

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%

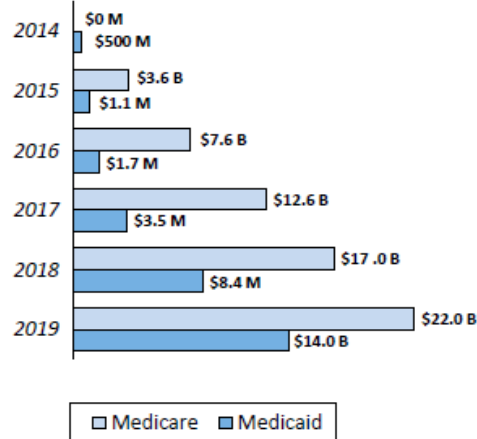
Operating margin

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



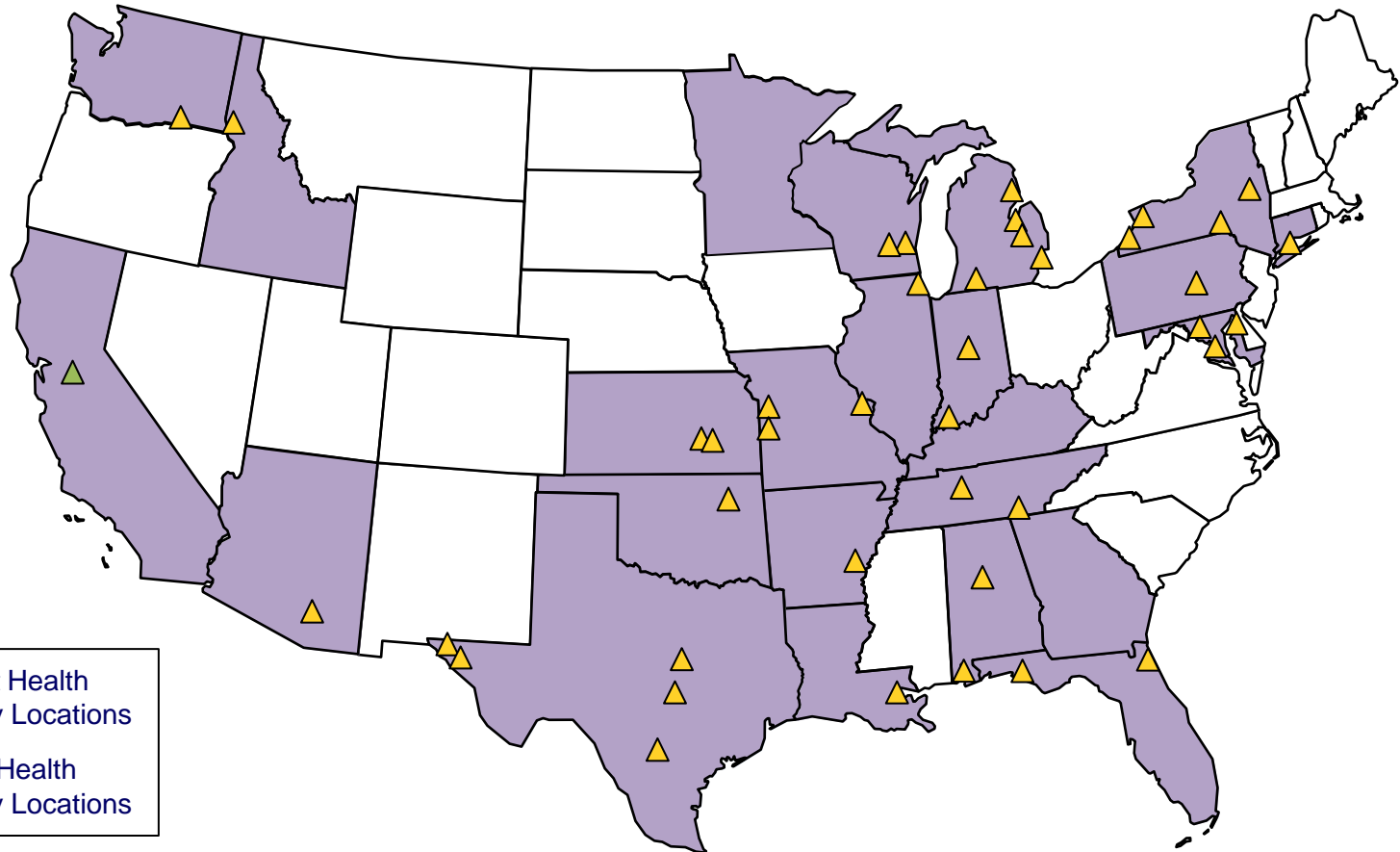
The Resource Group

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

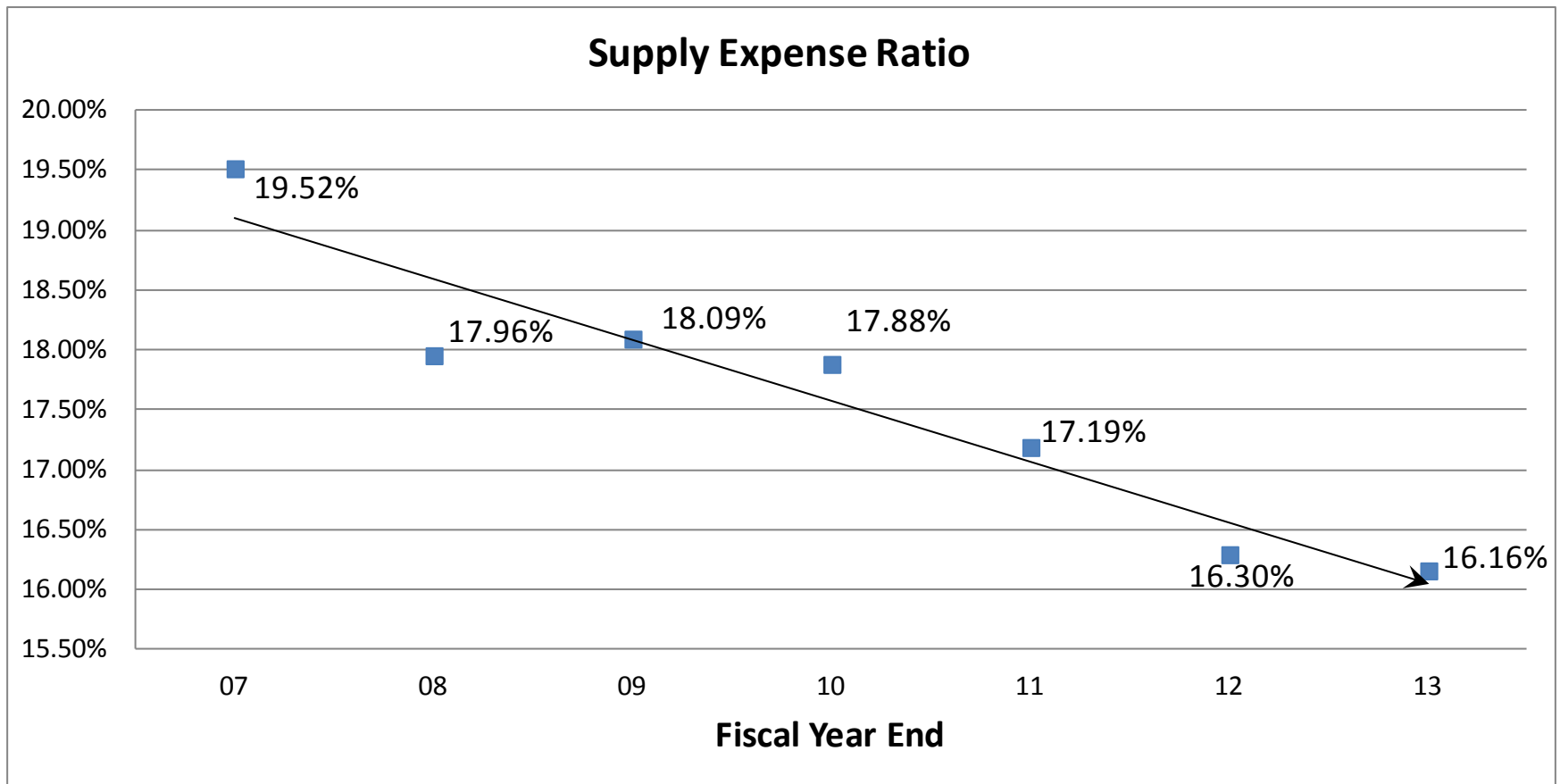
