GROUP PURCHASING CHAPTER
IHF-GPO-INDUSTRY EXCHANGE MEETING
Paris, France
6 July 2011

SUMMARY REPORT
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Introduction and Background
The International Hospital Federation\(^1\) and the Resah Idf\(^2\), hosted 5\(^{th}\) and 6\(^{th}\) July 2011 in Paris, France, a meeting of the IHF Group Purchasing Chapter, which brought together representatives of group purchasing organisations (GPOs), hospital and healthcare decision-makers and industry. The aim of the meeting was to initiate and exchange dialogue in order to establish understanding and cooperation and build national, regional and international collaboration with regard to procurement and purchasing systems.

The IHF Group Purchasing Chapter, created in September 2010, is dedicated to hospital purchasing/procurement activities in response to the phenomenon that group purchasing is a principal strategy by which companies in many sectors, especially health services, have sought to achieve cost containment, improve the quality of goods purchased, and allow staff to focus their efforts on other activities. Goods and purchased services annually in the public and private hospital setting in OECD countries are in excess of 450 billion Euros (US$620 billion). Understanding of the healthcare supply chain is therefore pivotal to management of a health care delivery organization.

The activities will involve:
- Organising of an international network of major hospital purchasing/procurement centres
- Raising the profile and strategic importance of purchasing and procurement in the agenda of healthcare decision-makers
- Acting as a platform for dialogue and vehicle for cross-fertilisation of ideas and experiences between industry, purchasers, international healthcare associations and other non-governmental and governmental organizations.

Membership of the Chapter is open to IHF full and associate members expressing an interest and commitment to the goals of the chapter as well as other types of organisms such as, private and public associations and groups of hospitals or individual hospitals, private or public institutions involved in health care purchasing. The founding members include:

- East of England NHS, Collaborative Procurement Hub (England)
- NHS South East Coast, Collaborative Procurement Hub (England)
- ASSIAPS\(^3\) (Canada)
- Resah idf (France)
- HIGPA\(^4\) (United States)
- Azienda ULSS N.20 Verona\(^5\)(Italy)

The corporate sector, by invitation, participates partially or totally in the activities of the Chapter. The role of the IHF Secretariat is that of facilitator and provider of technical support and meeting host as well as making available its communications network for dissemination of information.

\(^1\) [www.ihf-fih.org](http://www.ihf-fih.org)
\(^2\) Central purchasing body for public hospitals and nursing homes for Ile de France Region (France)
\(^3\) Association Internationale des Acheteurs et Approvisionnements Publics et Privés de la Santé
\(^4\) Health Industry Group Purchasing Association
\(^5\) [http://www.ulss20.verona.it/](http://www.ulss20.verona.it/)
Group Purchasers: Joint Position and Challenges

The GPO members reviewed and debated the areas and types of challenges they faced as leaders and collaborators with industry (suppliers) and hospitals and healthcare facilities (clients/customers), with regard to the 3 programme themes – innovation, Tier pricing and Green Agenda in procurement. Joint position ‘statements’ and questions were drawn up in preparation of the dialogue exchange with industry.

Innovation in Health Procurement

In order to improve efficiency in health care systems, the members, under the leadership of Jean-Michel Descoutures of Resah-Idf, concluded that the following five pillars were required:

- Increase in the quality of patient care
- Improvement of healthcare outcomes
- Better work conditions (‘positive practice environment’ concept)
- Reduction vis-à-vis productivity in Total cost of ownership (TCO)
- Improve sustainability

The question regarding the importance and value of GPO involvement in innovation in healthcare procurement was addressed by the members, particularly in relation to their role as mediators between small and medium –sized enterprise (SME) and hospitals. The members affirmed that innovation had a major role to play in introducing SMEs into the health sector market and ultimately ensuring improvement in efficiency and better performance by hospitals in healthcare delivery. GPOs, they believe are strategically well positioned with the capacity to disseminate SME innovation; a role which has yet to gain adequate and proper recognition, particularly with suppliers.

Initiatives such as the Public Procurement of Innovation (PPI) and Pre-Commercial Procurement (PCP) are seen as effective instruments with which to:

- build relationships and roles between networks and stakeholders (existing and new) – GPOs, hospitals, industry, government, academics, etc
- facilitate networking and exchange of best practices
- Identify tasks and
- Determine potential for joint actions

Through PCP initiatives, GPOs can drive innovation from the demand side and as a result can and do contribute to improvement in quality and effectiveness, thereby creating opportunities for SMEs to take leadership in the market.

