

Healthcare Resource and Supply Management *Opportunities and Challenges*

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U.S. Healthcare

Industry Challenges

U.S. Hospital Financials

The cost of healthcare composed 17.3% of the U.S. GDP in CY11, and continues to grow each year. Correcting the trend will require dramatic change for Providers

Average U.S. Hospital



Key Characteristics

300

Number of beds

2.2%

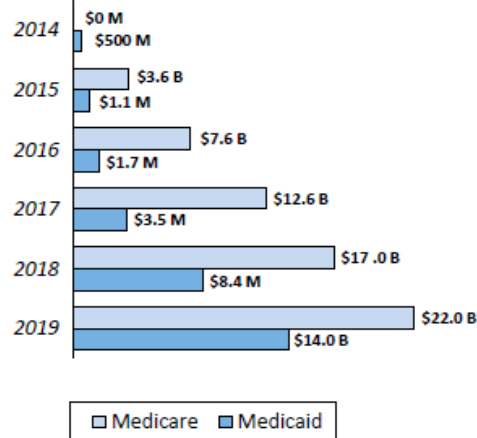
Operating margin

73%

Medical share of case mix

Affordable Care Act Payment Reductions

Cumulative Federal Revenue from Decreased Medicare and Medicaid DSH Payments



\$110 B Cuts to Medicare Fee-For-Service rates
\$36 B Cuts to Disproportionate Share Hospital payments

Projected 2021 Operating Margin

-16.9%

+

=

U.S. Hospital Financials

The cost of healthcare composed 17.3% of the U.S. GDP in CY11, and continues to grow each year. Correcting the trend will require dramatic change for Providers

Ascension Health's Trend Data, January – May 2013

Outpatient Visits are down 2.8%

Inpatient Visits are down 3.2%

Equivalent Discharges are down 2.1%

Net Revenue is down 2.3%

of beds margin of case mix

\$110 B **\$36 B**
Cuts to Medicare Cuts to Disproportionate
Fee-For-Service rates Share Hospital payments

1
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%
6



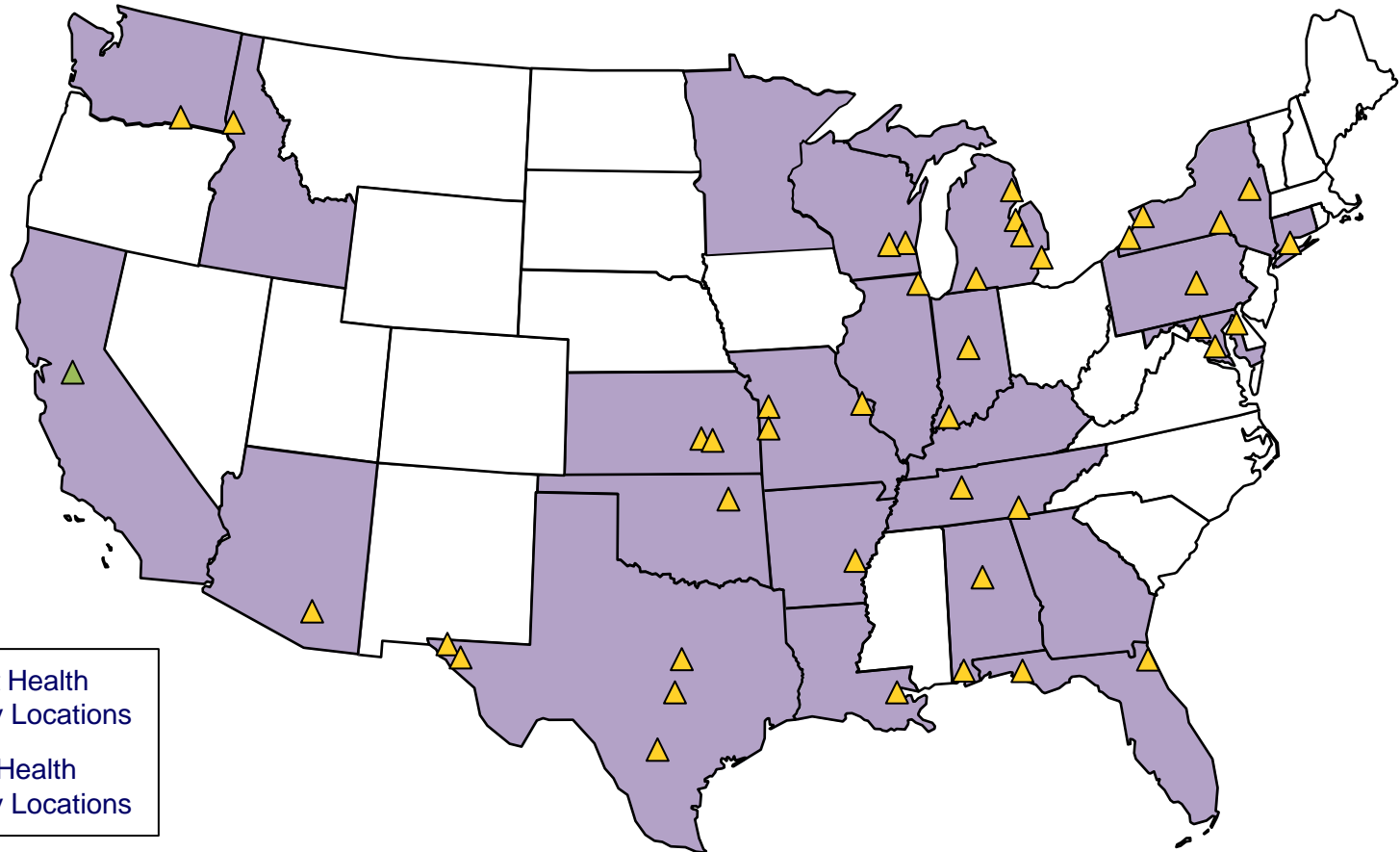
The Resource Group

Overview

Ascension Health

Geographic Scope and Complexity

Ascension Health's 150,000 Mission-focused associates in more than 1,500 locations are committed to health and well-being and operate in 23 states and the District of Columbia, serving 113 inpatient facilities



