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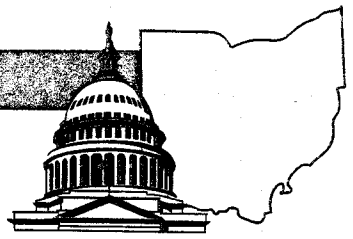
Mike DeWine



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DEWINE EXAMINES HEALTH CARE GROUP PURCHASING OPRGANIZATIONS

Statement by U.S. Senator Mike DeWine (R-OH) before the Senate Judiciary Subcommittee on Antitrust, Business Rights and Competition hearing, "Hospital Group Purchasing: Lowering Cost at the Expense of Patient Health and Medical Innovation?":

Let me begin by saying that I am also quite disturbed by some of what we have learned in our investigation of group purchasing organizations. There is certainly some anecdotal evidence, and some indication that GPOs in some cases have strayed from their original purpose of allowing hospitals to work together to limit costs. We clearly have some specific incidents that we need to explore today, and we need to decide how to prevent them in the future.

In addition, we need to examine the enormous changes in the medical supply marketplace, and the changes that have occurred in GPOs. As medical costs have skyrocketed, many hospitals struggle on a daily basis to reduce costs while attempting to maintain high-quality health care.

GPOs have become an increasingly important part of this effort to reduce costs. However, I think it is fair to say that due to consolidation and other changes in the GPO system, GPOs today look very different than the system that was originally contemplated.

Some reports indicate that hospitals channel as much as 70 to 80 percent of their non-labor expenditures through GPOs. And, within that 70 to 80 percent of purchasing, two large GPOs, Premier and Novation, handle purchasing for over 60 percent of the nation's hospitals.

This level of concentration gives these two firms a very important role in the medical device market, and their buying arrangements have a tremendous impact on the market.

This importance is magnified by the fact that Premier and Novation will often have only one or two suppliers on contract for a given product or product category. For the one or two suppliers who are able to make a deal with them, they are virtually assured a very big market for their products; the others will face real problems in gaining access to a large segment of the potential market.

As long as these contracting and purchasing decisions are based on a reasonable mix of quality and cost factors, these outcomes are not necessarily troubling. And we have been told that often health practitioners do play a significant role in determining which products are placed on GPO contracts, a role which helps to assure that product quality and patient care are part of the decision.
However, there are some indications that other factors have sometimes been considered, factors that have more to do with the financial health of the GPO than the health of the patient. For example, information provided to the Subcommittee demonstrates that executives of some GPOs have a financial interest in companies that have been granted GPO contracts. Obviously, it is completely unacceptable for private financial interests to play any role in contracting decisions.

More broadly, I am concerned about the extensive range of businesses and programs run by GPOs, and the manner in which they are funded. Approximately 15 years ago, Congress gave the GPOs an exemption from the anti-kickback laws in order to allow them to collect administrative fees from suppliers. But the result of that decision is a system in which some believe the GPOs have conflicting interests and mixed incentives. It is not always clear whether GPOs are serving the hospitals who own them or the suppliers, who in some ways, have become their clients. We need to explore this issue today.

Furthermore, we need to examine the competitive implications of the GPO system. It is critical that we maintain a competitive environment in which new and improved medical devices are able to gain a foothold in the marketplace. However, many have complained that the GPO structure is acting as an impediment to innovation, by allowing incumbent suppliers to lock in large portions of the buying market for their products.

That assessment seems to have some support among those in the investment community. In fact, we will hear testimony today that investors are increasingly unwilling to fund start-ups, the kind of companies that often provide technological improvements, because

the odds are stacked too heavily in favor of incumbents on GPO contracts. This is a very troubling possibility.

On balance, it does seem likely that GPOs have delivered savings to hospitals. Many of the hospitals in my home state of Ohio have reported as much to me, although, as the recent GAO study indicates, GPOs do not necessarily always save money for hospitals. And, as I have noted, legitimate questions have been raised about what impact the current structure of the GPO market is having on innovation and health care.
We cannot overlook the long-term cost that we will pay, both in dollars and in quality of care, if we allow our purchasing structure to impede innovation in medical devices.

I look forward to hearing from our witnesses, and I will closely evaluate everything we hear today. Certainly we must remain focused on making health care affordable to Americans. It is equally important to ensure that the system operates in a way that will provide the best possible health care for patients. As an initial step, I agree with Senator Kohl that a code of conduct, addressing a number of specific practices, will help address our concerns. In the meantime, Senator Kohl and I have sent a letter to the Justice Department Antitrust Division, and the Federal Trade Commission, asking them to examine the competitive effects of the GPO system. If, after careful evaluation, we determine that further changes are necessary, we will work closely with all interested parties as we seek a system that will provide our hospitals with the best products at competitive prices.

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