In the dialogue exchange, GPO members drew attention to the fact that:

i) They have a full pathway as opposed to silo vision in innovation and are therefore unique in their ability to unite all stakeholders in their activities

ii) They are credible and capable agents for conduct of trials and should therefore be engaged in R & D activities between suppliers and end-users

iii) They constitute a valuable source for data collection for evidence in decision-making, and subsequently become possible agents of change
iv) Sharing of best practices can be facilitated between them and hospitals
v) They form effective meeting forums through which ongoing dialogue and development of best practices can be maintained between SMEs, large companies, healthcare professionals and associations.

The lack of dedicated means to management of innovation in procurement in hospitals as well as low awareness of purchaser to innovation constitutes the major barriers.

The role and importance of education of the stakeholders, namely GPOs, Industry and healthcare executives, through dialogue was acknowledged. Collaboration and not silo approach would be the solution to improvement of services by GPOs.

In regard to assessment in innovation, introduction, choice and promoting results of pilot projects, the GPOs stressed the need for their involvement. Such contributions would provide evidence in the overall decision-making process. Conversely, by this process the added-value of GPOs may be assessed and determined.

**Globalisation and Tier Pricing**
Discussion leader, Alyson Brett, pointed out that in seeking to challenge industry, they as GPO needed to consider the following issues:
- Definition of tiered pricing
- Current position in healthcare markets
- Under what circumstances would this be applied and justified
- Ethical issues in play
- Commercial perspectives
- As GPOs:
  - What role they are to play as IHF members
  - How they are to discern opportunities and
  - Ways in which they can influence the international healthcare market

It was noted that to define tier pricing and therefore determine its pattern of activity and impact, several approaches could be applied. Volume, level of market competition, nature and degree of transparency were among the key determinants.

In the exchange with industry and in answer to the members’ questions, volume was noted as a key factor that impacted tier pricing. Procurement pattern and the behavior of health systems also greatly influenced pricing. Industry representatives drew attention to the lack of predictability in procurement patterns which contributed to the negative impact on pricing. GPOs were encouraged to adopt a consultancy role to enable improvement of efficiency in health systems operations.

National regulations, however contrary to belief, have limited impact on pricing, but rather tend to stifle competition. In the case of standards, market potential was seen as the factor responsible for the drive in

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7 Annexe 4
the supply chain. Standards, industry representatives indicated are not necessarily the key determinant with regards to pricing.

In the area of R & D, the impact on industry’s budget on its tier pricing strategy was noted as minimal.

Transparency was acknowledged as the key issue over which closer dialogue and communication was needed. Competition resulting from application of low pricing strategies was cited as a major obstacle.

**Procurement and the Green Agenda**

The European Green Public Procurement (GPP) process advocates the procurement of goods, services and works with reduced environmental impact for their full life cycle.

The objectives of the GPP are to:
- Create or enlarge markets for environmentally friendly products and services
- Provide incentives for companies to develop environmental technologies

In parallel to GPP is the Sustainable Public Procurement (SPP) initiative, the aim of which is to spread sustainable procurement practices and achieve the appropriate balance between the 3 pillars of sustainable development – economic, social and environmental – in procurement of goods services and works.

The major barriers to implementation of environmental criteria in procurement include:
- Lack of political support at government level. There exists either limited awareness of the importance of the GPP agenda or where it exists, the purchasing staff are ignorant of this fact.
- Green products are perceived to be more expensive, especially in circumstances where in selling the purchase price and not the full life cycle cost or Total Cost of Ownership (TCO) of the product or service.

The GPOs in their response to the GPP agenda, seek to achieve 5 objectives:
- Reduce TCO
- Improve the quality of products
- Improve the sustainability of the products
- Reduce waste consumption in hospitals
- Support industrial development of Small and Medium-sized Enterprises (SMEs)

In light of these objectives, the suppliers were challenged to look at ways in which they could be engaged to provide good and transparent TCO information (cost breakdown, research, raw material, logistics, maintenance …). Another challenge concerned industry’s perception on the likely impact of sustainable development with stronger GPO involvement in the supply chain, as well as their expectations of GPOs on matters of sustainable development. Lastly, the call was for the creation of an appropriate mechanism for dialogue between industry and procurers.

