SMI 2U Industry Update

Healthcare Supply Chain Trading Partner Viewpoints: SMI Fall 2013 Forum Polling Session REPORT

Presented by:

Strategic Marketplace Initiative (SMI)

www.smisupplychain.com

Introduction

At the SMI Fall 2013 Forum, SMI members participated in the fifth consecutive Forum interactive polling session. This facilitated session included comments from a panel of SMI Provider Partners and SMI Industry Partners. During the session's polling and comment sections, statistics on SMI member responses to questions and their related comments were collected for inclusion in this report. This report includes the views and opinions of SMI members, all industry thought-leaders from healthcare providers, medical manufacturers, medical distributors, and other healthcare supply chain businesses.

Polling session questions covered many current industry topics, including the accountable care act, value analysis and GPOs. In addition to asking new questions, SMI also asked members to provide responses to questions that were asked during previous SMI Forums. The consistent make-up of the SMI members that participate in the Forum polling sessions allows for a reasonable comparison of answers from the SMI Fall 2013 Forum to answers from previous polling sessions, possibly assisting members to identify and track trends in how industry thought leaders think about important industry topics.

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 was created to influence, shape and advance the future of the healthcare marketplace and in doing so, plans to repeat this interactive polling session to continue this open dialogue at each of its upcoming Forums.

TABLE OF CONTENTS

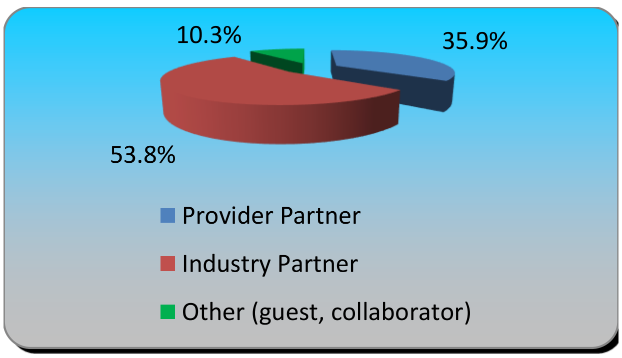
Topic: Participant Profile

SMI members at the Fall 2013 and previous Forums used individual response devices to provide their answers anonymously. In the Fall 2013 session, over 145 SMI members, all healthcare supply chain industry thought leaders, participated in the polling session.

For each question in this report, responses submitted by Forum Guests/Collaborators have been removed from the **SMI Member-Only Breakdown** to improve the clarity of SMI member responses.

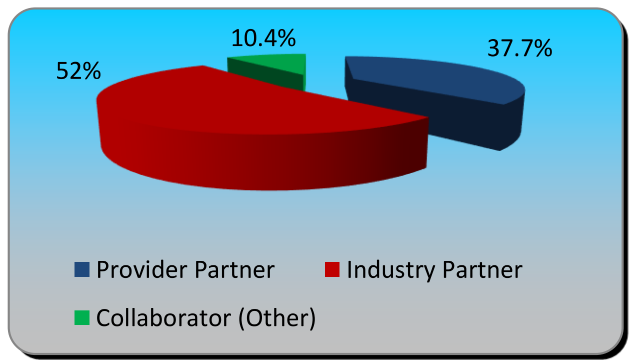
What is your participant type?

Fall 2013 Forum Total Responses:



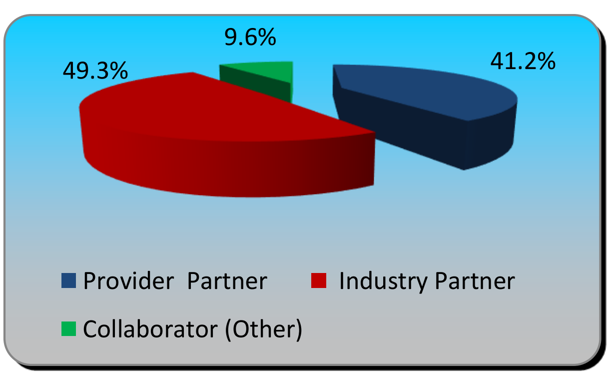
SMI MEMBER BREAKDOWN	
PROVIDER PARTNER	35.9%
INDUSTRY PARTNER	53.8%

Fall 2012 Forum Total Responses:



SMI MEMBER BREAKDOWN	
PROVIDER PARTNER	37.7%
INDUSTRY PARTNER	52.0%

Fall 2011 Forum Total Responses:

