

by Paula DeJohn

LEGISLATORS KEEP WATCHFUL EYE ON DEVELOPMENTS

Will GPO reforms negate Senate showdown?

Even the most stubbornly loyal of group purchasing advocates agree that the shakeup inspired by vendor lawsuits and a Senate investigation has helped purge behavioral excesses from the nation's group purchasing organizations.

As a result, they say, GPOs are healthier and more ethical than ever and poised to play an even greater role in 21st-century health care. Meanwhile, some critics say reforms haven't gone far enough, and a few still are supporting measures designed to cripple or even eliminate

GPOs. When GPOs from across the nation met in Palm Desert, Calif., in October, they faced a changed environment—less supplier influence, more public scrutiny, and more independent members. The major GPOs have, under pressure from their members and Congress, generally given up their role

as benevolent dictators, telling hospitals to comply with contracts or leave.

One industry veteran who likes what she sees these days is Mary Ann Michalski, national account manager for supply chain field operations for Surgical Care Affiliates, a chain of 140 outpatient surgery centers headquartered in Birmingham, Ala.

"I think they've come a long way from the days when they were really dictating compliance," Michalski says of GPOs. As a member of MedAssets in Alpharetta, Ga., Surgical Care Affiliates participates in group contracts, but also may take a contract to a vendor and try to negotiate a better price. Michalski says that is yet another way in which access to group contracts benefits a health care facility.


"GPOs are starting to accept that choice," she adds. "I think they're being a little more flexible."

Indeed, a 2000 survey of hospitals indicates that 68 percent sometimes use their group contracts as starting points to try to obtain further discounts; and even if that tactic doesn't work, it reinforces the value of the GPO deals. The survey was reported in an academic study, *The Value of Group Purchasing in the Health Care Supply Chain*, by Eugene Schneller, of Arizona State University, Phoenix.

"Independent comparative shopping

QUICK TAKE >>>

Even with all the bad press given to GPOs since the initial investigation by the Subcommittee on Antitrust, Competition, and Business and Consumer Rights, materials managers still value GPOs' role in health care. Many have stated that GPOs are evolving, becoming more flexible to help further meet the needs of hospitals. While the government frowns on the fees paid by hospitals, those in purchasing positions say that they gladly pay fees because of how effective GPO involvement is during contract negotiations.



Mary Ann Michalski, national account manager, supply chain field operations, for Surgical Care Affiliates, Roseville, Mich., works closely with a GPO to get the best prices possible for the organization.

COVER STORY

for best price continues to be a behavior to gain confidence in the value of GPO membership," Schneller wrote in the study report. He estimates that group purchasing accounts for between 72 percent and 80 percent of supply spending by acute-care hospitals.

Michalski, who is president-elect of the Association for Healthcare Resource and Materials Management (AHRMM), says the organization does not take an official position on the use of GPOs, except to support the code of conduct developed in response to a 2002 Senate hearing and since refined to make compliance easier to verify.

At one major teaching hospital, GPO membership means a smaller materials management staff than otherwise would be needed, and at the same time faster access to the latest medical technology.

Kamy Lecret is supply chain manager at 398-bed University of Colorado Hospital (UCH), Aurora. A member of University HealthSystem Consortium (UHC), and UHC's group purchasing arm, Novation, Irving, Texas, the hospital finds using group contracts to be quicker, cheaper and more reliable than negotiating independent deals, in most cases.

"The difference between using Novation and local contracts is turnaround

time," Lecret says. "To get access to a Novation contract, it takes about a week to establish a letter of commitment. Conversion to a new product takes about six weeks. But negotiating and implementing a local contract takes up to six months."

It is not that the hospital has to take whatever Novation dictates. UCH, like other members, sends representatives to Novation's product and vendor selection panels. When clinicians agree on a selection, the GPO staff takes over negotiating prices and contract terms. The process is typical of major groups.

Why the fuss?

During the 1990s, as health care costs escalated, group purchasing evolved from regional affiliations of hospitals organized to pool purchasing volume, to huge businesses. They demanded deep discounts from vendors in return for enforcing strict compliance from hospitals.