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8 Annex 5
There was consensus on the fact that the green agenda and development of sustainable products goes well beyond the healthcare sector. However, within this sector, there was perhaps need to further educate the end-users and healthcare providers and even consider moving from a position of optional to compulsory acceptance of the GPP programme. The absence of government regulations further serves to mitigate pursuit and sustenance of the agenda.

**Group Purchasing: Corporate Sector Position and Challenges**

**GE Healthcare Performance Solutions – Position and Challenges**

*Beyond Mass Technology Procurement*

Jean Francois Penicolli reported that the current trend among suppliers is one of transition from mass technological procurement approach to one of service, technology and consultancy. The GE Healthcare response is the Asset Management Shared Services System, which involves expansion from piece-meal procurement approaches to all-encompassing service provision programmes. The advantages of such programmes include:

- Increase in performance with upstream and downstream interactions
- Cost management
- Tracking of assets
- Track, management and communication of asset information
- Regulation compliance
- Sustainable procurement
- Innovation and best practices

For the GPOs, the challenge will necessitate adjustments especially in crucial areas such as procurement contracts, models and types.

**Johnson Controls - Position and Challenges**

*Deployment of Energy Performance Contracting as a way to invest in energy efficiency in hospitals*

The Energy Performance Contract (EPC) is a contractual arrangement between a beneficiary (hospital) and an energy services company (ESCO). By this arrangement, the beneficiary is able to improve its demand-side energy efficiency. The scheme is completely self-funding and improvements are immediate in that:

- Buildings are upgraded with modern, reliable energy efficient equipment
- Comfort conditions are improved for occupants
- There is carbon reduction

The major barrier to the use of EPC concerned the difficulties in measuring outcomes. GPOs were challenged to determine the applicability and relevance of the EPC model to the procurement process.

**Trane Ingersoll Rand – Position and Challenges**

*Compliance with Group Purchasing Contracts*

The US supply chain perspective and challenge to GPOs was presented by Laura Rygeilski Preston. The challenge to GPOs concerned their ability to enforce compliance.
In the US pressures to remain competitive drove hospitals in the 1990s into GPO relationships. Favorable contract terms rather than geographical considerations determined the hospitals’ choice of GPO. Today, pressures to cut costs have led to an increase in the role of GPOs. In addition, the trend amongst GPOs is the search for alternative ways to expand activities particularly in areas of non-contracting services and private labeling.

GPO – Provider relationships are in general ‘free’ and as a consequence, compliance is limited. The use of GPO contracts by hospitals tends to be piece-meal in fashion.

The primary reasons for the choice of GPO contracts by suppliers are as follows:
- Accepted mechanisms for doing business in healthcare
- Vehicles that differentiate suppliers from competitors - allowing the choice supplier to become a part of the owner’s healthcare team
- Mechanisms allowing expansion of suppliers’ footprints and access into all levels of the healthcare organization
- Vehicles that reduce cost of sales for suppliers
- Means of gaining access to healthcare executives, new customers and protection of existing customers

Time constraints prevent full debate of the questions raised. However, an e-discussion platform will be set up on the IHF website to this end.

**GS1 Healthcare and GS1 (France) - Position and Challenges**

**Innovations in Traceability, Codification: Cost Implications**

GS1 Healthcare addressed the variety of critical roles well-designed supply chain standards play in enhancing and ensuring patient safety and supply chain efficiencies, which today are the two main concerns in healthcare supply chain.

The global, multi-sector, user-generated GS1 System of Standards:
- Reduce complexity between and within organisations.
- Ensure cost containment through standardised supply chain data without impacting quality of care
- Facilitate collaboration between trading partners in the supply chain, making it quicker and easier to identify items, share information (like order quantities, availability, or specific characteristics)
- Help improve patient safety and reduce medication errors.
- Enable global traceability and authentication, which eliminates infiltration of counterfeit drugs into the healthcare supply chain.
- Enable organisations to focus on the use of information rather than on gathering of information.
- Reduce complexity and establish interoperability across the entire supply chain.

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12 Annex 9
13 [http://www.youtube.com/user/GS1Healthcare#p/u/3/FNWAp6Ww7SE](http://www.youtube.com/user/GS1Healthcare#p/u/3/FNWAp6Ww7SE)
A best practice GS1 standards programme is the traceability platform project, recently set up by the university hospital CHU Dijon in France\(^\text{14}\).

