



Mending the Broken Link in Healthcare:

A New Approach to Sourcing Durable Medical Equipment

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According to the 2010 National Healthcare Expenditure Data, U.S. healthcare costs have more than tripled, increasing from \$714 billion in 1990 to \$2.3 trillion in 2008. All stakeholders, the healthcare industry, government, doctors and consumers, agree that the solution to controlling this acceleration in spending is through the implementation of improved cost reduction strategies and practices. Finding the right solutions remains a challenge for all involved parties: U.S. Federal and State governments are aggressively working on new legislation to expand healthcare coverage to more Americans; consumers seek policies, treatments, and medications that satisfy

their long term needs at agreeable price points; providers want solutions that reduce operating cost, spend, and liabilities.

The Business Challenge

A.T. Kearney Procurement & Analytic Solutions (ATKPAS) recently helped a Fortune 500 Industry Health Care Insurance & Managed Care Provider address this challenge. Through a comprehensive procurement transformation initiative, we helped identify opportunities to streamline procurement processes and reduce external costs. Part of the initiative included an analysis of the company's

CO Sourcing Addresses Gaps in Traditional Sourcing Approaches

Traditional Sourcing Characteristics

- Rigid bid structures
 - Lane-level bidding using historic data leaves cost drivers unexamined
 - Alternate scenarios, routings and conditional offers are not collected
- Limited analytical power
 - Evaluation of offers is cumbersome and time consuming
 - Negotiation prep often focuses only on lane prices
- Competition focus
 - Savings driven by leverage and supply base rationalization

Focus on: How much are you paying?

CO Sourcing Characteristics

- Bid structures enabling 'Expressive Bidding'
 - Formula-based approach tailored to each subcategory
 - Mechanisms to highlight suppliers' strengths
 - Conditional bidding to encourage creative and aggressive proposals
- Scenario generation and optimization
 - Flexible, iterative scenario analysis
 - Investigation of supplier strengths and negotiating priorities
 - Costs of business constraints are explored
- Collaboration focus
 - Identifies mutually beneficial opportunities
 - Reduces risks and associating hedging behavior
 - Gives all stakeholders a seat at the table

Focus on: What and how are you buying?

external spend to identify spend categories with the highest opportunities for savings and strategic supplier collaboration, which were then addressed through a robust strategic sourcing initiative. As a result of this analysis, Durable medical equipment (DME) was identified as one of the more promising categories. DME includes products and services for oxygen therapy, prosthetics, orthotics, diabetes, Apnea, respiratory, wound therapy, wheelchairs, walkers, ostomy, and urology. Although our client services companies and individuals across the United States, a high percentage of the multi-million dollar spend for DME was found to be concentrated in one region among fewer than ten suppliers; however when looked at in aggregate, the entire spend was distributed across a 'tail' of several hundred suppliers. Because DME is integral to the delivery of healthcare services and directly impacts the member base, merely reducing costs without considering the impact on service and quality levels was not an option. A total value approach was needed; one that identified savings, while still satisfying each region's business requirements and leveraged each suppliers' capabilities.

The PAS Approach

Due to the complexities involved in this analysis, we quickly assessed the need for a more innovative, sourcing approach for this category. A process had to be developed that allowed the team to evaluate over 130 suppliers based on their product offerings, service levels, pricing and member coverage. In addition, alternative supplier award scenarios needed to be developed based on service areas, broken out at the zip code level to ensure sufficient member coverage, and the suppliers' ability to provide over 100 unique DME products.

To accomplish this objective, we augmented the traditional 7-Step sourcing approach to include collaborative optimization (CO). The original list of over 130 incumbent suppliers was culled down through an RFI process to sixty seven potential suppliers that were confirmed to be able to meet the quality and service requirements of our client. These suppliers

were confirmed to have the necessary capabilities to service the regions and meet the client's business requirements, which included competitive pricing, quality products and 100% coverage to client's members. Leveraging the CO process, business stakeholders in each region could quickly evaluate and select the best suppliers to meet their needs.

The Right Results Achieved

The CO sourcing process helped the client achieve over 7% savings in DME, a category thought to have had competitive pricing initially. Equally important as the savings, was the fact based process the CO strategy supported. Business stakeholders could easily test and quantify alternative award scenarios, challenging out-dated assumptions and testing new strategies real time.

About ATKPAS

A.T. Kearney Procurement & Analytic Solutions, www.atkearneyPAS.com, provides comprehensive strategic services and solutions to clients seeking to improve procurement and supply chain performance, develop in-depth, analytical solutions and understand how emerging collaboration and Web 2.0 solutions can improve business performance.

We help our procurement and supply chain clients across a range of solutions from developing tactical cost savings projects and delivering comprehensive strategic sourcing programs to implementing complete procurement transformation initiatives.

Our services and solutions are delivered by highly-experienced procurement professionals, leveraging solutions that accelerate and streamline the sourcing and supply management process, such as spend reduction and category procurement solutions, detailed data models and analytics, cutting-edge collaborative technologies and market-driven templates and insights. We augment the strategic sourcing expertise of A.T. Kearney (www.atkearney.com), a global strategic management consulting firm known for helping clients gain lasting results through a unique combination of strategic insight and collaborative working style.