By the turn of the century, hospitals rebelled. Some large hospitals and integrated delivery networks (IDNs) dropped out to work directly with vendors. Meanwhile, smaller suppliers objected to cozy, long-term deals that favored large, national companies.

As Congress began its August 2007 recess, the Senate Judiciary Committee's

Subcommittee on Antitrust, Competition, and Business and Consumer Rights had yet to set a date for its next hearing on "Hospital Group Purchasing: Are the Industry's Reforms Sufficient to Ensure Competition?" But the topic remains on the subcommittee's agenda, and players could be summoned to Washington, D.C., before the end of the year.

Curtis Rooney doubts that will happen, however. The former American Hospital Association lobbyist was named in 2006 as president of the Health Industry Group Purchasing Association (HIGPA), replacing Robert Betz.

While subcommittee chairman Herbert Kohl's office would only say that no hearing has been scheduled, Rooney says his Capitol Hill sources lead him to believe Kohl "is not pressing for this hearing."

If true, that would be a relief to GPOs and their member hospitals because vendors have asked the subcommittee to approve legislation that would deny groups the right to collect administrative fees for promoting contracts, effectively ending their ability to stay in business.

If there were no administrative fees, according to Rooney, "it would be tough on everybody. Hospitals would have to pay, or bring in house their contracting functions." He says loss of the fees would likely be "the death of GPOs."

UCH's Lecret adds, "We don't even want to think about that."

Savings versus competition

Mina Ubbing doesn't want to think about it either. Her hospital saves \$1.1 million per year using contracts issued by Amerinet, St. Louis.

Ubbing is president and CEO of Fairfield Medical Center, Lancaster, Ohio, 222 beds, and a member of the board of the Ohio Hospital Association. "If Fairfield were forced to perform its own contracting in place of those GPO services we use, we would need to add at least five new professional staff positions to our purchasing department, at an annual cost of

Largest GPOs by number of hospitals and beds

GPO	Hospital members	Staffed beds
Novation	2,541	480,224
Amerinet	1,817	213,823
MedAssets Supply Chain Systems	1,717	246,330
Premier Purchasing Partners	1,585	245,879
MAGNET	874	186,308
HealthTrust Purchasing Group	859	98,199
Broadlane	793	107,253
Managed Health Care Associates Inc.	459	87,769
Consortia Catholic Resource Partners	277	39,489
Department of Veterans Affairs	225	34,977

Source: Verispon LLC, 2007

at least \$400,000," Ubbing testified at the subcommittee's last hearing in March 2006.

"I need hardly tell you that we simply cannot afford such a proposition," she told the panel. Ubbing says she was "fully aware" of administrative fees and considered them "quite reasonable."

What made Ubbing's testimony somewhat unusual was that it came from a hospital executive with a financial background (she previously was CFO). Even rarer in the course of the Senate's investigation have been appearances by working materials managers.

Meanwhile, Mark Leahey, executive director of the Medical Device Manufacturers Association, made his fourth appearance before the subcommittee at the March 2006 hearing.

He argued for stronger sanctions against GPOs, including repeal of the safe harbor provision in the Medicare antikick-back statute that allows the groups to collect fees from vendors.

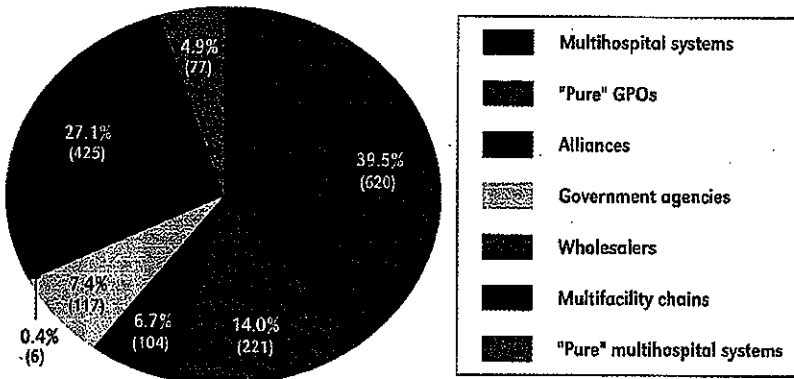
"This fee dependence is at the core of the anticompetitive and exclusionary practices of GPOs," Leahey told the panel. "So long as GPOs depend on fees from suppliers whose products they are charged with evaluating, patients will continue to be denied access to innovative, cost-effective technologies."

