Industry Update

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

Presented by:

Strategic Marketplace Initiative (SMI)

www.smisupplychain.com

Introduction

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. At the SMI Spring 2013 Forum, SMI members participated in the fourth consecutive interactive polling session. For the very first time, this session also included a panel discussion with audience comments that included an SMI Provider Partner, Industry Partner and Collaborator, facilitated by Gartner. During this session, SMI member views and opinions were collected regarding key healthcare supply chain topics.

Polling session topics included cost management, consolidation and product choice decisions. In addition to new questions, SMI asked members to provide responses to questions previously asked one year ago at the Spring 2012 Forum, to identify and track trends regarding transparency and GPOs. 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.

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.

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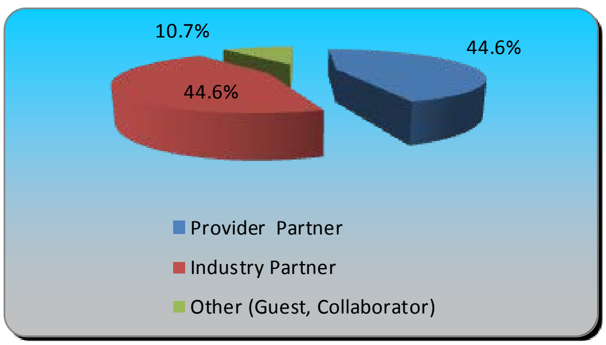
Topic: Participant Profile

SMI members at the Spring 2013 and Spring 2012 Forums used individual response devices to provide their answers anonymously. In the Spring 2013 session, over 85 SMI members - all healthcare supply chain industry thought leaders - participated in the polling session. Responses were equally balanced between Provider and Industry partners and also included Guest/Collaborators.

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's responses.

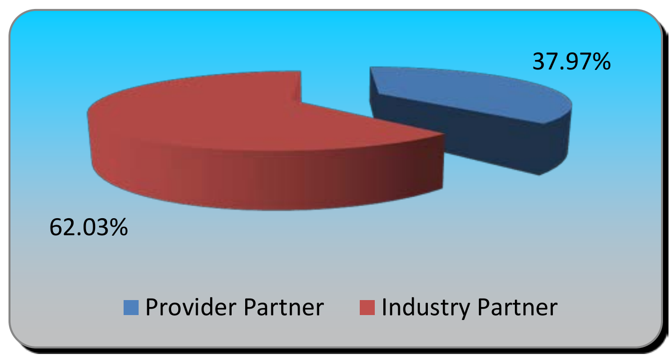
What is your participant type?

Spring 2013 Forum Total Responses:



SMI MEMBER BREAKDOWN	
PROVIDER PARTNER	44.6%
INDUSTRY PARTNER	44.6%

Spring 2012 Forum Total Responses:



SMI MEMBER BREAKDOWN	
PROVIDER PARTNER	37.97%
INDUSTRY PARTNER	62.03%

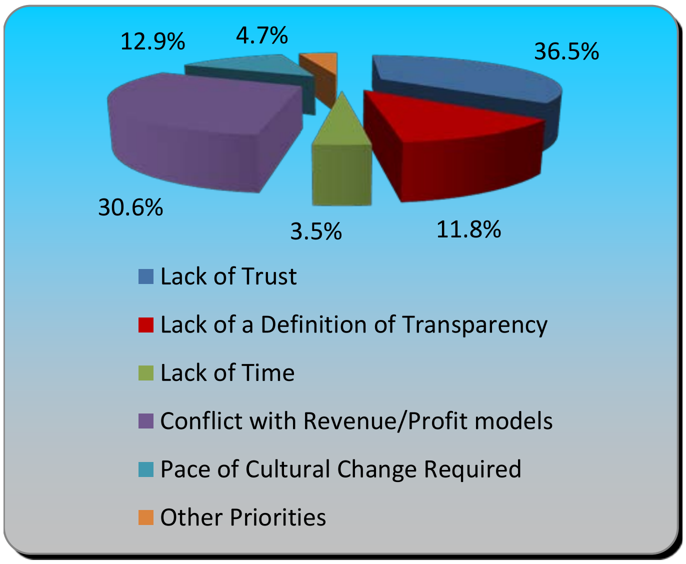
TRENDING QUESTION:

Topic: Transparency

Which of the following do you think are the two (2) greatest obstacles to transparency the healthcare supply chain industry faces today?

