



**Atlanta**  
**January 2013**



## Confidentiality and Antitrust

- We are not here to ask anyone to disclose sensitive competitive information
- We are not here to encourage anyone to recommend changes to their company policies or practices – those decisions are up to each of you independently
- If you feel something is proprietary or confidential, do not offer that up to the group
- Do not breach any confidentiality agreements you may have with your customers during these discussions
- All information shared during this session should be considered “public domain”



## Agenda for today

- 8:00                      Group Purchasing Organizations [GPO]
- Background
  - Quality claims
  - Location level integrity
- 12:00                      Lunch
- 1:00                        Upcoming IFDA meetings
- 2:00                        UniPro perspective – Roger Toomey
- 4:00 to 4:45              Group summary discussion
- 6:00                        Depart for dinner from the lobby



## Agenda for Friday

- 7:30                      Distribution Sourcing
- 7:45 to 8:30            Group breakout Case Study discussions
- 8:45                      Group discussion
- 9:45                      Wrap up and final thoughts



## Roger Toomey, CEO and President, UniPro Foodservice

1. From 10,000 feet, a distribution Buying Group such as Unipro appears to be very similar to an operator-based “Group Purchasing Organization”. From your perspective, what are the fundamental primary differences between Unipro and foodbuy?
2. The GPO issue seemingly has “exploded” in the past 24 months. From your perspective, what is driving that dynamic?
3. From a distribution perspective, what are the pain points arising from GPO programs and the relative level of priority they represent?
4. Does a manufacturers strategy of gaining distribution slots via GPO discounts to drive street growth still make sense today?
5. When GPO's engage the distribution community, what expectations are set by the GPO relative to unit-level compliance and controls? In other words, do the GPO's present a location-based control process for the distributor to execute against?
6. With the GPO receiving usage reports from distributors, is there a responsibility of the distributor to supply only compliant locations for a specific programs? What should the manufacturing community expect relative to the role their distribution partners should play as it relates to location integrity?



## Roger Toomey, CEO and President, UniPro Foodservice

7. Claim data submissions vary greatly across distributors, with many reluctant to provide what manufacturers consider ideal detail. Do you foresee resolution of this? Has there been discussion of the benefits of sharing data relative to location level specifics?
8. Relative to extendibility, what policy and/or processes should manufacturer's adopt to place better controls around their funding? In other words, if we all know that extendibility is happening and that it's very costly in many ways, **what can we do to stop it?**
9. As a follow-up to that, are there any examples or Case Studies today that represent a "Gold Standard" for how manufacturers can better control the process?
10. For the past 24 months, the industry has engaged in many discussions on this issue. Yet, today, there is very little true change taking place. The issue continues to grow. If the manufacturers do not take action soon, what responsive actions should they anticipate from those distribution partners who are being placed in a non-competitive position?



## Roger Toomey, CEO and President, UniPro Foodservice

- Will the sourcing initiatives underway at both Sysco and US Foods impact the UniPro strategy for vendor partnerships?
- Can distributors guarantee volume for better pricing and actually execute that without merely converting existing business from a competing distributor? In other words, is the notion of “true street growth” a Myth?
- Do UniPro members utilize criteria to evaluate vendors and could you share some of that criteria with the group? [e.g., GPO extendibility policy, distributor label capabilities, etc.]
- Has the consolidation of the broker community had any impact on UniPro and its members?



# GPO Background





## January 2012

San Francisco

### Agenda

- Healthcare history
- Issues definition
- IFDA Letter

### Output

- Standard expectations
- Evaluation scorecard
- Standardized claim content

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## July 2012

New York

### Agenda

- Technomic findings
- Group findings
- Collective approach

### Output

- IFMA as Champion
- Little support for collective approach





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### Agenda

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## October 2012

Las Vegas

### Agenda

- Quantitative study
- Location level efforts

### Output

- Claim evaluation
- UniPro invitation



## Headlines

1. Spending is increasing -- for both distributor direct trade and operator-based programs – at a greater rate of change than overall dollar growth.
2. Discounted volume is driving overall volume growth -- the share of volume from “street” business is in decline.
3. In the past 2 years, the growth of operator discounted volume is being driven by deviated billing through the distributor to non-commercial Group Purchasing Organizations [where integrity challenges exist].
4. The rate of discrepancy is increasing dramatically with distributors supporting a high proportion of non-commercial GPO business.
5. Customers are deducting the majority of their trade, eliminating the ability to reconcile discrepancies.
6. Industry trends and external factors indicate that the road ahead will be even more challenging.



## GPO Core Issues

- Multi-Dip: GPO membership transparency and compliance
  - Admin Fees paid against a single case for a single location multiple times.
- Extendibility: Deviated billing and location-level discounts administered through distribution are passed through to locations that are not GPO members.
  - ✓ Margin erosion
  - ✓ Street erosion
  - ✓ Trade flow friction within distribution community
- Contract Conflict: GPO members who are also large enough to warrant “their own” contract drive confusion across the workflow relative to which offer to apply volume against.



