Agenda

• GPO Memory Lane
• GPO Differentiation
• Future Issues
Why Are There GPOs?

Students of the industry trace the origin of GPOs to the turn of the century, when local hospitals occasionally banded together to demand better utility rates from steam or power suppliers. But "most of the GPOs we know today had their roots in large metropolitan-area hospital associations," says Tom Wessling, vice president of nutrition and facility services at St. Louis-based Amerinet.
Why Are There GPOs?

"They came together for advocacy, to deal with Blue Cross and Blue Shield, and then looked at purchasing. In the 1970s, med/surg supplies, lab services and IV solutions represented the big dollars in purchasing budgets and that's where they focused initially."

The Early GPO Players

- American Healthcare Systems
- Health Services Corporation of America (HSCA)
- Intermountain Health Care (IHC)
- Metro Chicago Healthcare Council
- Premier Health Alliance
- Purchase Connection
- Shared Services Western PA
- Sun Health Alliance
- University Health Consortium (UHC)
- Vector Healthsystems
- Voluntary Hospitals of America (VHA)
- and dozens of local municipal GPOs
Development of the SuperGoups
SuperGroup Transformation

1986

HSCA¹
Intermountain Health Care
Shared Services Western PA
Vector Healthsystems

¹HSCA left Amerinet in 1990
SuperGroup Transformation

1995

AMHS
SunHealth Alliance
Premier Health Alliance

Premier, Inc.
SuperGroup Transformation

1997

UHC

VHA

Novation
SuperGroup Transformation

2001

Purchase Connection
HSCA

MedAssets
GPO Transformation

• Many of the local municipal GPOs have either aligned themselves or have been absorbed into a major GPO

• Large IDNs have either become their own GPO or aligned with a GPO
  – Columbia/HCA – HealthTrust Purchasing Group (HPG)
  – Kaiser Permanente – Premier, Inc.
  – Sisters of Mercy Health System – St. Louis – created Resource Optimization & Innovation (ROi)
  – Tenent Healthcare - Broadlane
Common Theme for GPO Success
Hospital Materiel Briefings (February 1985)

“Although full blown commitment is as much as 2 years away, the trend is undeniable. Groups are going to sole-sources with IV contracts, profit-making groups are demanding more standardization to better accommodate commitment, etc. Actual switching of brands on a contract’s effective date will become the order of the day during this stage.”
So What Has Happened?

• Many of the GPOs became very commitment oriented, resulting in sole source agreements
• Medical Device Manufacturers Association (MDMA) started lobbying Congress and started getting action in 2001 – Senate Hearings
  – Vendors being locked out of business
• Senate hearings caused the GPO industry to look at itself and decide to self-police, hence…….
So What Has Happened?

• The Healthcare Group Purchasing Industry Initiative
  – Nine of the nation’s leading GPOs, serving the majority of America’s hospitals, founded the HGPII in 2005 to promote and monitor best ethical and business practices in purchasing for hospitals and other healthcare providers

• Several GPOs have been adding vendors to become dual or multi-source

How do you maintain pricing while adding competition to the portfolio?
Future of GPOs
Future of GPOs

Blue Ocean Strategy by W. Chan Kim and Renee Mauborgne

• “BOS is the simultaneous pursuit of differentiation and low cost”

• “The aim of BOS is not to out-perform the competition in the existing industry, but to create new market space or a ‘blue ocean’, thereby making the competition irrelevant”

GPOs need to zig and zag
New/Niche Technology

- Key area of concern in the Senate hearings
- GPOs have to be able to evaluate and add to portfolio
- Benefits:
  - Member facilities don’t have to struggle regarding whether to support GPO or look at technology to help patients
  - Allows new/niche manufacturers to grow
  - Keeps other manufacturers investing in R&D
  - Keeps GPO out of the Senate spotlight

Everybody Wins
Willie Sutton was a bank robber robbing approximately 100 banks from 1930 through 1952. When he was finally caught, he was interviewed by a reporter, Mitch Ohnstad, who asked why he robbed banks. Sutton’s response:

“Because that's where the money is."
Pursue Non-Acute Membership

- Baby Boomers have and are approaching retirement age
- CMS changing reimbursement toward non-acute setting
- Increased volume of business in:
  - Long Term Care
  - Surgery Centers
  - Clinics/Physician Offices

FOLLOW THE MONEY
Government Intelligence

- Monitor CMS changes
  - No Pay for No Performance
  - Reimbursement changes

- Monitor other insurance providers
  - Wellpoint / Blue Cross/Blue Shield

- JCAHO changes
  - How will it effect Members and how can the GPO help?

Increase lobbying efforts to affect proposed changes
Education

• The value of GPOs
  – The C-suites needs to know who you are and the value you bring
  – Purchasing departments no longer making the GPO decision

• How to effectively use clinicians

• The supply chain
  – Distribution

• Data utilization
  – Benchmarks

You don’t know what you don’t know
Continued Balance Sheet Pressure

• Cost of the uninsured keeps rising
  – AHA News, March 27th

• Federal Budget Cuts - 2009 Budget Proposals
  – slash $178 Billion in Medicare Payments - FAH

• Never Pay - Never Again
  – Modern Health Care, March 10, 2008

• Hospitals in Permanent Decline?
  – Health Leaders Media Finance, Feb. 11, 2008

• Price will prevail in highly profitable outpatient arenas
  – AHA 2008 Environmental Assessment
Continued Balance Sheet Pressure

