SMI Strategic Marketplace Initiative

SMI 2U Industry Update

Healthcare Supply Chain
Trading Partner Viewpoints
From SMI Fall 2011 Forum Polling Session

Introduction

At the SMI Fall 2011 Forum, SMI members participated in the first SMI Forum interactive polling session to collect SMI member views and opinions regarding healthcare supply chain topics. More than 100 individuals participated in the session. Plans currently call for repeating the interactive polling session on an annual basis in order to identify and track changes in thought leader opinion.

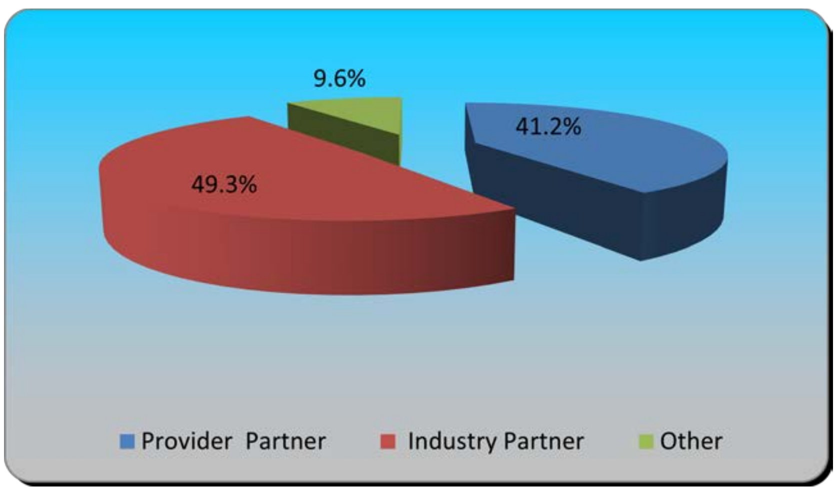
A total of twelve questions were presented to the SMI members, who used individual response devices to provide their answers. The summary results contained in this SMI member-only report were displayed live at the Forum. In addition to the summary information, this report also contains the breakdown of votes by three categories: SMI Provider Partners, SMI Industry Partners, and Collaborators. This "snap-shot" representation of industry thought-leader's current opinions offers useful insight for all trading partners and can assist SMI members in their ongoing executive level dialogues and decision-making efforts for advancing the healthcare supply chain in the new era of healthcare reform.

INDUSTRY UPDATE CONTENTS

Participant Profile

The Strategic Marketplace Initiative (SMI) is a non-profit, member-driven organization dedicated to improving the supply chain through direct information exchange and collaboration between senior healthcare supply chain executives and senior IDN supply chain executives. SMI members include healthcare providers, medical manufacturers, medical distributors, and other healthcare supply chain businesses. SMI, created to influence, shape and advance the future of the healthcare marketplace, provides an open forum for innovative idea-exchange and the development of collaborative process improvement initiatives.

Over 125 SMI members, all recognized healthcare supply chain industry thought leaders, participated in an interactive polling session at the SMI Fall 2011 Forum in November of 2011.

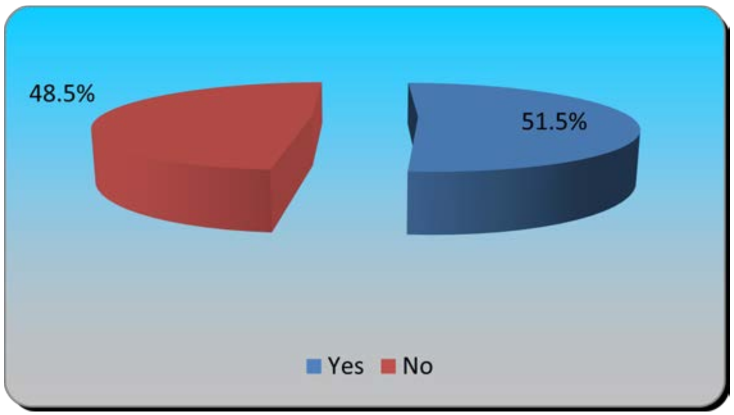


What is your participant type?