- ▲ Current Health Ministry Locations
- ▲ Future Health Ministry Locations

The Resource Group

Supporting Ascension Health

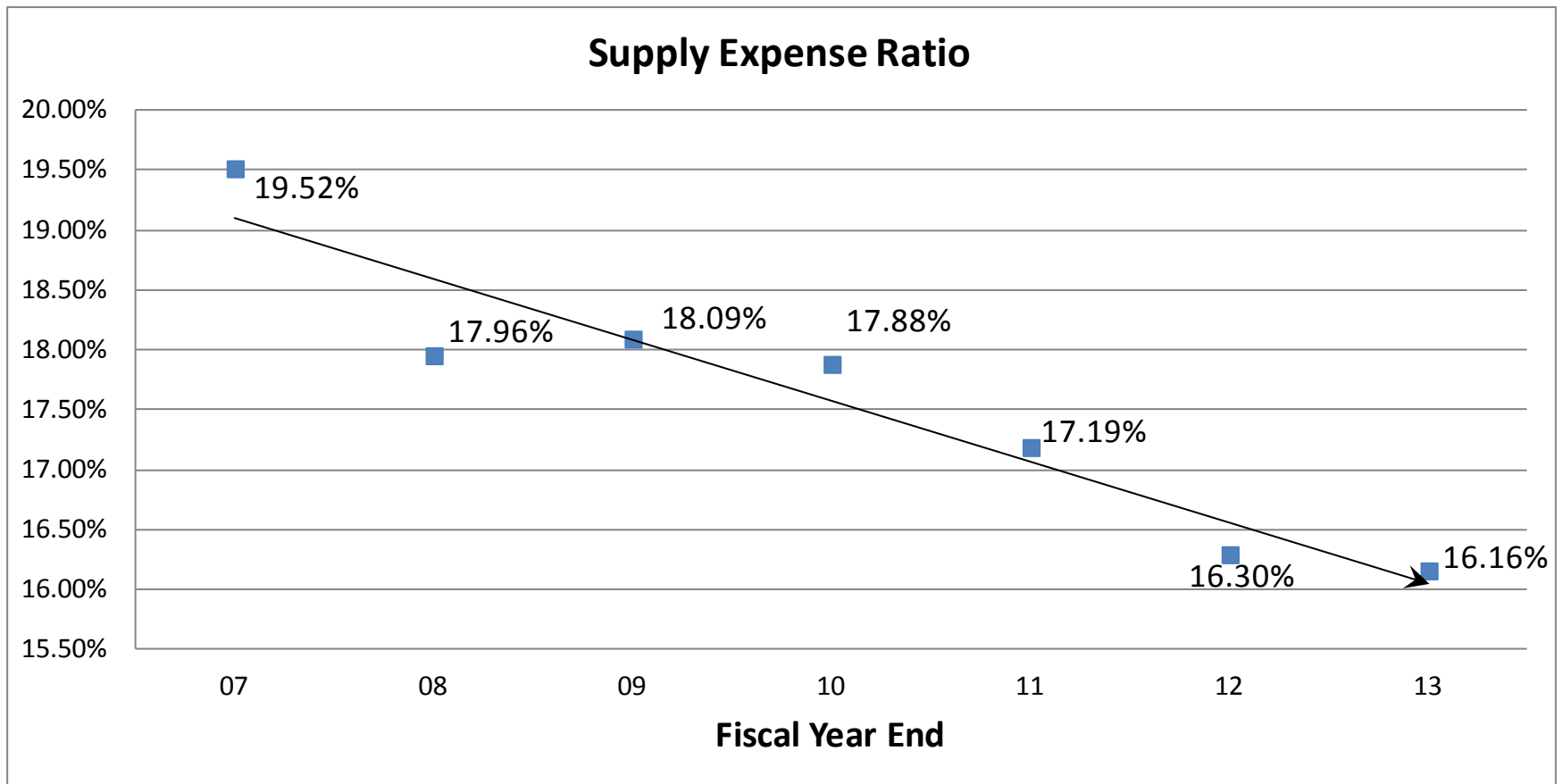
The Resource Group is the sole contract coordination, logistics and operations provider for Ascension Health

Products and Services Scope and Spend	
Total Managed Spend (annual)	\$5.5 billion
<i>Medical Supplies & Pharmaceuticals</i>	\$3.6 billion
<i>Medical Capital Equipment</i>	\$0.6 billion
<i>Information Technology</i>	\$0.7 billion
<i>Purchased Services</i>	\$0.6 billion

Vendor and Item Variation	
Total Managed Vendors	100,000
<i>National Vendors</i>	20,000
<i>Local Vendors</i>	80,000
Number of Items Accessed	> 500,000

Supply Expense Reduction

The Resource Group has reduced annual supply expense for Ascension Health by \$502 million through April FY13 and in addition, has avoided 3.2% annual inflation



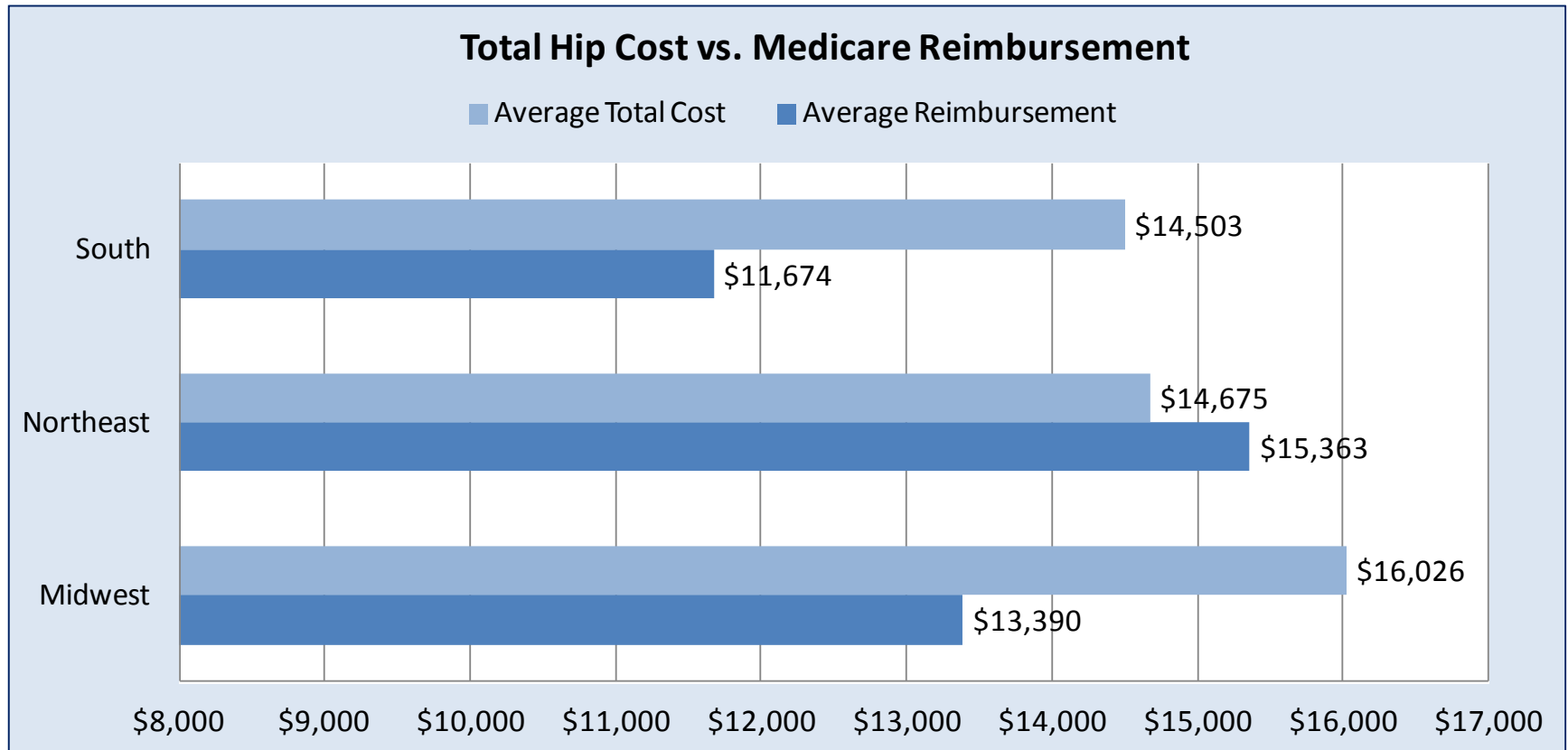
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The Growing Challenge and Opportunity of an Aging Population