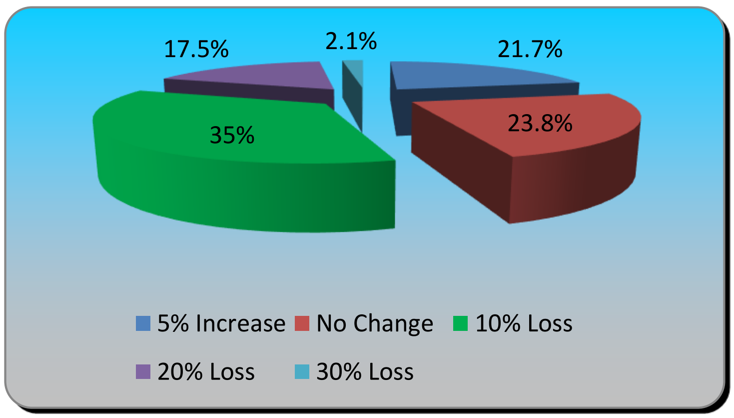


SMI MEMBER BREAKDOWN	
PROVIDER PARTNER	41.2%
INDUSTRY PARTNER	49.3%

Topic: Affordable Care Act

QUESTION: Assuming the ACA is fully implemented by the end of 2104, what do you anticipate will be the revenue impact to YOUR organization over the following 3 years (2015 – 2017)?

SMI Fall 2013 Forum Total Responses:



SMI MEMBER- ONLY BREAKDOWN	5% Increase	No Change	10% Loss	20% Loss	30% Loss
PROVIDER PARTNER	**5.9%**	**7.8%**	**45.1%**	**37.3%**	**3.9%**
INDUSTRY PARTNER	**32.4%**	**36.6%**	**25.4%**	**4.2%**	**1.4%**

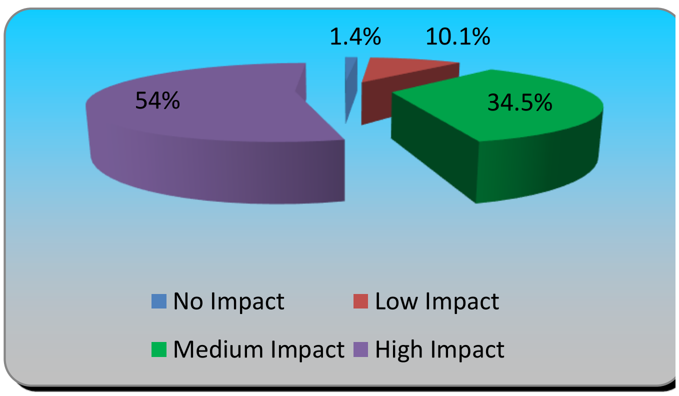
Key Takeaways from Panel & Audience Comments:

- Over 82% of Provider Partners expect lower revenues, while 69% of Industry Partners expect no change or increased revenues.
- Provider's outlook on lower revenue may be driven by known reimbursement changes contained in the Affordable Care Act.
- The future impact of lower Provider revenues on Industry Partners is unclear, possibly explaining the more optimistic Industry Partner outlook.

Topic: Impact of Accountable Care Organizations/ *Trending Question*

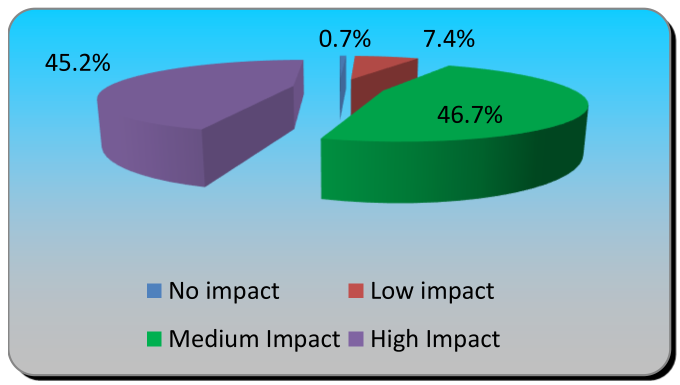
QUESTION: As the new models of care evolve like ACOs, focused on reducing clinical variability and improving patient outcomes, to what extent will the Provider's supply chain influence and support the success of these clinically driven efforts?