The Resource Group is the sole contract coordination, logistics and operations provider for Ascension Health

| 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



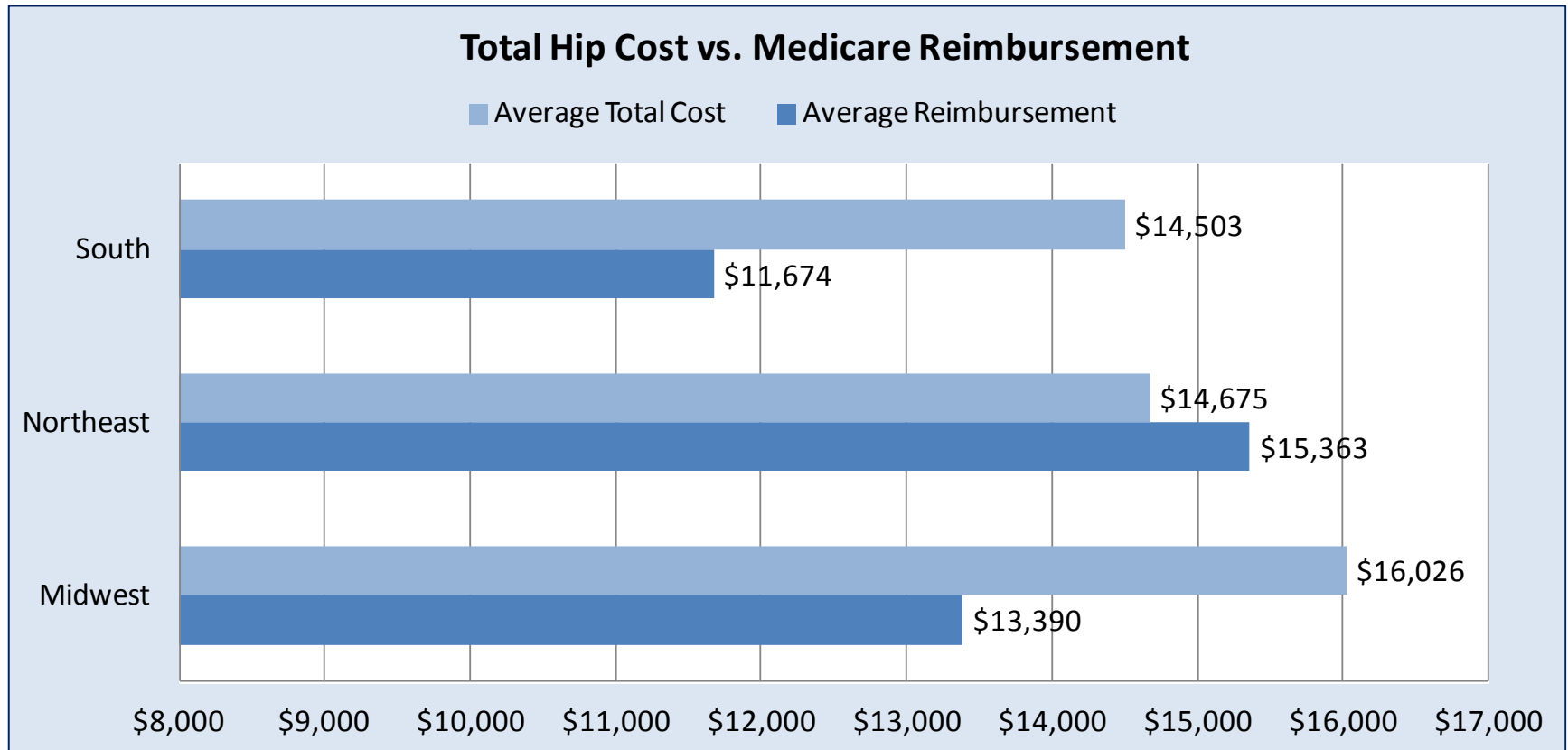
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The Growing Challenge and Opportunity of an Aging Population

