

Organizational Profile

P.1 - Organizational Description

P.1 a Organizational Environment

P.1 a(1) Premier is a healthcare strategic alliance entirely owned by not-for-profit (NFP) hospitals and health system organizations that operate both hospitals and other kinds of care services (our Owners). Premier is the second largest of the few nationwide alliances serving NFP healthcare. Our 200 Owners operate or are affiliated with approximately 1,500 hospitals (ranging from community hospitals to renowned referral centers) and thousands of non-hospital sites such as nursing homes and ambulatory centers.

Our Owners take part in Premier to share needed services and programs aimed at improving clinical quality and cost-effectiveness, locally and ultimately health industry-wide. We seek to provide them overall value combining returns of equity ownership with demonstrable results from their putting our services to use. Owners and Affiliates (together called alliance Members) are our primary customers. We understand that the savings and other improvements that we help Members achieve contribute to better, less costly healthcare in America.

Premier administers the alliance enterprise through which participants engage. We operate three Business Units (BUs) that deliver services to Members and other customers. The services are in these categories: group purchasing and supply chain management, insurance and risk management, and informatics and performance improvement (including comparative measurement and reporting systems, benchmarking, and best-practice transfer) (Figure P.1-1, next page). We focus on these categories because they benefit from alliance scale and links, they offer particular potential for measurable impact on quality and cost-effectiveness (addressing the core clinical processes of healthcare providers as well as high-expense areas such as supply chain and labor productivity), and their high synergy yields opportunity for performance improvement breakthroughs. We surround all with a broad framework of knowledge-sharing and improvement initiatives of many kinds.

Our group purchasing ranks first among all in the annual volume of goods (\$25 billion) bought through group arrangements. Premier Insurance Management Services (PIMS) helps hospitals manage insurance costs and improve risk management and claims capabilities. Our comparative databases of healthcare performance indicators are the most comprehensive in the industry and are complemented by sophisticated resources for using their experience evidence to improve care and operations.

Premier and its Members have years of experience using evidence data to make improvement - individually and in collaborative work on targets such as heart attack patient outcomes. In 2004, we initiated a partnership with the U.S. Centers for Medicare and Medicaid Services (CMS) and more than 260 volunteer hospitals in a three-year project to demonstrate that Medicare payment incentives for superior patient care stimulate improved quality in five clinical areas. Initial results of this Hospital Quality Improvement Project (HQID), validated by CMS, are positive. They show that participating hospitals' quality scores improved markedly (Figures 7.1-4 through 7.1-7), and the spread between high and low narrowed. This initiative is providing us further opportunity to invent and test collaborative improvement approaches.

P.1 a(2) When Premier was created in 1996, our Owners and elected governing board (BoD) worked to formulate and begin embedding foundation tenets. They established what we call our Core Purpose, Core Values, Big Hairy Audacious Goal (BHAG) to be reached 10 to 30 years out, and Envisioned Future (detailed vision of future reality if our BHAG is reached). Added later were Core Roles, addressing Premier's specific mission components. Shared in-common with Owners, these foundations (Figure P.1-2) provide a common set of values that undergird our culture.

Figure P.1-2 Premier Foundation Statements

Core Purpose: To improve the health of communities.

Big Hairy Audacious Goal (BHAG): Premier's Owners will be the leading healthcare systems in their markets, and, with them, Premier will be a major influence in reshaping healthcare.

Envisioned Future (10-30 year goal):

Our founders crafted a detailed picture of a healthcare system and alliance at their best if we succeed in realizing our BHAG. They provide insights as to "how" we are to advance toward it by helping enable local improvement. Some excerpts:

- Across the nation, our Owners, physicians and other allies will lead the local transformations that are the building blocks of a reshaped healthcare system.
- Our Owners will operate at costs in the lowest quartile...and at quality levels in the highest quartile.
- Together...we will invent new and superior models for delivering health services, and we will leverage the size, linkages, and resources of Premier to deliver those services to more people, at a lower cost and higher quality.
- We will research and use the most effective and seamless clinical approaches to achieve superior health outcomes and increased value.
- Our competitive edge will be the unmatched ability to transfer and act on our collective experience and innovation.
- Our Owners will earn recognition as the most valued community resource for healthcare. As a result of their efforts, "Premier" will be viewed as the hallmark of quality and value that all others seek to emulate.

