Testimony of

Mr. Richard A. Norling

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Introduction

Good afternoon, Chairman Kohl, Senator DeWine and members of the Subcommittee. My name is Richard Norling and I am Chairman and CEO of Premier, Inc. I am pleased to have the opportunity to appear before you today to discuss Premier and the role that Premier and other Group Purchasing Organizations (GPOs) play in the delivery of quality healthcare to millions of patients across America.

Throughout my career I have been involved with organizations devoted to the provision of high-quality, cost-effective healthcare. Before joining Premier in 1997 as COO, I served as President and CEO of Fairview Hospital and Healthcare Services, a not-for-profit integrated system of hospitals, clinics and service sites headquartered in Minneapolis and serving the people of Minnesota. Previously, I served as Executive Vice President and COO of UniHealth, a not-for-profit system of hospitals and healthcare systems headquartered in Burbank, California. I currently serve as Vice Chairman and a Director of the Institute for Healthcare Improvement, and recently served as President of the Board of Directors of the Malcolm Baldrige National Quality Award Foundation.

I am submitting this testimony today with my colleague Howard Sanders, Senior Vice President of Group Purchasing Services for Premier. Mr. Sanders is the executive responsible for Premier's group contracting, which in 2001 generated $14 billion in purchasing volume. Before joining Premier he was President of Becton Dickinson Healthcare Systems, where he oversaw sales, marketing, global supply chain, e-business, and large account management for all U.S. operations. Before joining Becton Dickinson Mr. Sanders spent 24 years with Johnson & Johnson.

Among the nation's leading GPOs, Premier has a unique profile. We are owned and governed by 204 not-for-profit hospitals and healthcare systems. In total, our members include approximately 1,600 of the nation's leading hospitals and healthcare systems, located in all 50 states, serving approximately 130 million patients every year. Our members are the hospitals run by community and charitable organizations, religious groups, universities and foundations in communities across America. They include many of the most renowned academic medical centers in the world, multi-hospital healthcare systems that operate acute care facilities in major urban and suburban areas, and community hospitals that bring high quality care to small towns and rural areas across America.

Premier's mission is to help our not-for-profit member hospitals deliver better healthcare to their patients at lower cost. An important part of our services is negotiating with medical product suppliers, pharmaceutical companies and suppliers of commodities products to enable our members to obtain more favorable prices and terms and reduce their overhead and administrative costs. However, Premier is not a "middleman" for hospital purchasing: we are a performance improvement organization, organized and governed by hospitals to improve patient care, to put superior technologies to work, and to protect the health and safety of both patients and healthcare workers, in addition to the work we do to help them hold down the costs of providing quality

care.
Premier has a strong track record in helping our members to identify clinical best practices and we take great pride in our commitment to the innovation that is essential to advances in patient care. We work closely with our member hospitals to identify and evaluate promising new technologies and techniques - offered by a wide variety of suppliers, big and small - and to speed into clinical use those that are found to be safe, effective and advanced in contributing to patient outcomes.
We conduct our group purchasing activities responsibly and with transparency to achieve the goals of our not-for-profit hospital and health system members. Our practices are in full compliance with the legal framework established by Congress and regulations promulgated by the Department of Health and Human Services, the Department of Justice and others. As recently as 1999, the Department of Justice examined our activities and determined that no action was necessary, and closed the investigation in 2000. Looking to the future, we remain committed to a process of constant improvement in our organization and our performance on behalf of the nation's healthcare system.
In my testimony today I'd like to outline briefly the tough challenges that the nation's healthcare institutions have faced over the past decade and that they are facing today, along with the solid achievements of Premier and other GPOs in helping to manage those challenges successfully.
I also want to familiarize you with the reality of how we at Premier work, day in, day out, to help our member hospitals hold down costs, improve clinical performance, and put new and innovative medical technologies and techniques to work.
Finally, I'll address some of the issues that a small but persistent group of critics have raised about Premier and GPOs generally. I intend to give you the facts about our goals, operations and results in areas where media criticism has been inaccurate and unfair, and where, I believe, the facts belie our critics.

