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NATION'S LARGEST HOSPITAL GROUP PURCHASING
ORGANIZATION RELEASES NEW OPERATING PRINCIPLES IN RESPONSE TO
SENATE ANTITRUST SUBCOMMITTEE INQUIRY

Novation, the nation's largest hospital group purchasing organization (GPO), today released a series of operating principles intended to govern the operations of its hospital group purchasing business, U.S. Senators Herb Kohl (D-WI) and Mike DeWine (R-OH) announced. Novation contracts for the purchasing of hospital supplies for more than 25% of the nation's hospital beds.

"We are gratified that Novation has recognized the need for reform and today issued these operating principles which go well beyond the Health Industry Group Purchasing Association (HIGPA) code of conduct," Kohl and DeWine said. "Novation has worked with us in good faith to produce constructive and positive modifications to its business practices. While Novation's pledge does have its shortcomings, we believe Novation's desire to improve its practices is sincere. For real improvement to occur, it is imperative that Novation implements these and other reforms fully and vigorously.

"In that light, we are taking a wait and see approach, but we are hopeful that these principles will have a positive effect. The Antitrust Subcommittee will carefully monitor Novation's compliance with these principles to assure that the medical device marketplace is opened up to competition and that hospitals, physicians, and patients have access to the best medical products at the best prices."

The commitments made today by Novation operate in addition to the Code of Conduct released last week by HIGPA. Novation's new operating Principles include:

- C A commitment that Novation will not award sole source contracts for clinical preference items that when alternative products exist that offer patient care or safety benefits;
- C A commitment to reduce administrative fees for clinical preference items that exceed 3% to the 3% level;
- C "Up front" administrative fees or marketing fees will be barred;

- C No bundling of clinical preference items with commodities or with other unrelated clinical preference items;
- C No commitment requirements to be a member of the GPO or to gain a base level discount;
- C Contracts terms will be limited to 3 years;
- C A commitment to develop and implement a comprehensive process to evaluate innovative technology;
- C Bans on ownership of medical vendors by Novation; and
- C Compliance to these principles to be enforced by Novation's Board of Directors.

This latest announcement by a GPO that it would reform its business practices follows the commitments issued by Premier, the nation's second largest GPO, earlier this week and also last week's issuance of Code of Conduct Principles by the GPO trade association, HIGPA. The group purchasing industry agreed to draft voluntary codes of conduct as a result of the Antitrust Subcommittee's April 30, 2002 hearing on the effects of hospital group purchasing practices on competition and patient care.

Kohl and DeWine expect to schedule future hearings in the Antitrust Subcommittee to examine the implementation and sufficiency of these principles and impact of these industry changes. At the request of the Subcommittee, the GAO and Federal Trade Commission continue to investigate various aspects of the GPO system.

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