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## RIVALS QUESTION AD AGENCY'S TIES TO CATAWBA HOSPITAL

*CAROL D. LEONNIG, Catawba Valley Bureau*

Local advertising agencies are angry about the relationship between Catawba Memorial Hospital and a new advertising agency hospital directors created.

They argue that the county-owned hospital strayed from its health-care mission when it created Advertising Associates Inc. (AAI). The hospital turned its public relations department into the private agency in December 1989.

At issue is whether the hospital is using its nonprofit status and deep coffers to build the agency into a profit-generator. The county code prohibits the hospital from spending its dollars on anything but hospital operations.

Top hospital officials and AAI's creative director said AAI is financially independent. Hiring the agency to do promotions simply saves Catawba Memorial money, Hospital President David Rice said.

Three of AAI's four corporate directors are top hospital brass: Rice, trustee Ron Williams and fund-raising director Grady Stokes.

The sole shareholder of AAI stock is the hospital's fund-raising arm, Catawba Medical Foundation.

Local advertising leaders suspect the corporate ties mirror financial ones. They said they believe the hospital is subsidizing the agency, based in a rented Hickory office on 2nd Avenue S.W., with hopes of building a money-maker. Local ad firms, they said, are being unfairly forced to compete with a deep-pocketed hospital.

``Where does the hospital begin and where does Advertising Associates end?`` asked Dan Hovland, partner in The Edge, a Hickory agency. ``And what happened to the focus on medical care?``

Hospital industry observers said the last 10 years have seen many public hospitals open businesses, such as laundries, to offset the money-losing parts of their operation.

Anne Dellinger, a lawyer specializing in hospital law at UNC-Chapel Hill's Institute of Government, said the hospitals often cite tax savings as a goal. ``And yet there are real questions as to whether the N.C. Constitution and statutes permit public hospitals to compete in the same ways the private hospitals can,`` Dellinger said.

Two weeks ago, Wille Thompson, creative director at the Shepler/Coda agency, urged David Stewart, the county commissioner overseeing the hospital, to investigate.

``I would be aghast if patients' fees were being used to support a business that has nothing to do with improving my medical care,`` he said.

AAI creative director Dale Brill called the speculation unfair.

``It's like I'm responding to something I shouldn't have to respond to because it's so ridiculous,`` Brill said.

Brill said AAI took out a loan from Southern National Bank to open, but he would not specify the amount. He also declined to give AAI's yearly billings and advertising rates.

``I'm sure they'd love to know how I do it,`` Brill said of his competitors. He said the firm cuts costs with computers and with a billing system based on work done instead of who did the work.

The hospital, which accounts for a third of AAI's business, plans to pay the agency \$787,000 for fiscal 1990-91, the county budget shows. That's about 1 percent of the hospital's \$80 million budget, and includes services ranging from marketing research to promotional material.

Much of the controversy surrounds HealthFirst, a magazine produced by AAI promoting Catawba Memorial. The magazine, which comes out six times a year, carries articles, health tips, community notes and ads.

The hospital pays AAI about \$40,000 to produce each issue and sell space for ads, said David Boone, hospital finance director. The hospital gets the proceeds from the sold ad space, which Boone estimated at \$10,000 an issue.

HealthFirst carries the hospital's nonprofit mailing stamp, which can cut mailing costs by two-thirds. Since a private agency is selling ad space to businesses, local ad firms asked, why does the magazine get nonprofit discounts?

Ernie Warren, Hovland's partner at The Edge, said he wants a level field of competition.

``It seems rather unfair for a large nonprofit to start a business and then flip it out into the profit-making stream,`` Warren said. ``Why don't they go up and open a dry cleaner's and a real estate company?``



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