The primary limitation is attributed to the failure by the wider hospital community, local global healthcare user groups in adopting the Standards.

As facilitator of voluntary user healthcare groups GS1 acts as a platform of exchange for the development and implementation of global standards for healthcare. For this reason, they responded positively to the opportunity to engage bilaterally and collectively in dialogue and action.

**IHF-GPO-Industry Platform for Dialogue Exchange: Perspectives and Next Steps**

The consensus among all stakeholders was that the Group Purchasing Chapter initiative and its objectives were timely, appropriate and relevant. In order to consolidate the initiative it was agreed that an international forum that brings together GPOs, industry and hospitals/healthcare decision makers, should be created.

The following action plan was drawn up:

1. Preparation and circulation for review of a summary report by all participants
2. Creation of 2 Working Groups
   - **Education**: A learning platform for GPOs and the corporate sector on which to engage in discussions and dialogue
   - **Innovation**: Discussion and dialogue platform to involve GPOs in the innovation process
3. Set up of an e-discussion platform on the IHF website

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\(^{14}\) [http://www.youtube.com/user/GS1Healthcare#p/u/4/7HGA_YB4n_R](http://www.youtube.com/user/GS1Healthcare#p/u/4/7HGA_YB4n_R)
**Annex 1**

**GROUP PURCHASING CHAPTER**  
**DIALOGUE EXCHANGE MEETING**  
**6 JULY 2011, PARIS, FRANCE**  
**PROGRAMME**

**Meeting address**: Secretariat - French Hospital Federation (Federation Hospitalière de France)  
1 bis rue Cabanis 75014 Paris – Salle P Raynaud - Tel : +33 (0)1 44 06 84 42

<table>
<thead>
<tr>
<th>Time</th>
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<tr>
<td>8:00 – 8:30</td>
<td>Registration / Coffee</td>
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| 8:30 – 8:45 | **Introductions:**  
Discussion Leaders: Eric de Roodenbeke, CEO, International Hospital Federation and Mr. Gerard Vincent, Director General, French Hospital Federation and IHF Immediate Past President |
| 8:45 – 9:45 | **Session 1:** Innovation and Group Purchasing Procurement  
Discussion Leader: Dominique Legouge, Director of GIP Resah-Idf |
| 9:45 – 10:00 | Break                                                                |
| 10:00 – 11:00 | **Session 2:** Globalisation and Tier Pricing  
Discussion Leader: Alyson Brett, Chief Executive, NHS South East Coast Collaborative Procurement Hub |
| 11:00 – 11:30 | **Session 3:** Compliance with Group Purchasing Contracts  
Discussion Leader: Laura Rygielski Preston, FACHE, Vice President, Global Healthcare Practice, Trane Commercial Systems, Ingersoll Rand Security Technologies |
| 11:30 – 12:30 | Lunch                                                                |
| 12:30 – 13:30 | **Session 4:** Procurement and the Green Agenda  
Discussion Leader: Sandra Zuzzi, ULSS (Italy) |
| 13:30 – 14:00 | **Session 5:** Beyond mass technology procurement  
Discussion Leader: Jean- François Penciolelli Managing Principal GE Healthcare Performance Solutions Performance - France |
| 14:00 – 14:30 | **Session 6:** Deployment of Energy Performance Contracting as a way to invest in energy efficiency in hospitals  
Discussion Leader: Agostina Renna, Vice President & General Manager, Energy Solutions, Johnson Controls Inc. |
| 14:30 – 15:00 | **Session 7:** Innovations in Traceability, codification: Cost implications  
Discussion Leader: Valerie Marchand Healthcare Senior Manager, GS1 (France) |
| 15:00 – 15:15 | Break                                                                |
| 15:15 – 15:50 | **Session 8:** Group Discussion  
Discussion Leader: Jean-Michel Descoutures, Chef de Service (Pharmacy) Centre Hospitalier Victor Dupouy (Argenteuil) |
| 15:50 – 16:00 | **Closing Remarks**  
Discussion Leaders: Eric de Roodenbeke, CEO, International Hospital Federation  
Dominique Legouge, Director of GIP Resah-Idf |
| 16:00 | **Meeting End** |
## Annex 2

**PARTICIPANTS LIST**

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Annex 3

Innovation in Health Procurement

Types of innovation Procurement

- Two types:
  - PI (Procurement of Innovation)
  - PCP (Pre-commercial procurement)

- Actors:
  - Suppliers
  - GPOs
  - Academies
  - End users
  - Conflicts of interest?

