

# PREMIER GROUP PURCHASING POLICY

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## PREFACE

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Premier is a voluntary alliance of hospital and health care organizations, established in part to achieve economies of scale and innovations through group strategies and shared resources.

Because supplies, materials, and equipment represent a substantial percentage of the cost of providing health services, group purchasing is a fundamental activity of the company. Premier's purchasing program is operated by American Healthcare Systems Purchasing Partners, L. P. ("Purchasing Partners"), in which virtually all Premier owners are owners. The group purchasing contracts developed by Purchasing Partners are made available for use by all Premier owner organizations and affiliates consistent with policies.

The hospital and health care organizations that are owners of Premier have agreed to undertake the strategy of increased commitment to group purchasing contracts.

- Controlling and reducing supply costs is essential to members' competitiveness with other providers and their ability to sustain high-quality services.
- Commitment is the most effective strategy to attract and maintain superior supply pricing immediately and over time.

- The ability to pool and commit the large purchasing volume of the entire membership is essential to meet:
  - Competition posed by other alliances and group purchasing organizations.
  - The growing purchasing leverage of large national hospital systems.
  - The market power of increasingly large and consolidating suppliers.

The consensus surrounding commitment as a strategy is reflected in the organizational documents of the Premier group of companies. Premier owners have incorporated this precept into their stockholders' agreement. This precept is also incorporated in the partnership agreement on which Purchasing Partners is founded.

Consistent with the conclusions, consensus, and direction above, this Group Purchasing Policy has been developed by a task force comprising representatives of Premier's owner organizations, management and staff.

The policy applies to Premier owners and limited partners in Purchasing Partners, their related organizations, and affiliates ("members").

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## GENERAL POLICY PROVISIONS

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- **Purpose.** The purpose of the purchasing program and the commitment program is to provide superior value to members through contract pricing and services targeted to reduce costs within the health care system, hospital or primary care site, ultimately reducing health care costs for the consumer. In addition, a primary objective shall be to help assure that patients receive safe and efficacious care.

In return for ensuring value to members, the purchasing program will provide business partners with the benefits of rapid conversion, reduced business costs, and a large, stable market for their products.

- **Quality.** The purchasing program will continue to contract for high quality supplies and services with reputable business partners. Premier's quality standards shall continue to be a direct derivative of the quality standards of members. Therefore, contract award processes will include extensive evaluation and member input ensuring product quality and acceptability.
- **Strategy.** Strong commitment to group purchasing contracts will be the primary strategy by which the purchasing program will provide unsurpassed value and advantages by virtue of competitive pricing. The intent is that Premier will be established as the nation's most compliant group, able to command the best market pricing by affording improved negotiation positioning.

- **Obligations of members/*spirit of intent.***

- **Preference.** Members will look first to the Premier program for their purchasing needs and fully utilize all group contracts to the extent possible.
- **Confidentiality/leveraging.** Members will protect the confidentiality of Premier group contract prices and terms, and in no event will leverage Premier prices to obtain a better price.
- **Primary obligation.** Members will utilize Purchasing Partners as their sole national group purchasing organization. In addition, members may participate in one local or regional group purchasing organization for supplies not contracted by the Premier program.
- **Commitment Program.** Members will meet the requirements of the Commitment Program set forth in this policy.

## COMMITMENT PROGRAM

### Committed Program Contracts

- **Contracts to be included in Committed Program portfolio upon full implementation.** The Commitment Program will include all group purchasing contracts that are designated as the following:
  - Corporate Agreements
  - Strategic Agreements
  - Premier Pharmacy Program (includes all pharmacy agreements in the Premier portfolio)
  - Other Committed Medical/Surgical Agreements (such as dressings, gloves)
  - Committed Capital Equipment Agreements (to be evaluated for inclusion at a later time)
  - Committed Dietary Program (to be evaluated for inclusion at a later time)

The Purchasing Compliance Task Force, in consultation with purchasing program staff, shall identify the group agreements that will be designated as Corporate and Strategic Agreements. Once negotiated and signed, all Corporate Agreements and Strategic Agreements will be immediately included in the Commitment Program.

Additional group contracts will be added to the Committed Program, but such additions must go through a three-step process. They must be recommended by a purchasing task force and then be approved by the Purchasing Compliance

Task Force, prior to review and approval by the appropriate committees.

