

Supply Chain at Sisters of Mercy ROi

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Mercy Health System

8th largest Catholic healthcare system in the U.S. (based on NPSR)

Seven-state area encompassing Missouri, Arkansas, Kansas, Oklahoma, Texas, Mississippi and Louisiana

- 
- ACUTE CARE HOSPITALS **20**
 - LICENSED BEDS **4,367**
 - HEART HOSPITALS **2**
 - PHYSICIAN PRACTICE LOCATIONS **385**
 - CO-WORKERS **35,580**
 - MEDICAL STAFF MEMBERS **4,626**
 - INTEGRATED PHYSICIANS **1,245**

Mercy's transformational journey

We began as
a holding company in 1986

We have become an
**an operating company with extraordinary
competencies in execution**

**The cultural evolution began in 1999 with
supply chain as the "tip of the spear."**



... integration is a better business model

Performance Consulting

- ▼ Med/Surg, Rx, Support Services
- ▼ **Standard Rx Formulary**

Group Purchasing

- ▼ Contracting
- ▼ Pricing Administration
- ▼ **Strategic Sourcing**

Supply Chain Management

- ▼ Consolidated Services Center
- ▼ Pharmaceutical Repackaging
- ▼ Purchasing
- ▼ Customer Service
- ▼ **Custom Procedure Tray Manufacturing**
- ▼ **Consolidated Transportation**
- ▼ **Instrument Repair**
- ▼ **Print Operations**

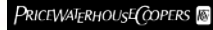
- Facilities:**
- Corporate Office – St. Louis
 - CSC – Springfield, MO

Co-workers: 300 FTEs

MISSION:

To improve clinical, operational and financial performance of our customers through a clinically integrated supply chain.

An Integrated Business Model



Consultant

Advise It

Contract It

Source It

Make It

Package It

Store It

Move It

Use It

Pay For It

GPO

Broker

Manufacturer

Packager

Distributor

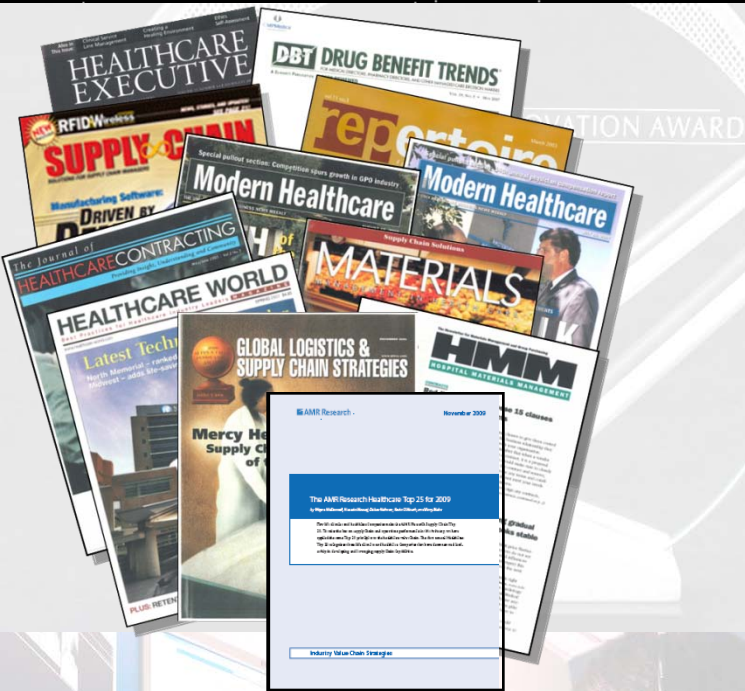
Transporter

Provider

Payor



Recognition



- ▶ Most Wired Supply Chain Innovator Award Finalist 2006
- ▶ NCI Supply Chain Innovator of the Year Award 2006 – One of three providers highlighted
- ▶ Winner – Council of Supply Chain Management Professionals – Supply Chain Innovation Award 2006 (October 2006)
- ▶ Winner – GHXcellence 2007 Award for Large Providers (April 2007)
- ▶ Winner – FierceHealthcare Innovator of the Year (May 2007)
- ▶ HFMA / AHRMM – Breaking down Barriers: Achieving a High Performance Finance/Supply Chain Team (May 2007) – Highlighted Large Provider
- ▶ Winner – GHX 2008 Innovator of the Year
- ▶ IDN Summit Peer Award Winner (April 2009)
- ▶ #2 Healthcare Supply Chain Company – AMR Research

Lessons learned along the supply chain journey

Align supply chain with the business strategy

Get control of the information

Get control of the flow of goods

Get control of the relationships



Current Initiatives

WHAT

Strategic alignment with trading partners

“Align supply chain with the business strategy”

