take a company seriously?

James Ludwig (18:00)

I saw a lot of these. What you do not want to do is open LinkedIn, mine it for key people at GPOs, and start emailing those people out of the blue without context or relationships. You also do not want to overstate limited credentials. I often saw people reach out and say, 'Our product is being used at this one hospital, and they love it. We think we should get a contract because of that.' That is not going to work. You need to prove your product can be deployed at scale across multiple hospitals. You need to prove that it solves problems that are unique to healthcare or top of mind for healthcare. And you need to build relationships before you start asking people to put your product on a GPO contract.

David Hacker (19:14)

You may have already covered this, but I will ask it anyway. If you could give one piece of advice to an emerging or growth-stage Health IT company about GPOs, what would it be?

James Ludwig (19:29)

It may be two pieces of advice. First, make sure the solution can be deployed at scale. I cannot say that enough. Second, network. Do the networking. Reach out to people who can help you navigate the GPOs. Go to IDN Summit and other conferences yourself. Make those connections and get people on your side as champions. If you can do that, it will help ease your way into the GPOs.

David Hacker (20:11)

James, it was my pleasure to have you on as a guest today. I think listeners now have a much better understanding of GPOs—not just what they are, but how to navigate them more strategically. James, thank you very much.

James Ludwig (20:27)

Thanks, David. I appreciate it.