Key success factors of innovation

- Identification of innovation offers. In particular: SMART criteria or benefit collecting and recording tools
- Evaluation of the innovation impact on the hospital performance and efficiency
- Spread of innovation within the hospitals (taking into account the industry capacity of supply)
- Supplier support during the implementation of performance improvement, payment terms, aspects

Group purchasing chapter’s joint position / challenges

- How to identify and evaluate the added value of innovative products and services?
- How to involve GPOs in the R & D relationship between suppliers and end-users (physicians, nurses, ...)?
- What kind of advantages / obstacles do GPOs present to dissemination of innovation?
- Do you have a best practice you would like to share with us?
- Proposed mechanisms for ongoing dialogue and development of best practices (sharing of IPR, ...?)
Annex 4

Globalisation and Tier pricing

IHF Discussion
Date 6th July 2011
Discussion Lead: Ayse Drett CEO NHS Commercial Solutions

Tier Pricing Defined

- There are a number of approaches:
  - Volume commitments and differential pricing
  - Pricing what the market can bear and social responsibility e.g. vaccines to the developing world, complex pharmaceutical market structures
  - What is the level of competition in the market?
  - Pricing what the market can bear commercially and task of transparency e.g. US experience
  - Global comparisons-benchmarking project

Agenda

Discussion points:
- Some issues to consider
- What do we mean by tiered pricing?
- Current position in healthcare markets
- Where is it justified?
- What are the ethical issues?
- Commercial Perspectives
- Our role as members of the IHF, and understanding what the opportunities are and/or we can influence the international healthcare market

Group purchasing chapter’s joint position / challenges

- GPOs wish to obtain clarifications on:
  - Do you operate tier pricing?
  - If yes, under which rationale?
  - What is the impact of national regulation & constraints on pricing?
  - What is the major obstacle to have a transparent cost breakdown?
  - How much does your R & D budget impact your tier pricing strategy?
  - How much does your marketing budget impact your tier pricing?
Annex 5

**GREEN PROCUREMENT AND THE AGENDA 21**

Sandra Zuzzi - A.T.E. Associazione Triveneta Economia e Proveditori - Asiago, Italy
IHF Meeting - Paris 5-6 July 2008

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**OBJECTIVES OF GPP**

- Create or Enlarge Markets for Environmentally Friendly Products and Services.
- Provide Incentives for Companies to Develop Environmental Technologies.

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**SUSTAINABLE PUBLIC PROCUREMENT**

- GPP try to achieve the appropriate balance between the 3 pillars of sustainable development: economic, social, environmental, when procuring goods, services and works.
- GPP try to achieve the lowest environmental impact when procuring goods, services and works.

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**BARRIERS TO THE TAKE-UP OF GPP**

- EU Commission survey on “Green procurement in Europe 2008” identified the following barriers to the use of environmental criteria in procurement:
  - Lack of political support: senior officials in the public sector across Europe do not have a high awareness of the importance of GPP agenda or their awareness is not made explicit to their purchasing staff.

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**GPP EUROPEAN COMMON CRITERIA**

- Results of applying environmental criteria:
  - Higher initial purchasing costs:
  - Lower overall costs due to lower operating, maintenance or disposal costs (Collection of statistical information on GPP in the EU – 2008)

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**GPP EUROPEAN COMMON CRITERIA**

- Food and catering services
- Textiles
- Gardening products and services

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Group Purchasing Chapter: IHF-GPO-Industry Exchange Meeting
Annex 5

GPP TOPICS FOR HEALTH CARE INSTITUTIONS

WASTE MANAGEMENT (steps)
- Segregation: separating different types of waste at the point of generation;
- Source reduction: minimizing the generation of waste at the source;
- Recovery and recycling: implementing programs for recovery and reuse of materials from a waste stream.
- Responsible waste treatment: restricting the amount of wastes undergoing incineration

TOXIC MATERIALS
Health care institutions regularly use a surprising number of highly toxic materials that affect patient, hospital staff and hospital visitors, found in:
- Cleaners and disinfectants
- Electronic equipment
- Flame retardants
- Mercury containing medical devices and wastes
- PVC containing medical devices

Group purchasing chapter’s joint position / challenges
GPOs want to achieve 5 objectives:
- Reduce TCO (Total Cost of Ownership)
- Improve the quality of the products
- Improve the sustainability of the products
- Reduce waste consumption in the hospitals
- Support industrial developments e.g. among SMEs

How can suppliers better provide a good / transparent TCO information? e.g. on cost breakdown (research, raw material, administration, maintenance, overheads, logistics, recycling...)
How much research are suppliers able to undergo?
How do suppliers define sustainability? Which indicators do they use?

