

[suppliers] and to health-care organizations that use our group contracts," says Pat Poston, a Premier senior vice-president. Says VHA's John M. Burks, vice-president for contract services: "We're customer-driven. If the customer told us they wanted this stuff, we would be stupid not to get it on contract." Special clauses in contracts preserve VHA's right to buy new technology, he says.

Retractable isn't alone in complaining that it's locked out by GPOs. Remel Inc., a Lenexa (Kan.) unit of Sybron International that makes culture mediums used for identifying various bacteria, has already been dropped by some 200 Premier-supplied hospitals in favor of Becton Dickinson products, and more hospitals are under orders to do so by Apr. 1—even though the Food & Drug Administration, in a Dec. 16 letter, admonished the Becton unit for poor quality control.

In fact, when defective batches of Becton's chocolate agar—used to test for deadly meningitis bacteria—showed up in hospital labs last year, some hospitals that depended on the product had to scramble for emergency supplies, says Dr. Alice S. Weissfeld, president

CONTRACT HELL

A product from Becton keeps Bio-Plexus' Punctur-Guard blood collection needle out



of Microbiology Specialists Inc., a Houston diagnostic lab. "The potential for something horrible to happen was certainly there," she says. Becton says it has solved the quality problem; a Premier spokesperson says: "We followed up with Becton Dickinson and the hospitals to see that the appropriate actions were taken."

Another product apparently stymied by the GPOs: a needleless intravenous system made by ICU Medical Inc. in San Clemente, Calif. After Premier negotiated a \$7 billion, seven-year contract with giant Baxter International Inc. in 1996, member hospitals were under pressure to buy Baxter's competing IV. That irked the infection-control director at one Louisiana hospital, where the ICU device was found to be safer, more convenient, and more patient-friendly. "I just question whether bigger is always better," she says. Bio-Plexus Inc.'s blood-collection device also competes head to



SEVEN-YEAR HITCH

Premier's pact with Baxter means its hospitals won't use ICU's needleless intravenous connector

head with a Becton product, and it, too, has seen its prospects sour. The long-term contracts make it tough to "try to make a brand out of an idea," says Bio-Plexus marketing chief Thomas K. Sutton.

Like Remel, ICU Medical, and Bio-Plexus, Retractable appears to offer a product with distinct advantages. Inspired by a news report Shaw saw in the late 1980s of a physician who accidentally stuck himself, the VanishPoint's spring-loaded needle collapses back into the syringe chamber after an injection. The syringe, developed with funding from the National Institutes of Health, won FDA approval and enthusiastic receptions at trade shows. "We examined all known products and found this to be the best. It's technologically superb," says Dr. Leslie M. Beitsch, assistant secretary at the Florida Health Dept., where RTI syringes are being used at more than 100 public-health facilities.

Retractable's outlook seemed bright—but its timing proved terrible. In December, 1996, Premier Inc. announced a \$1.8 billion, 7½-year supply contract with Becton Dickinson. Suddenly, every Premier hospital—including some of Retractable's hottest prospects—essentially was required to buy Becton's syringes. Some hospitals affiliated with Premier and VHA, which had been buy-



UNEARNED BUSINESS

Agar maker Remel lost buyers to a Becton unit cited by the FDA for poor quality control

ing from Sherwood for nine years, declined to consider Retractable's Vanish-Point syringe at all. One of those was Shannon Medical Center in San Angelo, Tex., which stands to lose "incentive payments" of more than \$100,000 a year if it fails to buy 95% of its products under 13 different VHA contracts. "Sherwood offers a shielded syringe that, as far as I'm concerned, is a competitive product," says Carolyn Tegeler, Shannon's director of materials management. But she admits that the medical center's nurses who tried Sherwood's safety syringes "felt as if they caused needlesticks," so they aren't using them. If Retractable's product had been under VHA contract, she says, "we might have come closer to looking at it."

Some hospitals that decline to buy Retractable's syringe cite its price of about 50¢ per unit, more than double that of competing products. But because the use of Retractable's Vanish-Point results in lower disposal costs and lower workers' compensation insurance premiums, the overall cost is less, says Sally Peerbolt, an employee-health nurse at Riverside County Regional Medical Center in Riverside, Calif., a Retractable customer. And using Retractable's syringe, she adds, "cuts down on anxiety and stress" among health-care workers.

Rather than trying to break into the GPO game, Retractable retreated, focusing on public facilities, including veterans' and prison hospitals, about a 10% slice of the market. In 1997, Retractable sold about a half-million units, generating \$250,000 in revenues but no profits, Shaw says. Shaw is pinning his hopes largely on regulatory, legal, and legislative relief. Those remedies may win Retractable broader access to hospital contracts. But it's not clear that they will address the bigger question about group-purchasing organizations—whether they constitute a system of exclusive long-term contracts that reduces hospitals' costs at the risk of stifling medical innovation and impairing patient care.

By Phillip L. Zweig in New York and Wendy Zellner in Little Elm, Tex.