SMI Fall 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	No Impact	Low Impact	Medium Impact	High Impact
PROVIDER PARTNER	2.0%	8.0%	18.0%	72.0%
INDUSTRY PARTNER	0.0%	13.9%	44.4%	41.7%

SMI Fall 2011 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	No Impact	Low Impact	Medium Impact	High Impact
PROVIDER PARTNER	0.0%	3.6%	40.0%	56.4%
INDUSTRY PARTNER	1.6%	9.8%	50.8%	37.7%

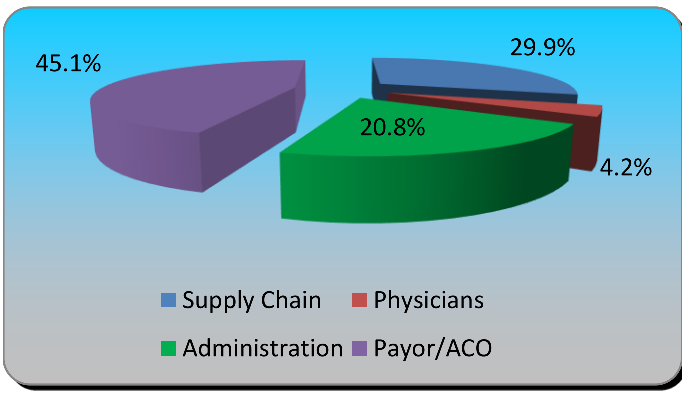
Key Takeaways from Panel & Audience Comments:

- In two years, the roles, responsibilities, and impacts of supply chain in accountable care organizations have still not been clarified.
- Both Industry Partners and Provider Partners remain optimistic about supply chain's ability to impact on ACO success.

Topic: Impact of ACOs / *Trending Question*

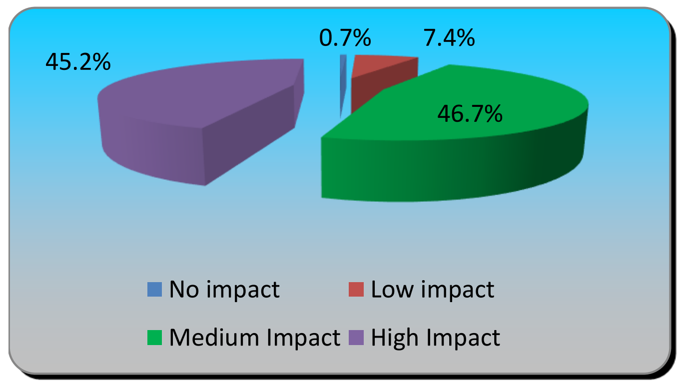
QUESTION: With the expected changes in sales approaches with ACO's and bundled payments, which participant in the sales process will become the "customer"?

SMI Fall 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	Supply Chain	Physicians	Admin.	Payor/ ACO
PROVIDER PARTNER	**28.6%**	**10.2%**	**14.3%**	**46.9%**
INDUSTRY PARTNER	**30.0%**	**1.4%**	**22.9%**	**45.7%**

SMI Fall 2011 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	Supply Chain	Physicians	Admin.	Payor/ ACO
PROVIDER PARTNER	**21.4%**	**3.57%**	**21.3%**	**53.6%**
INDUSTRY PARTNER	**21.0%**	**3.23%**	**17.7%**	**58.1%**

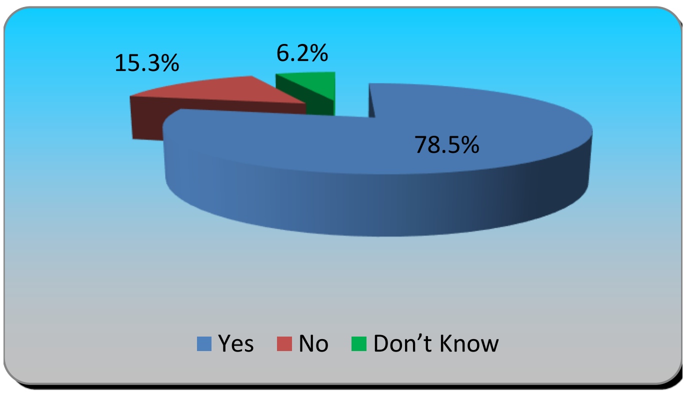
<u>Key Takeaways from Panel & Audience Comments:</u>

- While the role of payors in the sales process remains uncertain, their overall influence on sales process is expected to increase.
- In two years, SMI Member anticipation of Supply Chain as the "customer" has increased.
- Provider Partners see physicians as customers increasing, while Industry Partners see it decreasing.