- **Contracts initially included in Commitment Program.** Immediately upon adoption of this policy, the following are included in the Commitment Program:
  - Premier Pharmacy Program (all pharmacy agreements in Premier portfolio)
  - Radiology film contract, designated as a Strategic Agreement
  - Contrast media contracts, designated as Strategic Agreements

### Implementation And Program Provisions

- **Letter of intent to commit.** To immediately demonstrate the depth and strength of the Premier group's commitment to its group purchasing strategies, all members will execute a Premier Purchasing Commitment Program Letter of Intent (Attachment A). Those that are members upon the effective date of this policy will execute such Letters of Intent by July 1, 1996. Those becoming members after the effective date of this policy will execute such Letters of Intent concurrently with their membership documents.
- **Separate letter of commitment to contracts/contract categories.** In addition to the general Letter of Intent above, the chief executive officers of member organizations will execute a separate Letter of Commitment (within

time periods to be identified) to the Premier Pharmacy Program and to each of the Corporate Agreements and Strategic Agreements entered into by Purchasing Partners. Commitments to other agreements will be executed by the appropriate hospital/health system official.

- **Schedule for contracts initially included in program.**
  - **Premier Pharmacy Program:** Existing members will execute a Letter of Commitment no later than July 1, 1996, and implement utilization of these agreements by October 1, 1996. Those becoming members after July 1, 1996, will execute a Letter of Commitment within 60 days of their becoming members and implement utilization immediately or upon expiration of existing contracts.
  - **Radiology film and contrast media:** Existing members will execute a Letter of Commitment no later than July 1, 1996, and implement utilization immediately or upon expiration of existing contracts. Those becoming members after July 1, 1996, will execute a Letter of Commitment within 60 days of their becoming members and implement utilization immediately or upon expiration of existing contracts.
- **Transition period.** While full commitment of the members is expected, it is recognized that some period of time may be required for members to fully implement utilization of some contracts. Written phase-in strategies will be acceptable where necessary and where

intent is clear. In general, members should be utilizing Committed Program group contracts within six months to one year of their contract's start date (depending upon the type of contract), unless granted an exception in writing as provided in this policy.

- **Commitment levels.** "Full commitment" levels will be defined for each specific group contract or contract category. In general, full commitment will mean utilizing Premier group agreements for 80 to 90 percent of a member's needs for the products and services covered by a contract. A member that purchases all products necessary for its operations will be considered fully committed even if other defined levels are not met.

For purposes of this policy, commitment to the Premier Pharmacy Program will be defined as a member's using Premier group contracts for acquisition of 95 percent of the member's total pharmacy purchases in those product areas covered by Premier contracts.

- **Solicitation of quotations, renewals and extensions.** Consistent with the intent that Premier's group purchasing program will be committed, it is also the intent that members will not independently solicit quotations from suppliers for products or services covered under Committed Program agreements, nor use the pricing offered under any Premier contract to leverage the pricing that might be offered directly to members by suppliers.

In addition, once a group contract or contract category has been announced as included in Premier's Committed

Program, members will not contract independently for products in areas covered by these contracts, nor renew or extend existing agreements for such products.

- **Outside service providers.** If a member contracts with an external company for departmental management, the member will require that company to utilize Premier group agreements for products and services utilized in the member location. Such providers will enter into a confidentiality agreement relating to pricing and other terms. Exceptions will be considered for pre-existing arrangements.
- **Exceptions.** Members will utilize group contracts included in the Committed Program to their full extent within six months to one year of contract start date unless they are granted an exception for one of the following reasons:
  - Premier and the member agree that the business partner awarded a contract does not service the member site.
  - The product is not used by the member because it does not treat the conditions requiring it.
  - The member has a pre-existing contract in place but has signed a letter of intent to convert to the Premier's contract upon expiration. (Members will discontinue "evergreen" contracts at the earliest possible date.)
- **Related organizations and affiliates.** Premier owners are responsible for adherence to the Group Purchasing

Policy by each owned, leased, or managed facility as well as affiliates they sponsor.

- **Under-utilized businesses.** Commitment requirements and group contract development will be consistent with the provisions of Purchasing Partners governing instruments relating to assisting historically under-utilized businesses or other enterprises controlled by socially disadvantaged groups, such as enterprises owned by minorities or women.

#### Program Administration

- **Program direction and oversight.** Administration of the Commitment Program will be under the direction and oversight of the Board Purchasing Compliance Committee, composed of chief executive officers of organizations that are shareholders in Premier and limited partners in Purchasing Partners, with support from purchasing program management and staff. This committee, appointed by the Premier Board of Directors, will:
  - Recommend additions, changes, or modifications to the Group Purchasing Policy.
  - Be responsible to the Board of Directors for insuring that all members have executed a Purchasing Commitment Letter of Intent and the appropriate letters of commitment to Corporate and Strategic Agreements.
  - Receive recommendations from the Purchasing Compliance Task Force (see below) with regard to individual members' adherence to the Group

Purchasing Policy and take or recommend the necessary actions.

