Transformation in Healthcare: Building The Outcomes-Focused Value Chain

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Topics for Today

• Today’s Key Challenges

• Demand-Driven Strategies

• The Challenge Ahead
Impact of Industry Trends on Medical Device Companies’ Supply Chains

Today

- Growth in emerging markets: 30%
- Healthcare legislation and regulatory requirements: 15%
- Cost and reimbursement pressures: 15%
- Growth in innovative new products and processes: 11%
- Healthcare market consolidation: 8%

Future

- Growth in emerging markets: 34%
- Cost and reimbursement pressures: 28%
- Focus on outcomes and cost effectiveness: 8%
- Healthcare legislation and regulatory requirements: 6%
- Widening gap in product innovation: 6%

Q: In your opinion, what industry trend currently has the most significant impact on the overall healthcare and life sciences value chain?

24 months from now?

N=53
Today’s Challenges

2 Races

Cost and Reimbursement Pressure
  • A Race Against Competition

Growth in Emerging Markets
  • A Race To New Markets
Today’s Challenges

- A Race Against Competition
  - Cost and Reimbursement Pressure

- A Race To New Markets
  - Growth in Emerging Markets
Impact of Industry Trends on Medical Device Companies’ Supply Chains

Q: In your opinion, what industry trend currently has the most significant impact on the overall healthcare and life sciences value chain?
24 months from now?

N=53
A Race Against Competition
Cost and Reimbursement Pressure

How Can We Stay Profitable?

• Slowing Growth in Mature Markets

• Comparative Effectiveness

• Pressures to bring down the cost of healthcare
### Reliable Supply and Profitability are Key Capabilities for Supply Chain Success

**Alignment for profitability and reliability of supply are the key capabilities…**

<table>
<thead>
<tr>
<th>Capability</th>
<th>1. Not at all important</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7. Extremely important</th>
<th>WTD AVG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Align manufacturing, supply chain, sales &amp; marketing and regulatory interaction for profitable operations and driving value to customers</td>
<td>18%</td>
<td>24%</td>
<td>25%</td>
<td></td>
<td></td>
<td></td>
<td>44%</td>
<td>6.02</td>
</tr>
<tr>
<td>Achieve compliant, predictable product supply by manufacturing right-first-time</td>
<td>3%</td>
<td>6%</td>
<td>13%</td>
<td>31%</td>
<td></td>
<td></td>
<td>44%</td>
<td>5.95</td>
</tr>
<tr>
<td>Ability to forecast demand accurately and respond quickly to changes in demand</td>
<td>18%</td>
<td>5%</td>
<td>22%</td>
<td>32%</td>
<td></td>
<td></td>
<td>33%</td>
<td>5.71</td>
</tr>
<tr>
<td>A balanced S&amp;OP (Sales and Operations Planning) processes which profitably matches demand and constrained supply</td>
<td>22%</td>
<td>8%</td>
<td>25%</td>
<td></td>
<td></td>
<td>39%</td>
<td>22%</td>
<td>5.58</td>
</tr>
<tr>
<td>Develop a supply chain vision supported by governance and change management processes to guide execution of supply chain priorities</td>
<td>23%</td>
<td>14%</td>
<td>18%</td>
<td>38%</td>
<td></td>
<td></td>
<td>24%</td>
<td>5.56</td>
</tr>
<tr>
<td>Develop effective supply chain capabilities in emerging markets</td>
<td>23%</td>
<td>11%</td>
<td>14%</td>
<td>29%</td>
<td></td>
<td></td>
<td>35%</td>
<td>5.51</td>
</tr>
<tr>
<td>Better use of technology to drive down costs and enhance productivity</td>
<td>4%</td>
<td>4%</td>
<td>14%</td>
<td>25%</td>
<td>27%</td>
<td></td>
<td>26%</td>
<td>5.45</td>
</tr>
<tr>
<td>Develop value chain strategies versus functionally siloed supply chain capabilities</td>
<td>22%</td>
<td>11%</td>
<td>21%</td>
<td>39%</td>
<td></td>
<td></td>
<td>21%</td>
<td>5.42</td>
</tr>
<tr>
<td>Leverage contract manufacturers for successful new product launch, lower costs and agile response to demand</td>
<td>4%</td>
<td>4%</td>
<td>6%</td>
<td>11%</td>
<td>21%</td>
<td></td>
<td>32%</td>
<td>5.11</td>
</tr>
</tbody>
</table>

**Q07. Please rate how important each of the following capabilities are to the success of your company’s supply chain strategies today.**

*N=114*
A Race Against Competition
Cost and Reimbursement Pressure

How Can We Stay Profitable?

Best-in-class Operations and Execution …
- Operational excellence addicts
- Reliable, robust business processes
- High-Quality and compliance
- Visibility and profitable trade-off decisions
- Collaborate and align internally

What does good look like?
Cut Field Inventories by 25-30%
Cut Cycle Times 50%
Cut Costs 50%
Today’s Challenges

- Cost and Reimbursement Pressure
  - A Race Against Competition

- Growth in Emerging Markets
  - A Race To New Markets
Where to Capture Growth?

- Innovative products and technologies
- Combination products
- Global demographic shifts
- The next billion customers/patients
Of the major industry trends impacting medical device manufacturers, growth in emerging markets is having the greatest impact...

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<th>Future</th>
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<td>Growth in emerging markets</td>
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<td>30%</td>
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<td>Healthcare legislation and regulatory requirements</td>
<td>15%</td>
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<td>8%</td>
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<td>Healthcare market consolidation</td>
<td>Healthcare legislation and regulatory requirements</td>
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Q: In your opinion, what industry trend currently has the most significant impact on the overall healthcare and life sciences value chain? 24 months from now?