Topic: Payor Influence / *Trending Question*

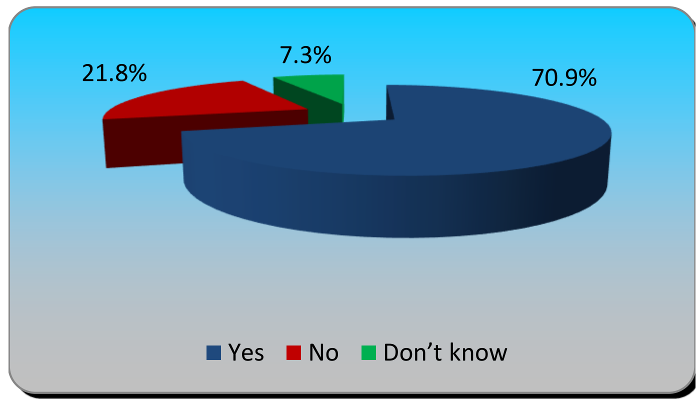
In the next three years, do you think that payors and insurers will become active participants in product/device selection at the care provider level?

SMI Fall 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	YES	NO	DON'T KNOW
PROVIDER PARTNER	76.0%	14.0%	10.0%
INDUSTRY PARTNER	79.7%	14.5%	5.8%

SMI Fall 2012 Forum Total Responses:



SMI MEMBER -ONLY BREAKDOWN	YES	NO	DON'T KNOW
PROVIDER PARTNER	81.3%	12.50%	6.20%
INDUSTRY PARTNER	72.2%	16.7%	11.1%

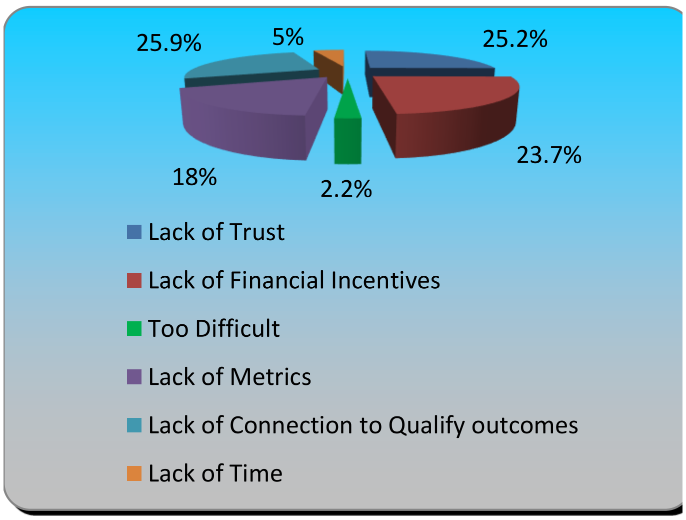
Key Takeaways from Panel & Audience Comments:

- Few Forum audience members reported payor influence in product decisions in 2013.
- While the involvement of payors in product decisions remains uncertain, their active participation is still expected to increase.

Topic: Trading Relationships / *Trending Question*

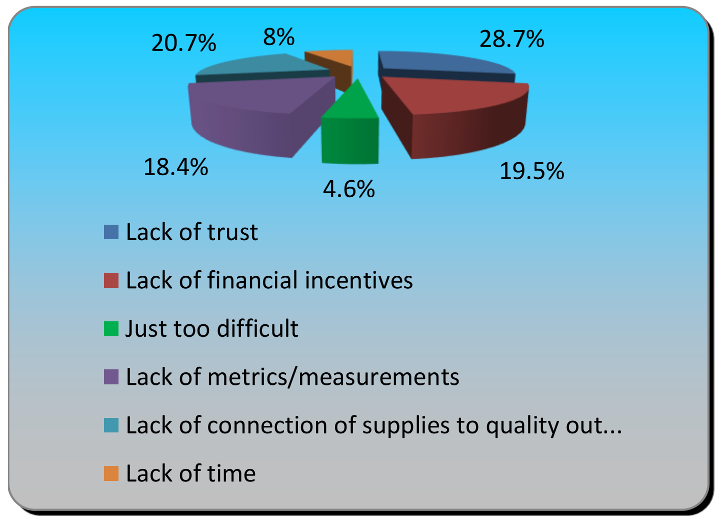
What do you think are the two greatest obstacles to creating true partnerships amongst trading partners?