## Big 5 Deviated Billing Growth

**+ 29%** Increase in Big 5 deviated billing dollars

**+ 30%** Increase in Big 5 deviated billing cases

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	<u>Change</u>		
	<u>Volume</u>	<u>Dollars</u>	<u>Size Index</u>
ARAMARK	(5%)	22%	92
Avendra	60%	23%	38
foodbuy	62%	20%	76
Premier	37%	46%	154
Sodexo	39%	22%	139



## Locations and/or Velocity Driving Increases

The data supports the assumption that incremental locations are driving the growth – increases in the depth of the discounts does not bridge the variance.

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**+ 3%** Increase in average stock case price

**+ 13%** Increase in depth of discount for Big 5



## Gain control over GPO spending growth

1. Define expectations for membership integrity and location validation.
2. Clarify process for resolving disputes arising from extendibility.
3. Establish rules for reconciling volume from members belonging to multiple groups.
4. Clear up contract conflicts where members qualify for their own independent discounts.
5. Adopt scorecards to qualify purchasing influence and the overall quality of the proposed relationship.
6. Align the size of the discounts with the overall quality of the relationship.
7. Improve audit capabilities through standard claim content.





## Next Steps --

1. Identify opportunities to collectively drive for improved claim content.
2. Determine if there is a collective opportunity for partnerships relative to location-level validation.
3. Collect first-hand direct insight into the distribution perspective.
4. Discuss options to invite foodbuy, Entegra and/or Premier to join our next meeting similar to UniPro joining today.



# Quality Claims



## Background

- With Sysco and US Foods, many manufacturers have migrated to EDI 867 for claim content which provides for more efficient processing
- For other distributors and the major GPO's, the quality of the content and file format for the claim backup is less than optimal
- We agreed to “survey” the group and provide a summary of the claim quality in order to identify potential opportunities for improvement

### Survey

- Delivery Method
- File Type
- Member ID
- Location Level
- GPO Sub-group

### Distribution

- BEK
- FSA
- Glazier
- GFS
- Labatt
- PFS
- Reinhart
- Shamrock
- Sysco
- US Foods

### Non-Commercial

- Aramark
- Avendra
- Entegra / Sodexo
- foodbuy / Compass
- Premier
- Plus others ...



## Summary – Distributor Claims

- Moving to EDI 867 for Sysco and US Foods represents a large opportunity to drive efficiency – only 55-60% taking advantage today
- Five distributors stand out with almost or more than 50% of the claim data evidence provided with an inefficient file type –

<u>Distributor</u>	<u>Size</u>	<u>Inefficient</u>	<u>Comment</u>
1. Reinhart	9.1%	50%	Best candidate?
2. Gordon	8.2%	95%	Impossible?
3. Ben E. Keith	6.3%	80%	Automation possible
4. PFS	6.2%	90%	Integration conflict?
5. Glazier	5.8%	45%	Narrow contribution



## Summary – GPO Claims

- Even more so that with the distribution data, the responses on GPO were remarkably consistent
- On the positive side, the vast majority of the claims provide a satisfactory breakout of the major sub-groups [chains who are members]
- No one reported full automation – there is an opportunity to approach one or more of these accounts with a collective solution to eliminate email as the distribution method
- The majority of the responses indicate dissatisfaction with the location level identifier for foodbuy, Entegra and Avendra
- A majority of the claims provide some level of “address” information, but, do not link back to an official membership list
- There are opportunities to imbed the member ID in the distribution claim for deviated billing



# Location Level Validation



## Summary for discussion

- There are several vendors marketing a service to cleanse and validate location level claim data vis-à-vis official membership lists
  - A. AFS Technologies
  - B. CBS
  - C. CHD [Find ID]
  - D. Tibersoft
- We had also discussed the potential of involving a “data expert” firm such as IRI/Nielsen or Google
- Within our group, there are several companies considering more significant investments in this area in 2013
- Is there any interest in a collective approach to evaluating and selecting an approach to drive efficiency and avoid splintering the momentum?

# IFDA Planning







## Background

- In advance of the IFDA conference that begins this weekend, Martin Brothers sent out a general overview of their agenda on 1/21/13 that includes the following excerpt relative to GPO policy -

*While the issues of GPO's continue to swirl, business decisions are being made that impact both of our businesses. At our meeting, we would like to get a better understanding of the direction of your company with Premier and other GPO's. With the pressures being exerted by GPO's to allow for extendibility, our simple question is*

*“Will you allow Premier/Foodbuy to take their programs across channels to K-12, College and University or any segments outside of healthcare”?*

*That simple question will only require a yes or no answer and we would like to have that answer either prior to or at the meeting.*



## Miscellaneous Questions

1. Sysco Sourcing – are they demanding “true net” price, e.g., net of all deviations rolled into a single average discount?
2. Sales Empowerment – does your sales team approve spending? If yes, how do you hold them accountable and/or control profitability?
3. Generally on Direct Trade – do you offer Earned Income [shelter] on distributor private label? What about Sygma, PYA Custom, etc.