SMI Spring 2013 Forum

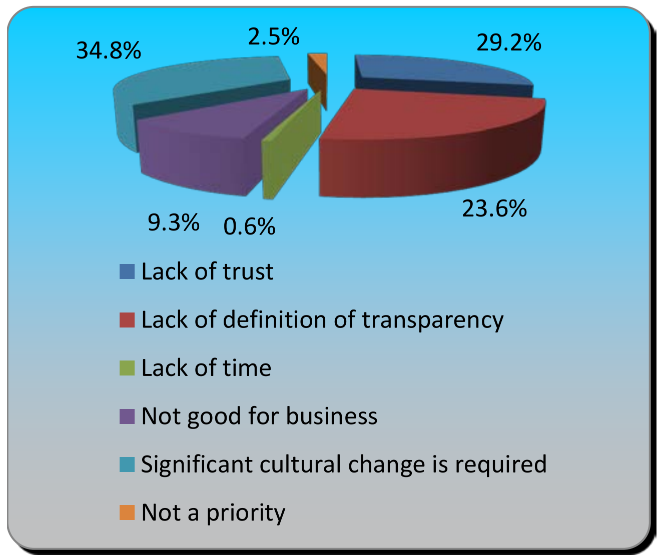
Total Responses:



SMI MEMBER-ONLY BREAKDOWN	Trust	Definition	Time	Conflict	Culture	Priorities
PROVIDER PARTNER	44.4%	5.56%	5.56%	27.78%	16.67%	0.0%
INDUSTRY PARTNER	33.33%	16.67%	0.00%	27.78%	16.67%	5.56%

SMI Spring 2012 Forum

Total Responses:



SMI MEMBER-ONLY BREAKDOWN	Trust	Definition	Time	Conflict	Culture	Priorities
PROVIDER PARTNER	31.37%	25.52%	1.96%	5.88%	35.29%	1.96%
INDUSTRY PARTNER	29.63%	23.46%	0.00%	9.88%	35.08%	1.23%

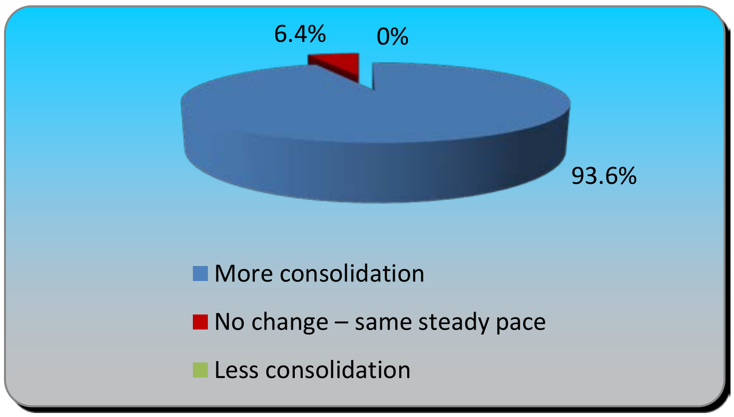
Key Takeaways From Panel & Audience Comments:

- Both provider and industry partners agreed that lack of trust remains a key obstacle.
- Conflict with revenue/profit models is another obstacle and had a higher response in 2013 than in 2012.
- Responses indicated that lack of trust increased from 31% to 44% by provider partners.
- Culture and the definition of transparency seemed to be less of a factor in 2013.

