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A Region's Hospital Supplies: Costly Ties

By BARRY MEIER

Struggling hospitals in the New York area may be overpaying millions for medical supplies because their trade group promotes a purchasing agent with financial ties to the group and at least one of its top executives, according to records and health care officials.

Some area hospitals say they usually obtain better prices by not buying through the agent, Premier Inc. And a study by the trade group, the Greater New York Hospital Association, once found that Premier's prices were not always the best. The association will not release that 1997 study, nor will it say whether it has been updated.

When told of Greater New York's business ties to Premier, two legal experts said that relationship might compromise the hospital association's judgment in recommending supply companies.

Premier paid the hospital association \$11.9 million last year in commissions — a third of the group's total revenue — for helping it sell medical products to member hospitals. Premier has also provided financing or marketing help to for-profit ventures from which the association and several of its executives stood to profit.

Lee Perlman, who oversees the Greater New York association's business ventures with Premier, denied that local hospitals overpay for supplies and added that revenue from Premier helped support the group's services to members. He said the association's ties to Premier were not improper and did not affect his judgment or that of his colleagues. ("There is no question in my mind that tens of millions of dollars have been saved," he said.)

The office of the New York State attorney general, Eliot Spitzer, recently disclosed that it was conducting an inquiry into the business practices of buying groups like Premier.

Joseph Baker, chief of that office's health care bureau, said that while Premier and the Greater New York Hospital Association were not specific targets, the inquiry would examine the financial dealings among the trade group, its executives and Premier. "We are interested in looking at the web of relationships," Mr. Baker said. "I am interested in looking at if there are any real conflicts and any real dereliction of

duties."

When told of Greater New York's business ties to Premier, Geoffrey Hazard, a professor specializing in ethics at the University of Pennsylvania Law School, said they could create potential conflicts of interest.

"That certainly potentially colors their judgment," Mr. Hazard said. For example, he said, Greater New York officials might be less inclined to search for better purchasing agents. "How do you know you are getting the best prices unless you have informed yourself of other possibilities," he added.

Last year, more than half of Greater New York's 112 member hospitals spent \$1.5 billion on supplies through Premier. Among them are major institutions like the Montefiore Medical Center, the Mount Sinai Medical Center and the Hospital for Special Surgery.

Hospital spending has taken on new importance because hospital costs are again rising sharply in New York and around the nation, and because many hospitals say they cannot afford to hire all the nurses or other medical personnel they want.

Some 20 percent or more of a hospital's operating costs involve the purchase of medical supplies and services, second only to labor.

Anne Schott, speaking on behalf of the New York State Nurses Association, a labor group representing 35,000 nurses, said she was outraged to hear that hospitals might be overspending on supplies.

"It is a tragic waste of health care dollars, and that should alarm every taxpayer and everyone who pays health insurance premiums," Ms. Schott said. "That money could be used to benefit patients. Instead, it is being diverted to middlemen and a trade association."

Premier, the nation's second-biggest buying group for hospitals, declined to discuss any details about its financial ties to Greater New York. In a statement, Premier said its prices were "consistently superior" to what hospitals can get on their own. Several area hospitals also said that they regularly surveyed product prices and that Premier, in some cases, offered the best deals.

The Greater New York association, which once operated its own hospital buying service, gave that job to Premier in 1996. Soon after, one of its members, Beth Israel Medical Center, determined that it could save \$1.5 million annually by buying intravenous solutions and four other widely used products directly from manufacturers rather than through Premier, according to a hospital consultant who has seen that report.

Savings from those products alone could pay for at least 20 nurses, experts say.

When Beth Israel decided the next year to make purchases on its own, the hospital association commissioned a study, which confirmed that Premier's discounts on some widely used hospital products

like intravenous fluids were not that good.

Beth Israel's program to buy products directly from suppliers failed after several years because of managerial problems, several hospital industry experts said. Beth Israel, which now uses another buying group, Broadlane, declined to comment.