## Meetings

1. March 5 in Chicago on data management [O’Hare Hilton]
2. Reinhart and GFS on claim efficiency
3. Invitations to the major GPOs on claim efficiency – Sodexo [CaRMA focus]
4. May 16-17 2013 Smoke Jumpers in Chicago [17<sup>th</sup> is Friday pre-NRA with Cubs rooftop event]



**Atlanta  
Day Two  
January 2013**



## Some Options for GPO [ .g., teeth in the process]

Rate Segmentation: Apply the scorecard approach to segment the customers and align the rebate rate with favorable outcomes. Deploy a “grid” approach that offers the standard Admin Fee to companies who demonstrate the desired process behaviors and attributes. Offer a greatly reduced rate [or zero] for those accounts that do not.

- Builds accountability to “earn” the Admin Fee for those GPO’s who actually are GPO’s
- Creates a reward mechanism for following Good Practices
- Provides a framework to: [a] reward efforts to influence purchasing; [b] deliver transparency on membership; and [c] engage in controlling extendibility

Choose: Require that major Sub-Groups [e.g., McCormick & Schmick with foodbuy and Hard Rock with Entegra] choose a single discount mechanism --- either the GPO offer or their own independent contract/program. Require that the sub-group provide written confirmation of that decision with that document communicated to both the distribution community and the GPO. Gain agreement that that manufacturer organization will aggressively refute duplicate claims and require that the sub-group provide a mechanism or resource to support that dispute process.

- Clarifies ambiguity in the market relative to “who belongs to what”
- Arms the manufacturer with recourse for a dispute cycle with the operator as a partner



## How to Address Extendibility & Compliance [e.g., teeth in the process]

Eliminate Deviated Pricing: Takes the blood out of the water. A bold move but the most effective method for eliminating extension.

- If too extreme, at least position this as something in the tool kit for repeat offenders – the trading partners need to at least know that this is a potential implication for abuse

Choose Shelter vs. Deviated: Recapture GPO volume – deviated and Admin – from Shelter. For situations like Cheney Brothers who were claiming 90% plus of their purchases as deviated for foodbuy, this will choke their sheltered income to a negligible trickle.

- Distributors not likely to accept reduction of shelter – it's their lifeblood
- Best question on this is "why not?"



## How to Address Extendibility & Compliance [e.g., teeth in the process]

Recapture Deviations from the Admin Fee: Reduce the GPO Admin fee to account for invalid dollars claimed against their contract by their distribution partners [e.g., discrepancies]. With an increasing amount of claims settled via deduction, there are few other options for recourse and dispute. Example: Ben E. Keith deducts \$1,000 against foodbuy deviated but they were actually only due \$700 if they had applied the correct rates. The foodbuy Admin Fee check will be reduced by \$300 to recollect the discrepancy.

- Provides mechanism for manufacturers to become “whole” on what they actually owe
- Builds accountability for the GPO to enforce integrity with distribution partners
- Provides avenue to recapture discrepancies sourcing from Serial Deductors like US Foods

Support to Black List Repeat Offenders: Build language into the GPO Agreement that affirms the support of the GPO in Black Listing distributors found to be Repeat Offenders on Extendibility. Require the GPO to arm the manufacturer organization with written confirmation of that process and to engage resources in notifying Black Listed distributors that they are no longer eligible to participate in Deviated Billing.

- Builds accountability for enforcement into the GPO culture and provides mechanism for pulling the privilege to participate in the Deviated process for that contract



## Sourcing Initiatives

During our October meeting, we had hypothesized that the process of responding could be challenging without proper planning in advance.

- Resources and priorities
- Executive meeting time
- Competitive gap definition
- Strengths / weaknesses by category
- Portfolio strategy assuming multiple category bids over time
- Cross-customer strategy [e.g., Sysco, US Foods, Others]
- Discounted business evaluation -- secure vs. at risk



## Sourcing Initiatives

What have we learned so far relative to –

1. The process of preparing a response
2. Contingency planning for winning or losing

### Sub-topics

- Resource priorities
- Functional participation
- Time requirements
- Proposing SKU rationalization





## Today's process

- Case study format
- Small breakout groups with assignments from the case
- Break out rooms to ideate, brainstorm and problem-solve
- Re-group as a general session

## Your role

- Rely upon your experience and knowledge in the industry
- Try to free yourself of the constraints you may have “back at the ranch” [e.g., disposable vs. F&B, broker v. direct, etc.]
- While we are working as a group, feel free to throw in challenges you have right now for selfish reasons