Challenges

Total Hip Replacements

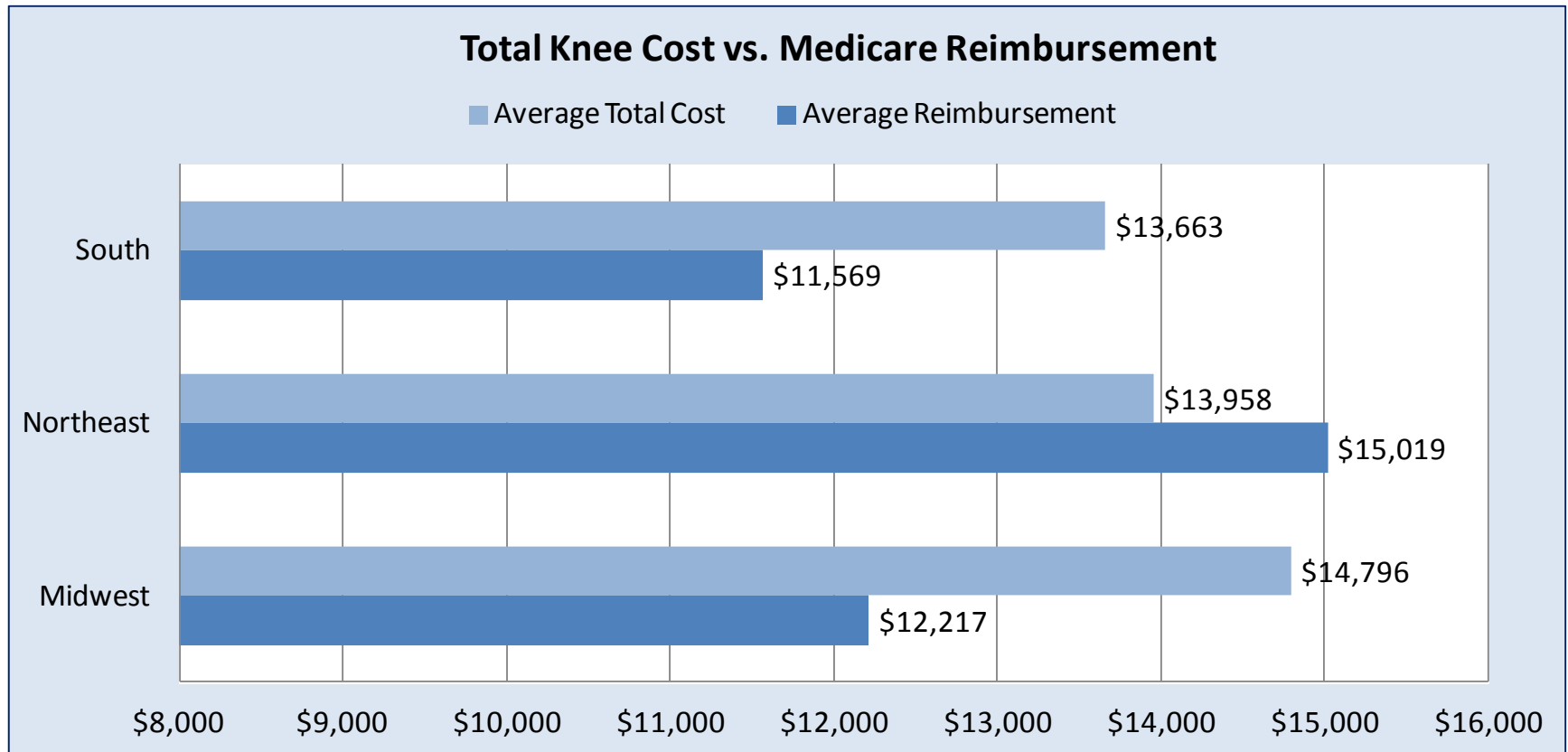
On average, across the System, the Medicare reimbursement for Total Hip Replacements is less than the total cost of the procedure



Challenges

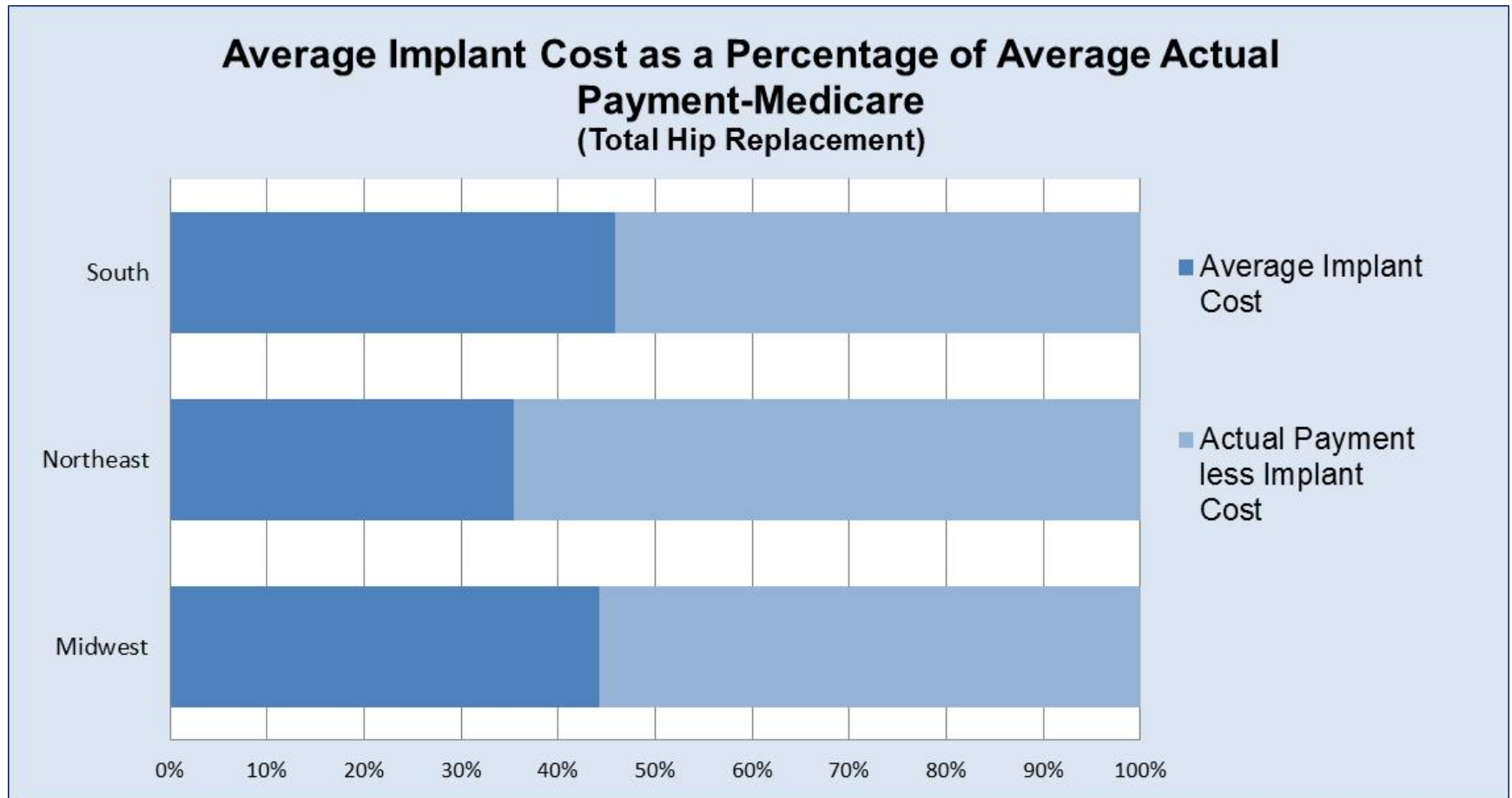
Total Knee Replacements

On average, across the System, the Medicare reimbursement for Total Knee Replacements is less than the total cost of the procedure



