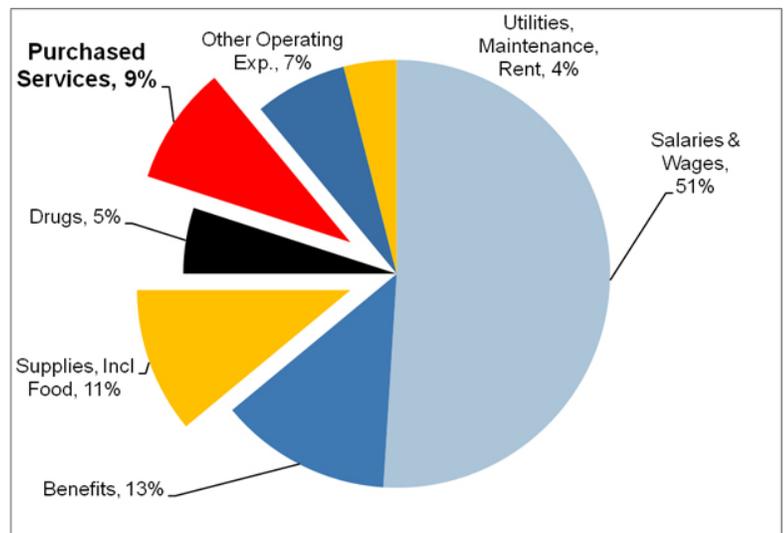




Reducing Cost and Increasing Efficiency Through Competitive Sourcing

In a typical hospital budget, about 20% is spent on supplies and purchased services. Competitive sourcing and partnering with suppliers creates opportunities to reduce costs for an organization, and thus directly increases the bottom line. Costs for supplies and purchases are strategically negotiable without impacting patient safety. Over the course of many process improvement initiatives with top U.S. hospitals we have learned the significance and importance of strategic sourcing, as it often increases the potential for savings.

For Purchasing and Materials Managers responsible for minimizing costs and delivering results, while not impacting operating protocols, quality standards, clinical requirements, and conducting strategic negotiations is imperative in order to reap the highest benefits. A standard methodology can be utilized regardless of allotted budget amounts for supplies and purchases.



Competitive Sourcing

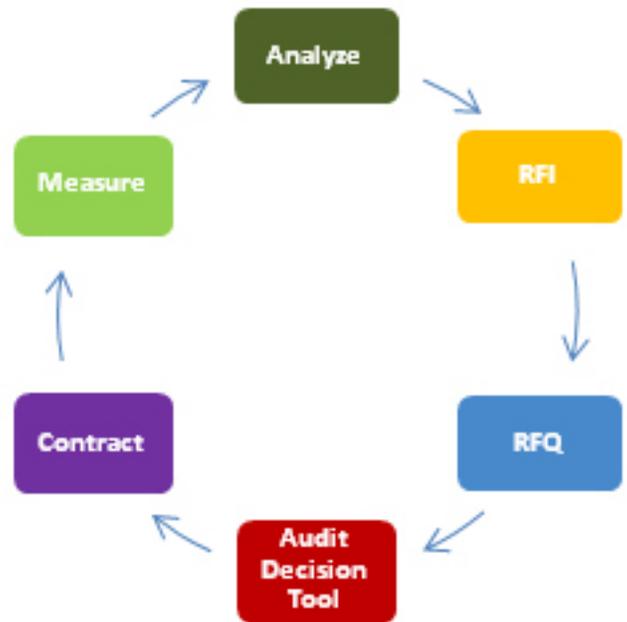
All too often the criteria for selecting products, suppliers, or services are driven by subjectivity; impressive sales literature/presentations, a level of comfort with a salesperson, or existing long-running relationships. Applying a methodology to evaluate and select products objectively, using a data driven process adaptable to a range of applications that allows for equalized comparisons, minimizes subjective criteria, and promotes the selection of a best match. We call this process Competitive Sourcing.

The Competitive Sourcing Approach

The Competitive Sourcing methodology is universal. However, most organizations neglect the full-circle approach because it takes an average of 4-6 months (depending on variability in the product line, number of suppliers, complexity of a service, etc.) from the Analysis stage to Measuring results. However, if the spend area is selected correctly, the return on investment can be realized within a year, and the benefits can be both financial and qualitative.

Step 1 - Analyze the Data

The first step is to analyze departmental budget allocation to determine where to focus efforts. While basing this analysis on purchase order data is common, this information can often skew results. It is best to analyze consumption two ways using the 80/20 rule: 80% of the item spend and 80% of the volume, since the data represents what is “used,” rather than purchased.