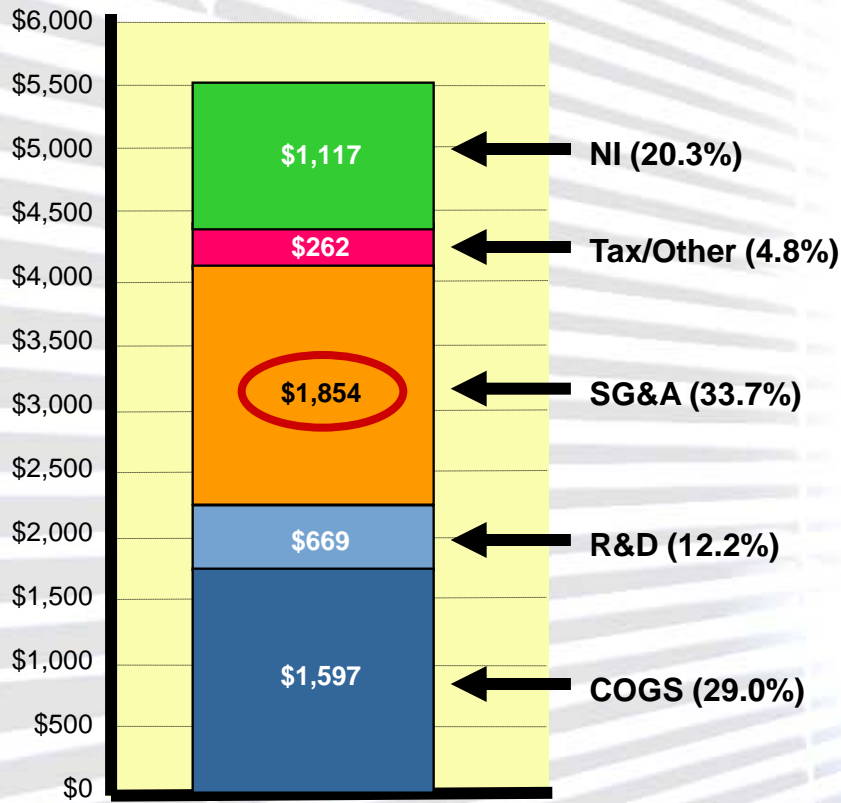
“Get control of the relationships”

WHY

- ▶ **Increase supply chain transparency**
- ▶ **Share responsibility and accountability**
- ▶ **Reduce operating costs**
- ▶ **Improve service**
- ▶ **Position Supply chain to help deliver a new care model**

Rationalizing SG&A Costs

Spend Breakdown of a Hip Implant



Straw Analysis Typical \$1 of Spinal Device Revenue

\$1.00 Dollar of Revenue Spinal Device Companies

- .15 Device
- .07 Royalties
- .13 R & D
- .13 Sales & Marketing
- .12 G & A
- .25 Representation Compensation
- .07 Inventory/Set Depreciation
- .02 Air-Freight
- .04 Taxes
- Total .98
- Profit .02



Are we the problem?