Premier's Founding and Purposes
Hospital group purchasing dates back to 1909, when the Hospital Superintendents of New York first considered establishing a purchasing agent for laundry services. The following year, the Hospital Bureau of New York created the first GPO. By 1962, ten local or regional group purchasing organizations had been established. Medicare and Medicaid stimulated growth in the number of GPOs to 40 in 1974, and the number tripled between 1974 and 1977. Institution of the Medicare prospective payment system in 1983 spurred the formation of dozens of new GPOs to help health facilities meet the additional need for cost containment.
At the same time, rapid and massive consolidation in the global medical products and pharmaceutical industries concentrated market power with fewer and fewer suppliers to a healthcare system made up of thousands of small purchasers. The result was a financial squeeze on hospitals, which had to find new ways to manage costs while continuing to improve care. Not-for-profit and smaller hospitals, which faced growing competition from large, for-profit hospital chains and had far less ability as buyers to command affordable access to supplies crucial to patient care, were hit hardest. As you know, responding to this critical situation in 1986, Congress explicitly recognized the value of group purchasing to the nation's healthcare system by creating a statutory exemption in the Federal Antikickback Law for certain GPO arrangements. Specifically, Congress permitted the payment of administrative fees to GPOs by vendors so long as the GPO has a written contract with each member that identifies those fees and disclosure of the actual payments is made to each member. In 1991, the Department of

Health and Human Services, at the direction of Congress and in consultation with the Department of Justice, promulgated regulations embodying GPOs' special status. Additionally, the Department of Justice and Federal Trade Commission Statements of Antitrust Enforcement Policy in Health Care establish an antitrust safety zone for joint purchasing arrangements into which Premier clearly fits.

By late 1995, when American Healthcare Systems, SunHealth Alliance and the Premier Healthcare Alliance came together to form Premier, Inc., both the size of America's healthcare system and its cost were growing at twice the overall rate of inflation. As our record shows, the three-way merger clearly proved very beneficial to our member hospitals and patients. Initially, we inherited some practices that have become the subject of criticism. For example, we had a few contract administrative fees in excess of 3% and, in a small number of cases, we received equity in lieu of administrative fees. These early practices, during a period of transition, were a brief legacy from our predecessor organizations that we discontinued.

Today, there are numerous GPOs in the U.S. that negotiate contracts for their members as Premier does. Although hospitals are free to manage their supply chains however they choose, the overwhelming majority participate in some form of group purchasing - using, on average, at least two and as many as four GPOs per facility. Importantly, the number and variety of GPOs means that hospitals can choose whether to participate in a GPO and if so, which GPOs to take part in.

At Premier, product selections are made by committees comprised of clinical, technical and procurement professionals. These committees, which I discuss in more detail below, help determine which medical supplies and equipment best meet their patient needs from a cost and quality standpoint. Once a decision is made, Premier negotiates contracts with manufacturers, distributors and suppliers to meet those needs. But Premier doesn't purchase any products. Our member hospitals do, and it is always up to the individual hospital to decide which products are most appropriate in each circumstance, and to make the right purchases for their institution.

GPOs' Proven Value

Since being formally recognized by Congress, GPOs have produced tremendous savings for our nation's healthcare system. It has been estimated that GPOs save healthcare institutions between 10 and 15 percent of their non-labor health care costs.1 Savings of this magnitude are critical to the not-for-profit hospitals that make up Premier, since many of them operate on razor-thin margins. According to the American Hospital Association, more than half the nation's hospitals today lose money on caring for Medicare patients.

Equally important to the substantial savings are the increases in the quality of care and advances in treatment made possible by GPOs through their clinical improvement initiatives. As Congress and the Department of Health and Human Services have recognized, GPOs help hospitals secure better pricing for high-quality supplies and the most up-to-date technologies they want and need. This is critical to Premier members' ability to deliver high-quality patient care in today's environment, where not-for-profit and community hospitals have far less ability as buyers than the for-profit chains to command affordable access to crucial patient care supplies.

From supply chain to care site, and at all junctures in between, Premier hospitals strive to deploy the newest, safest, and highest-quality pharmaceutical and technological innovations. In addition, previously unimaginable innovations are emerging in healthcare all the time, many with the potential to significantly improve both the care hospitals give patients and the ways they administer it. As I will discuss shortly, Premier and our member hospitals - as well as other

GPOs and the hospitals they serve - seek out these innovations every day.

This is an outstanding record for GPOs, but that doesn't mean this is a time to rest. The health care system and hospitals in particular continue to face significant challenges. Cuts in Medicare provider payments ushered in by the Balanced Budget Act of 1997 and the continuing and sometimes extreme fiscal pressures in the Medicaid and private payer markets have further tightened reimbursement. An industry-wide labor shortage has forced many hospitals to undertake numerous, expensive recruitment and retention strategies such as salary increases, scholarships and signing bonuses. New federal mandates, such as confidentiality and data transaction standards promulgated pursuant to the Health Insurance Portability and Accountability Act of 1996, add to hospitals' administrative and regulatory burdens. Additionally, more than 39 million Americans lack any health coverage at all. In 2000 alone, hospitals provided nearly $22 billion in uncompensated care.

