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Front Lines

Examine the 'questionable' side of GPOs

Dallas Business Journal by Thomas Shaw

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Jim Hersma's Jan. 29 Front Lines in the Dallas Business Journal ("Purchasing groups promote competition") was troubling. Mr. Hersma claimed that group purchasing organizations (or GPOs) like Irving-based Novation save money for their member-hospitals by driving tough bargains with manufacturers and by promoting competition.

While I question whether GPOs really do save money, there is one approach to this issue which I believe shows that Novation's management is operating more in its own interests than in the interest of saving hospitals and U.S. taxpayers money.

Until now, most of the attention concerning this issue has been focused on the hospital side. The joining together of hospitals to increase bargaining power and increase the efficiency of volume purchasing are potentially good activities aimed at driving down the cost of health care. This type of group purchasing has long promoted economic efficiency.

However, Novation and Chicago-based Premier represent something new in GPOs. While they do indeed charge their member-hospitals an initial membership fee, their continuing revenue streams come predominantly from manufacturers. For example, the Becton-Dickinson company paid millions of dollars in administrative fees last year to GPOs like Novation and Premier.

To better understand what this does to GPOs, let's look at the manufacturers' end of the deal -- the "questionable end."

What did Becton-Dickinson get in return for its money? There are only two possibilities. Either it received nothing, or it received something.

If Becton-Dickinson received nothing, then it foolishly wasted millions of dollars and violated the trust of its shareholders. If, on the other hand, Becton-Dickinson did receive something for its money, then that something increased either its prices or its market share.

If the something that Becton-Dickinson received was higher prices, then one should question whether the GPOs had acted in the best interest of their member-hospitals. GPOs are obligated to drive hospital costs down -- not to increase prices for the benefit of manufacturers.

The other possibility is that the GPOs gave Becton-Dickinson some competitive advantage by limiting its competitors' access to the market. However, since Becton-Dickinson already controls

more than 70% of the U.S. syringe market, agreements to exclude its competitors would likely raise questions under our antitrust laws.

So, if you want to ask a tough question about GPOs, don't ask the purchaser or the CEO or anyone else on the hospital end. Ask what the manufacturer gets.

I believe that my own experience with Novation indicates a need to determine the real objective of current dealings within some GPOs.

Since 1993, Novation (then called VHA) has blocked our safer needle technology from being shown in its member-hospitals. This is particularly unfortunate since, according to OSHA News, thousands of healthcare workers have been needlessly injured in VHA facilities while VHA prevents sales and education efforts about our technology.

Under public pressure, Novation finally came to us in September of 1998 and suggested that it might carry our safety blood-collection tube-holder under the Novation label. When we asked them how this would work, they indicated we could change our label and charge their members \$1 for each unit, instead of the 27 cents which we submitted to them in our bid.

It was our understanding that both Novation and another entity called RTI were to share in the profits from this 270% markup -- but only if we quit talking to the press. So, those are the terms for joining an exclusive club that blocks your competitors.

Obviously, this article tells you how I feel about Novation's attempt to enlist our company in a questionable plan to take money from hospitals and taxpayers.

Lest I be mistaken for someone who doesn't like hospitals, I have great news. In response to our revelations in the press about the questionable conduct of GPOs, Premier has agreed to return to member-hospitals \$160 million of the profits taken from taxpayers.

Naturally, we are glad to help where we can. But we must not rest until the U.S. Justice Department gets to the bottom of who got what, when and why!

Shaw is chairman, president and CEO of Retractable Technologies Inc. in Little Elm.