THE QUIET HOSPITAL GIANTS

Leading hospital group-purchasing organizations (GPOs) and the number of hospitals they supply

GROUP	ACUTE-CARE HOSPITALS**
PREMIER INC.	1,682
AMERINET	1,493
NOVATION*	1,400
MEDECON SERVICES	770
HEALTH SERVICES CORP.	679
JOINT PURCHASING CORP.	382

* Jointly owned by VHA Inc. and University HealthSystems
 ** Some hospitals have contracts with more than one GPO
 DATA: SMG MARKETING GROUP, CHICAGO; AMERICAN HOSPITAL ASSN.; BUSINESS WEEK

HEALTH CARE

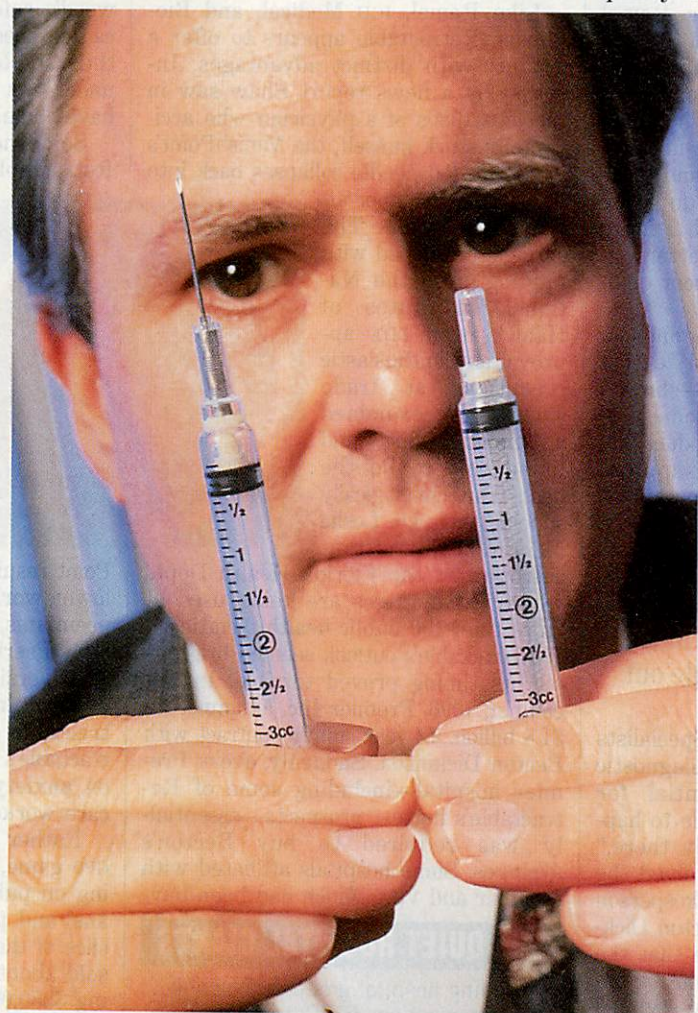
LOCKED OUT OF THE HOSPITAL

Are medical buying consortiums squelching innovation?

In 1993, Dallas engineer Thomas J. Shaw and his colleagues came up with a striking innovation. They designed a hypodermic that promised to slash the incidence of accidental needle pricks, which each year cause about 640,000 injuries among health-care workers. Safety-conscious hospitals, Shaw figured, surely would flock to his fledgling Retractable Technologies Inc., a closely held outfit in Little Elm, Tex.

He was wrong. In fact, Shaw says now, his salespeople can't even get inside most U.S. hospitals to demonstrate their syringes and blood-collection devices. Why? Thousands of hospitals are obliged to buy from big suppliers that have negotiated long-term, multibillion-dollar sales contracts with Premier Inc. and VHA Inc.'s Novation, two of the nation's largest health-care group purchasing organizations (GPOs). Smaller companies, such as Retractable, are often locked out.

CHOKEHOLD. GPOs, which help hospitals save millions of dollars on medical supplies by buying in bulk, have thrived for decades. In the past few years, though, these for-profit companies, typically owned by member hospitals, have consolidated rapidly into hugely powerful buying consortiums. The six largest GPOs now administer contracts for at least 80% of the nation's approximately 5,400 acute-care hospitals. That adds up to about \$25 billion of supplies, according to SMG Marketing Group in Chicago. San Diego-based Premier, created by a three-way merger in January, 1996, alone controls buying for about a third of U.S. hospitals. Novation was formed in Janu-



ary '98 when VHA and University HealthSystem Consortium merged their supply operations.

Boosters claim that GPOs have saved hospitals about 5% of spending on commodity products and over 25% for high-tech equipment—a godsend for institutions battling declining reimbursements from insurers and escalating prices. Yet critics argue that these big consortiums, by removing purchasing decisions from clinicians and discouraging product innovation, may in fact be jeopardizing quality and safety and putting medical professionals and patients at risk. GPOs are "making it more difficult for small companies to get their products into the marketplace," says Dr. Janine Jagger, director of the University of Virginia's International Health Care Worker Safety Center. Market concentration, she adds, is "not good for the safety field."

STIFF RULES. GPOs squeeze out savings for hospitals by negotiating hundreds of exclusive deals with medical-gear and supply vendors for a broad array of products. To qualify for discounts, member hospitals typically must buy a minimum portion of their supplies from GPO-contracted vendors. In the past two years, that portion has risen to as high as 95%. If they buy from more than a few nonapproved vendors, the hospitals lose the discount and can face ejection from the consortium.

Retractable Technologies charges that such practices amount to exclusionary restraint of trade. Aided by

"NO THANKS" TO SAFETY? Most U.S. hospitals won't use Retractable Technologies' safer syringe (top) and blood collector (bottom) because of long-term supplier contracts

Representative Dick Arney (R-Tex.), it has complained to the Federal Trade Commission about Premier's and VHA's relationships with Becton Dickinson & Co. and Sherwood Davis & Geck, the market leaders in syringes. The FTC confirms that the case is under review.

GPOs say such scrutiny is unwarranted. "The process is quite fair both to

(TOP TO BOTTOM) PHOTOGRAPHS BY LISA MEANS; DAVID LEESON