How Group Purchasing Can Professionalize the Buyer

Pete Allen, Group Senior Vice President, Novation

November 4, 2014
Reform Implementation Dominating Priorities of U.S. Health Care Providers

AFFORDABLE CARE ACT
Supply Chain is the Primary Target for Cost Reduction

“While all costs are on the table, supply chain is universally considered the top priority.”

McKinsey & Company Research

“If doctors have to choose between cutting labor, capital and supply costs, they will always choose supply.”

VP, Supply Chain, IDN

“The biggest opportunity you see for improvement in supply chain management would be having data analytics and getting it to the user level.”

VP, Supply Chain, IDN

The Novation Advantage: Expertise, Efficiency and Data

96%-98% of U.S. hospitals belong to a group purchasing organization

DATA

$80B in spend from 2,000+ hospitals
The Novation Advantage

EFFICIENCY
EXPERTISE
DATA
Proven Sourcing and Contracting Strategies Drive Measurable Efficiency
Efficiency in Action: Simplifying a Complex Exam Glove Bid

100 Suppliers registered for the bid

16 Suppliers submitted proposals

13 Suppliers met minimum qualifications

9 Suppliers reviewed by councils
Efficiency in Action:
Exam Glove Savings for All Members

5 CONTRACTS ON FINAL AWARD

$4M IN ANNUAL SAVINGS ON

$220M IN SPEND

ADDED VALUE

- INDUSTRY-LEADING TERMS AND CONDITIONS
- MITIGATED PRICE INCREASE IN A CATEGORY WITH VOLATILE RAW MATERIAL COSTS
- DIVERSITY SUPPLIER ON CONTRACT
- PRIVATE LABEL VALUE
Sophisticated Systems, Tools and Processes Facilitate Advanced Product and Price Management

Novation manages >20M product-related changes annually…

1200 Contracts

Pricing changes

600+ Suppliers

Product changes

Hospital specification changes

700+ Product Categories

Packaging changes

Unit-of-measure changes

Using valuable resources to manage such complexities for low-spend categories…

$35K-70K spend for a 300-bed hospital

Illuminates the advantage of Novation’s efficiency:

$33M spend across Novation

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Novation Experts Negotiate Clinically Effective Contracts with Leading Terms and Pricing

Registered Nurses: 12
Registered Dieticians: 3
Cardiovascular Technician: 1
Medical Technologist: 1
Registered Pharmacists: 15
Radiology Technologists: 7
Registered Respiratory Therapist: 1
Scrub Technicians: 9

230+ sourcing and contracting experts
200+ data and analytics experts
Industry’s Highest-Quality Data Assets Drive Unmatched Insights and Superior Pricing

Automated Data Submission

Data-Driven Transparency Leverages Negotiations

- Continuous Flow of Data Submissions Fuels Continuous Price Monitoring

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<th>Description</th>
<th>UOM</th>
<th># of HCO</th>
<th>HCO Qty</th>
<th>Avg HCO $</th>
<th>Max HCO $</th>
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Novation Best Price

Average Market Price: $313.87
Highest Market Price: $338.00
Lowest Market Price: $286.00

Continuous Flow of Data Submissions Fuels Continuous Price Monitoring

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<tr>
<th>Contract Name</th>
<th>Beginning Goal Price Index %</th>
<th>Current Price Index %</th>
<th>Price Index % Change from Beginning Goal</th>
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<td>Contract AB2</td>
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<td>Contract AB4</td>
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<td>13.26%</td>
<td>(2.19%)</td>
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$80B from >2K Hospitals

$1.5 Billion in Pricing Improvements

- >$500M annually in Advisory Services savings

- $1.4 billion in member-driven analytics savings since 2010