Meanwhile, hospitals are struggling just to hold the line on burgeoning costs, which are growing at four times the rate of inflation, fueled by new and expensive pharmaceuticals, the increasing costs of technological advances in surgery and diagnostic equipment, higher utilization rates and an aging population. Healthcare expenditures are expected to more than double, to $2.8 trillion, by 2011. According to Project HOPE's Center for Health Affairs 2001 study, medical technology could account for nearly one third of projected increases in healthcare spending for the next five years, 2001-2005. As reported last week, the California Public Employees' Retirement System has said it faces an incredible 25% increase in health insurance premiums next year. The Federal Employees Health Benefit Program has seen premiums jump 13% this year, according to USA Today.

One factor that could put even greater upward pressure on healthcare costs would be repeal of the current limited GPO exemption from the anti-kickback laws. If seller-financed administrative fees were shifted to hospitals as a new cost, the impact on public and private payers would be direct and immediate. Hospitals would lose a source of relief from inflationary pressures. They would be forced either to channel resources from improvements in staff and technology to cover the added financial burden or to replicate internally the procurement capabilities of a GPO while not receiving the funds to support this change. Either way, their demand for annual increases in fixed-price payments from Medicare, Medicaid and other payers would increase. It is highly unlikely that if suppliers no longer had to pay administrative fees they would pass the benefit to hospitals in the form of lower prices. Even if part of this benefit were transferred, it would not equal the cost of recreating the purchasing function at each institution.

Today more than ever, hospitals need help in managing the costs of drugs, medical and surgical supplies, and commodities. By enabling member hospitals to combine not just their purchasing power but also their expertise and knowledge of clinical applications of products to evaluate new technologies and medical processes, Premier and other GPOs play a key role in providing that help and in delivering real improvement in health services for communities.

Premier's Important Contribution

We believe that Premier has been extraordinarily successful and that much of that success can be attributed to our total focus on our members and their needs. Unlike some GPOs, Premier is actually owned and governed by 204 not-for-profit hospitals and healthcare systems - vital contributors to the nation's healthcare system sponsored and run by respected universities, leading community and philanthropic organizations, and prominent religious denominations and orders. Nine of the 13 members of Premier's Board of Directors are representatives of our

member hospitals, three are independent directors, and only one is a member of Premier's management. Premier is able to be in touch with the needs of the hospitals we serve, because Premier was created by them and they are integral to everything Premier does on their behalf. Our members include:

Many of the most renowned academic medical centers in the world, such as the M.D. Anderson Cancer Center at the University of Texas, Houston, and Vanderbilt University Medical Center, located in Nashville, Tennessee.

Multi-hospital not-for-profit healthcare systems serving communities nationwide such as Aurora Health Care of Wisconsin, Baptist Health Systems of South Florida and PeaceHealth in the State of Washington.

Multi-hospital not-for-profit healthcare systems that provide irreplaceable care to under-served communities in major urban areas - such as Sinai Health System in Chicago, Illinois; TriHealth in Cincinnati, Ohio; and Montefiore Medical Center in New York City; and

Smaller hospitals that bring high quality care to small towns and rural areas across America - like the 121-bed, not-for-profit Haywood Regional Medical Center of Clyde, North Carolina that serves an area with nearly 285,000 residents.

In total, Premier represents approximately 1,600 acute-care hospitals, located in all 50 states. These medical facilities employ 1.3 million healthcare workers and serve approximately 130 million patients annually.

As I noted at the outset, Premier is not a "middleman" for hospital purchasing. In fact, any funds Premier has left at the end of each year, after operating costs, developing new resources for members at their request and direction, and necessary reserves are returned to our not-for-profit owner hospitals. Over the past five years, Premier has returned in excess of 80% of that net income to our not-for-profit member hospitals and health systems. In addition, over the same period, 67% of the administrative fees received by Premier through its group purchasing operation have been distributed or credited to Premier members in the form of cash payments or retained earnings.

Premier Helps Control Costs for Patients

Our role in controlling healthcare costs is critical, and we have been highly successful in these efforts. By using the overall array of Premier resources - group purchasing and more - hospitals save an estimated $1.5 billion a year that can be devoted to improving care, maintaining adequate staffing, and extending access for those with no health coverage. On average, that means Premier members achieve savings of approximately 11% annually. One of our newest members, Catholic Healthcare West, the largest Catholic healthcare system in the Western United States with 48 acute-care facilities which came to Premier from another GPO, estimates that it has been able to save an additional $22 million a year. Such dollar figures can seem very abstract unless one recognizes that every dollar saved is a dollar that Medicare, Medicaid, other third-party payers, employers or patients themselves will not have to pay for high-quality care.

These savings are achieved in two ways. First, group purchasing enables our member hospitals to deal effectively with a huge, complex medical product marketplace, characterized by large, global suppliers of pharmaceuticals, clinical equipment and other products needed to provide care. Premier also has the size and scope to identify and evaluate new technologies from manufacturers and suppliers of all sizes - a task beyond the capability of any single hospital purchasing department. By working together in GPOs, hospitals can secure better prices and terms from suppliers and save on overhead and administrative costs.