SMI Fall 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	Trust	Financial	Too Difficult	Metrics	Quality	Time
PROVIDER PARTNER	18.8%	33.3%	2.1%	20.8%	20.8%	4.2%
INDUSTRY PARTNER	32.4%	20.6%	1.5%	17.7%	23.5%	4.4%

SMI Spring 2012 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	Trust	Financial	Too Difficult	Metrics	Quality	Time
PROVIDER PARTNER	24.1%	22.2%	5.6%	18.5%	22.2%	7.4%
INDUSTRY PARTNER	35.2%	17.1%	3.4%	19.3%	17.1%	8.0%

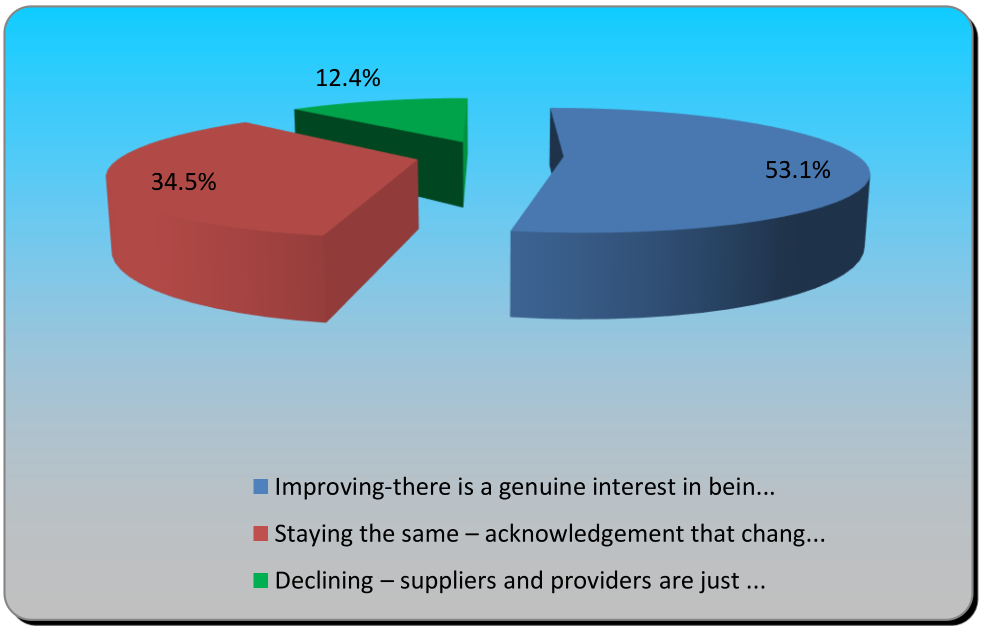
Key Takeaways from Panel & Audience Comments:

- Industry Partners remain consistent that lack of trust is the greatest barrier.
- Provider Partners now view the lack of financial incentives as the greatest barrier.

Topic: Trading Relationships

In general, are the relationships between Suppliers and Providers?

SMI Fall 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	Improving – there is a general interest in being transparent and working together for win-win solutions	Staying the same – acknowledgement that change is on the horizon – but it is business-as-usual	Declining – suppliers and providers are just in it for themselves and best negotiator wins
PROVIDER PARTNER	53.2%	42.6%	4.3%
INDUSTRY PARTNER	57.5%	30.1%	12.3%

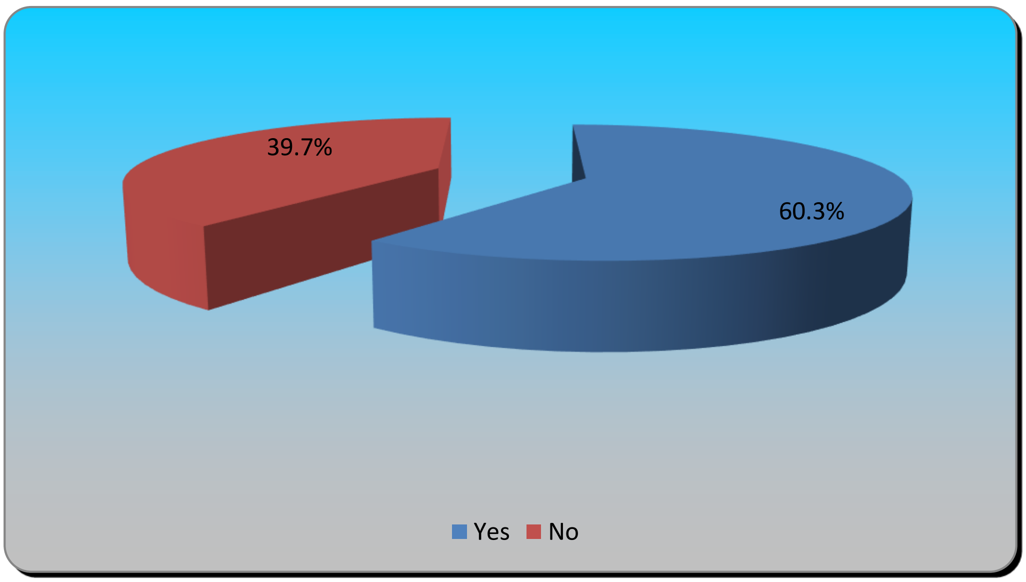
Key Takeaways from Panel & Audience Comments:

