



Mercy Launches Private Label Brand: "Mercy - The Mark of Quality"

When you stand at the grocery store comparing a brand name product to the store brand, what do you think about? You know from looking at the price tag that the store brand costs less. If you have used it before, you also know that the store brand is nearly always the same product as the name brand, just with a different label on the outside. Many people choose to buy store brand products for this very reason: they get the same high-quality product at a lower price than the name brand.

When obtaining products for use at its hospitals and physician offices, the Sisters of Mercy Health System (Mercy) has the same concerns as individual consumers. That is why Mercy has decided to launch its own brand of clinical products under the private label, "Mercy - The Mark of Quality." Developing a private label brand allows Mercy to assure product quality and achieve cost savings by going directly to the manufacturer, rather than working through a third party.

"We are called by our core values of excellence and stewardship to ensure that we obtain the highest quality products at the lowest reasonable price. Our private label brand allows us to do that," said Vance Moore, president of Resource Optimization & Innovation (ROi), Mercy's group purchasing and supply chain division. "Private label brands are the same product, obtained from the same manufacturer. The only difference is that they have our label instead of a brand name."

Clinical Input Drives Implementation

The process of selecting products for private label implementation is conducted

very carefully, with clinical input as the main driver. The products selected are put through the ROiAligned process, which solicits clinical input and opinions from physicians and co-workers at our Strategic Service Units on the standards that products should meet. Once the best available manufacturer and product are selected, Mercy will use the manufacturer's label brand for a 30 to 90 day trial period in a hospital environment. Only once it has been determined that there are no concerns or quality issues with the product will the Mercy private label be placed on it.

"A product will not be considered for the private label brand without clinical input from the very beginning to ensure quality and needed specifications," said Kay Donze, director of member services for ROi. "We will not put the private label on any product where we cannot achieve cost savings and equal or better quality than we had before."

Mercy plans to start the private label initiative small and allow it to grow slowly, in order to establish a smooth process and ease the transition from favored label brands. The first products to be manufactured in fiscal year 2007 under the "Mercy - The Mark of Quality" label will be universally-used products, such as advanced wound care products, EKG chart and monitoring papers, and IV start kits. One aspect of Mercy's private label

strategy is to recognize the value of our vendor partners and the expertise they bring to their products. As a result, there is a large area of products where private label may not be the best choice.

"Private label is a small portion of our total business and that gives us options not available to most health systems," said Gary Kane, vice president of group purchasing for ROi. "Knowing that we can develop a direct partnership with a manufacturer to produce, stock and distribute our own product presents vendors with a sound and reasonable business case for contracting



Mercy private label products will display the "Mercy - the Mark of Quality" brand.

with us at reduced prices while delivering equal or improved quality."

Quality Improvement and Cost Reduction

Currently, Mercy buys products from multiple vendors, who in turn, buy from a handful of manufacturers using standard specifications. If certain product modifications are needed, Mercy must choose from available products the one that most closely meets these needs, and physicians and co-workers have to use the product "as is." Private label allows Mercy to eliminate the middleman and work directly with the manufacturer to incorporate clinical input, ensuring that we manufacture exactly what Mercy needs.

"Private label allows us to focus on function, not the brand," said Moore. "By moving items to Mercy's private label, we have the ability to contract with the specifications rather than the brand name to maintain quality and pricing."

Another part of the private label strategy is to eliminate selling and general administrative expenses that manufacturers build into the pricing of these products.

"Unlike most private labels, Mercy's brand is developed around clinical and operational needs, not revenue improvement," said Moore. "But that doesn't mean it won't benefit us financially. By eliminating costs associated with sales, shipping and administration, we anticipate savings at 10 to 20 percent below where we are today."

Developing the Mercy Brand

Unlike many other private label programs, the guiding principles for Mercy's private label initiative require us to focus on developing potential relationships with local, regional and national manufacturers, looking overseas only as a last resort. Mercy believes in forming relationships with manufacturers within our geographic area whenever possible.

"When we look within our own marketplace for manufacturers, we support their employees, who likely are served by our hospitals and physician offices," said Kane. "We are supporting the people who support us. In this way, our private label strategy helps us give back to the communities in which we operate."

In addition to being an advantage to Mercy financially, clinically and socially, Mercy's private label also has branding implications for our co-workers and the general public. "Mercy - The Mark of Quality" not only emphasizes the Mercy name with the public and the healthcare industry, it also links it to demonstration of quality care. Today Mercy has over 1,400 physician practices. As the private label spreads over time to products that are recognizable to patients, such as bandages, the Mercy name will continue to be reinforced in their minds with each visit to their physician or hospital.