SG&A is a reflection of what it takes to get the product to the customer

Current Initiatives

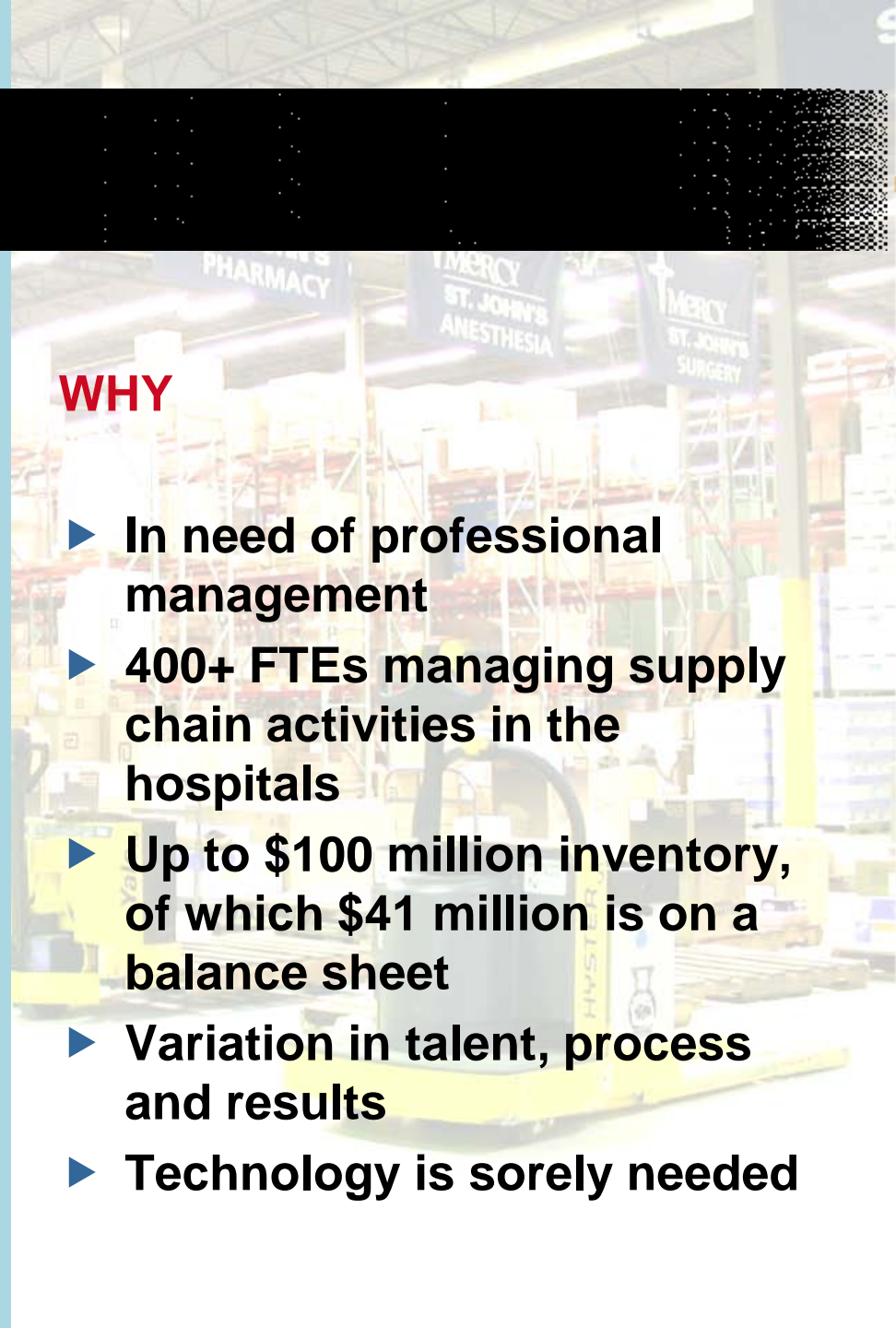
WHAT

Integrate Dock-to-Patient with Manufacturer-to-Dock (ROI) Supply Chain Operations

“Get control of the flow of goods”

WHY

- ▶ **In need of professional management**
- ▶ **400+ FTEs managing supply chain activities in the hospitals**
- ▶ **Up to \$100 million inventory, of which \$41 million is on a balance sheet**
- ▶ **Variation in talent, process and results**
- ▶ **Technology is sorely needed**



Current Initiatives

WHAT

Strategic Sourcing



WHY

- ▶ **Unlock significant financial value across multiple spend categories**
- ▶ **Enfranchise end users in product development to drive compliance**
- ▶ **Improve quality & service**
- ▶ **Allow other providers to benefit for mutual value**

Why self manufacture Custom Packs?



Why do we need Data Standards?

To enable **Perfect Order** and eliminate back-office rework and non value added activity

“Get control of the information”

“Get control of the flow of goods”

A PO processed electronically (from order to payment) without human intervention ensuring that the:

- ▶ Right Product
- ▶ In the Right Unit of Measure
- ▶ Is Delivered to the Right Place
- ▶ At the Right Time
- ▶ At the Right Place

Mercy/ROi and UDI

- ▶ Contributing member of national standards efforts - HSCSC
- ▶ Chair of the “Application and Implementation Workgroup” for GS1 Healthcare
- ▶ Presenter to FDA on topic - 2009
- ▶ Part of lead adopter program for GHX and Lawson
- ▶ Part of DOD Global pilot –synced info with vendor through an international data pool
- ▶ Participated in GDSN lead adopter program for GS1
- ▶ Adoption of GLN:
 - ▶ Provider - 54 ship to points today replacing all customer numbers
 - ▶ GPO - Obtained GLN's for all GPO members (900 members)
 - ▶ Manufacturer - Trace sales of components by GLN (kit explosion tracking)
 - ▶ Distributor - Report distribution for sales by GLN
- ▶ Adoption of GTIN:
 - ▶ Provider - Support but restricted by Lawson capabilities – expect solution by Feb. 2010
 - ▶ **GPO - Firm contract language with penalties on use of GS1 standards**
 - ▶ Manufacturer - Establishing company code for ROi as manufacturer with assigned GTIN's
 - ▶ Distributor - Intend to switch item numbers to GTIN when available

Healthcare Reform



We believe that...

- ▶ The U.S. healthcare model, as we know it today, is broken and needs reform
- ▶ Provider revenues will be reduced
- ▶ Providers will need to:
 - Operate more efficiently
 - Align closer with physicians
 - Consolidate
 - Find new, higher margin, business ventures
 - Expand care to lower cost venues

Questions for Medical Device Suppliers...

- **Is there Trust and Transparency in your channel partner relationships?**
- **Are you keeping up with the evolution of your customers?**
- **Is your Supply Chain organization at your company's "strategy table"?**
- **Is your Supply Chain organization at your customer's "strategy table"?**
- **Do your products deliver measurable quality outcomes that contribute positively to your customer's bottom line?**
- **How can we all co-exist and make a fair profit?**