- Almost 96% of Providers see relationships as improving or staying the same, compared with 87% of Industry Partners who share that same view.

Topic: Trading Relationships

Has your organization begun to work with fewer manufacturers/IDNs? (i.e. IDN's streamlining the number of vendors and manufacturers deciding to work only with large/strategic IDN's?

SMI Fall 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	YES	NO
PROVIDER PARTNER	72.3%	27.7%
INDUSTRY PARTNER	57.8%	42.2%

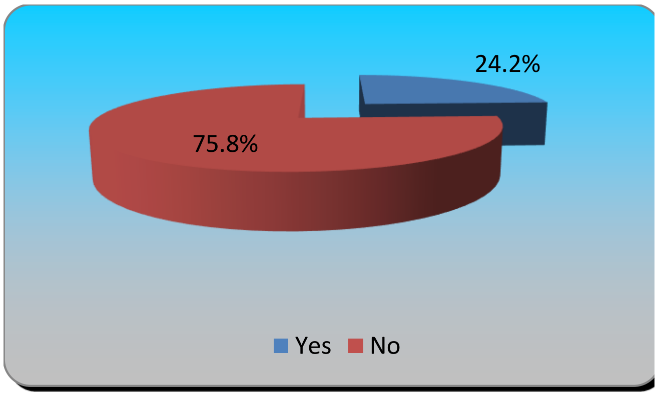
Key Takeaways from Panel & Audience Comments:

- Provider Partner responses indicate a move toward consolidating business into fewer suppliers.
- Industry Partner responses indicate a similar movement.

Topic: Cost Management / *Trending Question*

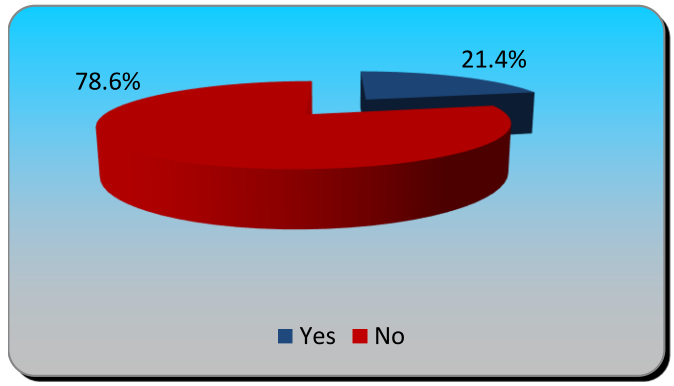
Do your current incentives/financial compensation tie to trading partner efficiencies and/or satisfaction outcomes?

Fall 2013 Forum Total Responses:



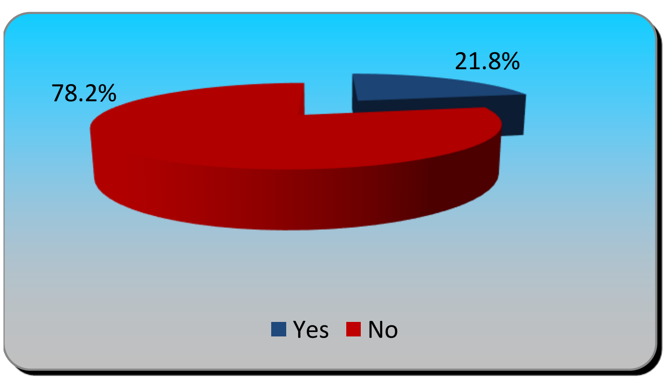
SMI MEMBER BREAKDOWN	YES	NO
PROVIDER PARTNER	9.1%	90.1%
INDUSTRY PARTNER	32.9%	67.1%