Would a stronger involvement in the supply chain (e-procurement, logistic platform, consolidation of delivery...) impact the sustainable development?
What are the expectations of the suppliers towards the GPOs in the matter of sustainable development?
Which dialogue to set up between suppliers and procurers?
Beyond Mass Technology Procurement

July 8th, 2011
Jean-François Penciolelli
GE Healthcare Performance Solutions

What Uni-H.A buys

Uni-H.A.: National support for Microsoft
- National permanent and dedicated support:
  - Microsoft Services Center with Premium Support resources « support Premier »
  - Dedicated Technical Account Managers with highest level escalation
- Services on demand à la carte:
  - Catalog of predefined services
  - Checkup workshop, HC specific developments
- Governance
  - National steering committee and working groups
  - Use of services in a « sharing spirit » mode: what has been for one could be re-use by others

Uni-H.A.: Oracle and Microsoft mass procurement cases
- Oracle: Unlimited Licence Agreement – 4 years – 54 hospitals
- Microsoft: all software suite – 170,000 users – 4 years - 230 hospitals
- Beyond mass procurement > National support and services on demand
- National support dedicated to healthcare with a specific CRM and CaseManagement

Uni-H.A.: next steps

Hospital Performance
1. Lower prices with mass technology procurement
2. Increase hospital performance with upstream and downstream interactions
   - Quality of care
   - Access to care
   - Cost Management
3. Create stronger relationship with suppliers influencing their R&D and make their products better
Annex 6

Can we do the same with other type of product, good or services?

- Hospital performance is about:
  - Quality and Safety of Care
  - 24 hours/7 days
  - Access to care
  - Better work conditions
  - Innovation and best practices
  - Sustainable procurement policy

What is an Asset?

Biomedial
- Infusion Pumps
- ECG Equipment
- Pulse Oximeters
- Feeding Pumps
- Vents
- IV Poles
- Physiological Monitors
- Nebulisers
- Patient Monitors
- Defibrillators
- Ultrasound units
- Central Monitors
- Pulse Monitors
- Blood Warmers
- Suction Pumps

Easyday
- Wheelchairs & Stretchers
- HVAC Systems
- Gatekeepers
- Emergency Gates
- Beds
- Escalators
- Furniture
- Floors
- Car park and
  facilities
- Fire extinguishers
- Buildings
- Lights
- Radios

IT
- Desktops
- Servers
- Laptops
- Virtual
- Network
- Hospital/ecom costs

More questions...

Asset Management

Now........ just a few simple questions
? How many assets do you have?
? Do you know where they are?
? How much do you invest in asset replacement?
? What is the cost of maintaining your equipment?
? How do you measure equipment compliance?

The tracking of assets..........
- from acquisition to disposal

The benefits..............
- Cost reduction
- Increased availability
- Increased utilisation
- Increased reliability
- Regulation compliance
- Track, manage and communication of asset information

Group Purchasing Chapter: IHF-GPO-Industry Exchange Meeting
Annex 6

Expected Benefits

| Area of Benefit          | % Improvement | Why hospitals invest?
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve cost control</td>
<td>35%</td>
<td>Reduce total costs</td>
</tr>
<tr>
<td>Improve maintenance</td>
<td>31%</td>
<td>Reduce total costs</td>
</tr>
<tr>
<td>Improve maintenance</td>
<td>29%</td>
<td>Reduce total costs</td>
</tr>
<tr>
<td>scheduling</td>
<td>14%</td>
<td>Reduce total costs</td>
</tr>
<tr>
<td>Improve equipment</td>
<td>10%</td>
<td>Reduce total costs</td>
</tr>
<tr>
<td>reliability</td>
<td>10%</td>
<td>Reduce total costs</td>
</tr>
<tr>
<td>Increase availability</td>
<td>10%</td>
<td>Reduce total costs</td>
</tr>
<tr>
<td>Reduce material cost</td>
<td>10%</td>
<td>Reduce total costs</td>
</tr>
<tr>
<td>Reduce labor cost</td>
<td>6%</td>
<td>Reduce total costs</td>
</tr>
</tbody>
</table>