Challenges

Total Hip Replacements

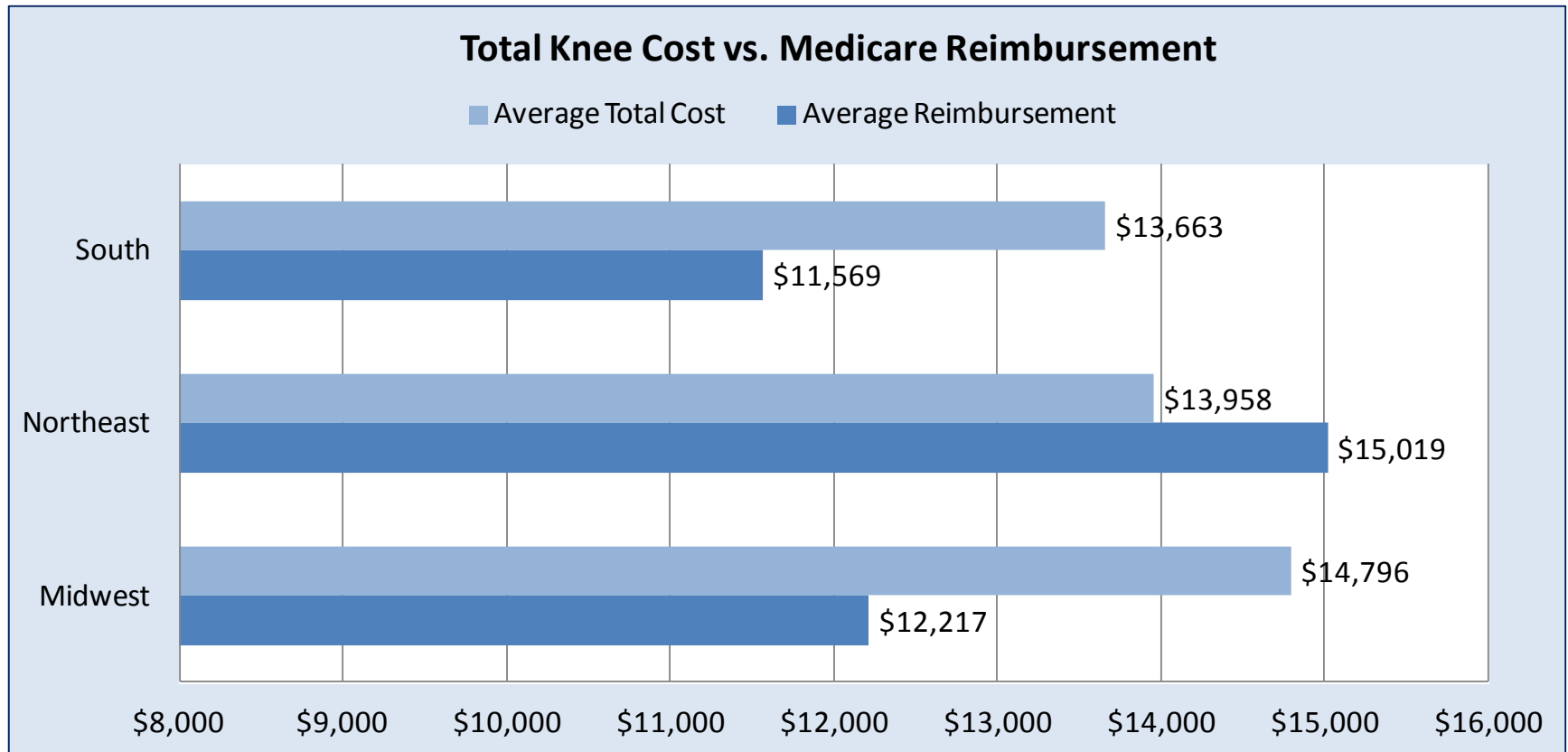
On average, across the System, the Medicare reimbursement for Total Hip Replacements is less than the total cost of the procedure



