Industry Update

Healthcare Supply Chain Trading Partner Viewpoints:

SMI Fall 2012 Forum Polling Session REPORT

Presented by:

Strategic Marketplace Initiative (SMI)

www.smisupplychain.com

Introduction

During the past year, SMI conducted interactive polling sessions at SMI Forums each spring and fall in order to collect member views and opinions regarding healthcare supply chain topics. Based on feedback we have received from our members, SMI plans to continue these interactive polling sessions at each Forum to identify trends and track changes for some of the most pressing issues facing the healthcare supply chain industry.

A total of eleven questions were presented to the SMI members at the Fall 2012 Forum in Phoenix. The summary results contained in this SMI member-only report were displayed live at the Forum. This report contains the breakdown of responses in three categories: SMI Provider Partners, SMI Industry Partners, and Collaborators. During this polling session, SMI asked 4 "trending" questions that were also asked one year ago during the Fall 2011 Forum. Questions 2-5 show trends of how SMI members answered questions today versus one year ago. SMI members are encouraged to use the data in this report in their ongoing executive level discussions and decision-making efforts for advancing the healthcare supply chain in the new era of healthcare reform.

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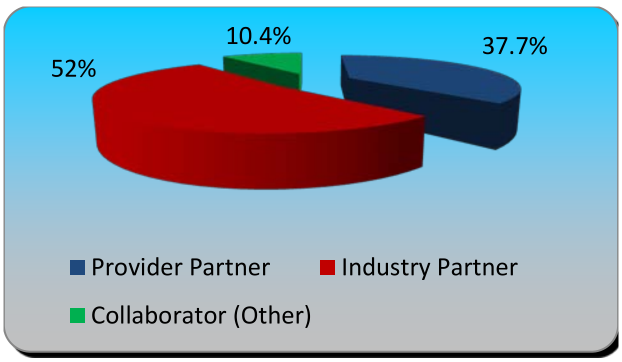
Participant Profile

SMI members at the Fall 2012 and Fall 2011 Forums used individual response devices to provide their answers anonymously. More than 100 individuals participated in these sessions. Responses were recorded in three categories: **Provider Partner**, **Industry Partner** and **Collaborator**.

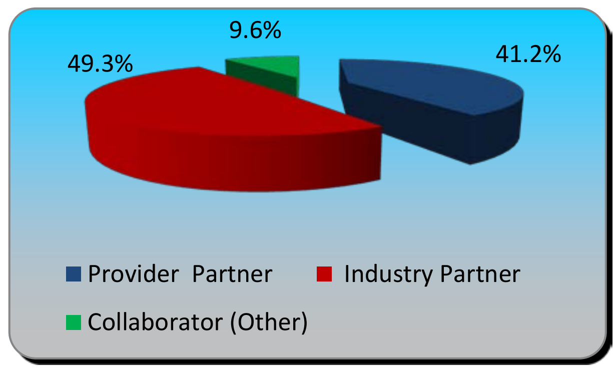
1. What is your participant type?

SMI Fall 2012 Forum Responses:



SMI MEMBER BREAKDOWN	
PROVIDER PARTNER	37.7%
INDUSTRY PARTNER	52.0%
COLLABORATOR	10.4%

SMI Fall 2011 Forum Responses:



SMI MEMBER BREAKDOWN	
PROVIDER PARTNER	41.2%
INDUSTRY PARTNER	49.3%
COLLABORATOR	9.6%

Key Takeaways:

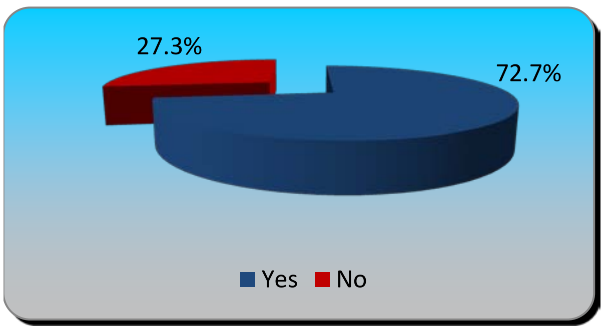
1. There is consistency in the make-up of the polling population.