Other hospitals in the New York area also say they can buy supplies cheaper on their own than through Premier.

Robert Carretta, a corporate vice president of the St. Barnabas Health Care System, a New Jersey-based hospital chain, said the system buys directly from suppliers, saving 6 percent to 10 percent over Premier's prices. On drugs alone, Mr. Carretta said, his hospitals saved \$5 million in the last three years. "We don't think they have brought a whole lot of value to the table," he said of Premier.

Another hospital system, the North Shore Health System on Long Island, said that it received good prices through Premier on drugs and food, but that it saved money by buying the rest of its supplies — 80 percent — on its own.

In a statement, Mr. Perlman acknowledged that the 1997 study commissioned by Greater New York had found that Premier's prices on basic medical supplies were "not as favorable" as its prices on drugs. He said the report had been used to negotiate better prices from Premier.

Mr. Perlman would not release the report but said purchasing officials at hospitals had been told about its findings. Still, officials at several of those hospitals, reached by The New York Times, said they were unaware of it.

Failing to evaluate a buying group's prices regularly would border on irresponsibility, said Helen Darling, president of the Washington Business Group on Health, a national coalition of large companies that want to reduce their medical costs.

"Health care purchasers that aggressively manage their contracts, including reassessing and auditing them, always do better," Ms. Darling said. Greater New York said its individual members do that.

Several hospitals defended Premier, saying it saves them money by negotiating contracts for hundreds of products like bandages, hypodermic needles and medical devices.

"They do a lot of work that we would have to do ourselves," said Dr. Spencer Foreman, president of Montefiore, in the Bronx.

Local hospitals are not required to use Premier, but most do use the group for some purchases.

A few years after the Greater New York association began acting as Premier's local marketing agent,

Premier invested about \$1.5 million in a for-profit Internet company headed by Mr. Perlman and run through an arm of Greater New York. Mr. Perlman, the company's founder, was given the opportunity to earn stock options in the company. The hospital association invested \$1.5 million, Mr. Perlman said.

The company, BabyPressConference.com, offered the families of newborns a chance to view them through live video broadcasts from the hospital. As the company's chief executive, Mr. Perlman and some other employees had the opportunity through stock options to earn a 15 percent stake in the company.

Those options were in addition to the salary that Mr. Perlman received from Greater New York, totaling \$514,000 in 2000.

In marketing BabyPressConference.com, Mr. Perlman had an advantage that other companies did not: access to Premier's national network of 1,600 nonprofit hospitals. He made several appearances on national television promoting his venture.

Even so, Mr. Perlman's Internet idea proved a financial disaster, losing money for both the Greater New York association and Premier. BabyPressConference has stopped operating, and Greater New York has transferred some of its assets to another Internet-related operation. Mr. Perlman said he did not earn any stock options in BabyPressConference.

Hospital association executives can also profit personally through another business deal involving Premier. Earlier this year, Premier agreed to lend its marketing muscle to a for-profit subsidiary of Greater New York, Innovatix, in exchange for a stake in the company.

Some Greater New York executives can earn stock options through Innovatix, a buying group that serves markets including nursing homes and outpatient surgery centers. Mr. Perlman declined to identify these executives or say whether he is among them. Last year, Innovatix collected \$7.6 million from medical supply companies for helping to sell their products and services.

Dr. Foreman of Montefiore Medical Center, a former chairman of Greater New York's board, said the private stock option deals in both BabyPressConference.com and Innovatix had board approval. He said giving financial incentives to executives like Mr. Perlman would spur their efforts to make the ventures succeed.

This spring, Mr. Perlman went to Capitol Hill to defend Premier, around the time several senators accused the group of self-dealing and conflicts of interest. Premier and the nation's other large buying group, Novation, have since adopted reforms aimed at resolving those concerns. Greater New York said it supported Premier's reforms.