Challenges

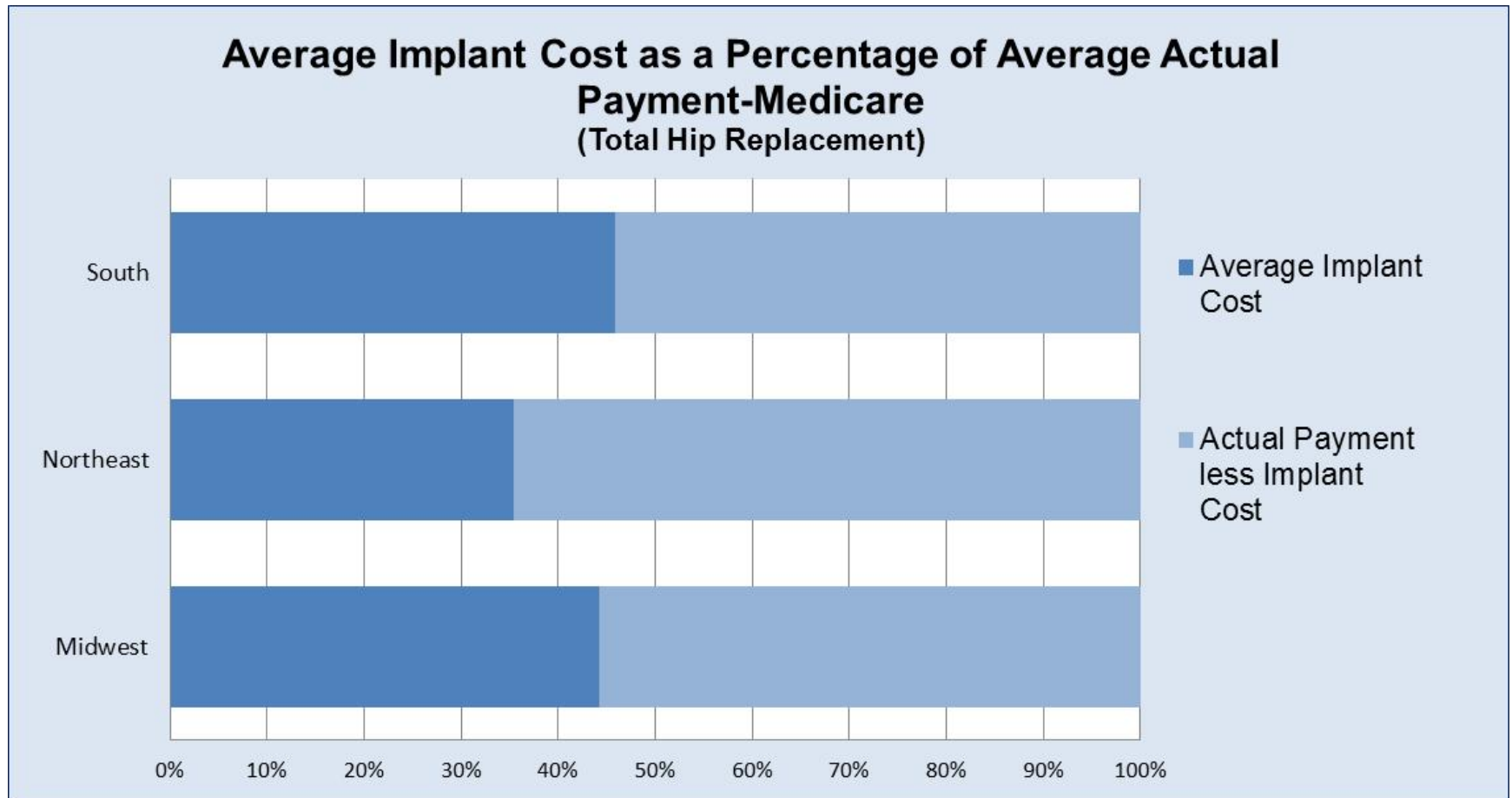
Total Knee Replacements

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



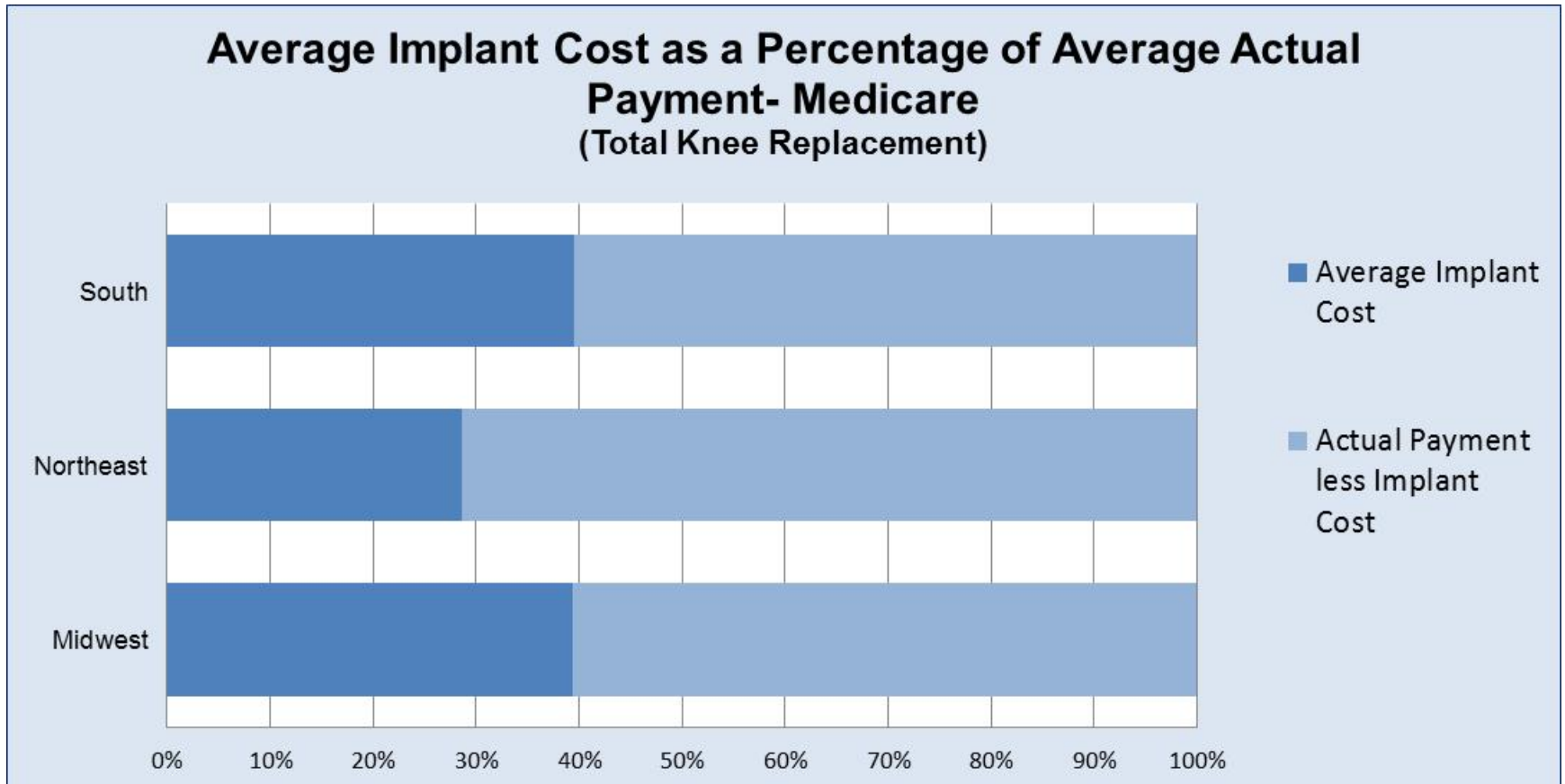
Cost Per Procedure and Reimbursement Data