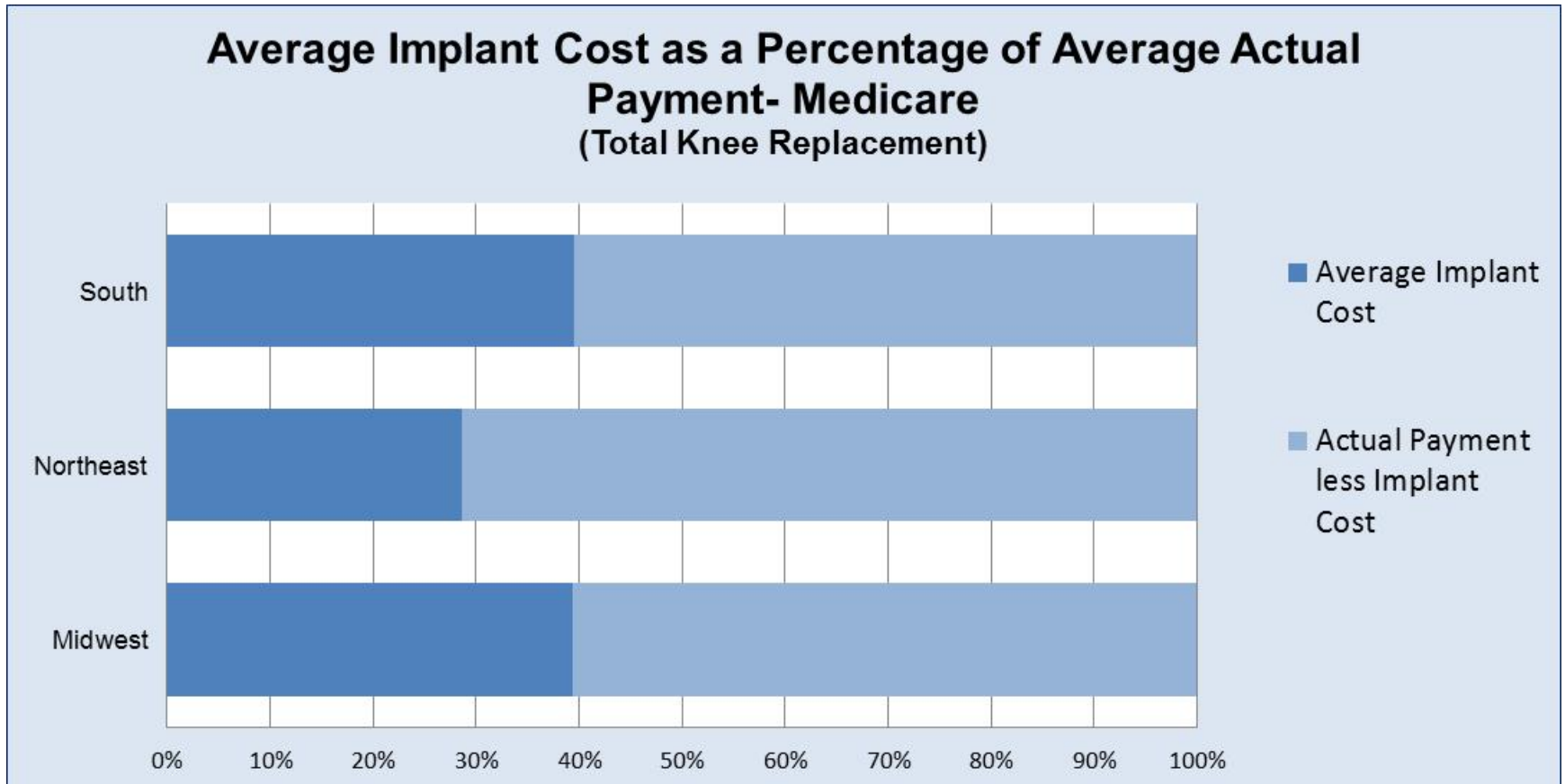
Cost Per Procedure and Reimbursement Data

Implant Costs



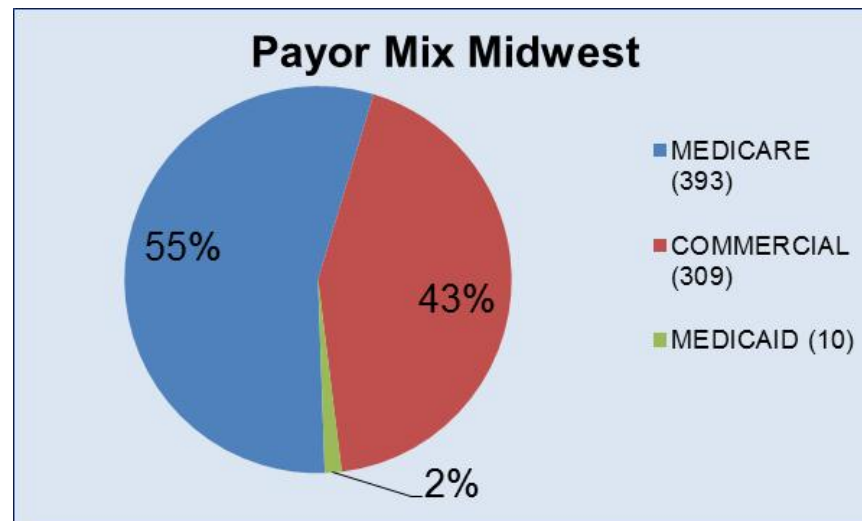
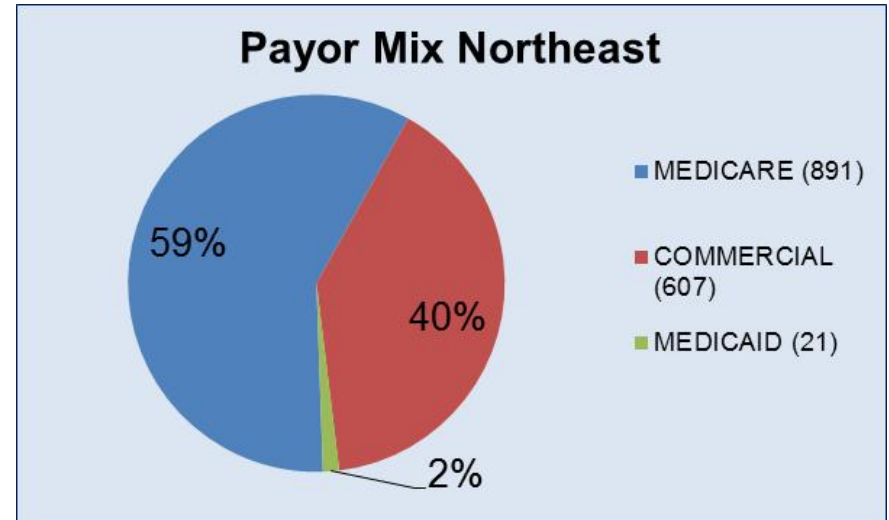
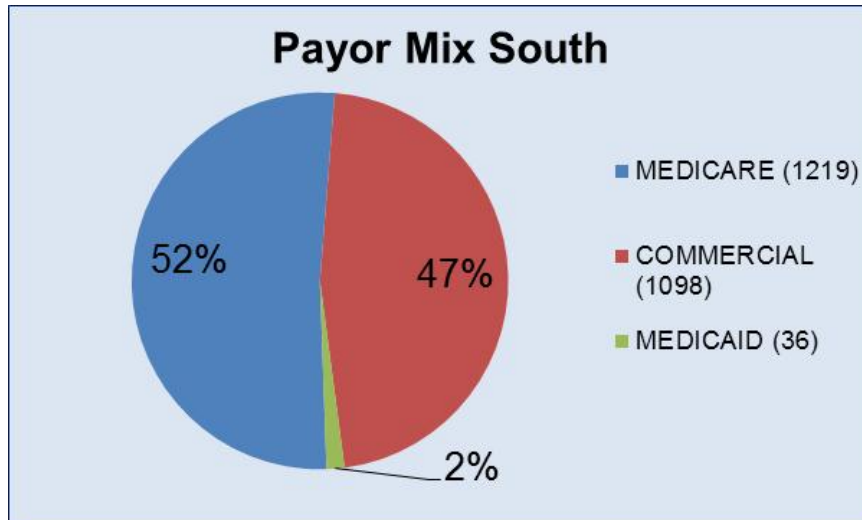
Cost Per Procedure and Reimbursement Data

