



Results are just the beginning

Healthcare Supply Chain Roundtable

Medical Device Supply Chain Council Year-End Meeting

Michael Regier, Senior VP, Legal and Corporate Affairs, VHA

Scottsdale, Arizona – December 2, 2009

Outlook for hospitals remains challenging

“Fitch currently maintains a negative outlook for the nonprofit hospital and health care system sectors as a whole.”¹

The nation's 5,010 nonfederal community hospitals posted a \$17 billion overall profit in fiscal 2008 - down 61% from the previous year.²

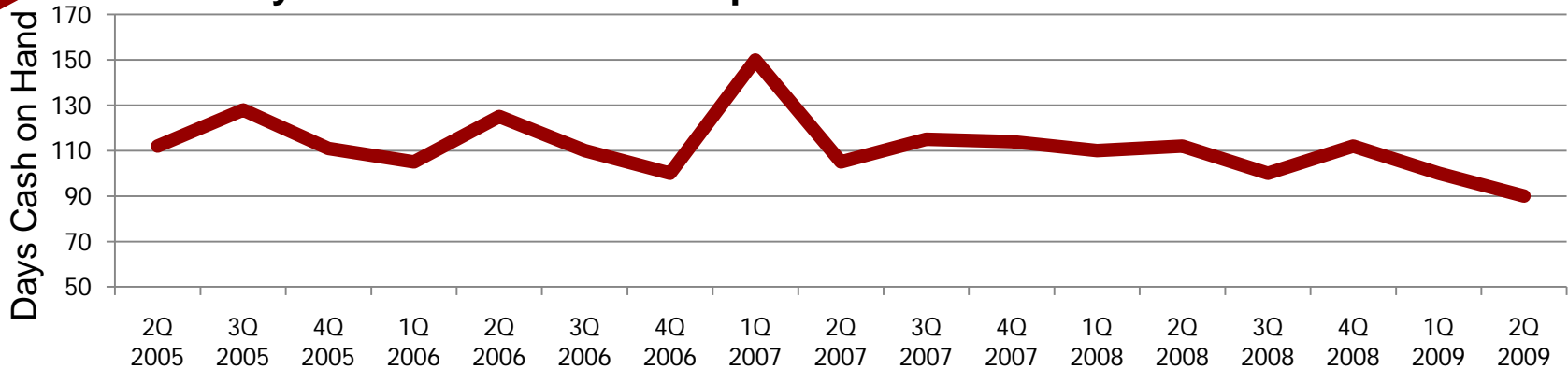
43% of hospitals surveyed realized a decline in investment performance of 25% or more.³

1. *Business & Finance Week*, August, 2009

2. “U.S. hospitals see profits dive, AHA reports,” *ModernHealthcare.com*, Nov. 11, 2009

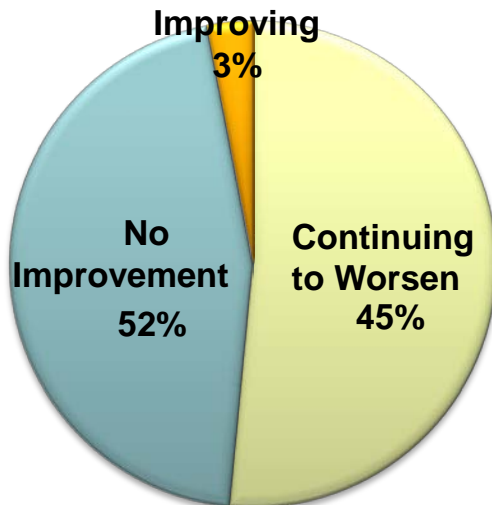
3. *HFMA's Financial Pulse: How Hospitals are Combating the Financial Downturn*, April 2009.