TRENDING QUESTIONS:

Contracting and Trading Partner Environment

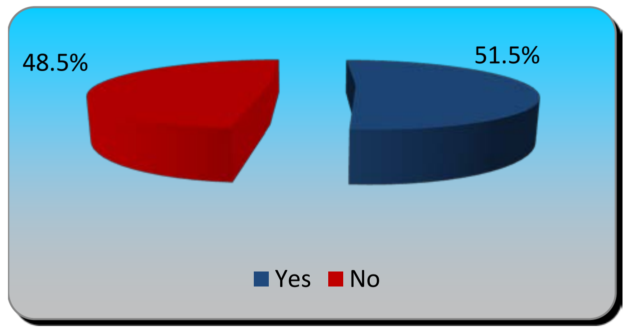
2. Do you believe there is a growing trend toward more true partnerships creating a higher level of trust than in the past?

SMI Fall 2012 Forum Responses:



SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	93.3%	6.7%
INDUSTRY PARTNER	60.9%	39.1%
COLLABORATOR	80.0%	20.0%

SMI Fall 2011 Forum Responses:



SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	51.9%	48.1%
INDUSTRY PARTNER	50.8%	49.2%
COLLABORATOR	63.6%	36.4%

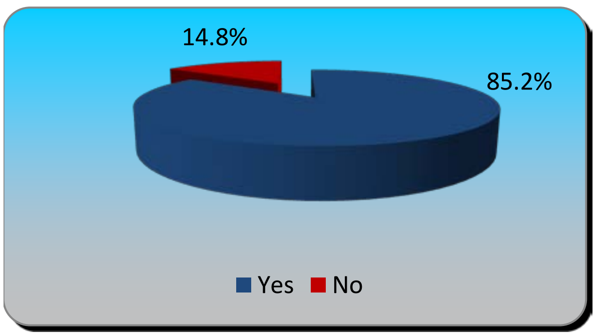
Key Takeaways From Results:

1. Compared to one year ago, significantly more SMI members believe there is a growing trend toward more true partnerships.
2. SMI members believe that the growing trend toward more true partnerships is increasing the level of trust among trading partners.

Contracting and Trading Partner Environment

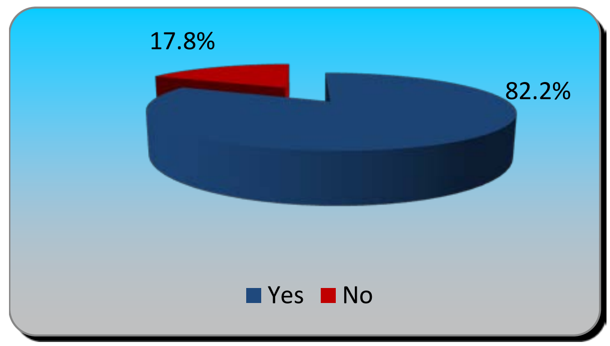
3. Does the continued growth of regional purchasing cooperatives reduce the value of that national GPOs bring to the industry?

SMI Fall 2012 Forum Responses:



SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	**77.8%**	**22.2%**
INDUSTRY PARTNER	**100%**	**0.0%**
COLLABORATOR	**100%**	**0.0%**

SMI Fall 2011 Forum Responses:



SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	**64.7%**	**35.3%**
INDUSTRY PARTNER	**95.1%**	**4.9%**
COLLABORATOR	**80.0%**	**20.0%**

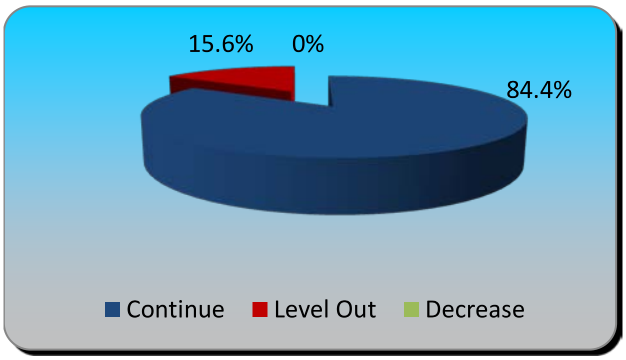
Key Takeaways From Results:

1. The 2012 “yes” answers in all member categories reflect an increasing perception over 2011 that regional cooperatives reduce the value of the national GPOs.
2. Industry Partner are unanimous, with 100% of Industry Partners answered that the continued growth of regional cooperatives reduces the value of the national GPOs.