Implant Costs



Cost Per Procedure and Reimbursement Data

Payor Mix

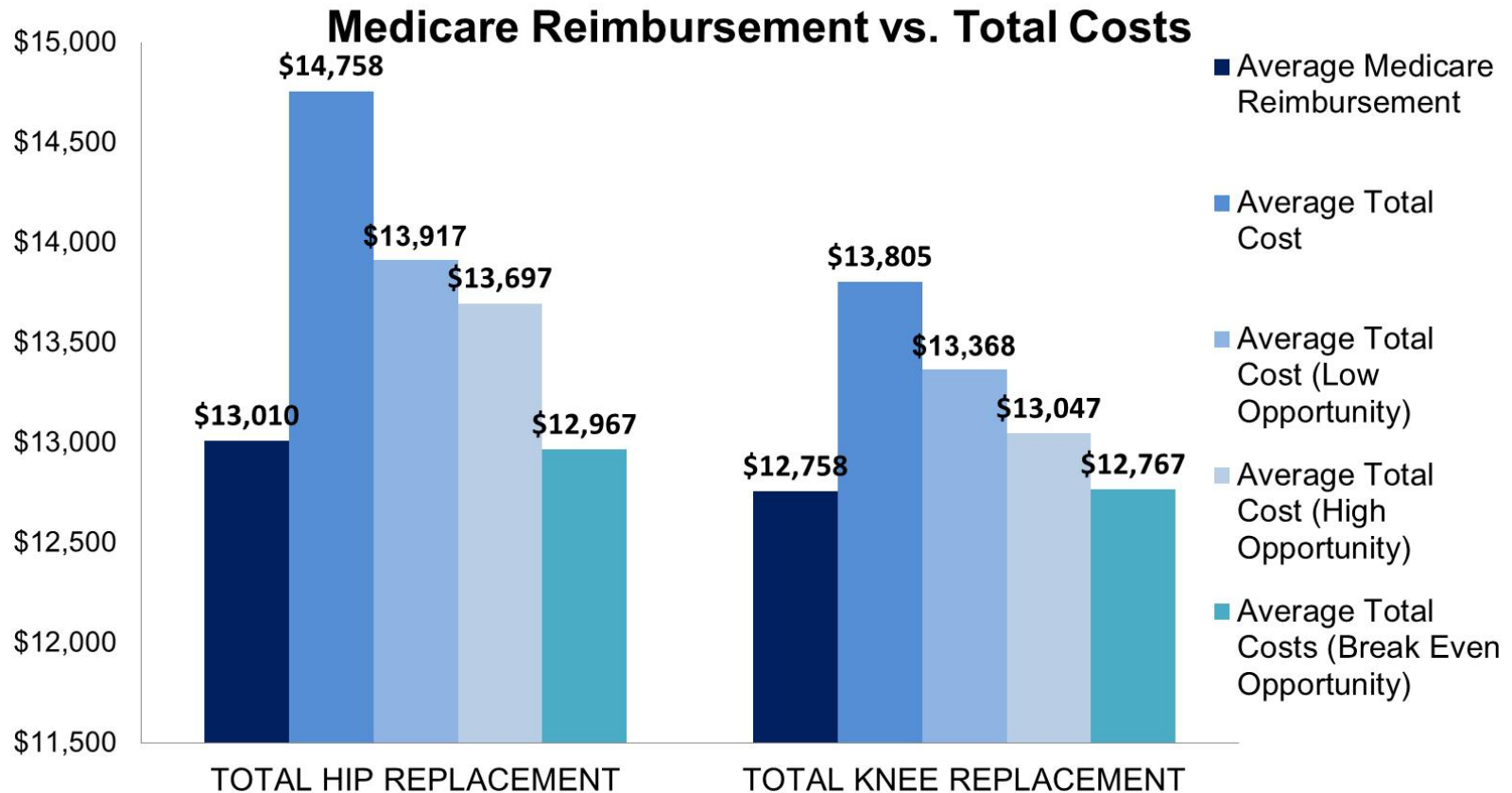




Impact Opportunity

Savings Impact Compared to Medicare Reimbursement

Comparing our total current costs for a Total Hip and Knee to the current average Medicare reimbursement clearly identifies the required negotiation strategy



Savings Impact Compared to Medicare Reimbursement

Percentages represent the existing low and high savings opportunities. The Break Even Opportunity represents the savings percentage required to break even, assuming all non-implant costs remain the same, on Medicare procedures

Procedure	Low Opportunity	High Opportunity	Break Even Opportunity
Total Hip Replacement	16%	20%	32%
Total Knee Replacement	10%	17%	23%
Cumulative	12%	18%	26%



Resource and Supply Management

Definition & Scope

Defining Resource and Supply Management



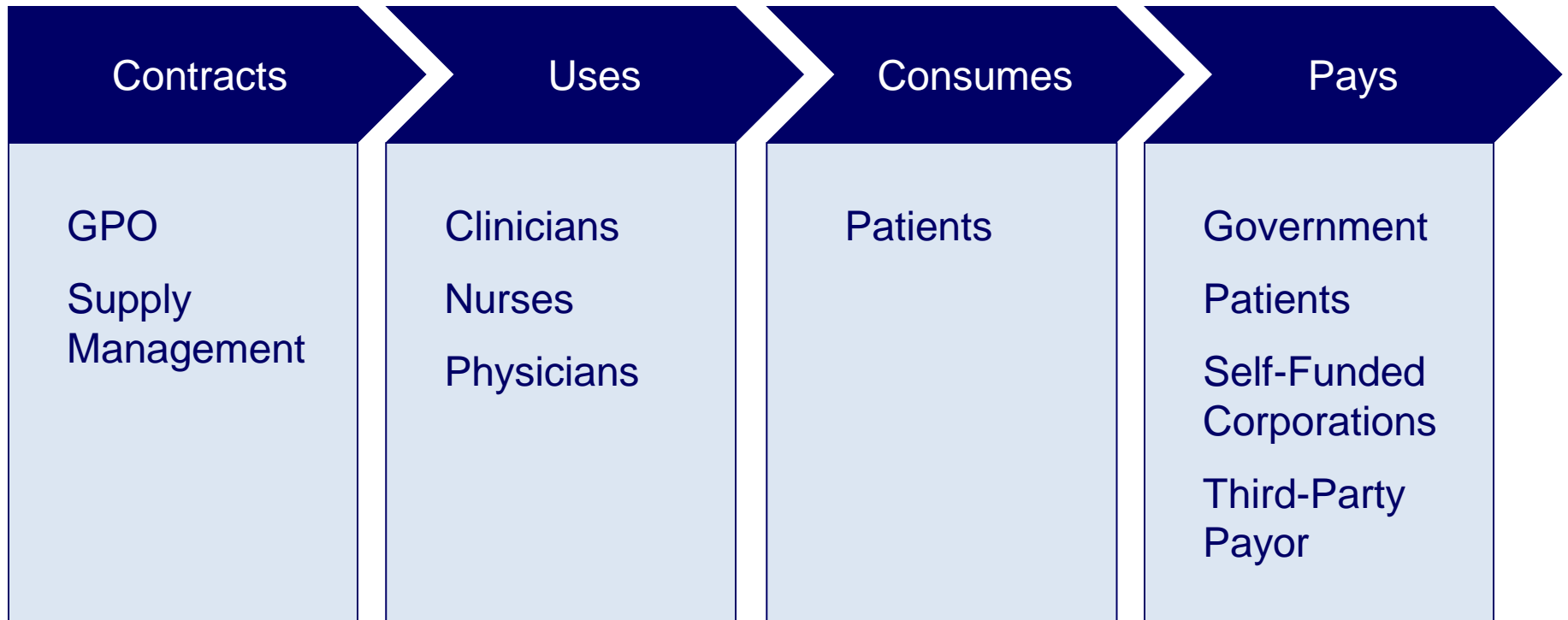
“Supply chain” is a logistics term for the receipt and movement of product and has accurately defined the narrow scope of work in a traditional resource and supply management healthcare organization. By utilizing this narrow definition of supply chain, healthcare organizations miss the value of an end-to-end solution