Second, Premier achieves savings by pooling not only the purchasing volumes of member hospitals, but also their collective experience and knowledge in choosing the appropriate and most effective products for their patients. In addition, through Premier, our member hospitals work together to develop other innovative ways to improve their operations, such as electronic commerce capabilities and benchmarking systems, which further saves money and improves quality for all patients and caregivers.

Premier Helps Improve Performance

Just as important as our group-purchasing activities are our efforts as a performance-improvement organization.

We encourage our member hospitals to adopt clinical best practices based on our enormous database of members' combined clinical knowledge and experience;

We are a leader in helping hospitals to take advantage of new medical technologies; and

We give a high priority to initiatives designed to protect the safety of both patients and healthcare workers.

Premier's signature Clinical Performance Initiatives (CPIs) identify best practices in particular areas of diagnosis or treatment and press to disseminate these practices among our members. Many of our Premier hospitals are leaders providing the most advanced care available anywhere in the world. For example, according to a 2001 survey by U.S. News & World Report, of the 50 best heart hospitals in the United States, 18 are Premier hospitals, including the #1-ranked hospital, Cleveland Clinic. As a result, we have unique resources to bring to CPIs: comprehensive databases of health-related information, and the combined expertise of the thousands of healthcare professionals who work for our member institutions.

Over many years, Premier and our member hospitals have built and refined databases of clinical, financial and operational metrics that capture the experience of thousands of clinicians and caregivers in hundreds of hospitals and other healthcare facilities. These are among the most comprehensive, detailed and accurate sources of healthcare experience data available. Performance comparison fueled by Web-based innovation enables us to pinpoint where improvement potential is greatest and to identify the effect of subsequent behavioral, systematic and operational change. Through Premier's CPIs, hospitals are able to put the insight and knowledge gained to work in collaborative efforts to achieve shared, sustained performance improvement. They study in-depth what the leaders in major treatment areas are doing, and then implement change concepts consistent with clinical care processes and practices.

We have chosen to focus these initiatives on improvements in treatment areas that have the potential to yield substantial benefits for hospitals and their patients, such as systems to reduce medication errors, hip and knee replacement surgery, and post-operative care for coronary bypass patients, among others. Performance improvements achieved by Premier hospitals are impressive, as these specific examples show:

Reduction of medication errors: Improvements achieved by teams at 27 Premier member hospitals in 2001 include an 80 percent reduction in Adverse Drug Events related to sedation; an 80 percent reduction in absent allergy information in patients' computer profiles; and improved completeness of chemotherapy orders from 70 percent to 90 percent.

Improving care for congestive heart failure patients: Forty-four Premier hospitals that completed our year long congestive heart failure initiative now discharge 83 percent of eligible congestive heart failure patients with medicine that helps relax blood vessels and lower blood pressure, reducing the heart's workload (an angiotension-converting enzyme inhibitor) - up from 75

percent a year earlier and compared with just 69 percent nationally.
Secondary stroke prevention: Nineteen Premier member hospitals reduced the chance of stroke recurring by increasing the number of eligible patients discharged on secondary stroke prevention medication, from 91 to 97 percent, compared with 83 percent nationally.
Looking ahead, we plan to develop similar performance improvement methodologies in other key treatment areas - where the results would have the greatest impact on the quality, safety and cost of healthcare.

Premier is a Driving Force for Innovation
Premier is also committed to be a driving force for innovation in healthcare. Our member hospitals need the most advanced technologies and techniques to deliver the most advanced care, and all of our operations are designed to meet that need. There can be no doubt that our members would go elsewhere if Premier did not satisfy this essential requirement.
This commitment to innovation is manifested in several important ways:
We deal with suppliers large and small who are leaders in product innovation, quality and safety;
Premier continuously tracks new developments in medical products of all kinds and works to identify the best products for our member hospitals;
Our contracts provide the flexibility necessary to add new, breakthrough products regardless of existing contracts; and
We operate a special program to evaluate promising new products that might not receive appropriate attention through other channels.
Premier's group contracting processes incorporate the ongoing assessment of the state of medical technologies, and new and innovative products are continually brought under contract. We have a long track record of early contracting for new, advanced devices, drugs, and equipment used in patient care. As a normal part of the contracting process, the regular cycle of Premier contracting calls for product categories to be continuously reviewed and refreshed. In preparation for developing new contracts in each product category, Premier staff and committees evaluate the state of technologies, available suppliers, and contracting alternatives based on members' needs and the marketplace environment. Qualified companies, including those that do not currently have a Premier contract and those offering technologies with advanced features, have the opportunity to submit proposals and compete for contract awards.
The contracting process is member driven. Clinicians and purchasing professionals from Premier's member hospitals play an integral role in evaluating products and product claims. Chief executive officers from among our owner hospitals work on Premier's Purchasing Policy Committee, which determines overall purchasing strategies and policies for Premier. A Strategic Advisory Committee, made up of Premier member representatives who are experts in materials and logistics, provides oversight for the contracting process as a whole, and helps to ensure that Premier stays ahead of the curve in identifying emerging solutions. Members participate in product line-specific advisory committees that review supplier capabilities, the product development pipeline and new products. The input of these committees ensures that members' interest in emerging technologies drives Premier's contracting process.
Through our Technology Assessment Program, our medical technology assessment teams keep track - literally on a daily basis - of all key developments in medical technology and seek out new technologies in which our members have expressed an interest. Premier's Technology Assessment unit provides members and all Premier business units with objective information and reporting concerning clinical technology developments.