- Enhancing productivity and efficiency in the provision of care
  - AHA 2008 Environmental Assessment.
- Increased demand for chronic conditions
  - AHA 2008 Environmental Assessment
- New Technology
  - AHA 2008 Environmental Assessment
- Access to Capital
  - Sub-prime and capital market pressure
- Economy pressures
  - scaled back expansion - From castles to tents - SG2
Continued Balance Sheet Pressure

- Construction / Expansion projects
- Revenue Cycle management
- Supply Chain effectiveness

A customer that is out of business can negatively impact your business
Being Green

- Increasing importance from a CEO’s perspective
- Identifying vendor/supply opportunities for waste reduction/recycling
- Being able to pass that information to the end user

Looking to the Future – but not forgetting the Now
TRADITION

JUST BECAUSE YOU'VE ALWAYS DONE IT THAT WAY DOESN'T MEAN IT'S NOT INCREDAIBLY STUPID.
Safety and Quality

- Pharmaceutical Pedigree Rules/Laws
  - Health Leaders Media Finance
- Lean Management Procedures
  - Health Leaders Media Finance
- Transparency – Performance
  - SG2
- Never Pay-Never Again
  - Modern Healthcare, March 10, 2008
- P4P - Is P$P Working?
  - Health Leaders Media Finance
Competition

- Wal-Mart Partnering With Hospitals To Expand In-store Clinics
  - Health Leaders Media Finance
- Rural-coordination and integration with large urban systems
- If I were my competitor, how would I defeat me?

Sometimes the competition isn’t as obvious as you might think!
Minority Businesses

- Facilities starting to implement HUB requirements
  - Increasing pressure at the C-suite level
- City/county/state owned facility requirements
- Provide member facilities an avenue to purchase from minority owned businesses and contribute to the economic development in the local community

Minority owned businesses are cornerstones of our economy and the communities in which they are based
Facility Construction/Expansion

- Need more than 238,000 new beds, or 46% by 2027, to keep pace with patient population growth (could be as high as 500,000!)
- Facility replacement cost more than $1 million per bed and rising!
- 68% of the nation’s healthcare facilities need to replace aging buildings and infrastructure
- 79% of nation’s hospitals and health systems need construction/renovation to improve operational efficiencies and patient flow
Facility Construction/Expansion

Right now:
• $61.8 billion in new construction
• $24.6 billion in renovations

Projected:
• $20-$25 billion per year through 2011

Need to work with architects and designers early in the process
Private Label Programs

• Two GPOs have private label programs
  – Amerinet – Amerinet Choice
  – Novation – NovaPlus

• Why have a private label program?
  – Aggressive pricing
  – Marketing
  – Profitability

Will current GPOs continue and will others follow suit?
Private Label Programs

• Distribution private label programs
  – Owens & Minor
  – McKesson
  – National Distribution & Contracting – Abco, Cida & Starline
  – PSS Worldwide (Physician Sales & Service & Gulf South)
  – IMCO
  – Henry Schein

• Competition to the GPO’s contract portfolio

Need to align incentives
Fuel Costs

• Verbiage in agreement to accommodate rising costs
• When is the right time to allow price increases?
• Manufacturers are walking away from GPO agreements if increases are not allowed?
  – Is it better or worse for the customer to lose an agreement?
• Facilities not getting any increase from insurance companies and Medicare

Rising fuel costs not stopping any time soon
Niche vs. General

• Smaller GPOs reducing their focus to compete with the larger GPOs
  – Enhanced expertise in:
    • Surgery Centers – Group Purchasing Alliance
    • Primary Care – Medigroup Physician Services
  – Understand what the customer needs and wants

Sales is no longer about getting the order. It’s about winning customers who are eager to do business with you because you understand them and what they want to accomplish
Data Capture and Mining

- Need to get data from the facility
- Facilities may not want to share data with GPO
- How is the data going to be used?
- Who will see the data?
- Competition is fierce

Facilities have a lot of information but not the best at putting it into an actionable format
IDNs within the GPO

- Balancing act for the GPO
- Balancing act for the Suppliers
- Suppliers looking for commitment and support of a GPO
- IDNs looking for the best price

GPOs need to harness the strength of the IDNs and work side by side with them
2008 Election

• New Administration

• Changes to the Senate and House
  – Will Senate choose to refocus on GPO industry?
  – Will Congress abolish the Safe Harbor legislation allowing GPOs to charge administration fees?

Will facilities be willing to pay fees to join GPOs?
Health Care Rules and Directions
Source: Institute for Healthcare Improvement

**Old Rules**
1. Care is based on visits
2. Professional autonomy drives variability
3. Professionals control care
4. Information is a record*
5. Decision making is based on training and experience*
6. Do no harm is an individual responsibility*
7. Secrecy is necessary*
8. The system reacts to needs*
9. Cost reduction is sought*
10. Preference is given to professional roles over the system*

**New Rules**
1. Care is based on continuous healing relationships
2. Care is customized according to patient needs and values
3. The patient is the source of control
4. Knowledge is shared and information flows freely*
5. Decision is evidenced based*
6. Safety is a system priority*
7. Transparency is necessary*
8. Needs are anticipated*
9. Waste is continuously decreased*
10. Cooperation among clinicians is a priority*

* GPOs have a role
“Every morning in Africa, a gazelle wakes up. It knows it must run faster than the fastest lion, or it will be killed. Every morning a lion wakes up. It knows it must outrun the slowest gazelle or it will starve to death. It does not matter if you are a lion or a gazelle. When the sun comes up, you’d better be running.”

Juergen Bartels, President & CEO
Carlson Hospitality Group, Inc.
Questions?