He added that the code of conduct is irrelevant because there is no substantive penalty for violating it. He urged the subcommittee to approve a bill that would force GPOs to obtain all their revenue from member hospitals.

The transparency factor

As the system works now, most groups charge membership dues that are based on the number of licensed beds. As Victor Rodriguez, director of materials management at Lakeland (Fla.) Regional Medical Center, 851 beds, explains the hospitals' rationale for such an investment, "The bulk of it comes back through incentive programs and rebates. The hos-

Distribution of GPO types



Source: Verispon LLC, 2007

pitals come out ahead."

Lakeland is a member of VHA and Novation. If administrative fees were abolished, Rodriguez predicts, groups would begin charging for services they now provide for free.

As for the code of conduct, hospital executives, including Ubbing, say they wouldn't belong to a GPO that did not follow a code of conduct. HIGPA developed the original industry code in response to a demand by the Senate subcommittee for proof that GPOs did not need to be regulated by the government.

The original code was vague on some issues, such as vendor fees, to avoid antitrust violations. Instead, individual GPOs began to develop their own specific codes.

In May 2005, again following vendor and Senate demands for more specific information, nine of the largest GPOs formed the Healthcare Group Purchasing Industry Initiative (HGPII). HGPII requires member groups to respond to an annual questionnaire about their codes of business ethics and to post their answers on the Web (www.healthcaregpoii.com).

Following is an example of a question: "Does the GPO disclose to each member all fees and benefits, in any form, paid to the member organization and make any disclosures required by law or by agreement with government regulators? (Please describe.)"

And here is an example of an answer, in this case from Premier, Charlotte, N.C.: "Yes, in accordance with GPO Safe Harbor regulation, Premier discloses annually to all GPO members all fees and value received from participating vendors.

"Premier's code of conduct states, 'Vendor participation in any additional services for which fees may be charged (such as trade shows, periodical advertising and data services) shall be entirely voluntary and a vendor's participation shall have no bearing on GPO contracting decisions.'"

In its second annual report in January 2007, HGPII says it expects such open communications to ease public suspicion of GPOs: "The high degree of transparency embraced by the initiative will enable industry insiders and outside critics, as well as the media and the public, to examine and critique the policies and practices of the industry."

A group plan

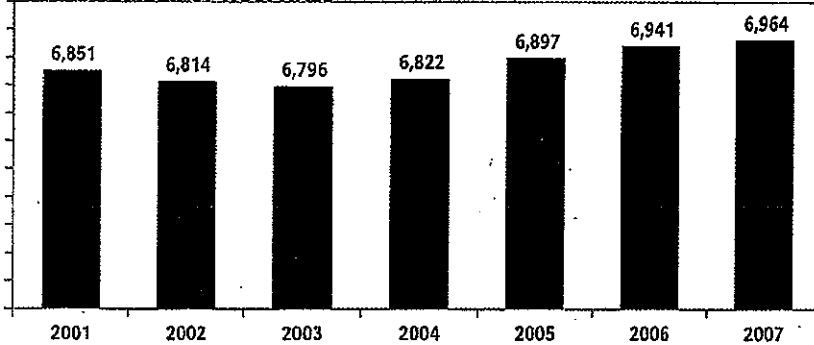
Until recently, one of HGPII's claims to fame was that it represented all nine of the largest GPOs, while HIGPA did not. The two holdouts were Broadlane, Dallas, and HealthTrust Purchasing Group, Brentwood, Tenn. This year, both GPOs joined HIGPA, an event Rooney attributes to HIGPA's reorganization and change of focus.