In addition to supporting Premier's group purchasing activities, the Technology Assessment unit also provides information to, and gathers knowledge from, the Premier service unit - Clinical Technology Services - that provides on-site biomedical engineering, clinical equipment maintenance and repair services for several hundred hospitals across the country. This group helps assure that medical technology is in good repair and working properly and safely, and so they serve as one of the best field sources about technology in practical use.
Technology Assessment continuously scans and systematically reports medical technology developments in major categories (such as radiology) and care areas (such as cardiology). The unit provides objective information about existing and new medical equipment and devices, features, costs, suppliers, and the like. It seeks and reports information from all manufacturers of technology in a category, in addition to those companies with which Premier has contracts, and thereby provides additional early notice to Premier and members of emerging technology innovations from all sources.
I would like to illustrate how our group contracting process proactively identified and contracted for the "camera pill."
In January 2002, Premier became the first group purchasing organization to add the cutting-edge Given Imaging "camera pill" to its list of contracted technologies. Through our normal contracting processes, Premier was able to provide its members with price-protected access to this beneficial technology within three months of its worldwide launch.

The camera pill is a significant step forward because traditional endoscopy has returned mixed results in reaching the middle third of the small intestine. Current technologies for imaging that part of the body are not only painful, especially when scoping from the mouth, they are also diagnostically inadequate. In October 2001, Israeli-based Given Imaging launched its breakthrough M2A camera inside a pill device. In one clinical trial, the Given camera system detected 86 percent of small-intestine lesions, compared with an endoscope's 50 percent discovery rate. Recognizing the breakthrough potential of the device, Premier staff immediately started the process of putting the camera pill on contract for Premier's members.

The M2A capsule, which is about the size of a large multi-vitamin pill is swallowed by the patient and makes its way thought the digestive tract taking approximately 50,000 color pictures during the eight-hour journey. The images are transferred to a recording device housed in a belt the patient wears around his or her waist. Patients go about their normal daily activities and the disposable camera is excreted 24 to 72 hours later.

The camera pill shows clearly superior results to traditional procedures, and is the only device of its type on the market. For Premier, this case is an example of Premier rapidly incorporating the needs of member hospitals into its normal contracting process by scanning the market, listening to clinicians from member hospitals and rapidly evaluating the potential of a promising new technology.

Although the majority of technological advances are identified and addressed through the policies, programs and procedures set out above, Premier also has taken one further step. Premier contracts contain a feature unique to our contracting process, a technology breakthroughs clause. This specifies that, if a new product comes along that demonstrates significant potential for greater clinical efficacy, safety for patients and workers and/or cost effectiveness, in comparison

to products already under contract, Premier may expand its portfolio to purchase the new product, despite the existing contract. The technology breakthroughs clause is one of several safeguards to assure that Premier and its members are not "locked in" to static technologies from contracted companies if new and superior technologies are brought to market by others.

Through our signature Technology Breakthroughs Program, Premier provides a way for new and emerging healthcare products, with the potential to qualify for contracting under the technology breakthroughs clause, to be identified, evaluated and, if shown to be significantly advantageous over what is currently under contract, made available to our members.

Obviously, decisions about what medical products to buy, which could have life and death implications, cannot be based on manufacturers' claims alone. Every product must be subjected to close scrutiny to determine whether it is safe, effective and produces improved patient outcomes. In practical effect, by validating claims of innovation on the basis of scientific evidence, the Technology Breakthroughs Program contributes toward faster acceptance of new technologies by hospitals lacking resources to conduct such evaluations individually.

Under this program, clinician committees drawn from Premier members and outside independent experts evaluate a wide variety of new products. Although we review products submitted by any manufacturers, we focus on ensuring that smaller manufacturers with potentially important new products are not at a disadvantage compared to the major suppliers. To date, three-fourths of the companies awarded contracts under the program are small businesses as defined by the Small Business Administration.

