Unlock Hidden Value with Scenario Based Sourcing

Intermountain Healthcare
Richard Bagley
Director SCO Business Development

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Sourcing Manager
Unlock Hidden Value with Scenario Based Sourcing

Richard Bagley, Director SCO Commercialization, Intermountain Healthcare

Kellen Switzer, Category Manager II, Intermountain Healthcare
Intermountain in Brief

Mission: “Helping people live the healthiest lives possible”

Charge: “Be a Model Health System”

Based in Salt Lake City, Utah

Hospitals
- 1975 Began
- 22 hospitals
- 2,800 licensed beds
- 37% of Utah hospitals

Health Plans
- 1983 Started
- SelectHealth
- 700,000 members
- 25% of Utah market

Medical Group
- 1994 Started
- 1,200 employed physicians
- 4,000 affiliated physicians
- 185+ clinics
- 22% of Utah physicians

Continuum Care
- TeleHealth
- Homecare
- Life Flight
- Central lab
- Central pharmacy

Intalere
- 1986 Started
- 2015 Ownership
- Commercial platform
- $8B Spend GPO

35,600 employees
$2.1B non-labor spend
AA+
    Standard & Poor’s
Aa1
    Moody’s

AA+

Aa1

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Intermountain Healthcare

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Supply Chain Aim

“We aspire to be a model healthcare supply chain for Intermountain and other healthcare related organizations, through collaboration and passionate pursuit of industry best practices to enhance every dimension of care”
Presentation Roadmap

- Traditional Bidding
- Changing the game
- Examples
- Key lessons
## SOURCING PROCESS OVERVIEW

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<tr>
<th>Organize</th>
<th>Analyze</th>
<th>Strategy</th>
<th>Source</th>
<th>Implement</th>
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<tbody>
<tr>
<td>• Project Request (M)</td>
<td>• Detailed Spend Analysis (M)</td>
<td>• Pre-Qualification Evaluation (S)</td>
<td>• Go-To-Market Method (M)</td>
<td>• Load Info into Systems (M Products)</td>
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<td></td>
<td></td>
<td>• Lessons Learned (S)</td>
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**Communication & Change Management**
Current State Challenges

• Process is focused on ‘telling’ suppliers what you want
  ▪ Full range of options unique to suppliers are missed
  ▪ Controlled and limited collaboration

• Focused on apples to apples competitive evaluation

• Long term partners feel like it’s a transaction
Presentation Roadmap

- Traditional Bidding
- Changing the game
- Examples
- Key lessons
**Strategic Business Plan Process**

**Key Objectives:**
1. What do you want to do
2. What do you have to do
3. What do we (Supply Chain) recommend doing

- Stakeholder(s)
- Procurement
- Contract Renewals
- Category Plans
- Category Benchmarking
- Spend Analysis
- Identification of Sourcing Initiatives
Setting Targets

• Set the target savings
  - Benchmarking = enter value for top quartile
  - If not sourced in last 5 years = 10% of spend
  - If sourced frequently = 2% - 5% based on judgment and benchmark

• Expect to refine target at process gates
  - Typically savings goes up as value is discovered
Engaging Decision Makers

Presenting data in a familiar way creates buy-in

- Present the data with the eye of a clinician
- Look holistically at CQO, never C without O
- Provide incentives
  - Public Recognition (tell a good story)
  - Medical Staff Engagement Funds
- Peer pressure
  - Unblended data
  - Discuss variation in practice
Supplier Collaboration

Objective is to Generate Value Beyond Price

"75% of sourcing savings can be lost within 18 months without SRM" - Geller & Company Survey
Partnering Requires a Paradigm Shift in our Relationships

“I want to sell many, for more”

“I want to buy fewer, for less”

Our Current Zero-Sum Environment

Our Future Positive Sum Environment
Collaboration: WIIFM Must Exist for Both Intermountain AND Suppliers