Topic: Consolidation

Do you think there will be more consolidation of IDNs in the next year?

SMI Spring 2013 Forum Total Responses:



SMI MEMBER- ONLY BREAKDOWN	MORE CONSOLIDATION	NO CHANGE – SAME PACE	LESS CONSOLIDATION
PROVIDER PARTNER	**100%**	**0.00%**	**0.00%**
INDUSTRY PARTNER	**80.00%**	**20.00%**	**0.00%**

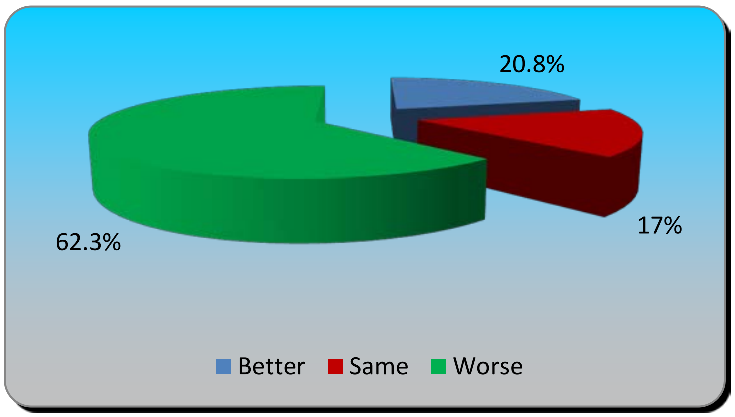
Key Takeaways From Panel & Audience Comments:

- Overwhelming majority of both provider and industry partners believe more consolidation is evident in the future.
- During the panel and audience comment session, SMI members commented how culture is a very important factor in consolidation.

Topic: Cost Management

Do you think 2013 will be a better year financially that 2012 for your organization?

SMI Spring 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	Better	Same	Worse
PROVIDER PARTNER	0.00%	12.50%	87.50%
INDUSTRY PARTNER	41.67%	8.33%	50.00%

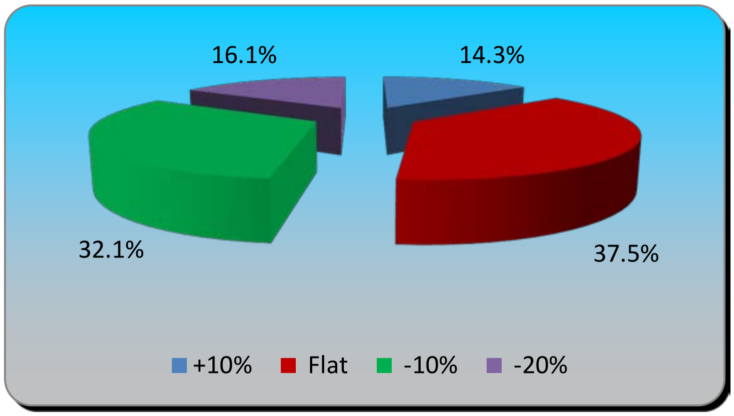
Key Takeaways From Panel & Audience Comments:

- SMI provider partners overwhelmingly responded that their financial situate will be worse. However, members commented that many organizations are building better processes and structures for the future.
- 42% of industry partners responded that they think 2013 will be better off financially for them than 2012, possibly due to significant cost cutting in 2012, as well as the changes and developing models of healthcare reform.

Topic: Cost Management (continued)

What growth rate in revenue are providers going to experience in the next 10 years?