We have tried, over a period of years, with little success, to engage the leadership of the Medical Device Manufacturers Association (MDMA), whose members are primarily smaller companies, in a good faith dialogue to help educate the MDMA membership on how to take advantage of the many different ways in which Premier reaches out for new, innovative products. We have been repeatedly rebuffed in these efforts. Despite the MDMA's lack of cooperation, we have contracted with a number of MDMA members. In all, Premier has contracts with more small businesses (176) than MDMA has members.

Let me illustrate the Technology Breakthroughs Program with the example of safety-engineered sharps devices. For many years, sharps devices, including syringes and blood collecting devices, were considered a commodity medical product line where there was little change in design and almost no technological innovation. Then HIV/AIDS, hepatitis C and other deadly blood borne pathogens entered the scene and healthcare suddenly had to change in order to deal with these diseases. While continuing to supply conventional sharps products, which remain essential to hospital operations and healthcare, in early 1999 Premier proactively requested new safety products for review from throughout the industry to meet the challenges to safe treatment that healthcare facilities were facing. In May 1999, through the Technology Breakthroughs Program, we added three new safety syringe devices to our existing portfolio of products - including products made by New Medical Technology, Inc. (NMT), Retractable Technologies, Inc. (RTI) and Safety Medical Supply International, Inc. (SMSI). And in 2000, we expanded our offerings to include phlebotomy, or blood-drawing, devices with safety features. We awarded contracts to four companies, including Abbott (RTI), SIMS Portex, Bio-Plexus, Inc., and MPS Acacia. In both cases, we conducted extensive field evaluations in Premier hospitals and shared the results with the contracting companies. These additional contracts expanded our portfolio of medical sharps by giving our members greater choices to help them protect the safety of their healthcare workers and patients. We had the flexibility to enter into these new contracts because our existing contracts with suppliers contain the breakthroughs technology provision.

Premier Promotes Safety

As this example indicates, the safety of both patients and healthcare workers is also one of our highest priorities at Premier. Premier is a leader in evaluating products that combine the greatest protection and ease-of-use with the highest quality care. We give safety issues a high priority in all of our operations - in our group-purchasing activities, as well as the Technology Assessment and Technology Breakthroughs Programs. In addition, we have established the Premier Safety Institute to serve as a resource arm on safety issues, working with our member hospitals to introduce safer products and to provide the education tools needed in training frontline healthcare workers to use these products.

Through the Safety Institute, Premier has also launched a safety website available to the public. This site contains a sharps safety module concentrating on the issue of needlestick safety that includes over 300 pages of resources and information referrals. In addition, the site has published 25 articles on safety issues, means for improving safety in the healthcare setting and educational tools to improve compliance with the Needlestick Safety and Prevention Act of 2000. This has been a significant contribution to the professional literature on medical safety.

Over the past several years, we have focused a great deal of attention on providing healthcare professionals with access to safety sharps to prevent needlestick injuries and control blood-borne infections. We strongly advocated for the passage of the Needlestick Safety and Prevention Act of 2000 to establish uniform, national standards and eliminate these hazards completely. Much earlier, we had already evaluated a wide-range of sharps with safety features to facilitate the supply of these products to our members with these products. Today, Premier makes available different types of safety sharps from 15 manufacturers both large and small - including, as I indicated above, the products of several smaller manufacturers.

We don't simply evaluate safety products and list them in a catalog for Premier members to purchase. It's also our job to obtain better pricing of these products for our members and to help hospitals integrate them successfully into their supply systems and areas of practice - as huge an undertaking for one large metropolitan hospital that treats many thousands of patients a year, as it is for the many community hospitals that are part of Premier. Immediately after the Needlestick Safety and Prevention Act became law, we began working closely with the staffs of our member hospitals to help them move quickly into compliance with the new requirements. We provided kits with sample training programs and instructions on how to implement them. We have followed this up with conferences on sharps safety in which more than 1,700 administrators, trainers, clinicians and other individuals have participated. These efforts are continuing today as we help our member hospitals with the major medical, logistical and educational challenges of integrating these and other new technologies into their systems and practices and of training their frontline healthcare workers - both to comply with the law fully and to enhance clinical performance and the quality of patient care. (For more details on Premier's safety sharps initiative, see the attached addendum.)

Because of our position in the healthcare system, Premier is able to provide broad-based leadership that almost no other player can bring to the issue of safety. For example, as we announced at the end of 2001, we are requiring bar coding for hospital pharmaceutical products offered under group contracts to our members. The U.S. Department of Health and Human Services is expected to propose a rule in the near future requiring similar bar-code labeling. But we know this technology can save lives, so we are moving ahead on our own to make sure it is available to our hospitals and their patients. By requiring scanable bar codes, much like those

used on grocery items, we are convinced that medication errors in hospitals will be reduced, with more assurance that patients get the right medicine, at the right time, in the right dosage. Not only will this improve safety and cut costs, the use of UPN bar codes will improve the ability of individual hospitals to track data to improve quality of care over time.