Core Roles:

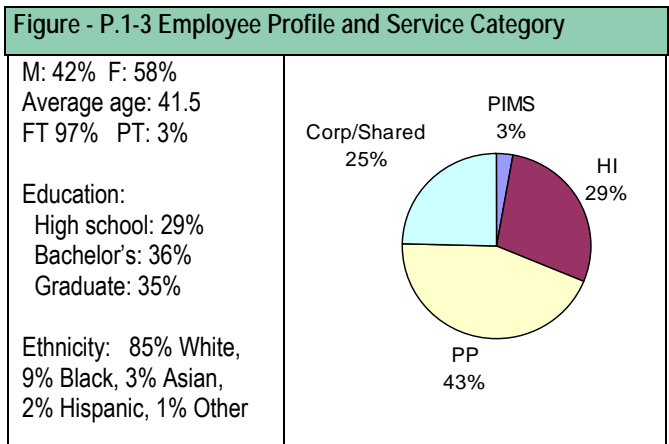
- Create value for Owners
- Improve quality, reduce cost
- Facilitate knowledge transfer
- Improve organizational health
- Grow the enterprise
- Improve financial health

Core Values:

- *Integrity* of the individual and the enterprise.
- *A passion for performance* and a bias for action, creating real value for all stakeholders, and leading the pace.
- *Innovation*: Seeking breakthrough opportunities, taking risks and initiating meaningful change.
- *Focus on people*: Showing concern and respect for all with whom we work, building collaborative relationships with the community, our customers, co-workers, and business associates.

Figure P.1-1 Premier's Main Products and Services				
BU	Product/Service	Delivery Method	Customer Group and Requirement	Major Competitor/Market Position
Purchasing Partners (PP) Group purchasing and supply chain services	Group contracts through which healthcare buyers may purchase supplies, pharmaceuticals, and equipment at competitive terms	Direct. Standing access to contracts provided through electronic catalogs and systems. Contracted sellers provide purchased goods directly to Members holding group purchasing <i>participation agreements</i> with Premier.	<i>Member hospital/healthcare organizations</i> <ul style="list-style-type: none"> Contract price, differentiated value (7.1) Comprehensive, competitive portfolio (7.1) Leading-edge technology and products (7.1) High quality suppliers (7.1) Effective contract launch <ul style="list-style-type: none"> Contract timeliness (7.5) Data accuracy (7.5) Code of Conduct (7.6) 	
	Professional/technical support for purchasing/supply chain improvement	Direct. Provided through Premier consulting/advisory staff, typically onsite. Supply Chain Improvement Plans (SCIP), collaborative work groups, educational meetings, studies.	<i>Member hospital/healthcare organizations</i> <ul style="list-style-type: none"> Total Value (7.1) Data, benchmarking, best practices (7.1) Customer support and field expertise (7.1, 7.5) High "touch"; involvement 	
Healthcare Informatics (HI) Advisor Suite and performance improvement services	<i>Advisor Suite™</i> healthcare performance measurement and reporting system	Direct. Standing access to comparative databases and associated tools through Web-based application	<i>All U.S. healthcare systems regardless of Premier affiliation, Government agencies (CMS), Pharmaceutical companies</i> <ul style="list-style-type: none"> Data integrity, accessibility, and timeliness (7.1, 7.5) Customer support (7.1) HIPAA (7.6) 	
	Advisory services: Professional/technical support for performance improvement.	Direct. Provided through Premier consulting/advisory staff, and Performance Engineers, typically onsite. Rapid Improvement Portal	<i>All US healthcare systems regardless of Premier affiliation</i> <ul style="list-style-type: none"> Savings/Return on investment (7.1) Data, benchmarking, best practices 7.1) 	
Premier Insurance Management Services (PIMS) Insurance and risk management	Management services for risk-bearing liability insurance company of some Owners (AEIX)	Direct. Premier furnishes executive and operations management for the company.	<i>Member hospital systems meeting minimum self-insured requirements</i> <ul style="list-style-type: none"> Competitive pricing (7.3) Broader policy terms and conditions (7.3) Educational programs (7.1) Loss mitigation (7.1, 7.3) 	GPO alliances
	Sponsored insurance programs involving group arrangements with insurers	Group arrangements provided by Premier. Insurance coverage provided by insurers to Members consistent with group arrangements.	<i>Member hospital systems meeting minimum self-insured requirements</i> <ul style="list-style-type: none"> Competitive pricing (7.3) Broader policy terms and conditions (7.3) Enhanced service offerings (7.1, 7.3) Streamlined enrollment process (7.5) 	

P.1 a(3) Currently, we employ 927 people in management, administrative and support, professional, and technical positions. We minimally engage contracted employees, and we have no organized bargaining units. Approximately 75 percent of employees perform their work in Premier office locations and 25 percent are "field staff" based outside our offices, providing support and liaison to multiple customers or engaged full-time at their sites. Average tenure is 5.6 years. The breakdown is 1-4 years, 48%; 5-9 years, 38%; 10+ years, 14%. Figure P.1-3 provides other employee dimensions. Safety and health requirements for employees include the normal considerations of workplace safety, ergonomics, and disaster preparedness.