Implant Costs



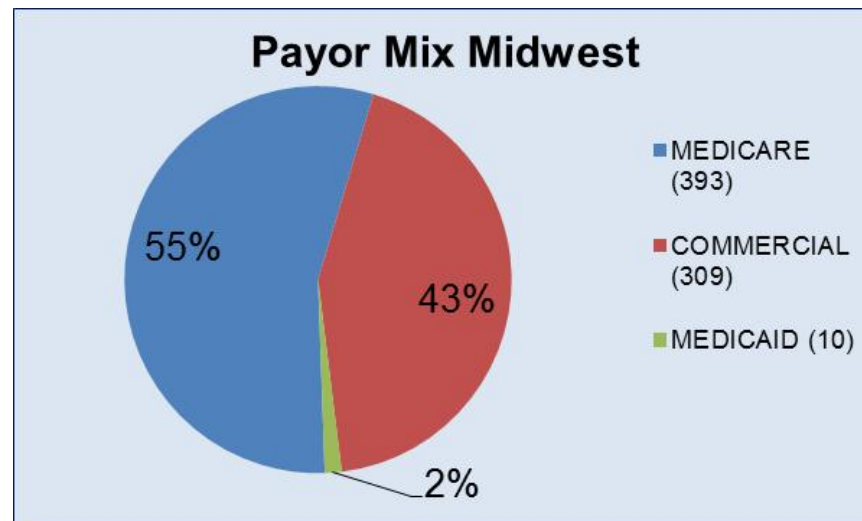
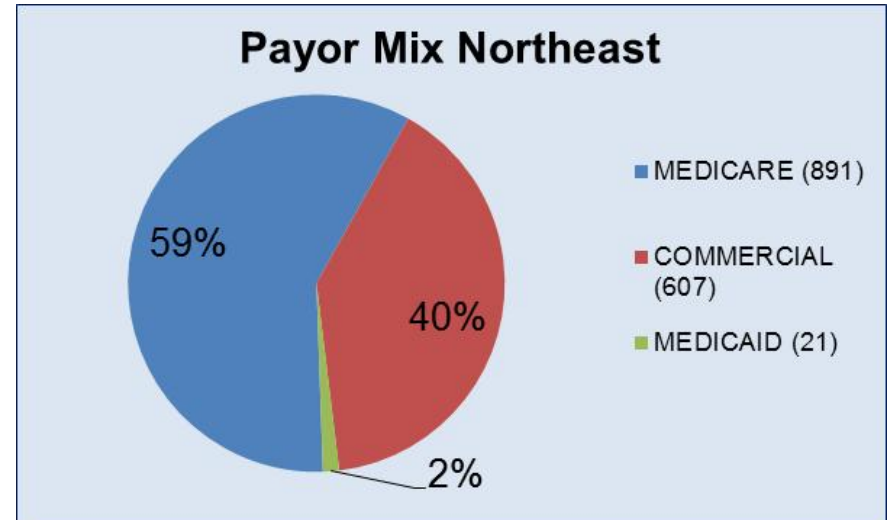
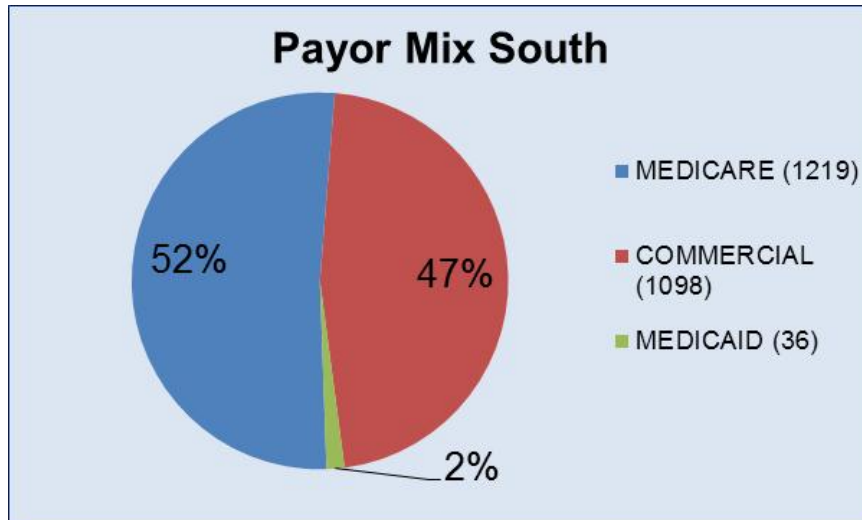
Cost Per Procedure and Reimbursement Data