If only the line item spend is analyzed, many key items could be missed because the items are low-cost, yet high-volume. Running the analysis both ways allows you to set a preliminary market basket that directly reflects high-cost and high-volume items.

After reviewing the items in the preliminary market basket, a few constraints may be applied. For example, an item must have been purchased X times per month and the item spend must represent at least X% of the overall spend. After this review, the market basket is established. Display all other items (non-market basket) in line item detail or in a family group view for a vendor to bid as a generic discount.

In addition to the quantitative aspect, the purchasing and supply chain processes should be created to determine how the flow occurs today and what value-added services are required from the supply base. This additional step helps establish qualitative measures.

A product of this comprehensive assessment of the organization is the opportunity to simplify or standardize your processes. Any sourcing methodology benefits from economies of scale. This is an opportune time to

implement complimentary initiatives that facilitate increases in quantity and scope of services, or minimize product variation and number of required suppliers. Any way to increase the size of the contract helps, as it becomes more attractive to potential bidders.

Step 2 – Request for Information (RFI)

The RFI is a detailed questionnaire regarding pertinent information, such as a supplier's organization structure, finances, additional business offerings, operating metrics, and pricing structure. A thorough RFI process helps determine if a supplier can fulfill the needs and requirements of the hospital, and should be issued to both current and potential suppliers in order to align the market.

RFIs can be a great learning experience even when working with existing suppliers, because they are expected to put "all their cards on the table." Given the competitive situation, the suppliers are willing to disclose all their service offerings and pricing structures up front.

Step 3 – Request for Quote (RFQ) or Request for Proposal (RFP)

After eliminating suppliers based upon the RFI, the RFQ (or RFP) is ready to be assembled and disbursed. A typical RFQ asks for the price of a line item (keep in mind that price alone does not drive significant cost-savings.) In addition to product information, a tab for delivery, pricing discounts, payment methods, etc. should be included.

Utilize a standard format for the RFQ to make it easier to compare vendors and the quotes returned. An instruction set should be attached to ensure the RFQ is completed exactly as expected, as well as a follow-up questionnaire if any new findings have been learned since the RFI was issued. Then host a conference call to supplement the written instructions and answer any questions. Finally, establish a deadline - **the suppliers who want the business will ensure their response is completed in-full and on-time.**

Step 4 – Audit/Decision Tool

After the pricing and qualitative data is collected, many organizations are ready to sign a contract. However, it is important to do an audit and apply a decision tool.

During a typical selection process the decision may rely on price alone, an existing relationship, or the criteria may be a combination of factors (e.g. 75% price, 10% service, and 15% business stability). The main issue with this typical methodology is that the selection often boils down to a gut-feeling with little qualitative information. A structured decision support process step adds an objective inference to a typically subjective feeling. By

defining parameters for each criterion and weighting them (e.g., is price more important than service, and if so, by how much; is business stability more important than price, and if so, by how much) objective sourcing decisions can be made. This facilitates a head-to-head comparison between suppliers and helps determine which supplier is the best match for the organization. There are tools and software available that facilitate complex decision making processes and should be considered to reach the best outcome possible.

During this phase, a formal audit of the supplier’s facility should be conducted. The audit team should consist of at least two people from the organization, and utilize a standard checklist of items to be examined. Touring the facilities and meeting the people allows for a better understanding of a supplier’s operation. Finally, ask for references and contact them - a lot can be learned through a 10-minute conversation regarding both the supplier’s capabilities and limitations.

Step 5 – Contract

At this point, the supply base should be selected, and a contract is ready to be developed. **Remember, a contract is your best friend once negotiations are complete;** the contract will be utilized to conduct business reviews and hold the supplier to their commitment to the organization.

It is strongly encouraged that the customer provides the master agreement and subsequent addendums to the supplier. This allows for initiating the terms and conditions, as well as outlining service level expectations and pricing. In addition, when selecting more than one vendor, all contract verbiage should remain standardized. It is also strongly encouraged to include the agreed-to performance metrics, along with any incentives or penalties.

Step 6 – Measure

While the contract is being finalized and signed off, a visual dashboard should be created to measure performance. This dashboard will be used to track the anticipated cost-savings and supplier performance metrics, (order fulfillment, on-time delivery, issue resolution time, etc.).

Define how often it should be updated, the sources of the information, and the parties responsible for maintenance.