PROVIDER PARTNER	41.2%
INDUSTRY PARTNER	49.3%
OTHER	9.6%

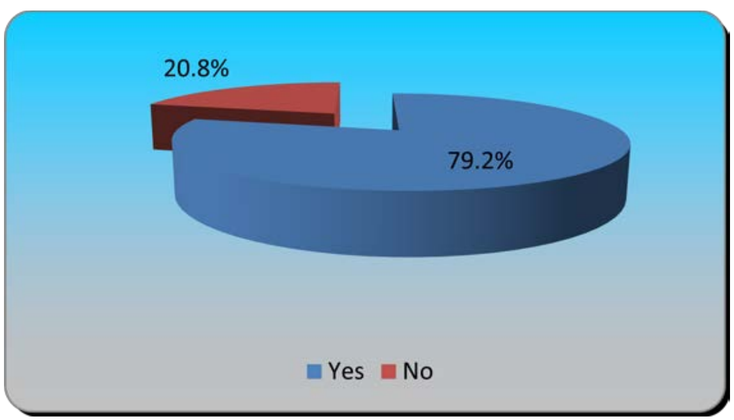
Contracting & Trading Partner Environment

Previous to the SMI Fall 2011 Forum, external surveys about trading partner trust revealed a low level of trust in the marketplace. The responses in this section may reflect the higher than average trust level that has developed among the SMI members, many of whom have collaborated on both SMI Initiatives and individual projects since SMI's inception in 2005. In addition, responses here may also reflect the expansion of supply chain's reach beyond the traditional hospital campus, as well as a growing reliance among SMI provider members to in-source some contracting duties while developing innovative supplier relationships in order to minimize the impact of declining hospital revenues.



Do you believe there is a growing trend toward more true partnerships creating a higher level of trust than in the past?

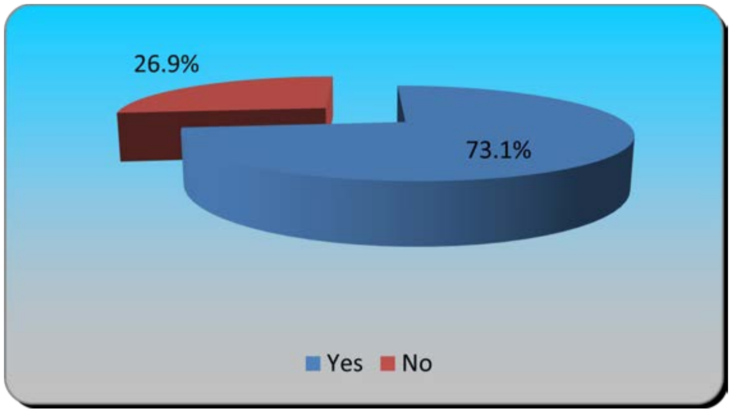
SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	51.85%	48.15%
INDUSTRY PARTNER	50.82%	49.18%
OTHER	63.64%	36.36%



Should "hospital" contracts be extended to supply chains in provider segments like the physician's offices, ambulatory care centers, imaging centers, etc.?

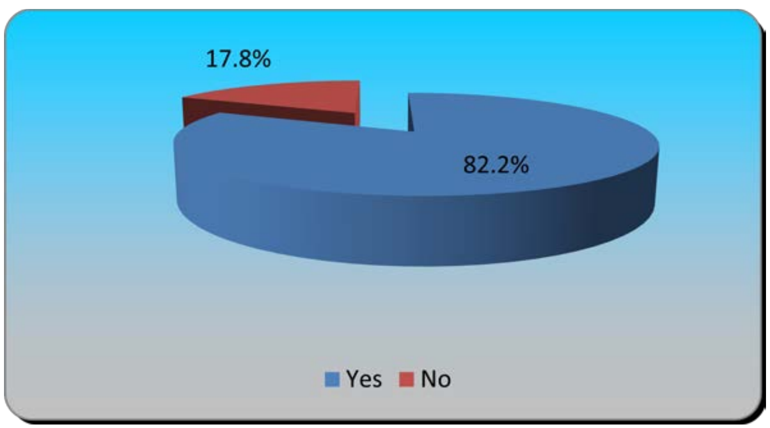
SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	92.16%	7.84%
INDUSTRY PARTNER	62.07%	37.93%
OTHER	100.00%	0.00%

Contracting & Trading Partner Environment (continued)



Do you expect healthcare reform will drive more of a true partnership between suppliers and providers versus the traditional buyer-seller relationship?