SMI Spring 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	+10%	FLAT	-10%	-20%
PROVIDER PARTNER	6.67%	40.00%	26.67%	26.67%
INDUSTRY PARTNER	22.22%	33.33%	33.33%	11.11%

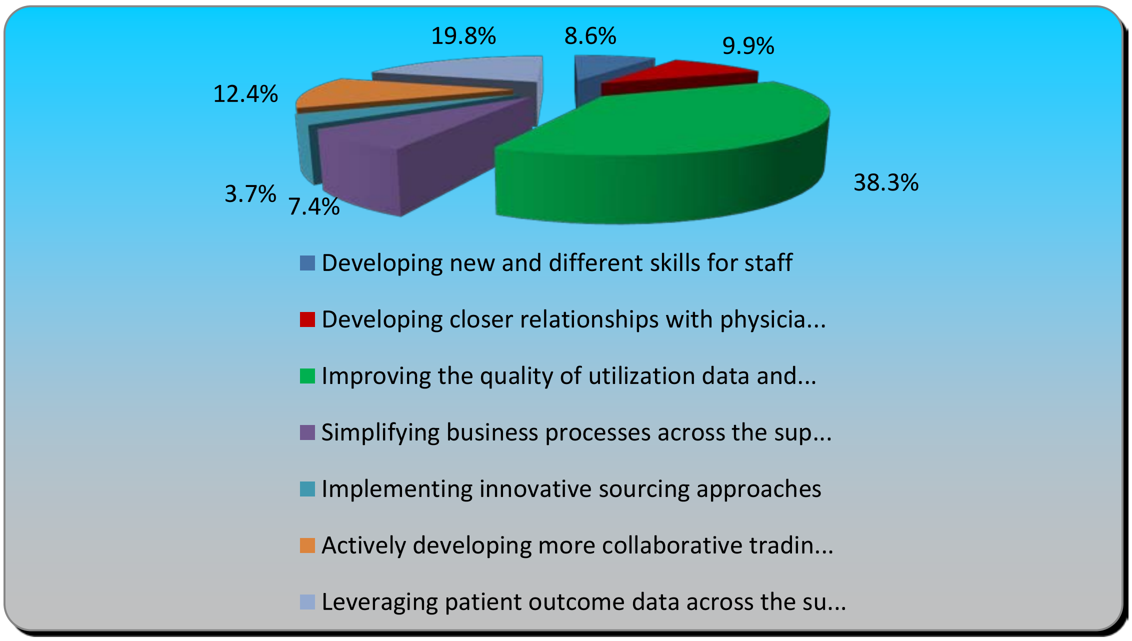
Key Takeaways From Panel & Audience Comments:

- The majority of SMI members see the growth rate in revenue for providers to be flat or negative, primarily due to the transformational industry changes anticipated in the next 10 years.
- Over 90% of provider partners see revenue growth to be flat or negative in the next 10 years, while 52% see revenue growth rates of -10 to -20%.

Topic: Cost Management (continued)

Which two of the following actions do you think are the most important for all trading partners to undertake as the industry experiences lower reimbursement, increased quality requirements, and new care delivery models?

SMI Spring 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	NEW & DIFFERENT SKILLS	CLOSER RELATIONSHIPS WITH PHYSICIANS	IMPROVING UTILIZATION DATA	SIMPLYFINING BUSINESS PROCESSES	IMPLEMENTING INNOVATIVE SOURCING	DEVELOPING MORE COLLABORATIVE TRADING	LEVERAGING PATIENT OUTCOME DATA
PROVIDER PARTNER	20.00%	20.00%	33.33%	0.00%	0.00%	13.3%	13.3%
INDUSTRY PARTNER	0.00%	0.00%	37.50%	12.50%	0.00%	25.00%	25.00%

Key Takeaways From Panel & Audience Comments:

- SMI members were consistent in identify the importance of improving utilization data as well as partnering with physician leaders.
- Provider partners were unique in identifying the importance of developing new and different skills for supply chain professionals.
- Industry partners responded that new & different skills and closer relationships with physicians were not important actions for trading partners to undertake.