Contracting and Trading Partner Environment

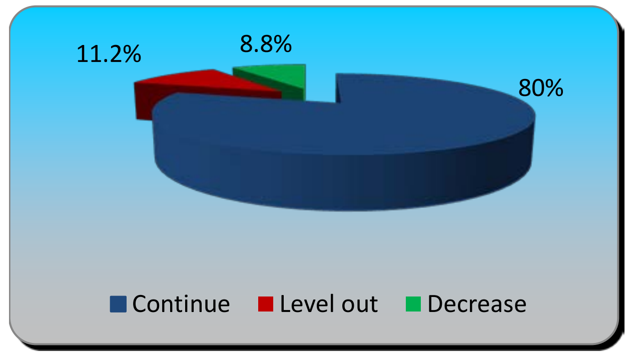
4. In the next five years I think the trend toward increased provider self-contracting will:

SMI Fall 2012 Forum Responses:



SMI MEMBER BREAKDOWN	CONTINUE	LEVEL OUT	DECREASE
PROVIDER PARTNER	92.3%	7.7%	0.0%
INDUSTRY PARTNER	91.7%	8.3%	0.0%
COLLABORATOR	100%	0.0%	0.0%

SMI Fall 2011 Forum Responses:



SMI MEMBER BREAKDOWN	CONTINUE	LEVEL OUT	DECREASE
PROVIDER PARTNER	74.0%	12.0%	14.0%
INDUSTRY PARTNER	81.0%	12.1%	6.9%
COLLABORATOR	91.0%	9.0%	0.0%

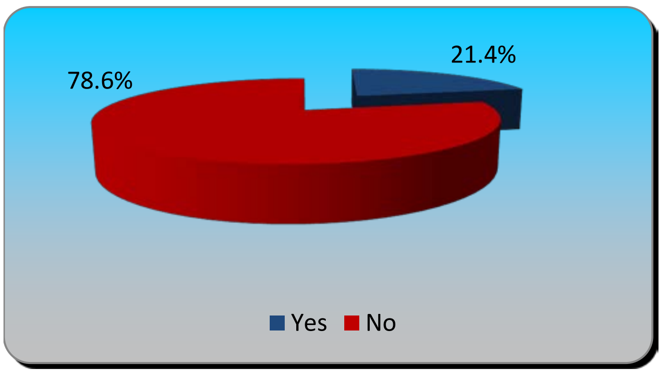
Key Takeaways From Results:

1. The number of SMI Members that believe the trend toward provider self-contracting will continue has risen to 84%.
2. 100% of SMI members think there will not be a decrease on self-contracting activity.

Cost Management

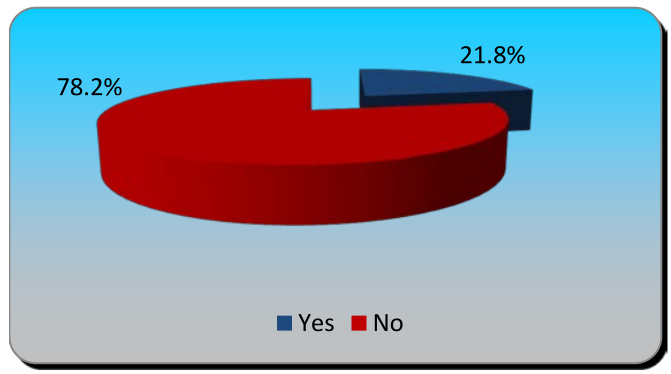
5. **Do your current incentives/financial compensation tie to trading partner efficiencies and/or satisfaction outcomes?**

SMI Fall 2012 Forum Responses:



SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	14.3%	85.7%
INDUSTRY PARTNER	25.0%	75.0%
COLLABORATOR	0.0%	100%

SMI Fall 2011 Forum Responses:



SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	17.6%	82.4%
INDUSTRY PARTNER	24.1%	75.9%
COLLABORATOR	12.5%	87.5%

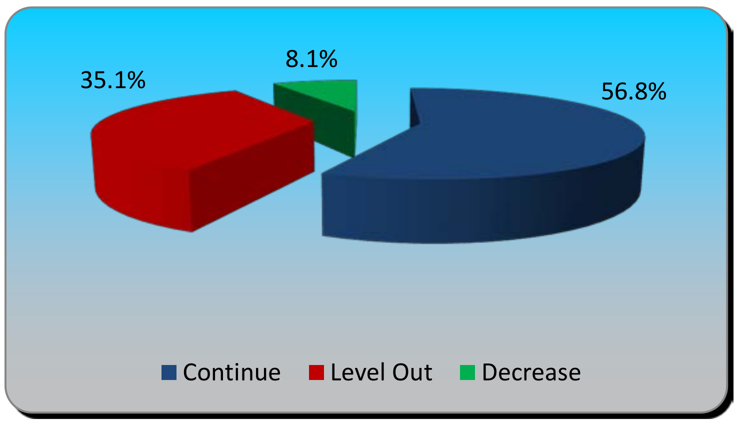
<u>Key Takeaways From Results:</u>

1. There has been no real statistical change in answers from 2011 to 2012.

Future

6. In the next five years, I think the trend toward increased provider self-distribution will:

SMI Fall 2012 Forum Responses:



SMI MEMBER BREAKDOWN	CONTINUE	LEVEL OUT	DECREASE
PROVIDER PARTNER	**50.0%**	**40.0%**	**10.0%**
INDUSTRY PARTNER	**56.3%**	**37.5%**	**6.2%**
COLLABORATOR	**66.7%**	**0.0%**	**33.3%**

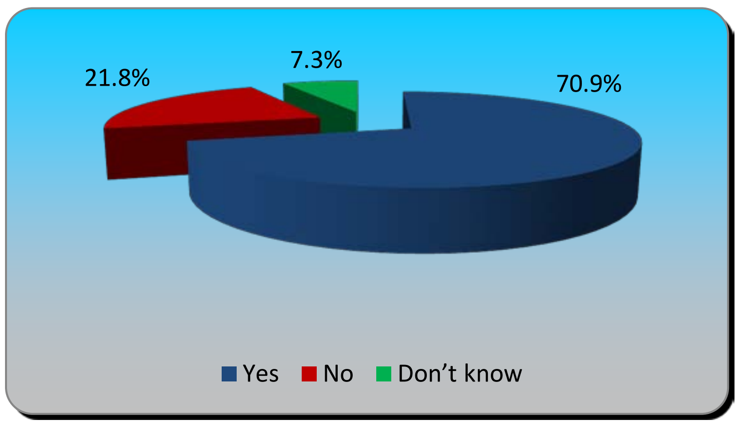
Key Takeaways From Results:

1. Only 8% of the SMI members think that the trend toward provider self-distribution will decrease.
2. The responses of Provider Partners and Industry Partners are similar.

Payor Influence

7. In the next three years, do you think that payors and insurers will become active participants in product/device selection at the care provider level?

SMI Fall 2012 Forum Responses:



SMI MEMBER BREAKDOWN	YES	NO	DON'T KNOW
PROVIDER PARTNER	**81.3%**	**12.50%**	**6.20%**
INDUSTRY PARTNER	**72.2%**	**16.7%**	**11.1%**
COLLABORATOR	**50.0%**	**50.0%**	**0.0%**

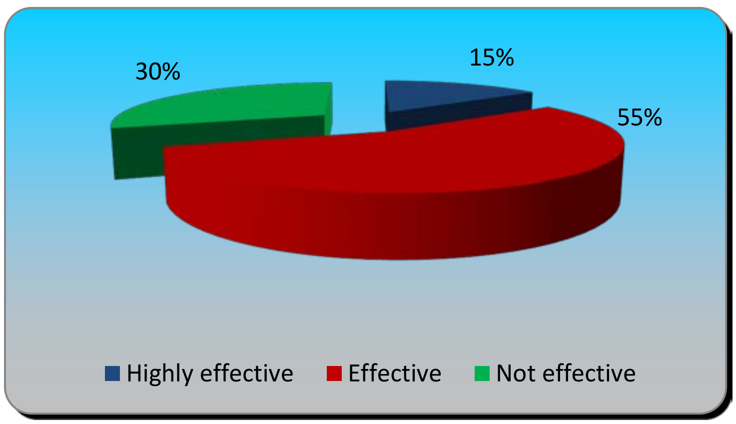
Key Takeaways From Results:

1. A majority – 71% - of both Provider Partners and Industry Partners think payors and insurers will become active participants in product selection.

Value Analysis

8. Based on your professional experience, how effective do you consider the value analysis approach toward products at healthcare provider organizations?

SMI Fall 2012 Forum Responses:



SMI MEMBER BREAKDOWN	HIGHLY EFFECTIVE	EFFECTIVE	NOT EFFECTIVE
PROVIDER PARTNER	**23.1%**	**46.2%**	**30.8%**
INDUSTRY PARTNER	**12.5%**	**56.3%**	**31.3%**
COLLABORATOR	**0.00%**	**66.7%**	**33.3%**