Initiative	Initiative Goal
Inventory Control	Optimize inventory levels to increase days cash on hand and decrease waste
Spending Controls	Tighten controls on the Procure to Pay process to reduce spend
Contract Compliance	Minimize off-contract spend to optimize delivered value and reduce risk
Preference Card Management	Improve documentation and processes to enhance clinical satisfaction and decrease waste
High Spend Vendor Management	Utilize size and scale of Ascension Health Alliance to maximize overall value for those we serve
Cash Management	Manage payment process to yield savings and preserve resources
Logistics and Operations Optimization	Implement optimal methods of receiving, storing and distributing products to reduce cost and improve service

Defining Resource and Supply Management

Key Players

The resource and supply management landscape comprises numerous fragmented entities that interact and compete to deliver products and services



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Engaging End Users

Integrating Excellence and Stewardship

The Resource Group Solutions

User-Directed
Strategic Sourcing™

Implementation

Operations
& Logistics

Change
Management

Solutions

Analytics

Measurement/
Audit

Participant
Integration

Purchased
Services
Integration

Solution Support

The Resource Group Solutions

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Integration

Solution Support

The Resource Group Vision

Through the integration of excellence and stewardship, we will reduce the costs for those we serve while maintaining our commitment to quality and service

- The Resource Group delivers value by promising to:
 - Listen First
 - Contract Second
 - Implement Always

Engaging End Users

Decision Teams™ & Specialty Affinity Groups™

Decision Teams™ and Specialty Affinity Groups™ comprise physicians and clinicians who were nominated based on their ability to partner with peers and lead for Ascension Health

- All end-user groups are aligned around three goals
 1. Design the ideal, sustainable practice environment for their specialty
 2. Reduce product cost and identify opportunities for critical resource assessment by amplifying the clinician's voice
 3. Ensure that physicians and clinicians lead decisions affecting their practices and their patients

Engaging End Users

Decision Team™ & Specialty Affinity Group™ Criteria

Organizing end users into logical groups, by product and service category, ensures that the right people are identifying attributes and managing choice

Standard Assessment Criteria

Physician/Caregiver Satisfaction

- Consider caregiver satisfaction and workflow
- Consider safety risk/hazards

Clinical/Safety Considerations

- Consider safety risks/hazards
- Consider effect on patient outcome

Mission/Vision/Values Alignment

- Consider Ascension Health Mission/
Vision/Values

Financial Opportunity

- Consider cost compared to similar products of equal quality

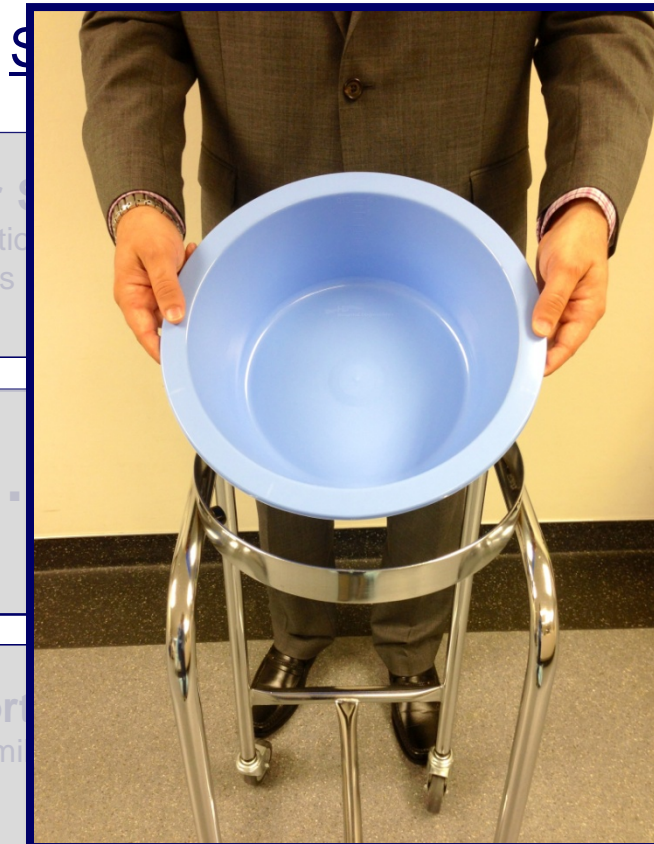
Patient Satisfaction

- Consider ease of use and maintenance
- Consider mobility and functioning
- Consider follow-up care
- Consider impact to the patient's condition