Implant Costs



Cost Per Procedure and Reimbursement Data

Payor Mix

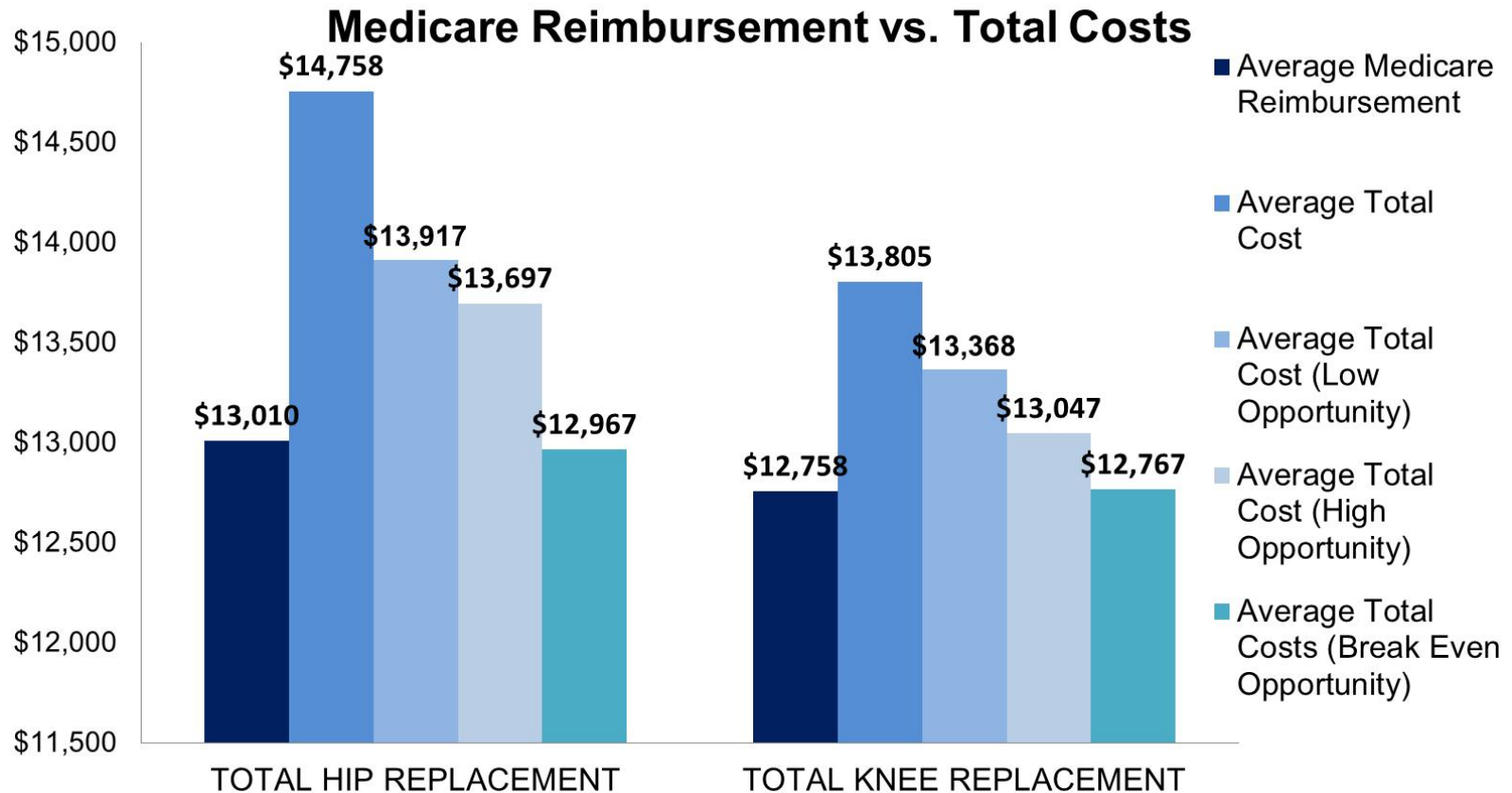




Impact Opportunity

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



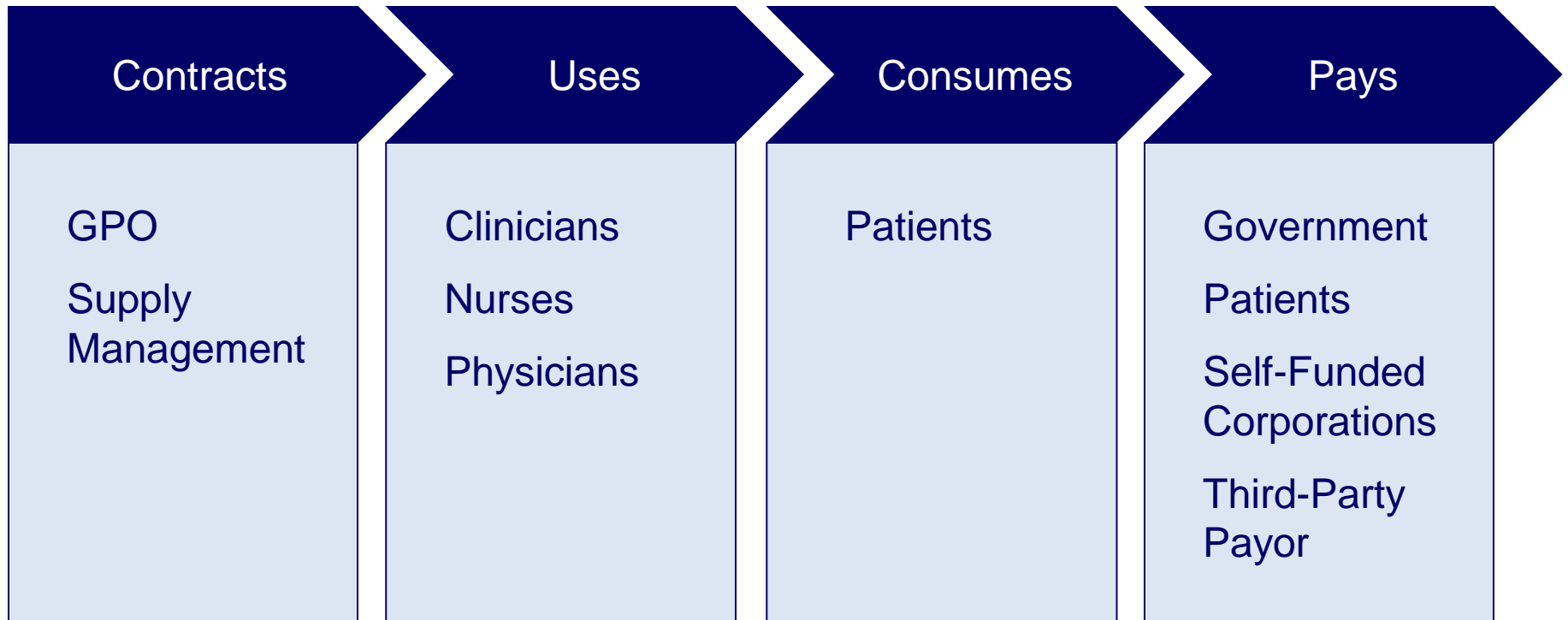
“Supply chain” is a logistics term for the receipt and movement of product and has accurately defined the narrow scope of work in a traditional resource and supply management healthcare organization. By utilizing this narrow definition of supply chain, healthcare organizations miss the value of an end-to-end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



The background is a solid blue color. On the right side, there are several thick, white, curved lines that sweep from the top right towards the bottom right, creating a sense of motion and depth.