One big change was the establishment

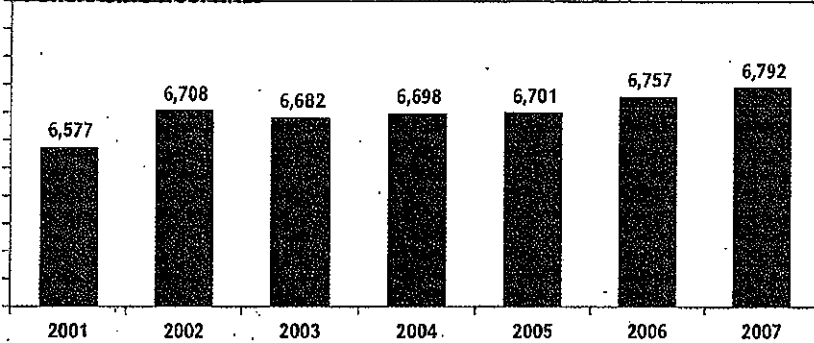
COVER STORY

Hospitals with at least one GPO relationship

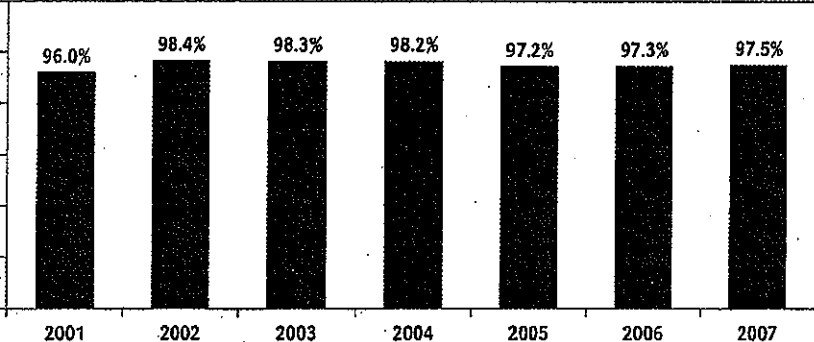
TOTAL NUMBER OF HOSPITALS



PURCHASING HOSPITALS



PERCENTAGE OF TOTAL



Source: Verispan LLC, 2007

of a new public policy committee. While HIGPA has been successful in fending off regulators, it was caught off guard by articles in the general press criticizing group purchasing. As then-president Al LoBiondo explained when the committee was unveiled in late 2005, "We know our value, but we've been so low under the radar."

Another was removal of suppliers from voting membership. During 2006, HIGPA segregated its 115 supplier members

into a new division, the Health Care Supply Chain Institute. At the October conference, the supplier group tackled the issue of standardizing vendor credentialing. Hospitals require vendor representatives to prove they are qualified to explain the products they are selling, but are inconsistent in the documentation they require, creating a burden on the reps. A representative from the Joint Commission was there to help.

Broadlane chairman Charles Saunders,

M.D., says both changes helped influence Broadlane's decision to join. "HIGPA has many positive changes," he says. "We need to come together as an industry to educate the public, policymakers and other stakeholders on the value we provide, and bring a unified and thoughtful voice that answers questions raised on the Hill or from other constituencies."

More, if not merrier

Despite the trend that began a few years back for large IDNs to withdraw from their GPOs, hospital membership in groups actually is growing. Verispan, a research firm in Yardley, Pa., conducts an annual survey of the industry. In 1999, according to Verispan, of 7,026 U.S. hospitals, 6,768, or 96.3 percent, belonged to at least one GPO.

Membership continued to grow until 2002, when it peaked at 98.4 percent of the nation's 6,814 hospitals. It declined modestly until 2005, when 97.2 percent of a total of 6,897 hospitals were GPO members. Since then, it has been rising gradually, to 97.5 percent of 6,964 hospitals in 2007. Verispan defines GPOs somewhat loosely, including government agencies, multihospital systems and even wholesalers.

The Verispan report notes, "In the last several years, the media and the U.S. Senate have demonized group purchasing. In several instances, the industry may have deserved the notoriety, although it has responded with a change to some of its operating practices."

HIGPA's Rooney agrees, and believes the industry needs to expand its advocacy efforts. "People don't know what GPOs do," he says. "They have changed 180 degrees. They are not secretive, the code of conduct is on the Web, small suppliers can access it, and GPO links are on the HIGPA site." MMHC

PAULA DeJOHN IS A FREELANCE WRITER BASED IN DENVER.