Strong rationale for cost control

Asset Management Architecture

Customer Processes
- Patient Management
- Pharmacy Management
- Equipment Management
- Financial Management
- Human Resources
- Clinical Staff Management
- Supply Chain Management
- Activity Planning
- Operations/Performance

Hospital Systems
- Asset Management System
- Asset Tracking System

Managed Assets
- IT
- Facilities
- Imaging
- Biomedical
- Transport

Asset Management Shared Services

Objectives / benefits
- Centralized booking
- Reduced administration
- Centralized asset tracking
- Improved visibility
- Enhanced availability
- Improved utilization

Typical KPIs
- Availability
- Utilization
- Cost savings
- Turnaround time
- Customer satisfaction

Questions?

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1. Lower prices with mass technology procurement
2. Innomate hospital performance with upstream and downstream interactions
   - Quality of care
   - Access to care
3. Cost Management
4. Create stronger relationship with suppliers influencing their R&D and
make their products better
Annex 7

Deployment of Energy Performance Contracting as a way to invest in energy efficiency in hospitals

FACT: Buildings consume 35% of the world’s energy and account for 40% of its GHG emissions

Easy to say but how to guarantee savings? How to finance?

...EPC is a proven model using simple existing technologies

A word about Johnson Controls

- Founded in 1854 & inventor of the electric thermostat
- Today a $34+ billion company with 100,000 employees worldwide
- Presence in all European countries with over 40,000 people
- One third of the activity is making buildings efficient
- Leading Energy Service Company (ESCO)
- Largest provider of energy solutions for buildings

COMMON EXPERIENCE: Energy use in buildings could be reduced by 20% resulting in up to a 30% reduction in related CO2 emission.

What is an Energy Performance Contract (EPC)?

A contractual arrangement between a beneficiary and an energy services company (ESCO) that allows the beneficiary to improve the demand-side energy efficiency of their facilities with a guarantee of results

Using wasted energy to fund risk free carbon and energy reduction
Annex 7

Energy Performance Contracting enables you to...
- Upgrade your buildings with modern, energy efficient equipment, with no impact on current operational budgets
- Reduce building energy consumption typically by over 20% without additional investment
- Meet your carbon emissions targets at no additional cost
- Make major improvements without the need for upfront capital

The EPC programme money is already in your budget, currently paying for wasted energy.

Why use Energy Performance Contracting?
- Can be completely self-funding
- Transfers financial and equipment performance risk to the ESCO – if the savings target isn’t met, the ESCO pays the difference. It’s guaranteed!
- Immediate improvements are made
- Building upgrades are modern, repair energy-efficient equipment
- Contactors are involved for ongoing maintenance
- Proven process with hundreds of references

EPC – How the funding works

<table>
<thead>
<tr>
<th>Current</th>
<th>During EPC Programme</th>
<th>After EPC Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy and Service Costs</td>
<td>Energy savings fund the improvement programme</td>
<td>Energy and O&amp;M Costs</td>
</tr>
<tr>
<td>Yearly cost savings</td>
<td>Yearly cost savings</td>
<td>Yearly cost savings</td>
</tr>
</tbody>
</table>

Energy Performance Contracting examples with hospitals
- Wadhurst Hospital, Kent, UK: Energy savings to be used to fund investment
- Southend Hospital, Essex, UK: Energy savings to fund maintenance
- Hospital St. Thomas, London, UK: Energy savings to fund equipment upgrades

Open debate
- Question on EPC?
- Experience to share on EPC?
- Can EPC model apply in your procurement process?
- What barrier do you see in your organization to use EPC?

Thank You
History of GPOs

- 1910s: Consolidation of purchases provided better pricing levels
- 1920s: Primarily in same geography
- 1930s: Private, non-profit hospital associations formed which pulled more hospitals together
- 1940s: Increased consolidation
- 1950s: GPOs began offering better contracts if associations market those contracts to their members
- 1960s: Pressures to remain competitive prompted more hospitals into GPO relationships
- 1970s: Geography less important as hospitals seek best contract, regardless of GPO’s proximity
- By 2000, virtually all U.S. hospitals are GPO members