Engaging End Users

Decision Team™ & Specialty Affinity Group™ Criteria

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Safety Considerations

- Safety risks/hazards
- Impact on patient outcome

Financial Opport

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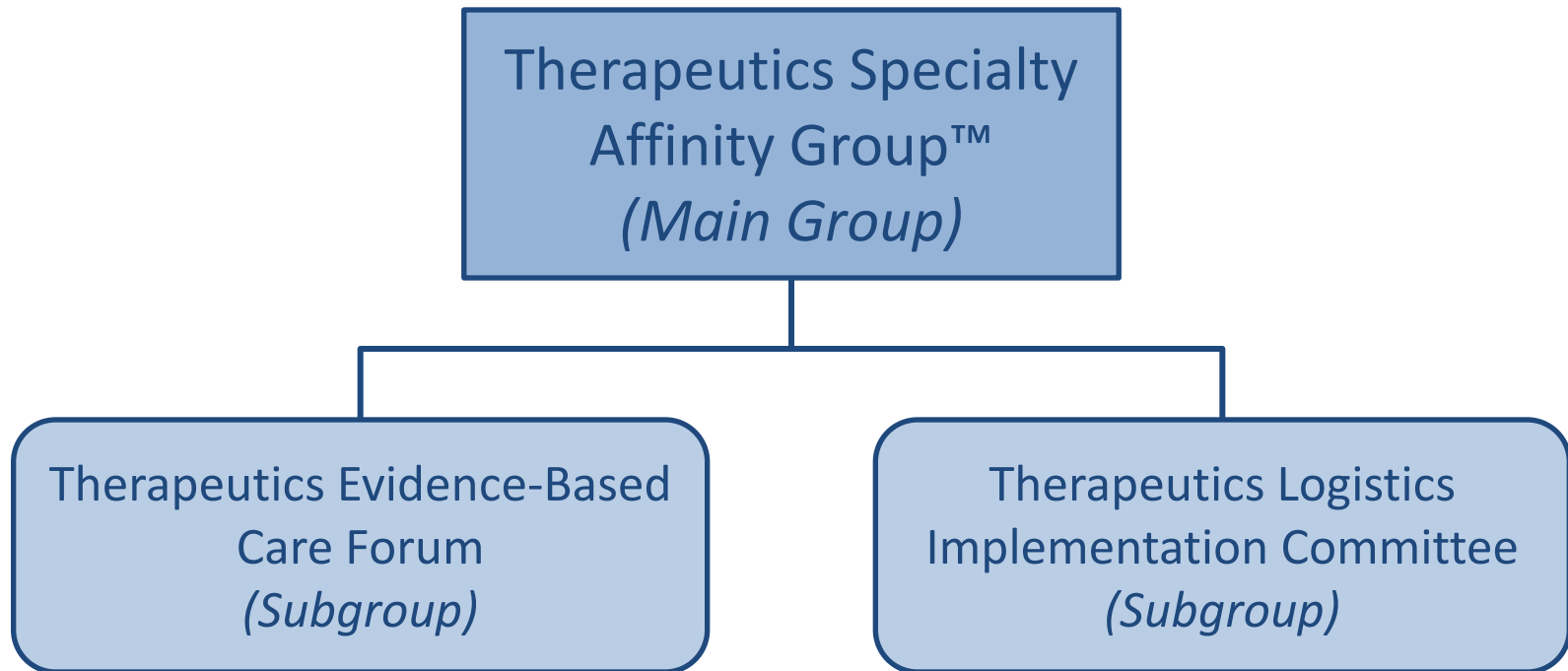
Patient Satisfaction

- Ease of use and maintenance
- Reliability and functioning
- Follow-up care
- Impact to the patient's condition

Engaging End Users

Therapeutic Specialty Affinity Group™

The Therapeutic Specialty Affinity Group™ provides clinical strategic and operational oversight and guidance to ensure evidence-based use of high quality and cost-effective pharmaceuticals while maintaining safe medication-management processes at all Health Ministries



Engaging End Users

Clinical Sponsors & Executive Sponsors

Facility leaders also engage with The Resource Group as a Clinical Sponsor or Executive Sponsor

Community	Key Responsibilities
<i>Clinical Sponsors</i>	<ul style="list-style-type: none">▪ Act as the first point of contact for change management▪ Advise local education departments by appointment▪ Clarify messages and expedite communications
<i>Executive Sponsors</i>	<ul style="list-style-type: none">▪ Support Resource Group initiatives at the senior leadership level▪ Support physicians and clinicians in the implementation of best practices▪ Clarify messages and expedite communications

The Resource Group Solutions

User-Directed
Strategic Sourcing™

Implementation

Operations
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Solution Support

Engaging Talent

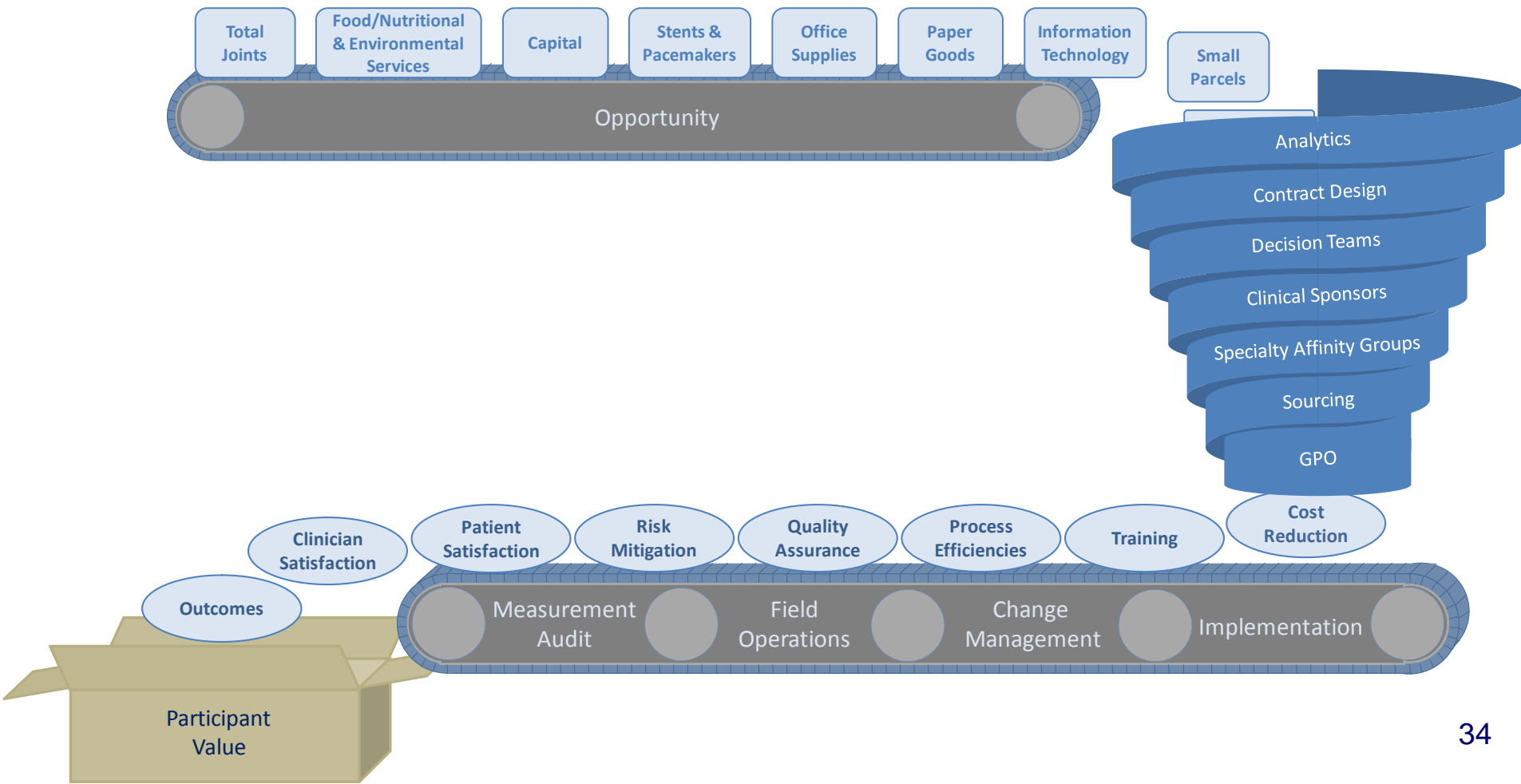
The Resource Group employs up to seven key roles within an organization to identify, implement and realize savings in an accelerated manner

Role	Key Responsibilities
Chief Resource Officer	Engage leadership and influence change
Operations Leader	Streamline hospital supply chain operations
Critical Products Leader	Manage high-dollar medical supplies
Implementation Leader	Lead local implementation of national initiatives
Analyst	Provide robust analytics to enhance decision-making
Customer Care Representative	Triage and answer supply chain-related questions
Data Steward	Manage data extracts, linkages, dashboards and metrics

The Resource Group

User-Directed Strategic Sourcing™

User-Directed Strategic Sourcing™ is a sourcing process that engages end-users to identify the necessary attributes of a product or service in order to accelerate the implementation and realization of overall value

