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HEADLINE: EXCEEDING EXPECTATIONS: EXECS OF 1-YEAR-OLD **PREMIER** DETAIL AMBITIOUS PLANS

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BODY:

Premier is just over a year old. And like an ambitious toddler, the nation's largest hospital alliance seems eager to move beyond its first steps and get on with the business of conquering the world.

At the alliance's first anniversary shareholder meeting and governance conference in Phoenix last week, Chief Executive Officer Robert O'Leary engaged in a bit of prideful chest-thumping over a raft of accomplishments and promised more to come.

"We (management) stand before you firmly established as the nation's largest healthcare alliance, represented in all states, the leaders in most markets, and depended upon by more than a third of all Americans seeking hospital and health services," O'Leary said.

O'Leary was quick to counter skeptics of the two-part merger of **Premier** Health Alliance, American Healthcare Systems and SunHealth Alliance that created **Premier** in January 1996. Many doubters had predicted widespread defections, but net membership has increased slightly. That defied even **Premier's** expectation that as many as 30 owner organizations with 50 or so hospitals might leave because of market conflicts or discomfort with purchasing compliance programs.

And first-year group purchasing savings, still the primary reason hospitals sign on with **Premier,** are expected to hit $650 million, up more than 30% from original estimates. In its first year of operations, group purchasing volume totaled just over $6 billion, with savings of $631 million, executives reported.

Not that there haven't been bumps along the way, O'Leary acknowledged.

Purchasing agreements have been slower to negotiate than expected, bogged down with "lawyers up to our eyeballs." And coordinating management in four major locations from coast to coast has also proved maddening at times, he added.

But boasting was the order of the day-complete with a comparison of **Premier's** ambitions to President John F. Kennedy's bold promise to put a man on the moon. O'Leary laid out plans that would make **Premier** much more than the largest group purchasing organization.

Those expansion plans include a fuller roll-out of a fledgling physician practice management unit that was quietly launched last July, formation of a limited liability corporation to handle capital equipment planning and purchasing, and adding a pair of business heavyweights with close ties to Wall Street as **Premier's** first true outside board members.

The new board members are John Hatsopoulos, president and chief financial officer of Thermo Electron Corp., a widely admired technology company, and William Mayer, dean of the University of Maryland business school and former president and CEO of First Boston Corp.

On the physician practice management front, **Premier** aims to succeed where other hospital-based approaches have failed through a division called **Premier** Practice Management. **Premier's** initial venture with Georgia Baptist Hospital in Atlanta and its purchase of a stake in an existing Atlanta-based PPM organization are the only deals that have been publicly announced. But **Premier**, O'Leary predicted, would crash the top 10 list of physician practice management groups in a matter of months, ranking as high as No. 6 based on current industry standings. By year-end, **Premier** will have established PPM beachheads in three new regional markets besides Atlanta, he said.

Physicians may be banding together and looking for outside help to manage their practices. But **Premier** has considerable physician skepticism to overcome because so few doctors have seen hospitals as natural practice management partners.

"Hospitals' primary objective is to fill beds and physicians' objective, increasingly, is to keep their patients out of those beds," noted Brooks O'Neil, a healthcare industry analyst with investment firm Piper Jaffray in Minneapolis.

Even hospitals that have overcome physician antipathy have often blundered when executing their business plans, O'Neil said. Hospitals, more often than entrepreneurs, have not picked the strongest physician groups. In addition, hospitals have generally entered into physician contracts too rich in base pay and short on incentives needed to influence physician behavior for the long haul.

Premier's model seeks to overcome those hurdles.

Under the alliance's plan, doctors, hospitals and **Premier** maintain equity stakes in the regional PPM. But in no case will equity stakes allow one of the three PPM partners to dominate the local company. That should go a long way toward aligning interests, but it could make quick decisionmaking tough.

Eventually, the regional PPMs would be rolled into a national company and floated as a publicly traded stock corporation within six years or so, O'Leary said.

"This is designed ultimately as an (initial public offering), and as a national organization it will appeal to Wall Street in a way local groups alone never could," O'Leary added.

Whether **Premier** can interest profit-minded physician partners in waiting that long to strike it rich remains to be seen.

Last week, **Premier's** board also reorganized its capital equipment businesses, consolidating them in a limited liability corporation called **Premier** Technology Management. Headed by **Premier** Vice Chairman Ben Latimer, the company combines technology assessment, capital equipment purchasing, and biomedical service and maintenance insurance.

For now, the focus is on helping members better manage the capital equipment life cycle: from technology assessment through purchasing, maintenance replacement and eventually disposal, Latimer said.

Toward that end, about 50 members are supplying their capital budget forecasts to **Premier** as part of a pilot project in purchase planning across the alliance. That allows more leverage for preferred pricing from vendors and easier consolidation of group purchases.

Latimer hinted that the new company's independent legal structure would create an opportunity for more creative equipment financing in the future; but he declined to elaborate.

Despite some predictions of erosion, membership has held steady since the merger that created **Premier**. The number of shareholder organizations stood at 240 as of Jan. 1, the same level on the date of the merger the year before. Meanwhile, **Premier's** shareholder hospitals rose by 15% to 748.

In addition to growth, O'Leary also offered some glimpses of how **Premier** is performing. Over the year, **Premier** has cut its administrative work force by 113 employees to 799, which translated into a $7 million reduction in salary expenses.

Figures on total revenues and administrative expenses weren't available at press time.

For the most part, member hospitals were neither turned off by zealous purchasing compliance policies nor driven out by regional conflicts, O'Leary said. Only 10 owners dropped out. But 10 others signed on to take their places.

"In most cases we've lost smaller rural institutions," O'Leary said, noting that they have been replaced by larger metropolitan health systems, such as Saint Barnabas Health Care System in Livingston, N.J.

In perhaps its boldest addition, **Premier** took over purchasing for the Greater New York Hospital Association, representing more than 55 New York-area hospitals.

Premier's simple but powerful buying strategy-move market share and vendors will follow-persuaded the New York association to shift group purchasing to **Premier**.

"This is all about vendors and how they perceive buyers," said Lee Perlman, vice president and chief operating officer for GNYHA's purchasing arm. "**Premier** has put buyers back in the driver's seat."

In New York, pharmaceutical contracts tell the tale. As a result of the **Premier** agreement, Glaxo Wellcome saw its antibiotic market share in New York hospitals rise to 59% by Sept. 30, 1996, up from 19% three months before, according to the GNYHA.

"We basically delivered market share," Perlman crowed. In return, GNYHA members cut drug costs by 7% by using **Premier's** pharmacy program.

Those price breaks depend on compliance with the purchasing program. But when faced with changing buying habits or laying off personnel to cut costs, most chief executives and financial officers at hospitals prefer to try a new approach to shopping instead of chopping, Perlman said.

That jibed with another **Premier** member's take. "People don't like to be required to change," conceded Douglas S. Peters, CEO of Jefferson Health System in Radnor, Pa. "The flip side is that if the (product) quality can be demonstrated as the same, the economics are powerful."

Said the GNYHA's Perlman: "We are making compliance a good thing."

Evidently so. **Premier** said only eight of 240 member organizations had so far failed to sign letters of