Premier also operates the most extensive hospital database in the nation, in which over 500 hospitals voluntarily submit their key clinical, operational and financial indicators. The Food and Drug Administration (FDA) has decided to tap into this valuable resource to improve its knowledge about the use and effects of new drugs once they have reached the market. The FDA's Office of Postmarketing Drug Risk Assessment (OPDRA) has awarded Premier a multi-year contract to provide the agency with help in surveillance of drug safety related to inpatient drug use in hospitals. The ability of the FDA to expeditiously respond to the increasing number of issues arising once drugs are on the market is of paramount importance to overall public safety, according to the agency, yet it has previously not had such comprehensive inpatient data available. This is another way that Premier and our members are contributing toward the goal of effective, appropriate and safe medication use.

Myths and Facts About Premier

I want to now address the concerns about Premier and GPOs generally that have been raised in the media in total disregard of the facts. I am confident that, when you are fully aware of the facts, you will see that these concerns are unfounded.

Myth #1: "Premier gives preference to a few big suppliers and shuts smaller manufacturers out of the marketplace."

The facts about the contracting process - Premier negotiates contracts based solely on the ability of a specific product to improve the quality and cost of health care - in that order. Our purchasing is driven by the requirements of our not-for-profit member hospitals and healthcare systems for products that will support high-quality patient care at the most cost-effective prices. Our members strive to stay on the leading edge of healthcare, and their professionals - physicians, nurses and technicians, as well as experts in purchasing and hospital administration - are an integral part of the process of selecting all clinical products and supplies through an organized committee structure and otherwise. We do business with large suppliers because they have the products our members need and want.

Moreover, Premier deals with a very large universe of suppliers. We have approximately 750 separate contracts with some 450 vendors. Far from excluding smaller companies, we currently have contracts with more than 176 small businesses, as defined by the Small Business Administration. As noted earlier, a number of our smaller contracting suppliers are also members of the Medical Device Manufacturers Association. Many of these smaller contractors are minority- and women-owned businesses. We are proud of the fact that recently Premier and one of our owners, Detroit Medical Center, were honored in the minority community for dedicated efforts to proactively develop diversity among our suppliers. In addition, Premier's Technology Breakthroughs Program ensures that new and emerging healthcare products from many small and mid-sized suppliers are considered and those that show significant advantages over currently contracted products are brought under group contract.

Finally, and crucially important to this point, Premier's group-purchasing contracts do not require our members to use a contract for all of its needs in any product category. We understand that hospitals have unique needs. Our members are always able to contract for technology that meets their specific needs, while still receiving the negotiated discount for those products available under Premier contracts. In fact, our member hospitals and healthcare systems can and do regularly purchase the products of their choice from a wide range of vendors, including vendors that don't have a Premier contract. To secure better pricing and terms from suppliers and maximize savings for our not-for-profit members, our contracts specify commitment levels that vary by product category but are always less than 100%. It's important to remember that the products available under such committed Premier contacts are the products of our member hospitals' choice. Nonetheless, to enable them to meet special needs or try new products from other companies, our members are free to purchase from any supplier.

Our experience shows that commitment maximizes purchasing savings while maintaining quality as long as hospitals are willing and able to standardize. In fact, most hospitals are willing to standardize because they realize substantial benefits in terms of reduction of medical errors and improvement in care through standardization of the tools that physicians and other healthcare professionals use in a clinical setting. However, we're constantly looking at the effectiveness of commitment levels because we realize it may be necessary to adjust them from time to time in order to meet our members' needs.

Myth #2: "Premier stifles innovation by excluding small suppliers."

The facts about Premier's commitment to innovation - Some of Premier's most persistent - and self-interested - critics have worked hard to perpetuate this myth, even in the face of the fact that Premier has their own products under contract.

I have made it clear that Premier's contracting process is open to all suppliers and excludes no one. Premier is always interested in, and indeed seeks out, companies that are producing products and services that add value to hospital quality and patient safety. Also, I have already provided details of the multiple approaches we use to ensure that Premier maintains its position as a leader in innovation - far from "stifling" it. I would like to emphasize that we: (1) proactively seek out new technologies; (2) follow up on our members' expressions of interest in emerging products; and (3) respond through our Technology Assessment and Technology Breakthroughs Programs to requests from manufacturers to consider possible contracting opportunities. The fact is that we do not shut the door to potentially important advances. If we did, we would not be serving our member hospitals' needs, and they would go elsewhere.