<table>
<thead>
<tr>
<th>Intermountain</th>
<th>Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>IF WE WANT:</td>
<td>IF YOU WANT:</td>
</tr>
<tr>
<td>• Leverage Core Competencies</td>
<td>• Leverage Core Competencies</td>
</tr>
<tr>
<td>• Serve Our Mission</td>
<td>• Serve Your Mission</td>
</tr>
<tr>
<td>• Solve Problems</td>
<td>• Provide Solutions</td>
</tr>
<tr>
<td>• Feel Valued</td>
<td>• Feel Valued</td>
</tr>
<tr>
<td>• Earn Supplier Loyalty</td>
<td>• Earn Customer Loyalty</td>
</tr>
<tr>
<td>THEN WE SHOULD:</td>
<td>THEN YOU SHOULD:</td>
</tr>
<tr>
<td>• Strive to become a Customer of Choice</td>
<td>• Strive to become a Supplier of Choice</td>
</tr>
</tbody>
</table>

Provider-Supplier Collaboration Enables BOTH Outcomes
Outcomes from Increased Collaboration

**Upstream Outcomes:**
- Cost Reduction/Cost Prevention
- Working Capital Improvement
- Risk Mitigation

**Downstream Outcomes:**
- Revenue Enhancement
- Cost Reduction/Cost Prevention
- Improved Clinical Outcomes
- Research Support
- Risk Mitigation
Scenario Based Sourcing

• Who would like to remove...from the price of a product?
  ▪ 5%
  ▪ 10%
  ▪ 20%
  ▪ >30%

• We’ll show you how you can achieve 30% or more with Scenario Based Sourcing!!!
Scenario Based Sourcing Continued...

• What is Scenario Based Sourcing?
  ▪ Scenario Sourcing = Value Sourcing
  ▪ Value-based Sourcing – “This approach selects suppliers on the basis of their capabilities and continually encourages them to innovate; the goal is to gain maximum value...The value based sourcing strategy consists of a ‘value definition’ and a ‘value generation’ phase and has two goals:
    – First, selecting value drivers and appropriate suppliers;
    – Second, fostering the sustainable exchange of know-how with these suppliers.”
SCO Value Proposition to Clinical Programs

Value = (Total Benefits)/(Cost to Serve)

Benefits to Customers

Our Core Services

Savings

Category Mgmt
Cost
Quality
Service
P2P
Logistics & MM
SCO Shared Services

Value = Benefits/Cost
Value Chain Integration

Leaders and laggards - the CPO survey confirms the widening performance gap between ‘first generation’ strategic sourcing and pursuit of aggressive Category Management plans.

The key difference between leaders and laggards is failure to execute a strategy which gets the Company past Stage 2 maturity.
Understanding the Value Chain

- MFG
  - COGS
  - SGA
  - Profit
  - Tax
  - R&D
  - Legal
  - Inventory

- Distributor
  - Storage/Inventory
  - Distribution/Shipping
  - Instrument sets
  - Commissions
  - Service/Education
  - Labs
  - Profit

- Physician
  - Poor planning/scheduling
  - Excessive service needs
  - Custom Instruments

- IH
  - Shipping
  - Consignment
  - Service needs
  - Sterilization

Down Stream Costs

Components of an Orthopedic Implant

- Research & Development 6.8%
- Selling, General & Administrative 10.9%
- Manufacturing 40%
- Net Income 11.6%
- Cost of Goods 28%

Components of a $8,000 Implant

- Selling, General & Administrative $2,400
- Manufacturing $1,578
- Net Income $568
- Research and Development $400
- Tax $194

Source: Orthopedic Network News estimates, based on average of 2013 performance of 7 companies.
WHAT?

• Implants
  ▪ Cardiac Rhythm Management (CRM) Devices
  ▪ Heart Valves
  ▪ Spine
  ▪ Total Joints
  ▪ Breast Implants/Tissue Expanders
  ▪ Etc...

• “Physician Preference/Choice”
WHY?

- Request from executive leadership to not reduce suppliers due to:
  - Formation of new clinical programs
  - Lack of physician alignment/engagement
  - Implementation of new EMR (change fatigue)

- Categories have been sourced multiple times, no more “low hanging fruit.”