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

User-Directed
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Integration

Purchased
Services
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

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



Physician/Caregiver S

- Consider caregiver satisfaction
- Consider safety risk/hazards

Safety Considerations

- Safety risks/hazards
- Impact on patient outcome

Financial Opport

- Consider cost compared to similar products of equal quality

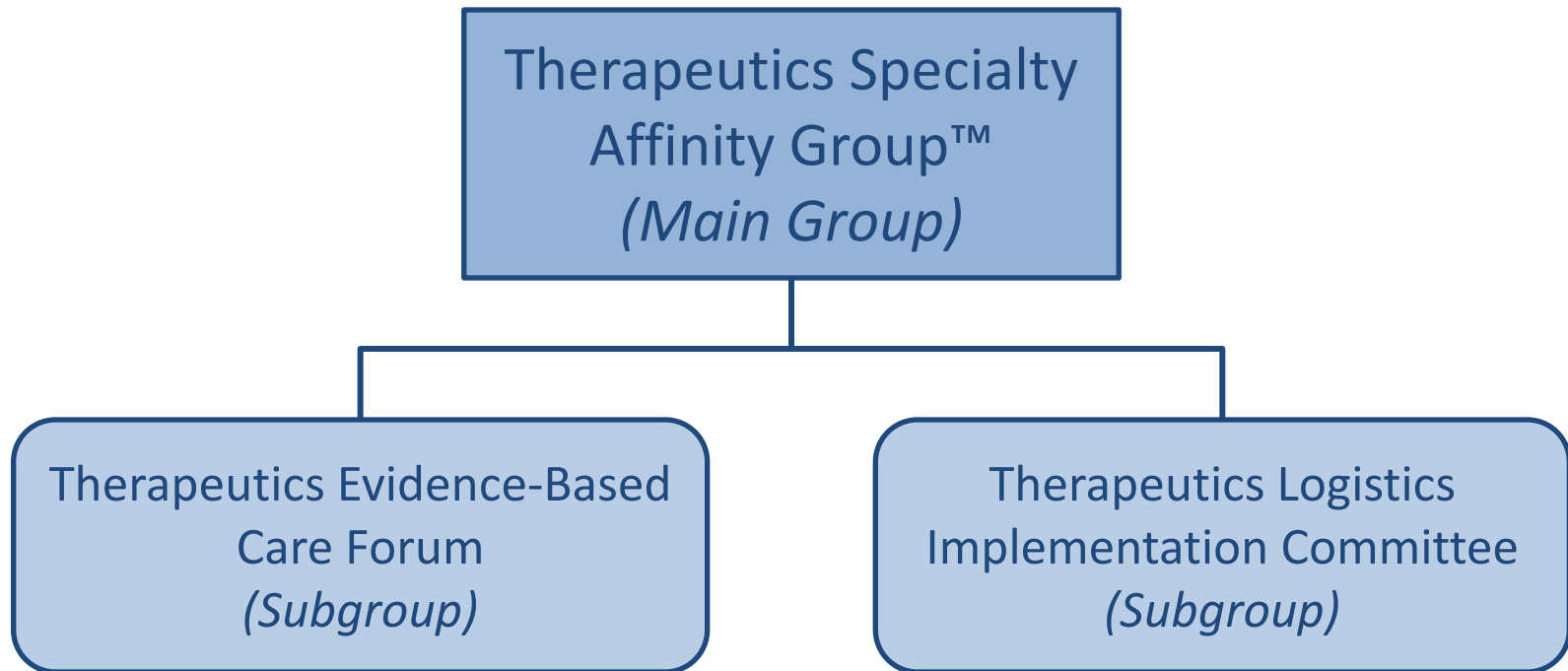
Patient Satisfaction

- 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
& Logistics

Change
Management

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Analytics

Measurement/
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Participant
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Purchased
Services
Integration

Solution Support

Engaging Talent

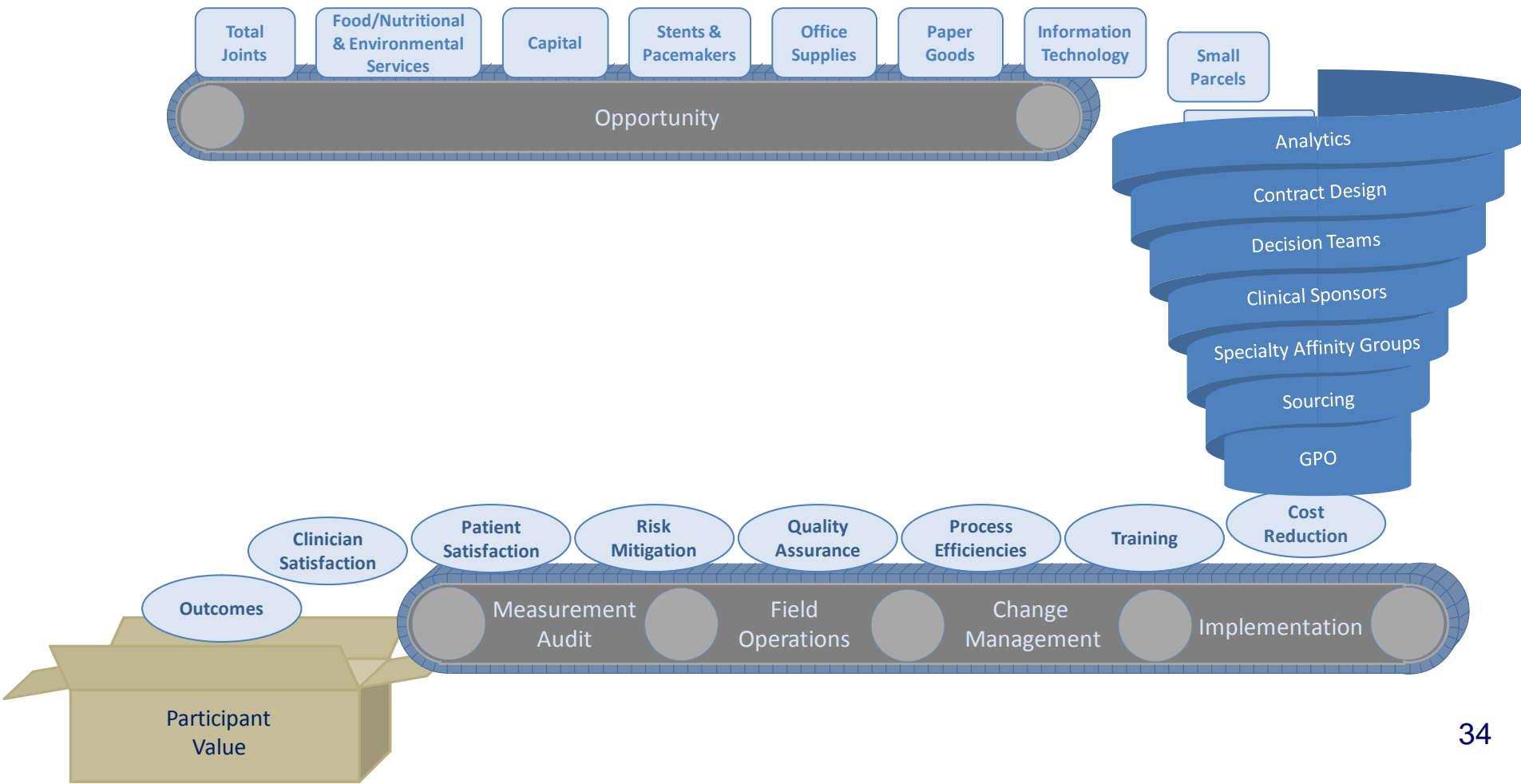
The Resource Group employs up to seven key roles within an organization to identify, implement and realize savings in an accelerated manner