Given the facts, it is more than a little ironic that one manufacturer, RTI, which is the source of many of the allegations against Premier, is also the only company that has two products awarded group contracts through Premier's Technology Breakthroughs Program. Those contracts - for a safety syringe and a safety phlebotomy device - have produced more than $1.7 million in sales since 2001. What's more, RTI paid absolutely no administrative fees during the 18 months of its initial evaluation contract and paid nothing to have its products evaluated by Premier. RTI, through Abbott, also has contracts for the same products with four other GPOs.

Premier's only interest is in helping our not-for-profit member hospitals deliver high-quality care while controlling costs. When a product proves, through objective, thorough evaluation, to be effective, safe and to contain advantages over what's under contract, we bring it under group contract too.

Myth #3: "Premier abuses the fee system and charges excessive administrative fees."

The facts about Premier's administrative fees - As you know, Premier and other GPOs receive contract administrative fees from vendors under a system explicitly recognized by Congress to reduce healthcare costs and generate savings for both healthcare institutions and their suppliers. Premier operates in accordance with federal regulations that permit a GPO to charge contract administrative fees as long as we have a written contract with each member and disclose the payments to our members. Our administrative fees, which average 2.1%, fall within the guidelines established by the Department of Health and Human Services to reflect Congress's concern that fees not be excessive. In fact, we currently have no administrative fees over 3% for medical products and pharmaceuticals under group contracts.

Premier does not require any up-front payments prior to entering into a group-purchasing contract or as a prerequisite for dealing with a supplier. Moreover, whenever we enter into contracts involving the field evaluation of new products - like those under our Technology Breakthroughs Program - we have not charged any fees.

Vendors are willing to pay contract administrative fees because we help to reduce their sales and marketing costs by aggregating prospective customers and introducing to those customers products that have already had the scrutiny of our alliance of hospitals and health systems for quality and acceptability. Suppliers know that, in the absence of this aggregation, getting their products to buyers one at a time would require substantially greater investment in advertising, promotion and sales. Also, group-contracting arrangements often enable the seller to plan production and distribution far more efficiently and cost-effectively. Finally, interaction with a GPO's staff and hospitals provides a more organized basis for obtaining the continuous feedback about products and services that is useful for product improvements.

Premier's Role in the Future of Healthcare

In many ways, what we are discussing today will lay some of the groundwork for the future of healthcare in America. I firmly believe that Premier's model of operations, our responsiveness to our member hospitals and concern for innovation and the patients and healthcare professionals we ultimately serve must be an integral part of the conduct of all GPOs. From the day Premier was founded, we have been continuously working to improve what we do. We recognize that there is always room for improvement, that achieving excellence is an on-going challenge that must be met again each day. And we are committed to striving for excellence for Premier.

The significance of our contribution to the nation's healthcare system is always in the forefront of our thinking at Premier. That's because we are owned and governed by our not-for-profit hospital members and intimately aware of the ultimate beneficiaries of our work - the millions of patients in the care of our members. The family of Premier extends beyond the 1,600 men and women who work directly for our organization. We are closely connected to the thousands of physicians and other healthcare professionals who we help supply with the medical tools and other products, from lasers to desk lamps, that support them in their efforts to comfort, care for and heal patients.

All of us in this hearing room today are committed to making healthcare better. Premier will cooperate with this subcommittee to explore every avenue to make the work we do even more effective, more efficient, and more responsive to patients' needs. I believe in Premier, that what we are doing is helpful and positive. All of us at Premier believe that the work we do is important, and we are committed to doing the best job possible for the doctors and nurses and

other healthcare workers on the frontlines and for the millions of Americans whose lives are touched by the not-for-profit hospitals and health systems we serve.

Conclusion

In closing, I believe the facts support these important conclusions:

GPOs - including Premier - have been, and continue to be, a positive force in the healthcare system, as Congress and the Department of Health and Human Services deemed them to be more than a decade ago. We have made a critically important contribution to assuring that the nation's hospitals are able to offer their patients high quality care, while helping to control skyrocketing healthcare costs.

Hospitals and other healthcare systems - especially those not-for-profit hospitals that are the owners and members of Premier's GPO - continue to operate in a powerful cost squeeze and need the help provided by GPOs in the future even more than they have needed us in the past.

A nationwide alliance of not-for-profit healthcare institutions, Premier is a singular success story that extends well beyond cost savings to encompass helping our members improve their overall performance and maintain their leadership in quality outcome for patients.

The facts demonstrate Premier's clear commitment to the letter and spirit of the law and to our mission to serve our members and their patients - notwithstanding the misleading allegations of a few critics.

The healthcare community and the Subcommittee should explore ways to enhance the ability of GPOs to achieve even greater success for their members going forward, and we would be pleased to cooperate in the progress of that improvement.

Again, I'd like to thank you for giving us this opportunity to present the facts about what we do and to share with you our experience and our thinking.

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