Fall 2012 Forum Total Responses:



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

Fall 2011 Forum Total Responses:



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

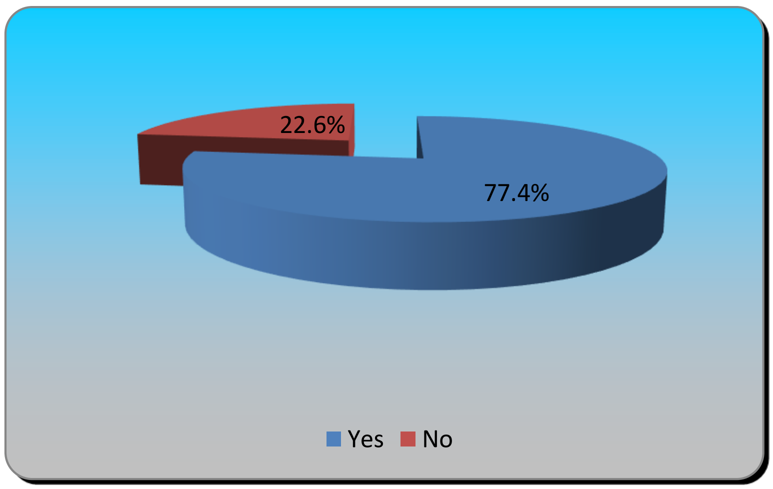
Key Takeaways from Panel & Audience Comments:

- Industry Partners answering yes are increasing while Provider Partners answering yes are decreasing.

Topic: Value Analysis

QUESTION: Do you think that the formulary management model currently used in pharmacy be successfully copied and applied for medical device management?

SMI Fall 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	YES	NO
PROVIDER PARTNER	**89.1%**	**10.9%**
INDUSTRY PARTNER	**71.2%**	**28.8%**

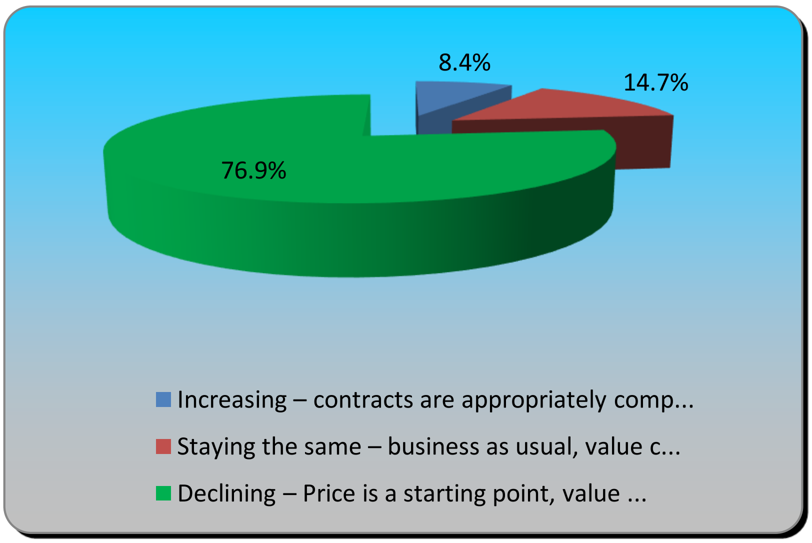
Key Takeaways from Panel & Audience Comments:

- Pharmacy's model for formulary management was identified many years ago as a model for supply chain to emulate.
- Medical device decision processes lack the independent scientific data that enables the pharmacy formulary model.

Topic: GPOs

The value of a group purchasing organization is:

SMI Spring 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	Increasing – contracts are appropriately competitive, differentiating services, adding value through technology	Staying the same – business as usual, value creation is stable	Declining – Price is a starting point, value questionable, suppliers and providers considering their own contracting strategies
PROVIDER PARTNER	**17.4%**	**19.6%**	**63.0%**
INDUSTRY PARTNER	**4.2%**	**11.1%**	**84.7%**

Key Takeaways from Panel & Audience Comments:

- Significant numbers of Industry Partners and Provider Partners perceive GPO value as declining.
- The evolution of regional purchasing organizations may be changing the industry's value perception of national GPOs.