- Review exception requests that have been granted by the Purchasing Compliance Task Force for informational purposes from time to time.
- Review commitment progress among all members and take appropriate action to keep members apprised of their status and the group's overall standing.

**The Purchasing Compliance Task Force** will be composed of chief executives, chief operating officers, chief financial officers, materials managers, pharmacists and other clinicians, as appropriate, all from member organizations. This task force will:

- Review exception requests to the Commitment Program that are made by members and be empowered to grant or deny these requests.
- Monitor members' adherence to the Group Purchasing Policy and Commitment Program.
- Recommend to the Board Purchasing Compliance Committee, from time to time, changes, modifications, and improvements to the Group Purchasing Policy.
- **Monitoring and reporting.** Premier purchasing management and staff will support the Commitment Program by providing reports and evaluations on an on-going basis to the Purchasing Compliance Task Force and the Board Purchasing Compliance Committee.

Status reports will be prepared quarterly. Compliance monitoring will be handled on a per-member, per-contract basis. Member completion of letters of intent and commitment will be closely tracked. Each letter of commitment will require inclusion of an estimated annual volume potential that will be confirmed by the contracted business partner. Actual volumes will be compared to this potential volume as well as to average potential estimates as provided by each business partner as part of the contract award.

#### **Rewards And Penalties**

- **Basis.** The full expectation is that Premier's Commitment Program will yield for all members substantial financial returns, most significantly in operating costs saved through superior marketplace pricing but also through increased effectiveness of the Premier purchasing program. To achieve such returns in aggregate and individually, members will rely upon one another to sustain the purchasing commitment essential to that goal.

Because a member's failing to commit as others do will erode the strength of Premier's program and make it impossible to achieve optimum pricing and benefits for all, it is the intent of the members that lack of commitment as set forth in this policy will be subject to action by the members, acting through the appropriate committees and the Board. The first intent of all such action shall be to achieve commitment by addressing concerns or impediments as they arise.

**Effective Time**

This policy shall be effective immediately upon its approval by the Board of Directors of Premier.

Approved by the Board of Directors  
April 17, 1996

**ATTACHMENT A TO POLICY**

**PREMIER PURCHASING COMMITMENT PROGRAM  
LETTER OF INTENT**

The undersigned organization, eligible to participate in the Premier Purchasing Program by virtue of ownership or affiliation, hereby states its intent to comply with the Premier Group Purchasing Policy approved by its governing body, a copy of which has been provided to us.

This intent is based on recognition that full commitment to the group contracts of a large alliance group is essential to our obtaining market pricing for supplies that will enable our organization to remain competitive locally and provide high-quality health services within increasingly constrained payment rates. This intent is based as well on recognition that the pooling of large volume in combination with commitment is necessary to address the competition of growing national health care systems and other group purchasing organizations, and the market power of increasingly large and consolidating supplier companies.

Our organization will abide by the Premier Group Purchasing Policy, to include:

- Commitment to look first to the Premier Group Purchasing Program for our organization's purchasing needs and fully utilize group contracts to the extent possible.
- Commitment to protect the confidentiality of Premier group contract prices and terms, and in no event to leverage Premier prices to obtain a better price.
- Commitment to utilize the Premier Group Purchasing Program as our sole national group purchasing organization, with the understanding that our organization may, in addition, participate in one local or regional group purchasing organization for supplies not contracted by the Premier program.
- Commitment to enter into a letter of commitment, in a timely fashion, for the Premier Pharmacy Program and all Corporate Agreements, Strategic Agreements, and other contracts included in the Committed Program portfolio.
- Commitment to be subject with others participating in the program to the monitoring of our compliance with the policy and to appropriate action in the event our compliance is not consistent with policy provisions. It is understood that action may include termination of our participation in the program and/or Premier organization, consistent with the provisions of governing instruments, if our failing to sustain commitment is detrimental to the purposes and objectives of the purchasing program and thereby detrimental to members as a group.



**ATTACHMENT A TO POLICY**

**PREMIER PURCHASING COMMITMENT PROGRAM LETTER OF INTENT**

(Continued)

**PARTICIPATING MEMBER**

\_\_\_\_\_  
Organization Name

\_\_\_\_\_  
CEO (Print Name)

\_\_\_\_\_  
City/State

\_\_\_\_\_  
Title

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Materials Executive (Print Name)

\_\_\_\_\_  
Pharmacy Director (Print Name)

\_\_\_\_\_  
Title

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Title

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Signature

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Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

**ACKNOWLEDGED: PREMIER PURCHASING PARTNERS**

\_\_\_\_\_  
Alan Weinstein, Chairman

\_\_\_\_\_  
Date

RETURN TO: Premier Purchasing Program, Chicago Office  
Three Westbrook Corporate Center - 9th Floor  
Westchester, IL 60154