HOW TO DEVELOP
OPEN INNOVATION
WITH SUPPLIERS?

IHF Group Purchasing Chapter
Dialogue Exchange Meeting

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PART 1: Introduction
Presentation of Resah-idf

- Hospital Procurement Network of the Ile-de-France Region
- Main figures:
  - 60 hospitals
  - 60 nursing homes
  - 42000 beds
  - Procurement volume: 1,5 billion €
- Central Purchasing Body
- Resource and Expertise centre
- Mission of support to other French regions for the pooling of hospital Procurement
  - 7 billion €
  - 100 other procurement organizations
The IHF Group Purchasing Chapter

• An open dialogue and exchange platform between the main Healthcare Central Purchasing Bodies
• Objectives: create an international network of buyers & support the role of purchasing & the supply chain in healthcare organizations

• Themes for 2012-2013:
  • Procurement and the green agenda
  • Optimization of the supply chain
  • Innovation

Active members:
• France: Resah-idf
• UK: NHS Commercial Solutions
• Italy: Azienda ULSS Verona
• Belgium: Mercure
• Switzerland: CAIB
• Luxembourg: FHL
• USA: Novation
• Singapore: SingHealth
• …?
PART 2:
Presentation / Discussion
Introduction: what is at stake?
How to develop open innovation with your suppliers?

Introduction: what is at stake?

Nokia share price between 2006 and 2012

→ Innovation matters!
Introduction: what is at stake?

“Every organization is aiming to grow. If we want to be leader, we need to be first at leveraging new technologies and products that increase the value to our consumers but also anticipate and lead the way for new trends and innovations. We can’t be experts in everything so we need the expertise of suppliers to bring ideas and solutions that help to grow the business.”

Director of Procurement Innovation at Kraft Foods
Innovation: what are we talking about?

- To be called an innovation, an idea must be replicable at an economical cost and must satisfy a specific need.

Product/service innovation
  - Transformation of technical ideas or market needs into a new product/service that is launched on to the market

Process innovation
  - Introduction or development of new methods/technologies by means of which products can be manufactured (or delivered) more effectively.
Innovation: what are we talking about?

Incremental innovation

- Gradual improvements in a product or a service
- Ex. surgical instruments.

Breakthrough innovation

- Completely new or revolutionary products
- Ex. discoveries in pharmaceuticals.
How to develop open innovation with your suppliers?

Breakthrough innovation: example
How to develop open innovation with your suppliers?

Assessing innovation

- **Disruptive Innovation**
  - Lower quality
  - Lower cost

- **Value destroying**
  - Lower quality
  - Higher cost

- **Value increasing**
  - Higher quality
  - Lower cost

- **Accretive Innovation**
  - Higher quality
  - Higher cost

Efficiency (1/Cost)

Quality
Open innovation

Open innovation: an innovation process developed through the interplay of several operators from different organisations.
Open innovation in hospitals

Upstream:
Involvement of suppliers

Midstream:
Alliances between hospitals or healthcare systems

Downstream:
Participation of patients

How to develop open innovation with your suppliers?
How to develop open innovation with your suppliers?

Downstream innovation

Users have ideas!

A PCP project: the Novel Blood Donation Chair by NHS Blood and Transplant

1. Define the needs in terms of functionalities
2. Design the solution and produce several prototypes
3. Test in real conditions

Participation of patients
Midstream innovation

Suppliers operate in global markets, why would buyers remain local?

The HAPPI Project *(Healthy Ageing in Public Procurement of Innovation)*:

- 6 EU countries, 10 partners, 5 GPOs
- Objective: to create a European network of healthcare procurers interested in innovation for ageing well
- Market-oriented approach:

1. Identify
2. Select & assess
3. Purchase

Alliances between hospitals or healthcare systems
Upstream innovation

Open your door for innovation and provide your supplier with a feedback!

An Experimentation Project: AP-HP & a start-up, Viadirect:

1. In-situ testing of solutions
2. Feedback given to suppliers
3. Improvements
4. Large-scale procurement
How to turn your supplier into a partner for innovation?

• Today in industry, 85% of innovation come from upstream cooperation! And in hospitals?
• Early supplier involvement (ESI) is crucial!

A suggested method:
1. Develop the lead of purchasers
2. Give direction to your suppliers
3. Build up a collaborative approach
4. Become a “preferred customer” of leading suppliers
5. Identify the most innovative suppliers
1. Develop the lead of purchasers 1/2

- Lack of consensus among players in a complex system is one of the biggest barriers to innovation.
1. Develop the lead of purchasers 2/2

- Purchasing coordinator
- Indirect involvement
- Level of Purchasing involvement in Innovation
- Integrated Involvement & coordination
- Integrated involvement

Project complexity
Suppliers involvement
2. Give direction to your suppliers

• If you start the discussion by simply challenging the supplier to “bring me innovation”, you will both be disappointed!

• Try to design a roadmap:

  - “Ask for a solution, do not prescribe it”. (Guide for Public Procurement of Innovation by the European Commission)
  - “The root cause of failures is not bad outcomes, it’s bad expectations” (Pr Ron Adner, Tuck School of Business)
3. Build up a collaborative approach

• Suppliers are more willing to invest in / share innovative ideas when they have close relationships with their customers

• 3 basic collaborative activities :
  1. Involve suppliers in your processes - especially product development.
  2. Demonstrate openness. Share information with suppliers in a timely manner.
  3. Work with suppliers to help them improve their competitiveness both in terms of cost and quality.
4. Become a “preferred customer” of leading suppliers

Strategic importance (image, turn over)

Long history of collaboration

Possible adjustments of cost policies

How to develop open innovation with your suppliers?
5. Identify the most innovative suppliers

- Suppliers must have a certain level of know-how in order to become innovative contributors.
  → Establish indicators.

- Small is beautiful!
  → Go meet SMEs.

- Think global and cooperate!
And you, where do you stand now?

Figure 2
Unlocking the next level of value: complement a category focus with a supplier focus

Supplier focus

Cross-enterprise
Capture value across business units, products, and dimensions
(Put enterprise interests above singular profit-and-loss interests)

Strategic supplier relationship management (SSRM)
Create strategic advantage via supplier collaboration
(Gain structural advantages, new capabilities, growth enablers, and an integrated value chain)

Strategic sourcing projects
Optimize existing goods and services
(Improve total cost of ownership via strategic sourcing)

Transactional interactions
Improve transactional capabilities
(Reduce costs through more efficient processes)

Interaction models

Category focus

Source: A.T. Kearney analysis
PART 3:
Workshop
Workshop

• 4 groups:
  • Buyers 1 & Buyers 2
  • Suppliers 1 & Suppliers 2

• 3 questions to discuss:
  1. What do you expect from your partner (buyer/supplier) to foster innovation in hospitals?
  2. What are the main obstacles?
  3. How to support partnerships to develop open innovation?

You have 15 minutes!
Let's go brainstorming!