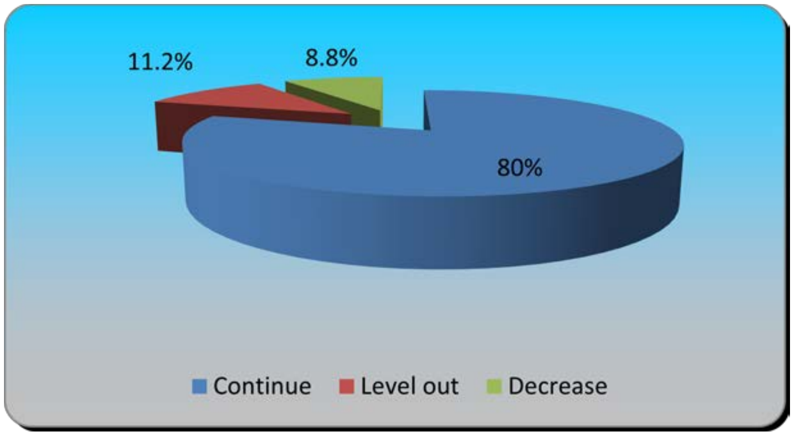
SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	74.00%	26.00%
INDUSTRY PARTNER	68.85%	31.15%
OTHER	83.33%	16.67%



Does the continued growth of regional purchasing cooperatives reduce the value that national GPOs bring to the industry?

SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	64.71%	35.29%
INDUSTRY PARTNER	95.08%	4.92%
OTHER	80.00%	20.00%

Contracting & Trading Partner Environment (continued)

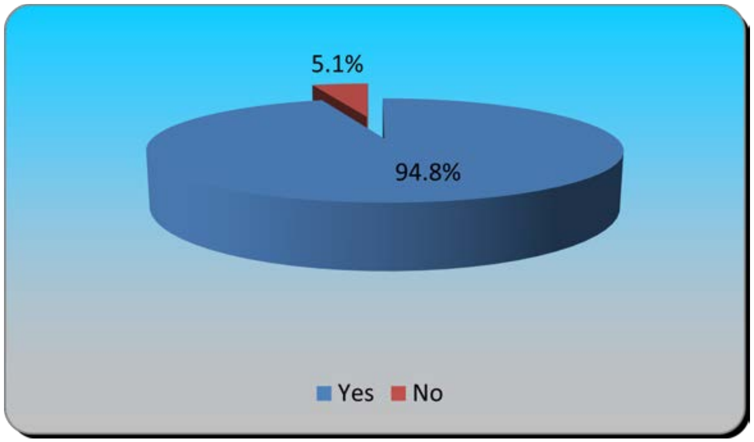


In the next five years, I think the trend toward provider self-contracting will:

SMI MEMBER BREAKDOWN	CONTINUE	LEVEL OUT	DECREASE
PROVIDER PARTNER	74.00%	12.00%	14.00%
INDUSTRY PARTNER	81.03%	12.07%	6.90%
OTHER	90.91%	9.09%	0.00%

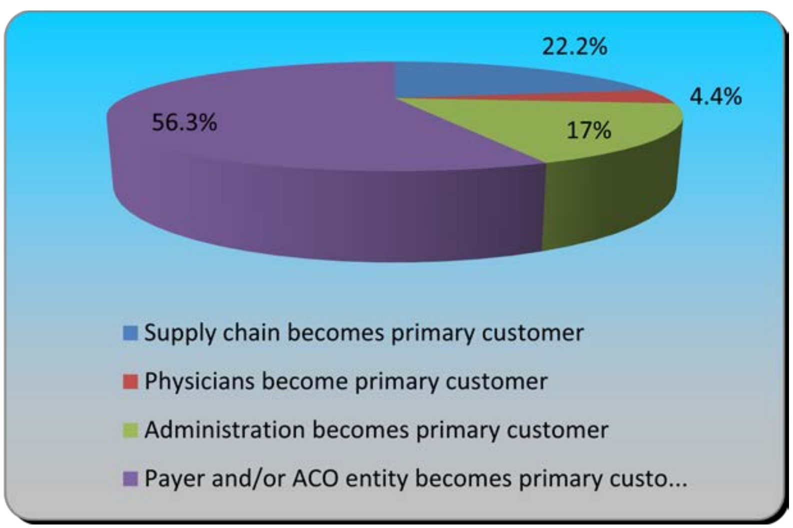
Impact of ACO's

As the industry awaits the emergence and impact of this reform-driven new model of care, the anticipation of Accountable Care Organizations continues to impact strategic planning approaches throughout all of healthcare. SMI member responses to ACO-related questions could reflect a still emerging industry consensus that traditional sales approaches will be altered while supply chain's impact increases.



