



**Chicago
May 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 GPO Update
Data efficiency initiatives
- 10:00 UniPro – Jack Carlson

Break
- 10:30 Sourcing initiatives
- 12:00 Lunch
- 1:00 Group case study – Sourcing Initiatives
- 3:00 CHD [follow-ups from the March session]
- 4:30 Wrap up
- 6:00 Meet in the lobby for dinner cruise

GPO





January 2012

San Francisco

Agenda

- Healthcare history
- Issues definition
- IFDA Letter

Output

- Standard expectations
- Evaluation scorecard
- Standardized claim content

January 2012

San Francisco

Agenda

- Healthcare history
- Issues definition
- IFDA Letter

Output

- Standard expectations
- Evaluation scorecard
- Standardized claim content

July 2012

New York

Agenda

- Technomic findings
- Group findings
- Collective approach

Output

- IFMA as Champion
- Little support for collective approach





January 2012

San Francisco

Agenda

- Healthcare history
- Issues definition
- IFDA Letter

Output

- Standard expectations
- Evaluation scorecard
- Standardized claim content

July 2012

New York

Agenda

- Technomic findings
- Group findings
- Collective approach

Output

- IFMA as Champion
- Little support for collective approach

October 2012

Las Vegas

Agenda

- Quantitative study
- Location level efforts

Output

- Claim evaluation
- UniPro invitation



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.



March 2013

1. Review of solutions for location-level validation [Chicago]
2. Independent follow-ups
3. CHD this afternoon on their follow-ups



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 ...



Updates – 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



Updates – Efficient Claims

- Sodexo – CaRMA and ITN
- Sysco – ITN
- US Foods – PACE

- UniPro A – 450
- UniPro B – Claim Processing



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



GPO Claims

- Recent developments in improvements?



Sourcing



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 we have learned so far

1. You will not have enough time or resources
2. Assign a real project manager
3. You need a multi-functional team
4. You need a governance and decision-making model for even the smallest decisions
5. Sweat microscopic details – undefined items will be resolved in the buyer's favor once you sign and they can become spendy
6. The worst assumptions are those that are not written and include items you might consider “no brainers”
7. General confusion remains relative to timelines, implications, the role of the local personnel
8. As a multi-category respondent, there are concerns about precedents and locking in to decisions going forward
9. Full-on scramble mode when you win ... and if you do not



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





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