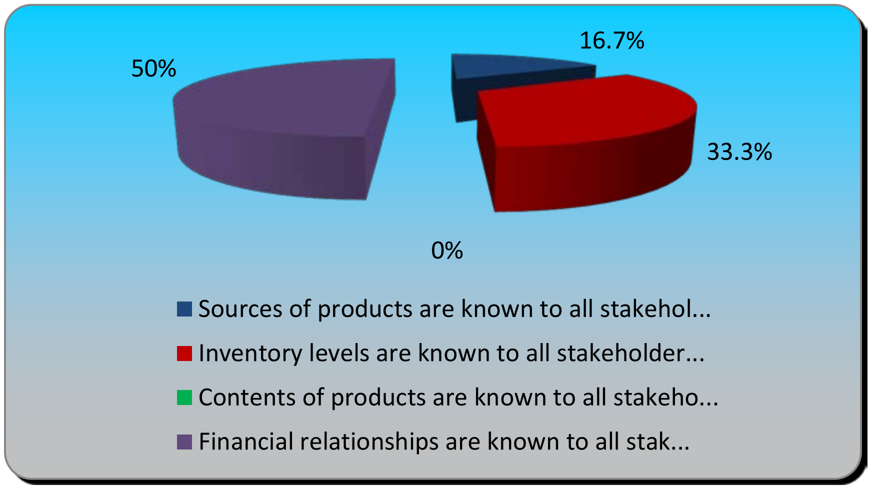
Key Takeaways From Results:

1. Only 15% of the SMI Members think that the value analysis approach in healthcare is highly effective.
2. 30% of the SMI Members think that the value analysis approach in healthcare is not effective.

Transparency

9. Which of the following phrases best describes the "transparency" you want to see first in the healthcare supply chain?

SMI Fall 2012 Forum Responses:



SMI MEMBER BREAKDOWN	SOURCES OF PRODUCTS ARE KNOWN TO ALL STAKEHOLDERS	INVENTORY LEVELS ARE KNOWN TO ALL STAKEHOLDERS	CONTENT OF PRODUCTS ARE KNOWN TO ALL STAKEHOLDERS	FINANCIAL RELATIONSHIPS ARE KNOWN TO ALL STAKEHOLDERS
PROVIDER PARTNER	**33.3%**	**0.00%**	**0.00%**	**66.7%**
INDUSTRY PARTNER	**11.1%**	**33.3%**	**0.00%**	**55.6%**
COLLABORATOR	**0.0%**	**50.0%**	**0.0%**	**50.0%**

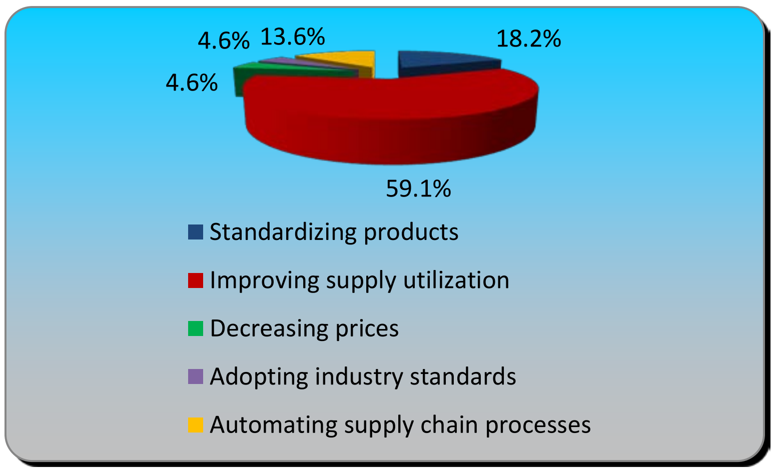
Key Takeaways From Results:

1. Half of the SMI Members want to first know the financial relationships of all stakeholders as part of achieving transparency.
2. Knowing the content of products is not considered the first priority of SMI Members toward achieving transparency.

Cost Management

11. Which of the following areas of cost management do you consider the industry's current <u>best</u> opportunity for reducing care provider supply costs:

SMI Fall 2012 Forum Responses:



SMI MEMBER BREAKDOWN	STANDARDIZING PRODUCTS	IMPROVING SUPPLY CHAIN UTILIZATION	DECREASING PRICES	ADOPTING INDUSTRY STANDARDS	AUTOMATING SUPPLY CHAIN PROCESSES
PROVIDER PARTNER	**16.7%**	**66.7%**	**16.7%**	**0.00%**	**0.00%**
INDUSTRY PARTNER	**20.0%**	**70.0%**	**0.00%**	**0.00%**	**10.0%**
COLLABORATOR	**33.3%**	**33.3%**	**0.00%**	**0.00%**	**33.3%**

<u>Key Takeaways From Results:</u>

1. Both Provider Partners and Industry Partners are aligned, with each group considering supply chain utilization and standardizing products the best opportunities to lower costs.
2. The adoption of industry standards was not considered as a best opportunity to lower costs.