Supplier Scorecard									
Item Info		Financials		Deliver			Inventory		
ID	Item Description	YTD Spend	Cost Reduction (%)	OnTime	Fill Rate	OnTime InFull	Days on Hand	Turnover	IM Program (%)
311	TAPE, PAPER 2" X 10YDS.	\$ 30,000	10%	100%	100%	100%	100	23	14%
401	TAPE, PAPER 3" X 10YDS.	\$ 14,500	3%	98%	100%	99%	90	6	8%
400	COBAN 4" ADM WRAP (5YD)	\$ 5,000	21%	98%	96%	94%	45	15	3%
423	GLUCOME TERE LITE & XL T	\$ 54,290	5%	97%	95%	96%	67	2	11%
665	SODIUM CHLORIDE .9% 50	\$ 3,478,202	3%	96%	99%	95%	84	20	6%
845	ASCENSIA MICROFIL TEST	\$ 49,287	2%	90%	98%	94%	56	1	8%
434	SODIUM CHLORIDE .9% 100	\$ 923,803	8%	95%	95%	88%	39	3	3%
572	STERILE WATER, 1000ML P	\$ 3,932	3%	92%	96%	93%	67	29	2%
458	PARENTERAL SOLUTION, S	\$ 3,702	1%	91%	98%	90%	82	6	14%
818	CATHETER, FOLEY 5CC 16	\$ 47,662	6%	99%	97%	95%	90	4	14%
444	VINYL LEG BAG 19 OZ	\$ 820,538	8%	99%	96%	97%	56	5	5%
867	VINYL LEG BAG 32 OZ	\$ 4,928	3%	98%	90%	97%	70	16	7%
600	INSERT TRAY 10CC (1)	\$ 743,932	2%	97%	95%	96%	77	2	18%
708	DRAINAGE BAG, 2000ML, A	\$ 756	4%	100%	92%	96%	345	1	8%
920	CATHETER INTERMITTENT	\$ 2,874	4%	100%	97%	98%	80	18	16%
818	TEST STRIPS COMFORT CU	\$ 728,299	5%	96%	99%	98%	87	2	16%
853	SFTCUCLANETS (100) ISI	\$ 276,728	7%	95%	99%	94%	37	1	5%
679	ACCU-CHEK ADVANTAGE M	\$ 272,892	8%	99%	98%	98%	12	45	10%
221	XEROFORM WND DRSGS 4	\$ 288,726	8%	98%	98%	98%	23	7	3%
432	XEROFORM GAUZE STR 5X	\$ 159,154	6%	95%	100%	94%	34	55	2%

Keep in mind the supplier may have to provide metrics from their system. This dashboard will monitor and validate the hard work and dedication going into a competitive sourcing bid. It can also be used proactively with the suppliers to prevent future issues, or to assess performance during periodic business reviews. Color coding the dashboard makes it easier to read performance indicators. In this sample dashboard, red is bad and green is good. Red indicators automatically drive the responsible individuals to making the necessary changes to turn them green.

Benefits of the Competitive Sourcing Solution

Following these steps concludes a thorough and complete due diligence process and helps to make a well-educated and un-biased decision about the potential partnered supplier.

Primarily, the Competitive Sourcing Methodology helps to evaluate and select best-match products objectively, using a data driven process that allows for equalized comparisons. This is accomplished by minimizing subjective criteria and weighting of qualitative measures. Competitive products are scored, and tradeoffs can be quantified and valuated. The end result allows for effectively negotiating with competing suppliers.

Conclusion

The Competitive Sourcing Methodology is a great tool to apply to any commodity or service and be adapted to fit any organization's needs and requirements. When applying the Competitive Sourcing Methodology these key items should be considered:

- Take time to be thorough during the supplier selection process
- Negotiate contracts on an equalized basis; think BIG as efficiencies increase due to economies of scale
- Standardization of specifications, processes, and procedures affords the highest level of efficiency
- Use contracts to conduct business reviews and uphold service level commitments

About Tefen

Tefen is an international management consulting firm, committed to improving overall operational effectiveness for Fortune 500 companies around the world. The firm's main areas of focus include operations excellence, manufacturing, quality, customer service, research and development and supply chain management. With its "hands-on" approach philosophy, the company has achieved tremendous success in delivering quantifiable and value-driven results for its clients in a variety of industries, including healthcare, life sciences, general manufacturing, high-tech and financial services. All of Tefen's support programs are ISO 9001 certified. Tefen currently employs over 300 professionals worldwide.

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