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Buying Group for Hospitals Changes Ways

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Under pressure from Congress, a private company that helps about a quarter of the nation's hospitals buy billions of dollars in drugs, medical devices and other supplies has agreed to sweeping changes in how it does business.

To encourage competition, the group, Premier Inc. of San Diego, said yesterday that it would contract with more companies, would stop investing in supply companies and would limit how much money it accepts from companies that get Premier contracts.

Congressional negotiators are still trying to reach a similar agreement with the nation's other big buying group for hospitals, Novation of Irving, Tex. Buying groups, including Premier and Novation, continue to be the subject of investigations by the Federal Trade Commission, the inspector general for the Centers for Medicare and Medicaid Services and the General Accounting Office, the investigative arm of Congress.

Premier's reform plan follows a series of articles in The New York Times that examined conflicts of interest and self-dealing among buying groups. Last week, Premier also sold its stake in a generic drug company to which it had steered millions of dollars in business. That stake was the subject of an article in The Times.

In a joint statement issued yesterday in Washington, the two ranking members of the antitrust subcommittee of the Senate Judiciary Committee applauded Premier's actions. That subcommittee held a hearing in April on the buying groups.

"The principles announced today by Premier do not address every concern that we had," said the lawmakers, Herb Kohl, Democrat of Wisconsin, and Mike DeWine, Republican of Ohio. "But we believe that as the principles are implemented, they will be refined and improved and that gaps will be filled."

The lawmakers said they plan a hearing to monitor the reform plan.

Unlike other purchasing agents, buying groups for hospitals are paid by the medical supply companies whose products they are supposed to evaluate objectively. Under a special Congressional exemption from federal antikickback laws, the groups are permitted to receive sales fees from manufacturers.

For years, smaller companies that make medical devices had bitterly complained that the two big buying groups, Premier and Novation, had effectively colluded with large manufacturers to eliminate competition by issuing them exclusive contracts lasting five years or more. Those policies, the smaller companies contend, also harmed patients by making it harder for innovative products to make their way into hospitals.

Larry R. Holden, the president of the Medical Device Manufacturers Association, a trade group that represents those small producers, said that Premier's proposal should open up hospitals to a wider array of vital products.

"If they follow it, that will be a meaningful change," Mr. Holden said, referring to the group's plan.

But not everyone agrees. Thomas J. Shaw, chief executive and president of Retractable Technologies, a small manufacturer of safety hypodermic needles, said the reforms do not address the inherent conflict created when a purchasing agent takes money from suppliers.

"You can't build anything ethical on an unethical premise," said Mr. Shaw, whose company is suing both Premier and Novation, charging that they effectively locked his company out of the hospital market. Both concerns deny the accusation.

In its plan, Premier said that it would cap its sales fees at 3 percent, and stop issuing contracts to single manufacturers for products like pacemakers, blood oxygen monitors, orthopedic implants, surgical sutures and staplers, and sterile supply trays used in operating rooms.

The group also said it no longer would require hospitals to buy up to 90 percent of such products from Premier suppliers to qualify for discounts. The group will also stop bundling certain products into a single contract, a policy that critics say has frozen out competitors.

"These products will have to stand on their own," said Howard E. Sanders, the senior vice president of Premier's purchasing arm.

Mr. Sanders said that Premier endorsed a recently issued industrywide code of conduct but that it chose to go beyond that to address concerns raised by Senator Kohl and others. He said that he did not know what percentage of the $15 billion in supplies bought last year by Premier hospitals would be affected by its new contracting policies.

Recently, Premier has taken other steps to appease its critics. Last week, it sold its equity stake in a generic drug maker, American Pharmaceutical Partners, back to that company for $31.8 million. Premier, which issued contracts to American Pharmaceutical, had not fully informed members and hospital customers about its financial ties to the drug maker.

One hospital executive, Paul J. Lombardi of Swedish Health Services, a hospital chain based in Seattle, said he was not impressed by Premier's proposals, including the appointment of an executive to monitor its reform plan.

"So, they're going to have an oversight officer," Mr. Lombardi said. "Yeah, great. Enron had Arthur Andersen, too."

As of yesterday, Congressional staff members were trying to negotiate a deal with Novation, which represents about a third of the nation's hospitals. A Novation spokesman said late yesterday that the group expected to submit its own reform package as soon as today.

Novation charges manufacturers some of the highest fees in the industry — as high as 20 percent to market some products. It also bundles unrelated products from different manufacturers into single contracts and forces them to buy the entire package if they want the discount.