GPO Attributes

- GPOs tend to be...
  - Not for profit or for profit (majority are non-profit and largest trend is for profit)
  - Voluntary or Shareholder-Owned
  - A GPO can have both voluntary and shareholder member types
- Voluntary
  - Pay nominal fees to join and are ongoing annual fees
  - Use GPO contracts as price guides
  - Usually more open to establishing separate contracts with suppliers
- Shareholder-Owned
  - Cost of membership based on size of hospital or IDN
  - Members are fully invested, owning shares or paying more significant dues than voluntary members
  - Members may be actively involved with GPO’s management
  - Shareholder members have higher contract compliance

Ranking by MDSI

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Nation</td>
<td>$55.0 billion</td>
<td>$58.0 billion</td>
<td>2,490</td>
<td>2,530</td>
</tr>
<tr>
<td>Premier</td>
<td>$52.0 billion</td>
<td>$53.0 billion</td>
<td>2,100</td>
<td>2,200</td>
</tr>
<tr>
<td>NashAsso</td>
<td>$10.0 billion</td>
<td>$20.0 billion</td>
<td>1,510</td>
<td>1,500</td>
</tr>
<tr>
<td>HealthTrust</td>
<td>$14.0 billion</td>
<td>$14.0 billion</td>
<td>1,420</td>
<td>1,370</td>
</tr>
<tr>
<td>Broadline</td>
<td>$10.0 billion</td>
<td>$10.0 billion</td>
<td>1,175</td>
<td>1,130</td>
</tr>
<tr>
<td>Amerlat</td>
<td>$6.6 billion</td>
<td>$7.0 billion</td>
<td>2,980</td>
<td>2,800</td>
</tr>
</tbody>
</table>

All numbers from GPO source, aggregated in ThinkKAT, 2010, AUS, Atlanta, GA

Benefits of GPOs
- Pooling of buying power improves negotiating leverage
- Analytical tools help better understand markets, costs, and savings
- Training and education provided by the GPO
- Continuous improvement in GPO practices
- Risk management for M&O products/services

GPO Trends

- GPOs looking at other areas to grow their business
  - Private labeling
  - Additional supply categories and special focus catalogs
- IT Support and Other Services (Housing)
  - Represent 40% of hospital purchases
  - Usually purchased independently of GPO contract
  - GPOs struggle to aggregate volume
- Capital equipment
  - Little leased Territory
  - Service line Growth Strategy
  - GPOs struggle to aggregate volume
- Private Labeling
  - Account and innovation are the only players
  - Opportunity for smaller manufacturers with innovative products
Annex 8

GPOs Ability to Enforce Compliance

- Not-for-Profit
  - Don’t own or manage their members
  - Shareholder may own the GPO (and therefore be more compliant)
  - Voluntary Members use GPO contracts piece-meal (and therefore be less compliant)
  - Know which relationship predominates
  - Most hospitals and DI’s feel GPOs are valuable and help them achieve demonstrable cost savings
- Investor-Owned
  - Are owned and managed by their Equity Members
  - Can drive Compliance, particularly with Equity Owners

Why Suppliers Invest in GPOs?

- This is how our Healthcare Customers Do Business
  - Accepted mechanism for doing business in Healthcare
- Vehicle that differentiates supplier from competitors
  - Exclusion of many competitors
  - Allows chosen supplier to become part of owner’s healthcare team
- Process that allows field organization to change
  - Expand company’s footprint and allows healthcare team to pull rest of the company into all levels of healthcare organization
  - Allows company to drive more value than their competitors

Reduced cost of sales for supplier

Why Suppliers Invest in GPOs?

- Access to Healthcare Decisional
  - Executives compensation can be tied to GPO compliance
  - Share back dividends to executive office, often source for his discretionary funds
- Access to new customers and protection of existing customers
  - GPOs actively market to their members
  - To not lose contracts “could” 1) eliminate and discourage company from being an qualified bidder, 2) providers existing customers an opportunity to evaluate contracted suppliers, 3) allow negative/company selling by GPOs
  - GPOs are expanding their portfolio and resources to focus on facilities and construction (untapped area for growth)
- Third party endorsement
  - GPOs competitively bid their contracts and give their own “good housekeeping seal of approval”

Questions for Discussion

- What are the best examples of a GPO driving compliance that you have seen?
- What has been the primary strategy for contracting with suppliers? Single, Dual or Multi Source Contracts
- How do the GPOs manage balancing Physician Preference Items/Department Preference Items?
- As a supplier, what are the attributes of a GPO are you want to contract with?
- How do you prove the value of contracting with your GPO?
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