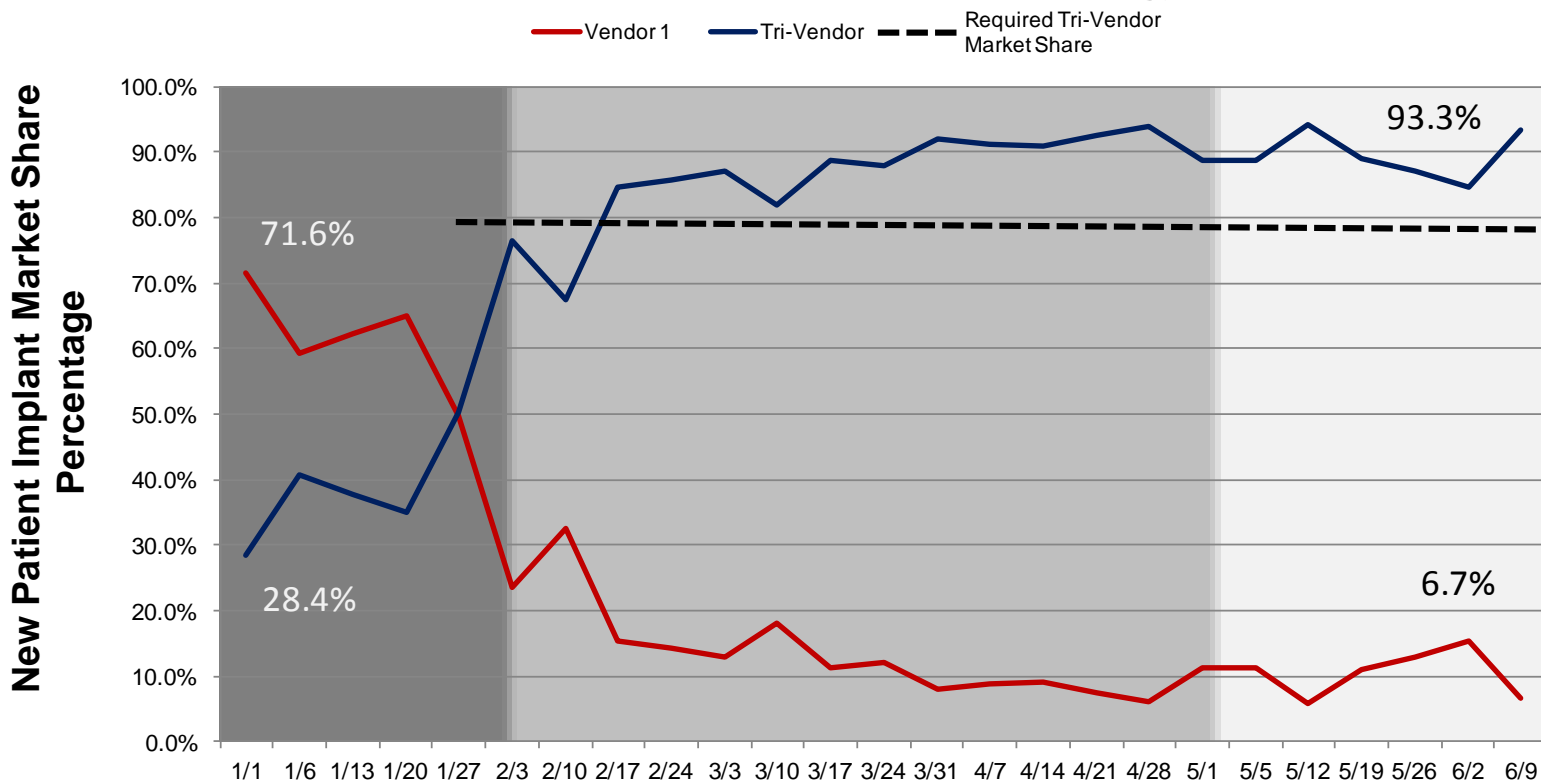


Engaging End Users

Electrophysiology Specialty Affinity Group™

Developed by the Electrophysiology Specialty Affinity Group™, the CRM Tri-Vendor Strategy is projected to deliver approximately \$9.5 million in net impact in addition to the \$22.3 million already delivered through the Dual-Vendor program

Success of CRM Tri-Vendor Strategy



*Each data point represents weekly market share



Resource and Supply Management

Best Practices

Best Practices

Healthcare Providers

In order to drive expense reduction and deliver savings, resource and supply management must involve interwoven collaboration across entire healthcare organizations

1. Seek to understand the full scope of resource and supply management responsibilities and opportunities
2. Hire, develop and retain talent equal to those of the leading consultancies
3. Listen to end users before any actions are taken and do so in a meaningful, documented and process-oriented way
4. Assign shared ownership of resource and supply management success to a member of the C-suite and Clinical Leadership
5. Recognize that implementation of even the best decisions requires significant planning and intentional execution

Best Practices

Manufacturers and Suppliers

In order to drive expense reduction and deliver savings, resource and supply management must involve interwoven collaboration between healthcare organizations, manufacturers and suppliers

1. Identify organizations that are prepared to provide an avenue for cost reduction upstream
2. Develop, test and maintain innovative models to prepare for a “REP-less” or “REP-light” industry
3. Accelerate the transformation from a sales-oriented organization to an R&D-orientated organization

Best Practices

Manufacturers and Suppliers

In order to drive expense reduction and deliver savings, resource and supply management organizations should:

	FY11 Financials						
1.	Vendor	Revenue	SG&A	SG&A as a % of Revenue	R & D	R&D as a % of Revenue	for cost
2.	Stryker	\$ 8,307	\$ 3,150	38%	\$ 462	6%	“REP-
	Johnson & Johnson	\$ 65,030	\$ 20,969	32%	\$ 7,548	12%	
3.	Medtronic	\$ 15,508	\$ 5,427	35%	\$ 1,472	9%	on to
	Boston Scientific	\$ 7,622	\$ 2,487	33%	\$ 895	12%	
	Abbott	\$ 38,851	\$ 12,757	33%	\$ 4,129	11%	

\$ in thousands

Best Practices

Manufacturers and Suppliers

In order to drive expense reduction and deliver savings, resource and supply management organizations should:

	FY12 Financials						
1.	Vendor	Revenue	SG&A	SG&A as a % of Revenue	R & D	R&D as a % of Revenue	or cost
2.	Stryker	\$ 8,657	\$ 3,466	40%	\$ 471	5%	“REP-
	Johnson & Johnson	\$ 67,224	\$ 20,869	31%	\$ 7,665	11%	
3.	Medtronic	\$ 16,184	\$ 5,623	35%	\$ 1,472	9%	on to
	Boston Scientific	\$ 7,249	\$ 2,535	35%	\$ 886	12%	
	Abbott	\$ 39,874	\$ 12,059	30%	\$ 4,322	11%	

\$ in thousands

Best Practices

Manufacturers and Suppliers

In order to drive expense reduction and deliver savings, resource and supply management must work closely with healthcare organizations, manufacturers and suppliers.

1. Identify organizations for cost reduction opportunities
2. Develop, test and implement “REP-less” or “REP-reduced” contracts
3. Accelerate the transition of an R&D-oriented organization to a REP-less organization

Year-Over-Year Changes			
Vendor	Revenue	SG&A	R & D
Stryker	4%	2.1%	(0.1%)
Johnson & Johnson	3%	(1.2%)	(0.2%)
Medtronic	4%	(0.3%)	(0.4%)
Boston Scientific	(5%)	2.3%	0.5%
Abbott	3%	(2.6%)	0.2%

an avenue for cost reduction

prepare for a “REP-less” organization

organization to

Healthcare Resource and Supply Management *Opportunities and Challenges*