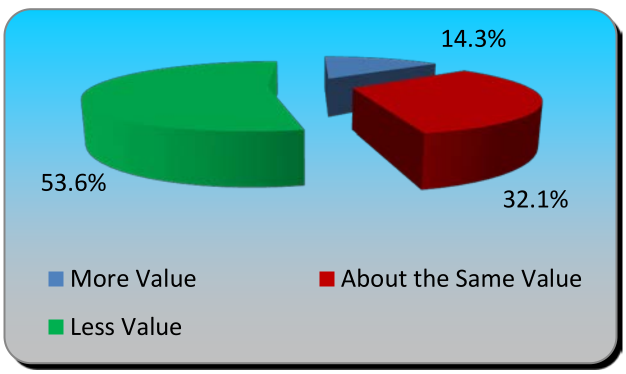
TRENDING QUESTION:

Topic: GPOs

Compared to three years ago, are GPOs providing more value, less value, or about the same to you?

SMI Spring 2013 Forum

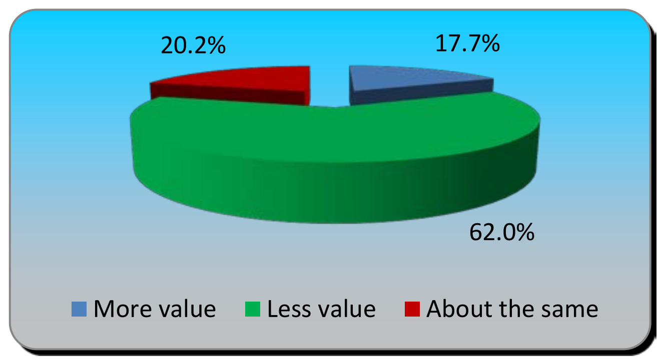
Total Responses:



SMI MEMBER-ONLY BREAKDOWN	MORE VALUE	ABOUT THE SAME	LESS VALUE
PROVIDER PARTNER	23.08%	23.08%	53.85%
INDUSTRY PARTNER	7.69%	38.46%	53.85%

SMI Spring 2012 Forum

Total Responses:



SMI MEMBER-ONLY BREAKDOWN	MORE VALUE	ABOUT THE SAME	LESS VALUE
PROVIDER PARTNER	44.44%	29.63%	25.93%
INDUSTRY PARTNER	0.00%	21.05%	78.95%

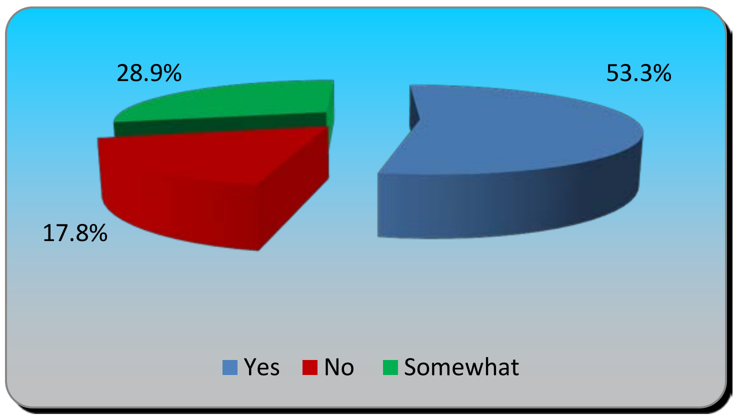
<u>Key Takeaways From Panel & Audience Comments:</u>

- Provider partner results show less value in GPOs than they did one year ago.
- SMI members commented that the GPO models continues to evolve and are shifting toward data.
- Industry partner results revealed a shift towards more value than one year ago.

Topic: Supply Chain Partners

Has your organization segmented the trading partners you work with by volume, supply chain maturity and collaborative ability?