Do you expect the emergence of ACOs and bundled payments to necessitate a change to the sales approach in the marketplace?

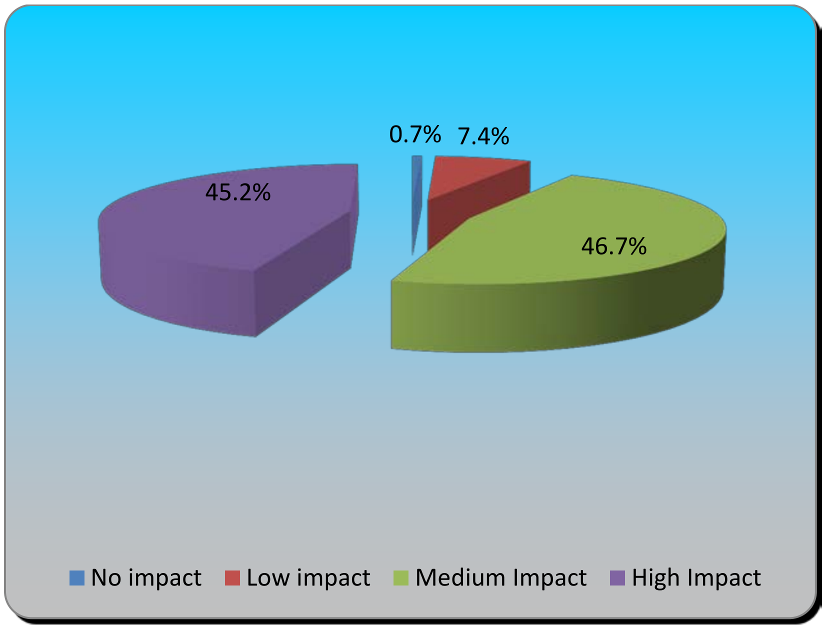
SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	92.73%	7.27%
INDUSTRY PARTNER	96.97%	3.03%
OTHER	91.67%	8.33%



If you do expect a change in the sales approach with ACO's and bundled payments, which participant in the sales process will become the "customer"?

SMI MEMBER BREAKDOWN	SUPPLY CHAIN BECOMES PRIMARY CUSTOMER	PHYSICIANS BECOME PRIMARY CUSTOMER	ADMIN BECOMES PRIMARY CUSTOMER	PAYER AND/OR ACO ENTITY BECOMES PRIMARY CUSTOMER
PROVIDER PARTNER	21.43%	3.57%	21.43%	53.57%
INDUSTRY PARTNER	20.97%	3.23%	17.74%	58.06%
OTHER	25.00%	16.67%	0.00%	58.33%

Impact of ACO's (continued)

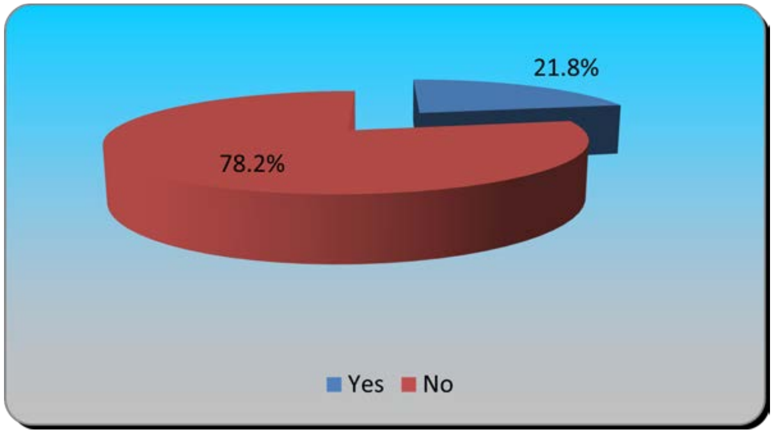


As the new models of care evolve, focused on reducing clinical variability and improving patient outcomes, to what extent will the Provider's supply chain influence and support the success of these clinically driven efforts?