| 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

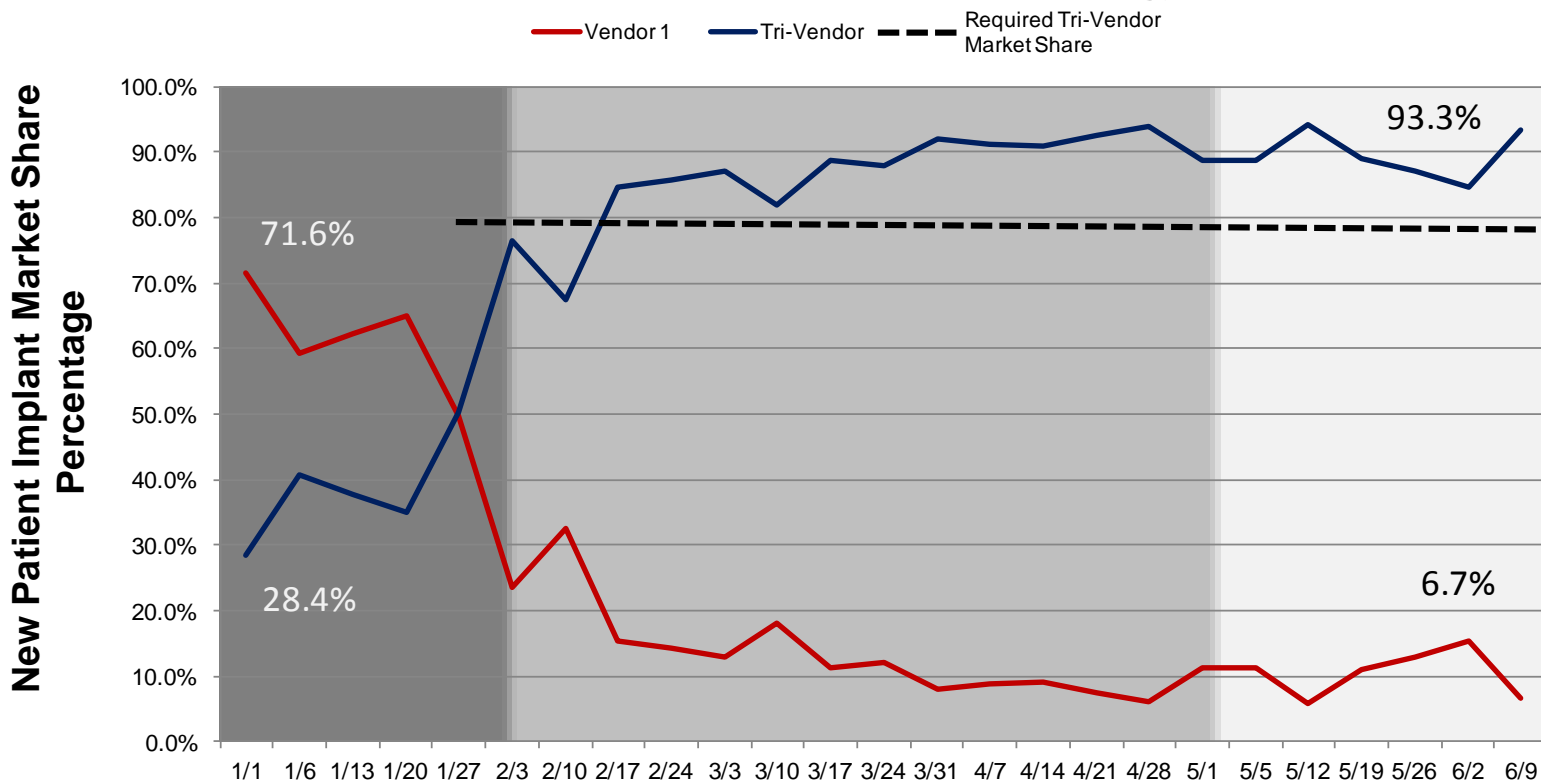


Engaging End Users

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 | for 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 to identify and implement best practices.

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

organization to a REP-oriented organization

Healthcare Resource and Supply Management *Opportunities and Challenges*