SMI Spring 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	YES	NO	SOMEWHAT
PROVIDER PARTNER	**57.14%**	**0.00%**	**42.86%**
INDUSTRY PARTNER	**60.00%**	**20.00%**	**20.00%**

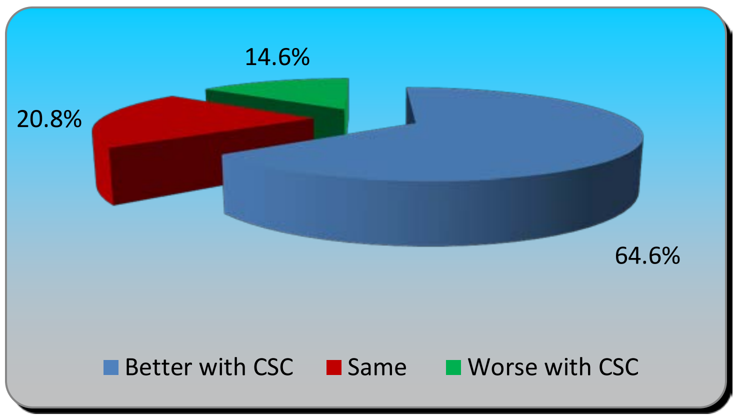
Key Takeaways From Panel & Audience Comments:

- A majority of SMI members report that they segment trading partners by volume, supply chain maturity and collaborative ability.
- SMI members commented on the importance of collaboration and applying collaborative approaches with top tier partners.
- All SMI Provider partners have segmented their trading partners to some extent.

Topic: Supply Chain Partners (continued)

On average, do you think that IDNs with consolidated service centers (CSC) make better supply chain partners than organizations without them?

SMI Spring 2013 Forum Total Responses:



SMI MEMBER-ONLY BREAKDOWN	Better with CSC	Same	Worse with SCS
PROVIDER PARTNER	**66.67%**	**11.11%**	**22.22%**
INDUSTRY PARTNER	**54.55%**	**18.18%**	**27.27%**

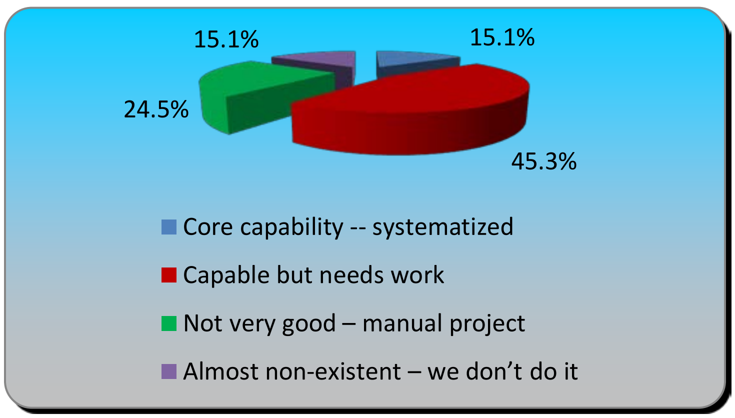
Key Takeaways From Panel & Audience Comments:

- The majority of provider and industry partners responded that IDNs with CSCs can make better supply chain partners.
- SMI members discussed the importance of access to talent, capital and systems.
- Members discussed that a CSC pulls both providers and suppliers closer together which provides great value.

Topic: Product Choice Decisions

Rank the capabilities of your organization on obtaining and balancing data related to product cost, provider reimbursement and patient outcomes in making product choice decisions:

SMI Spring 2013 Forum Total Responses:



SMI MEMBER –ONLY BREAKDOWN	Core capability – systematized	Capable but needs work	Not very good – manual process	Almost non-existent, we don't do it
PROVIDER PARTNER	**0.00%**	**50.00%**	**50.00%**	**0.00%**
INDUSTRY PARTNER	**16.67%**	**50.00%**	**16.67%**	**16.67%**

Key Takeaways From Panel & Audience Comments:

- With regard to obtaining and balancing data, results from both provider and industry partners revealed that most do not have core capability.
- Both provider and industry partners commented that the industry lacks actionable data once a product is sold and used.