P.1 a(4) We have office facilities in San Diego, Calif. (7 % of staff), Charlotte, N.C. (68 % of staff), and Washington, D.C. (<1% of staff). Employees, services, and Members are supported by a consolidated data and technology support center in Charlotte. Besides the substantial electronic systems required supporting a widespread employee, Member, and service base, we have developed proprietary technology unique to the products and services we provide. Principal examples are large comparative database systems and customized systems that automate group purchasing contract administration and connectivity between us, our Members, and Contracted Suppliers.

P.1 a(5) Except as described here, no special licensing, certification, registration, standards or accreditation requirements apply to us. Insurance activities are properly registered and licensed in required jurisdictions. Our comparative databases are operated to comply with the Health Insurance Portability and Accountability Act (HIPAA) of 1996, dealing with patient information. Our group purchasing organization (GPO) must comply with federal laws and regulations relating to handling of contract administrative fees. We not only comply with ethical standards of the Code of Conduct for GPOs developed in 2002 through the Healthcare Industry Group Purchasing Association (HIGPA), but exceed them in our own more detailed Code of Conduct (CoC). We are leaders in an additional, industry-wide initiative, to have universal ethical standards for GPOs adopted and adherence publicly reported. Though we are not subject to the many requirements affecting hospitals and other healthcare providers, we keep abreast of them and operate services consistent with customers' needs to comply, for example, with licensing and accreditation requirements, OSHA and FDA requirements.

P.1 b Organizational Relationships

P.1 b(1) Our Owners are stockholders in Premier, Inc. (PI) and simultaneously hold a limited partnership interest in our other main operating company, Premier Purchasing Partners, L.P. (PP) in which group purchasing and supply chain activities are operated. A wholly-owned subsidiary of PI serves as general (managing) partner of PP.

The President of PI is the employed chief executive officer (CEO) of the overall enterprise. Our CEO reports to the PI Board of Directors (BoD). Elected by our Owners, the 14 members of the BoD are 10 executives of Owner hospital/health systems, one executive of an affiliate group, two independent persons from backgrounds outside healthcare, and our CEO (the sole management director). These same members also serve as the Management Committee of PP. The BoD is assisted by three Board committees composed of directors:

The Committee on Directors encourages effective governance, reviewing and recommending policies relating to BoD functions. The Committee oversees formal bi-annual BoD assessment, administers the BoD compensation plan, and manages processes to address conflict of interest matters relating to the BoD. It is responsible for the nominating function -- identifying, evaluating and recommending BoD nominees -- and for recommending appointments to committees.

The Audit Committee supports Board oversight and responsibilities to stockholders and public. It oversees internal accounting systems and financial controls, the performance of independent auditors and internal audit function, auditors' qualifications and independence, management of Premier financial affairs, and Premier's compliance with ethics policies and legal and regulatory requirements.

The Compensation Committee provides framework and oversight for Premier's executive compensation program. It reviews and approves all compensation for Premier's CEO and conducts CEO performance

evaluation. The Committee reviews and makes recommendations to the BoD regarding establishment and achievement of Corporate Goals related to executive compensation.

Senior executives of all business entities/units report to the CEO of Premier. They are not members of the BoD. The Ethics and Compliance Officer (ECO) reports directly to the BoD Audit Committee.

P.1 b(2) Premier's 200 Owners directly operate about 775 hospital facilities and hundreds of other care sites in 50 states. (The 775 are about 26 percent of the nearly 3,000 NFP, non-governmental, community hospitals in the U.S.) Another 700 hospital facilities and several thousand non-hospital care sites have affiliation arrangements (not involving equity ownership) with Owners and/or Premier for specified alliance services such as group purchasing. Owners and Affiliates compose our largest customer group.