- What other value can Supply Chain bring outside of supplier reduction strategies?
  - Innovation

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“The more important your cheese is to you, the more you want to hold on to it.” Who Moved My Cheese

“We’ve gone as far as we can in leveraging price. Now we have to find other ways of meeting our targets” Industrial Products

“If you think standardization as the best that you know today, but which is to be improved tomorrow; you get somewhere.” Henry Ford
### SOURCING PROCESS OVERVIEW

**Organize**
- Project Request (M)
- Identify and Establish Cross-Functional Sourcing Team (M)
- Charter (M)
- Detailed Schedule (C)
- Detailed Communication Plan (C)
- Kick-Off Meeting (M)

**Analyze**
- Detailed Spend Analysis (M)
- Current State Contract Review (M)
- TCO Analysis (S)
- Current/Future State Procurement Processes (C)
- Identify 360° Requirements (M)
  - MoSCoW List
- Supply Market Analysis (S)
- RFI (C)
- Create / Distribute NDA’s (C)

**Strategy**
- Pre-Qualification Evaluation (S)
  - Pre Qualification Survey
  - Excluded Parties Checklist
- Sourcing Strategy (M)
  - Importance vs. Supply Market Complexity
    - Strategic
    - Leverage
    - Transactional
    - Bottleneck

**Source**
- Go-To-Market Method (M)
- Supplier Information Session (S)
- Supplier Selection Scorecard (M)
  - Create
  - Score
- Supplier Assessments (M)
- Negotiation Strategy (M)
- Contract Negotiations (M)
- Award Business/Execute Contract Approval (M)
- Lessons Learned (S)

**Implement**
- Load Info into Systems (M Products)
- Implementation Plan (S)
  - Develop
  - Execute & Manage
- Finalize Savings and Reporting (M)
- Financial Impact Analysis (C)
- Manage Contract (S)
  - Price Management
  - Terms
  - Process Improvement

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**Communication & Change Management**
SOURCING PROCESS OVERVIEW

- Go-To-Market Method (M)
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Sustainable exchange of knowhow

- Go-To-Market Method (M)
- Supplier Collaboration
  - What makes it expensive to do business with Intermountain?
  - What additional benefits could Intermountain garner by pulling on X, Y, Z levers?
- Supplier Information Session (S)
- Supplier Selection Scorecard (M)
  - Create
  - Score
- Supplier Assessments (M)
- Negotiation Strategy (M)
- Contract Negotiations (M)
- Award Business/Execute Contract Approval (M)
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Selecting Value Drivers

Value Levers:
- Total Cost Modeling
- Single Delivery Point
- Price Accuracy
- Bulk Buys
- Contract Duration
- AP Terms
- Consumption Data
- Lead Time Commitments
- Inventory Visibility
- Vendor Managed Inventory
- Packaging
- Demand Forecasting
- Volume Incentives
- Preferred Receiving
- Fill Rate Commitments
- Pallet Architecture
- Joint Strategic Planning
- Freight Consolidation
- Shipment Accuracy
- Declared Standards
- Full EDI
- Supply Chain Visibility
- Joint Risk Management
- Emergency Planning

Business Benefits:
- Process Efficiency
- Supply Chain Effectiveness
- Managed Inventory
- Demand Reduction
- Total Cost Reductions
- Better Pricing
- Service Level Improvement
- Quality Level Improvement
- Committed Relationship
- Strategic Alignment
- Joint Innovation
- Reduced Supply Disruption
- Fewer Service Issues
- Business Continuity Plan

Business Value:
- Reduced Costs
- Improved End User Satisfaction
- Improved Supplier Relations
- Reduced Risk Exposure

Value Enablers:
- Technology
- Process
- Stakeholders
- Suppliers
Selecting Value Drivers (Continued)...

- Bulk Buys
- Vendor Managed Inventory
- Contract Duration
- Joint Risk Management (Pop. Health)
- Single Delivery Point
- Volume Incentives
- Declared Standards
- Rep-replacement
- Warranty Programs
- Innovation
## Summary of Supplier Collaboration