SMI MEMBER BREAKDOWN	NO IMPACT	LOW IMPACT	MEDIUM IMPACT	HIGH IMPACT
PROVIDER PARTNER	0.00%	3.64%	40.00%	56.36%
INDUSTRY PARTNER	1.64%	9.84%	50.82%	37.70%
OTHER	0.00%	7.69%	69.23%	23.08%

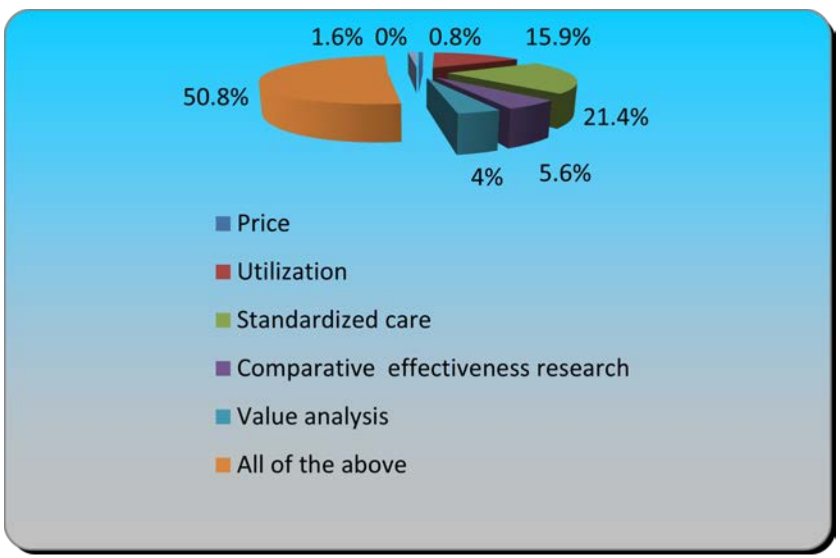
Cost Management

SMI member responses in this category may be a reflection of the need for continued alignment between trading partners, while also revealing that future cost reduction efforts are expected to come from multiple sources.



Do your current incentives/ financial compensation tie to trading partner efficiencies and/or satisfaction outcomes?

SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	17.65%	82.35%
INDUSTRY PARTNER	24.14%	75.86%
OTHER	12.50%	87.50%

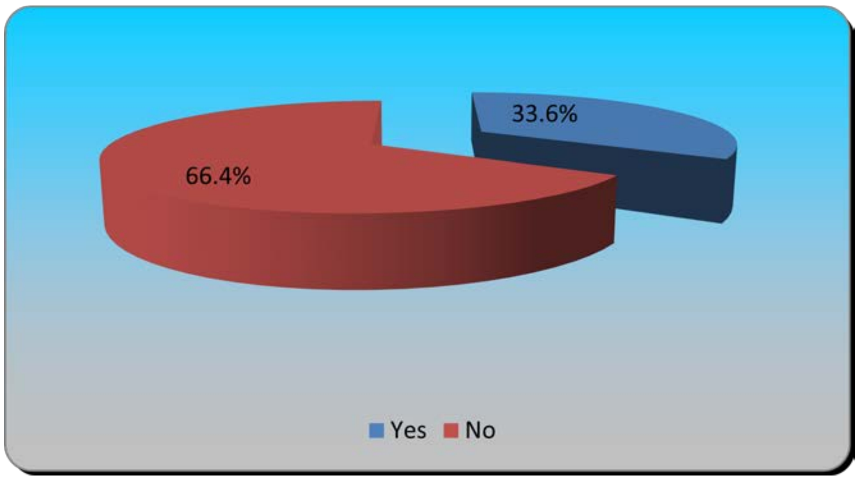


Where do you believe most future cost reductions will come from?

SMI MEMBER BREAKDOWN	PRICE	UTILIZATION	STANDARD CARE	CER	VALUE ANALYS	ALL	NONE
PROVIDER PARTNER	0.00%	17.31%	13.46%	5.77%	3.85%	59.62%	0.00%
INDUSTRY PARTNER	0.00%	15.79%	26.32%	5.26%	5.26%	43.86%	3.51%
OTHER	0.00%	10.00%	40.00%	0.00%	0.00%	50.00%	0.00%

Social Media Relevance

At the SMI Forum in November, member feedback on this question focused on both the experienced nature of most SMI members and the yet- to-be-determined impact of social media (Facebook, Twitter, etc.) on business to business trade within the healthcare industry.



Do you truly find business value in social media?

SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	21.82%	78.18%
INDUSTRY PARTNER	40.00%	60.00%
OTHER	46.15%	53.85%

Conclusion

The results of SMI Forum polling sessions are shared exclusively with SMI members. Current plans call for interactive polling of SMI members annually at an SMI Forum. Results of all future polling sessions will be shared with all SMI members. Members are encouraged to provide the SMI staff with any feedback or comments on these summary documents that report the polling results. Members are also encouraged to suggest any additional polling questions that may be stategic to your organization.