

Testimony of
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My professional career in health care began in 1972. Group purchasing in hospital health care was in its infancy.

Hospital medical supply costs averaged 6 to 7 percent of annual expense budget as compared to today in a hospital where the expense for medical supplies could range anywhere between 23 to 28 percent depending on the acuity of care delivered. The growth in new technology has helped to expand the growth in supply costs

The political impact of Medicare legislation in the mid 70's on operating expenses had a direct impact on hospital executives targeting areas to lower expenses. Salary impact as a potential target caused adjustments in nurse-patient staffing ratios and supply costs reduction through material management were the major targets. This drove the rapid growth of state and local group purchasing organizations to emerge.

In 1974 I was hired by Adventist Health System West to organize and establish a collective purchasing program for 17 Adventist hospitals in the Western United States. This shortly led to the expansion of the program to all 84 Adventists throughout North America. In 1986 I was hired by American Healthcare Systems to organize and develop a national group purchasing organization which ultimately grew to 40 multi-hospital systems representing approximately 1400 hospitals. This growth and expansion was directly related to the continued pressure to lower operating costs. Also in response to competition from the for-profit health systems in select markets through North America, American Healthcare Systems operated with approximately 60 employees and annual operating budget of 10-12 million dollars. Income was derived from dues. Income was derived from annual dues. Over time dues were replaced by fees charged to select group of manufacturers called corporate partners. Fees were not taken on all contracts. Instead, management's time was spent on helping the selected manufacturers reduce their costs of selling and passing it along hospitals. The elimination of dues was seen as an additional cost cutting strategy. Other group purchasing organizations were already solely fee funded from the medical manufacture industry.

Price of products was implied by medical manufactures to be linked to the largest compliant customers. This in turn led to consolidation of the market place. Local and state group purchasing organizations began consolidating with larger national organizations in the quest for lower prices for their members. Today, less than a dozen group purchasing organizations represent the majority of the nations hospitals. Two, Novation and Premier represent over 60% of the nations hospitals.

In 1995 American Healthcare Systems and Premier (A group purchasing organization out of Chicago) merged and 6 months later Sun Health merged to form what today is the new Premier.

Novation was formed by a linking of the University Hospital Consortium and the Voluntary Hospitals of America.

The outcome of the mergers has led to larger organizations with operating budgets in excess of \$300 - \$400 million dollars. Diversity, to be more than just a group purchasing organization, has led to program expansions in e-commerce and data mining, business development, physician practice management, etc.

Today, working as a consultant at "GPO Concepts" we hear the same questions from two sides of the market place, the medical manufacturers and the hospitals.

The medical manufacturers are concerned about the value they receive from the fees paid. How much makes its way down to the hospitals is also a major concern. The hospitals are questioning where and how the fees are spent and yet hospitals face even more pressure to continue to lower costs. Are the hospitals now competing for the same dollars that today goes to the group purchasing organizations?