<table>
<thead>
<tr>
<th>Collaboration Effort</th>
<th>% Savings</th>
<th>Total Savings</th>
<th>Complexity</th>
<th>Level of Risk</th>
<th>Ability to Implement</th>
<th>Supplier Support</th>
<th>Customer Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Longer Contract Terms</td>
<td>1%-2%</td>
<td>$25,000.00</td>
<td>LOW</td>
<td>LOW</td>
<td>EASY</td>
<td>HIGH</td>
<td>HIGH</td>
</tr>
<tr>
<td>Update Component Pricing by Category</td>
<td>2%</td>
<td>$145,678.00</td>
<td>LOW</td>
<td>MED</td>
<td>MODERATE</td>
<td>LOW</td>
<td>MODERATE</td>
</tr>
<tr>
<td>Bulk Buys</td>
<td>3%</td>
<td>$70,700.00</td>
<td>LOW</td>
<td>MED</td>
<td>EASY</td>
<td>HIGH</td>
<td>EASY</td>
</tr>
<tr>
<td>Rep-replacement Model</td>
<td>5%</td>
<td>$234,567.00</td>
<td>HIGH</td>
<td>HIGH</td>
<td>DIFFICULT</td>
<td>LOW</td>
<td>LOW</td>
</tr>
<tr>
<td>Vendor Managed Inventory</td>
<td>7%</td>
<td>$311,456.00</td>
<td>HIGH</td>
<td>MED</td>
<td>DIFFICULT</td>
<td>HIGH</td>
<td>HIGH</td>
</tr>
<tr>
<td>Intermountain Owned Implant Inventory</td>
<td>10%</td>
<td>$321,456.00</td>
<td>HIGH</td>
<td>HIGH</td>
<td>MODERATE</td>
<td>SITUATIONAL</td>
<td>MODERATE</td>
</tr>
<tr>
<td>Supplier Optimization</td>
<td>15%</td>
<td>$456,789.00</td>
<td>LOW</td>
<td>HIGH</td>
<td>MODERATE</td>
<td>MED</td>
<td>LOW</td>
</tr>
<tr>
<td>Innovation</td>
<td>???</td>
<td>???</td>
<td>???</td>
<td>???</td>
<td>???</td>
<td>???</td>
<td>???</td>
</tr>
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Lesson #1: Understand Your Value Chain

✓ Supply chain is in a unique position to correlate all the data
✓ Map the upstream and downstream supply chain by category
✓ Share your understanding with customers and suppliers
Lesson #2: Engage Customers and Suppliers

✓ Change conversations with customers to be data driven NOT preference driven
✓ Change conversations with suppliers to be Trust and Value driven
✓ Be transparent and open with options and direction
Richard Bagley  MBA, CPSM, PMP
Director, SCO Commercialization
Intermountain Healthcare

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Phone: 801.442.3672

Richard currently leads Intermountain Healthcare’s Supply Chain Business Development Office. He is responsible to lead commercialization efforts of the Supply Chain. He leads the supply chain efforts to be a model in the industry and share supply chain best practices. He has lead major award winning supply chain initiatives like our procurement transformation efforts. Prior to his current role, he led the sourcing and contracting teams at Intermountain.

Prior to joining Intermountain, Richard served as a program manager for Siemens, a senior software engineer for 3M Health Information Systems and a commissioned officer in the Army. He is a graduate from the University of Utah with a degree in computer science and also has a master’s degree in business administration from the University of Phoenix where he has taught information system courses part time.
Kellen K. Switzer  
MBA, MHA, CPSM

Category Manager II  
Intermountain Healthcare

Email: Kellen.Switzer@imail.org  
Phone: 801.442.4627

Kellen Switzer has been within the supply chain for the last 10 years and currently works as a Sourcing Manager within Intermountain Healthcare. He sources products for the Cardiovascular, Imaging, Anesthesia, and Respiratory departments.

Kellen earned an undergraduate degree from the University of Utah, and two Master degrees from Weber State University in Health and Business Administration. Kellen has also received certification as a Certified Professional in Supply Management (CPSM).
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Why?
- Your feedback drives SIG Event content
- By signing and submitting your evaluation, you are automatically entered into a prize drawing

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Option 1: App
1. Select Schedule
2. Select Schedule by Day
3. Select Day
4. Select Session
5. Scroll to Description
6. Click on the Evaluation link

Option 2: Browser
1. Go to www.sig.org/eval
2. Select Session (#37)

COMPLETE & SUBMIT EVAL
Session #37

Unlock Hidden Value with Scenario Based Sourcing

Speakers:

Intermountain Healthcare

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