Owner Membership is available only to NFPs typically not in local competition and meeting eligibility qualifications. Owner Member expectations relate to return on equity from earnings, election of directors, and access to the entire array of alliance offerings, specifically to include the fundamental of group purchasing. They also expect involvement in activities such as networking and knowledge-sharing and strong support in utilization of alliance resources. Affiliate Membership for non-Owners provides eligibility to use specific services as per terms of the affiliation arrangement. In general, only Owners and Affiliates are eligible for group purchasing and supply chain services and for insurance services. Owners, Affiliates, and all other U.S. hospitals and health systems are potential customers for HI services. (Non-alliance customers contribute not only scale and revenue but also expanded capacity for benchmarking.) Regardless of type, customer requirements for discrete services are similar (Figure P.1-1).

P.1 b(3) We have two kinds of supplier/partner relationships:

1. Contracted Suppliers: The approximately 750 manufacturers and distributors of goods and services that have entered into group contracts with us to provide them to our Owners and Affiliates.

2. Strategic Relationships: Organizations that partner with us to augment or complement our services for customers. Examples are Global Healthcare Exchange for electronic commerce, Zynx Health, Inc., for physician order sets and rules incorporated in Informatics services, Institute for Healthcare Improvement as a partner in knowledge-sharing projects, and CMS for our HQID project (P.1a-1).

Our requirements for each (and their requirements of us) are formally set forth in our CoC and customized contractual documents that also detail service arrangements, reporting, and communications. We sustain ongoing interaction through various means to refine unique services and delivery methods for our customers-in-common.

P.1 b(4) We communicate with our Strategic Relationships and Contracted Suppliers using common communication mechanisms such as direct on-site meetings, regular conference calls, supplier Web site, negotiation sessions, Contracted Supplier business reviews, e-mail and mailings, and our annual Breakthroughs Conference.

P.2 - Organizational Challenges

P.2 a Competitive Environment

P.2 a(1) Premier operates in the broad Group Purchasing Organization (GPO) market, and within that, the segment of GPOs operated by alliances. The broad market comprises 1,109 GPOs of diverse types. Seven are nationwide primary GPOs, serving approximately 85 percent

of the U.S. hospital market. (Additional information in this section has been blinded given its confidential nature)

P.2 a(2) Our success factors include the following:

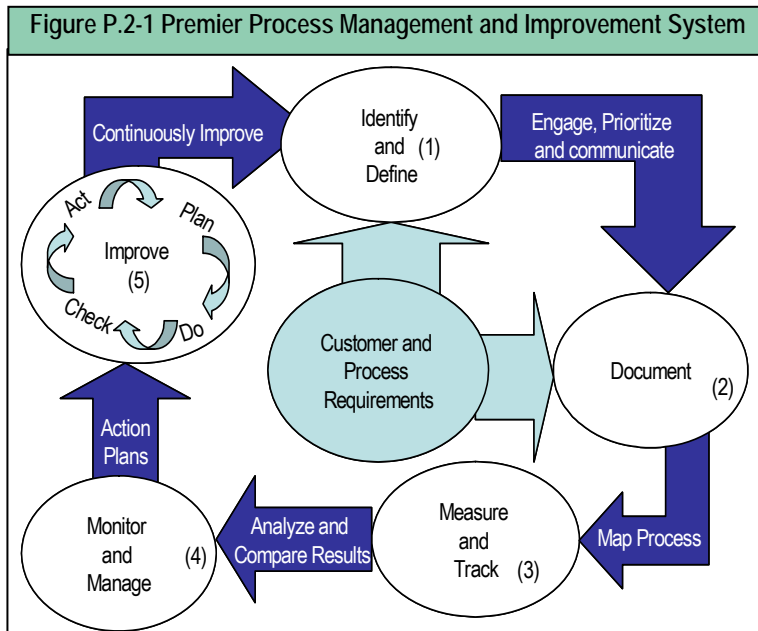
1. Specific array of alliance resources and services offering demonstrable capacity to have significant impact on healthcare quality and cost-effectiveness. These must include group purchasing services superior in such key attributes as best pricing.
2. Overall value created for alliance participants through equity return and benefits (savings, etc.) from using alliance services.
3. Ease and affordability of entry and service access.
4. Depth and scope in level of engagement (and Owner choice in determining it). This includes extent of field support for alliance activities and utilization of services, and extent of networking, knowledge-sharing, and other collaborative activities.

A groundswell of calls for “pay-for-performance” is creating interest in our HI services. Insurers and other payers are seeking to relate provider payments to quality of patient outcomes. Premier’s systems stand apart in capacity to measure them. Our HQID with CMS, employing our systems, is highly visible. Continued successful performance will lend credence to our offerings.