N=53
The Next Billion Patients

Growth in under-developed countries brings great opportunity for Healthcare and Life Sciences...

- Rapid growth of the middle class
- Rising standards of living extend lives
- Increasing prevalence of chronic diseases
- Emergence of more sophisticated private healthcare plans
A Race To New Markets
Growth in Emerging Markets

Where to Capture Growth?

Global Reach…
- Distributed assets and organization

Increasing complexity…
- Varied product and market requirements

New Capabilities and Models…
- Cold Chain, Combinations, CDx
- Direct to Pharmacy/Hospital

What does good look like?
Global Visibility
Orchestration through S&OP
Flexible and adaptive network
Traditional Supply Chains Cannot Compete…

- **Demand**
- **Supply** (Traditional Supply Chain)
- **Product**

Supply-Centric
Execution Excellence
Transactions

→

Customer-Value-Centric
Driver of Growth
Competitive Differentiator
More and More, Supply Chain is Viewed as a Strategic Capability

Supply chain is considered a cost of doing business, but not a differentiating function

Supply chain is a main differentiator and a source of competitive advantage in our market

Supply chain is considered just one among other sources of competitive differentiation

Q01. Which of the following statements best describes your organization's view (not your personal view) of supply chain?

N=52
Demand-Driven Strategies Are Winning The Race

Q06A. How is your organization's supply chain responding to these industry trends today? Multiple responses allowed

- Create demand visibility as far downstream as possible: 72%
- Increase collaboration with trading partner's supply chains: 58%
- Increase collaboration with internal functions: 57%
- Improve forecast accuracy: 53%
- Improve the effectiveness of the S&OP process: 49%
- Develop greater resiliency through robust risk management strategies and reassessment of supply...: 45%
- Develop capabilities to conduct cost to serve analytics: 36%
- Segment supply chains to better serve different demand profiles: 34%
- Increase the adoption of global data standards: 25%
- Accelerate product standardization: 23%

N=52
Manufacturers Adopting Demand-Driven Practices

The Usual Suspects…

• **Operational Excellence** – Working Capital, Cycle Times and Right-First-Time
• **Sales & Operations Planning** – Moving beyond demand and supply matching
• **Integration** – Automation and standardized platforms for scale and visibility
• **Performance Management** – Aligning a hierarchy of key metrics

…With Demand-Driven Excellence

• **Demand Visibility** – Downstream sensing and reduced latency of demand information
• **External Partner Collaboration & Communication** – Beyond paper, email and fax
• **Supply Chain Segmentation** – aligning a segmented view of customer & channel value with operational & supply chain capabilities
• **Understanding Costs-to-Serve** – Building understanding of costs further than COGM and costs to deliver
• **Supply Network Strategies** – Creating agility beyond make versus buy manufacturing strategies, and resiliency to assure supply
• **Manufacturing & Compliance Architectures** – Data visibility, contextualization, analysis and reporting
Demand-Driven Healthcare Value Networks

Demand
- IDNs
- Providers
- Physician Offices
- Pharmacies
- Clinics
- GPOs

Patient/Customer & Market-Driven

Supply
- Wholesalers
- Distributors
- Manufacturers
- Suppliers
- Contractors

Responsive, Compliant Supply

Orchestrate the End-to-End Response

Product
- Biopharmaceuticals
- Equipment
- Devices
- Diagnostics
- Supplies

Drive Innovation into Products & Services
The Demand-Driven Healthcare Supply Chain Key Capabilities

Value Chain Goal:
*Improved Patient Outcomes at Optimal Economic Cost*

<table>
<thead>
<tr>
<th>Patient &amp; Market Driven</th>
<th>Innovation in Products and Services</th>
<th>Network Orchestration</th>
<th>Value Adding Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient/Customer Experience</td>
<td>New Product Technologies</td>
<td>Global S&amp;OP</td>
<td>Dynamic Networks</td>
</tr>
<tr>
<td>Demand Sensing &amp; Visibility</td>
<td>Embedded Innovation</td>
<td>Collaborative Relationships</td>
<td>Supply Network Visibility</td>
</tr>
<tr>
<td>Demand Shaping</td>
<td>Integrated Launch Planning</td>
<td>Network Design</td>
<td>Agile Response</td>
</tr>
<tr>
<td>Differentiated Value</td>
<td>Lifecycle Management</td>
<td>Joint Value Creation</td>
<td>Reliability and Resilience</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Working Capital Optimization</td>
<td>Quality Beyond Compliance</td>
</tr>
</tbody>
</table>

Foundational Capabilities
- Vision and Leadership
- Operations and Innovation Excellence
- Business Process Management Platform
- Aligned Metrics and Performance Management
- Organizational and Talent Development
- Change Management
Impact of Emerging Trends on Medical Device Companies’ Supply Chains

Looking to the future, a new trend is expected to impact the supply chain…

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...And More!
The Challenge Ahead

- A Race Against Competition
  - Cost and Reimbursement Pressure

- A Race To New Markets
  - Growth in Emerging Markets

- A Race To Transform
  - Focus on Patient Outcomes
A Race Against Time
Fundamental Business Shifts

Can We Transform?

Government and social pressures to reduce healthcare costs

- Reform/Reimbursement Pressures Driving Cost Reduction
- Consolidation and Scale in Healthcare Providers…
- And Growth in Non-Acute Points of Care.
NextGen Transformation in Healthcare: The Patient Outcomes-Driven Supply Chain

Focus on Patient Outcomes
Integrated Care Solutions
Disruptive IT
Collaborative Innovation
Complexity of the Next Billion
Thank You!