The private label also connects Mercy co-workers with the brand because they have input into the products that bear its label and can take pride in their work. It is Mercy's hope that co-workers will want to use the products they helped create. High utilization rates mean cost savings for Mercy, and the potential for greater investment in other areas of our mission.

"Private label amplifies the voice of our co-workers. When you give your input on a product, you are connected to it in a special way," said Kane. "We believe that our co-workers will be enthusiastic about showing pride in the Mercy name. We hope that they will be proud to use products that stand for and support the Mercy mission, values and standard of quality." •

Message from the President

In our technology-driven world, it is no surprise that emerging medical technology is a key component of the healthcare industry's future. At the Sisters of Mercy Health System (Mercy) we understand the potential of such technology to improve the lives of our patients and the quality of care given by our co-workers.

Over the last few years, Mercy has begun to introduce examples of emerging medical technology at our hospitals. Mercy Meds bar-coded medication administration was a significant recent initiative aimed at reducing medication errors. In FY 2003 we began the Genesis Project, one component of which will bring electronic health records to our hospitals and physician offices to streamline patient care.

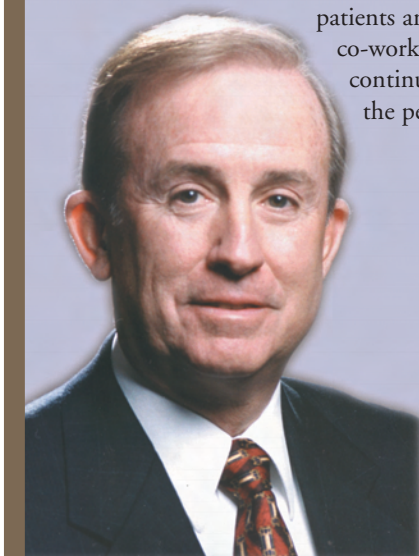
Today we are proud to introduce Mercy SafeWatch, an electronic intensive care program that allows our most critically ill patients to be remotely monitored by specially-trained intensivists and experienced intensive care unit nurses to support and compliment the efforts of bedside caregivers on a 24/7 basis. As the article on page one makes clear, Mercy SafeWatch in no way replaces bedside caregivers; rather it enhances patient safety by adding an additional layer of care and monitoring.

Mercy SafeWatch is one of many emerging medical technologies that Mercy sees as having potential advantages for our patients and our co-workers. We are constantly investigating the many additional ways that technology can be used to benefit our patients and increase the quality of care provided by our co-workers. I believe that this new technology will continue to enhance the quality of services we provide to the people we serve.

Sincerely,

Ron Ashworth

President and Chief Executive Officer
Sisters of Mercy Health System



Mercy Safewatch continued

The Mercy SafeWatch team can have two-way conversations with nurses and doctors who are in the specially equipped rooms, as well as with the patient. The patient also can be viewed, if needed, through the use of a special in-room camera, which can scan and zoom in to read even very small details.

"No recording is made from any camera or microphone, and Mercy SafeWatch doctors and nurses only view patients when necessary to see how they are doing," said Mercy SafeWatch operations director Wendy Deibert, RN, BSN. "When the camera is turned off, the camera lens turns inward toward the wall. A doorbell signal also sounds when the two-way microphone in the patient room is turned on."

Patient health information is securely protected and limited to those with hospital authorization to ensure privacy. Information sent to and from the Mercy SafeWatch center is scrambled (encrypted) as it travels across the data lines, then unscrambled when the information arrives so that the authorized physicians and nurses can read it.

The Mercy SafeWatch team collaborates with on-site clinicians at the level requested by each patient's attending physician to care for the patient. Because the patient's overall care is enhanced, time spent in the critical care unit can be reduced.

"Patient safety and satisfaction are our top priorities, and we believe that the Mercy SafeWatch supplemental staff and technology will further enhance the high-quality care provided at our hospitals," said Dr. Veremakis.

"Other hospitals have had tremendous success with similar programs, experiencing a 15 to 20 percent reduction in ICU mortality rates, a 10 to 15 percent reduction in ICU length of stay, reduced code blues, significant reduction in ICU nurse turnover and improved patient satisfaction," Deibert added. "By implementing Mercy SafeWatch, we will continue to touch lives both directly and with the help of technology." •