P.2 a(3) Adhering to the Code of Ethics of the Society of Competitive Intelligence Professionals for gathering and reviewing information, we benchmark performance and enlighten strategy-making with analyses vis-à-vis alliance organizations like Premier, other kinds of service enterprises of similar size, enterprises providing like services, and best-practice enterprises of all kinds. To obtain information, we engage assistance from companies such as KnowledgeSource, Inc., Sg2, Hoovers, TARP, Lumen Research, Watson/Wyatt, Mercer, and Portland Research and use search engines such as Factiva and Verispan. We use information from such sources as benchmarking studies, customer and supplier feedback, government, professional organizations, company annual reports and releases, and organizations such as AHA, IHI, and The Advisory Board. We study National Baldrige Quality Award recipients and engage with alliance Owners also committed to Baldrige criteria (including two previous Baldrige Award winners). Among the most difficult information to obtain but most critical is comparison of GPO product pricing, usually kept highly confidential, variable by customer volume and commitment, and disguised in transaction terms. Our methods for obtaining it have continuously improved.

P.2 b Strategic Challenges

P.2 b (Additional information in this section has been blinded given its confidential nature)



P.2 c Performance Improvement System

P.2 c We seek to continually enhance “how” we improve and learn, using Baldrige Criteria as our overall improvement framework. For five years, we have undertaken performance assessment vis-à-vis the Criteria by independent examiners and through our annual risk assessments. Efforts today reflect their feedback and our insight and commitment to improving. Our approach comprises the criteria and two main systems, the use of robust process improvement tools, and improvement plans and teams. The Premier Leadership System (Category 1) is employed consistently by all managers. Among its key stages is “improve, spread, and sustain.” Supporting that stage is our Process Management and Improvement System (PMIS), described in Category 6, providing a systematic way to communicate, carry out, evaluate, and learn. (Figure P.2-1) In support of that system, we deploy Lean Six Sigma throughout Premier and provide related training for all employees. Additionally, our internal audit process validates improvement gains and identifies additional controls required to maintain gains and reduce performance gaps. Our cross-unit Performance Excellence Assessment and Knowledge (PEAK) Team coordinates corporate improvement activities overall including efforts to address opportunities revealed in Baldrige assessments. Figure P.2-2 demonstrates a few of the key improvements resulting from team work performance cycles, aligned with impacted Criteria categories.

Figure P.2-2 Premier Cycles of Improvement						
Yr	Key Improvements Made	Leadership	SPP	Customers	M & A	HR & Work PM
99	Initiated Business Line Reviews begun		✓		✓	
00	Integrated budgeting, SPP undertaken		✓			
	Added Contracted Supplier Website				✓	
	Integrated Baldrige Criteria; PEAK team	✓	✓	✓	✓	✓
01	Updated goal structure	✓			✓	
	SU liaisons for BU Leadership Teams	✓				
	Social Responsibility Program begun	✓				
	Employee intranet board launched					✓
	Premier Learning Institute added					✓
02	Sarbanes-Oxley adherence undertaken	✓			✓	
	CoC approval and all employee training	✓				
	CEO/all-employee calls, “Connections”					✓
	“Managing at Premier” launched					✓
	SU, BU process alignment increased					✓
	Process mgmt system deployed					✓
03	BoD assessment process begun	✓			✓	
	SPP- “Line of Sight” goal project		✓			
	Relationship initiatives undertaken			✓	✓	
	Communications subteam formed	✓				✓
	Job posting system implemented					✓
	Disaster Recovery prog implemented				✓	✓
	Process improvement tools added					✓
04	SPP revised to align org. activities	✓	✓			
	Employee ethics survey begun	✓				
	Business Intelligence group formed		✓	✓	✓	
	OR frequency increased		✓			
	Regional customer meetings update			✓		
	ASD learning sessions undertaken			✓		
	Supplier VPs added			✓		
	CLC restructured					✓
	Business continuity plan implemented					✓
05	Leadership provided for new HGPII	✓				
	Initiatives mgmt process formalized		✓			
	Value scorecard implemented			✓	✓	
	“Monday Minutes” begun	✓			✓	
	“Premier Ideas” begun				✓	✓
	Cornerstone portal begun				✓	✓
	Wellness program expanded					✓
	Process matter experts identified	✓	✓	✓	✓	✓
	Lean Six Sigma launched	✓	✓	✓	✓	✓
06	IdeaScope begun in HI			✓	✓	
	Add'l Leadership Development program					✓