Days cash on hand for hospitals continues to decline

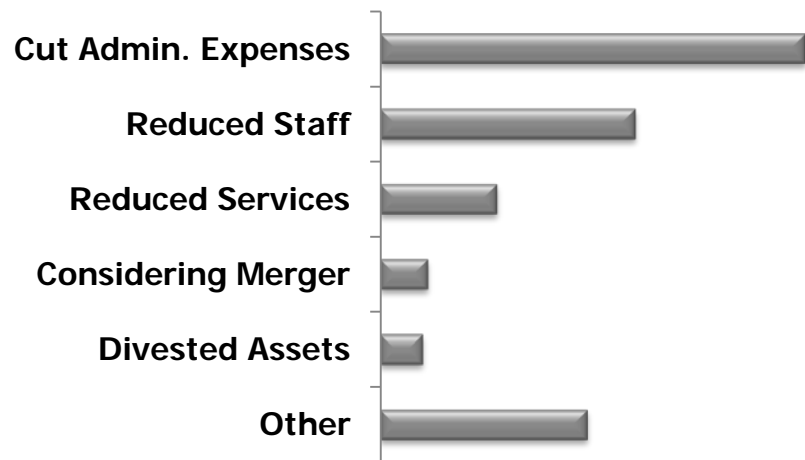


Health Media Leaders, Fact File, Oct. 2009

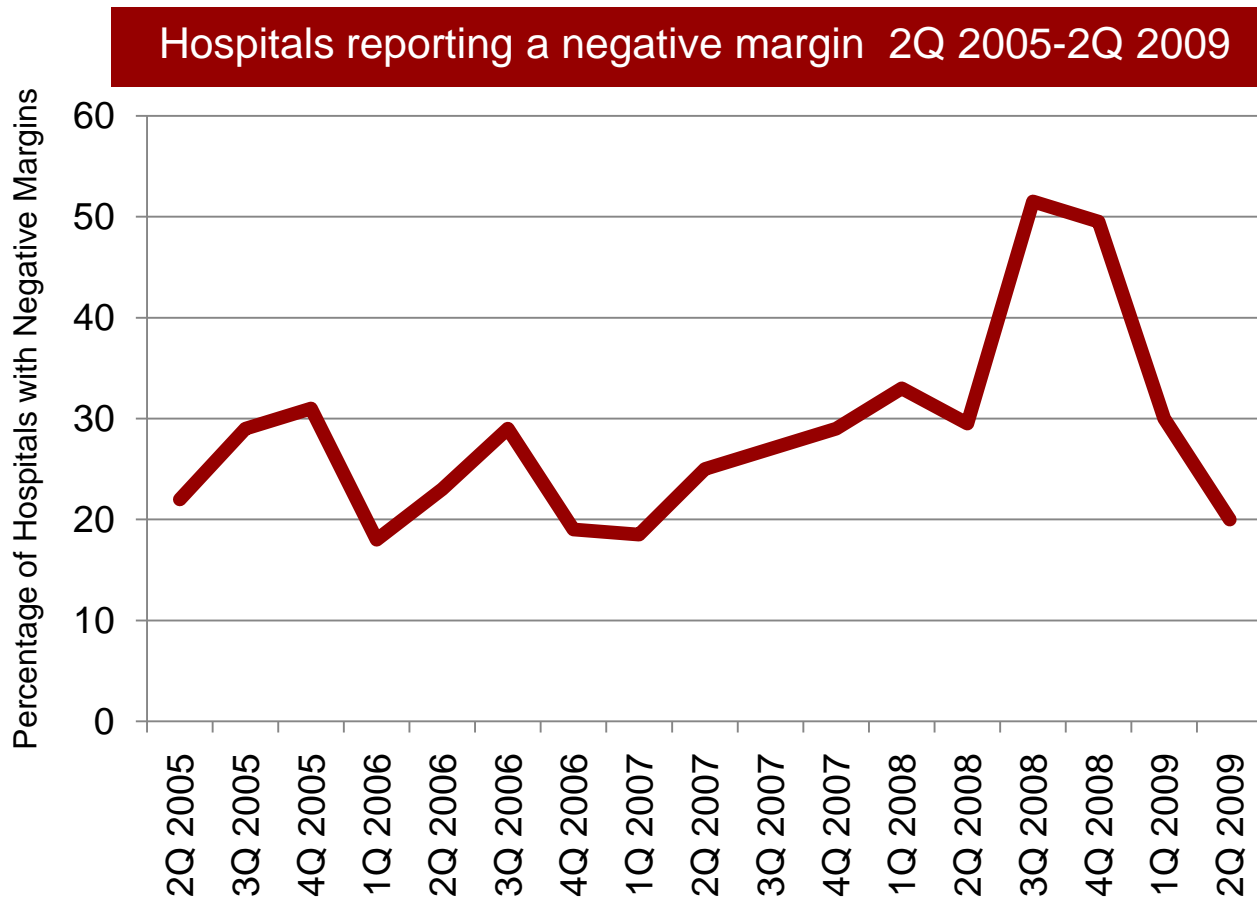
Hospitals reporting on ability to access capital since 12/08



90% of hospitals have made changes to address economic downturn



- 4Q 2008 – More than 50% of all hospitals reported negative margins
- 2Q 2009 – Approximately 20% of hospitals reported negative margins





Hospitals using multiple strategies to control costs and enhance volume

Percentage of hospitals employing strategies	
Adjust staffing	76%
Increase accountability for service line performance	73%
Improve relations with referring physicians	58%
Renegotiate supply chain contracts	58%
Adjust compensation and/or benefits	58%
Employ physicians	49%
Renegotiate payer contracts	48%
Add new service lines/procedures	46%
Financial training for service line/department leaders	39%
Increase collaboration with clinical areas	32%
Exit service lines	30%
Decrease investment in declining service lines	24%
Direct marketing	14%

HFMA's Healthcare Financial Pulse: Impact of Shifting Volumes, July 2009.

No Crystal Ball Needed Here...

Providers Face Familiar Themes Even Absent “Reform”

- ***The Government isn't getting what it's paying for (Payment for Reporting → P4P and VBP)***
- ***The Government will not tolerate waste or fraud (RAC Program Goes National)***
- ***The Government will not pay for errors in care (No Payment for HACs)***
- ***The Government will only pay for care that is clinically effective (\$1.1 Billion Stimulus Funding vs. \$100M in 2008 Baucus/Conrad Bill)***
- ***The Government will use payment reform to align providers (In President's Proposed Budget, MedPAC Recommendations, Senate Finance White Paper and Medicare ACE Demo)***

What Implications for GPOs and their Members?

- **More Internal Pressure to Hit Savings Goals = Increased Demand for Near-Term Savings = Increased Need for GPOs to Quantify Value Proposition**
- **Economic/Operating Challenges can Provide Stronger Platform for Difficult Initiatives (e.g., PPI Standardization); Increased MD Employment May Increase Hospital-MD Alignment**
- **Greater Interest in Aggregation Vehicles (e.g., Consolidated Services Centers) and in Commitment, if Savings Will Follow**
- **Increased Interest in all supply chain aspects (including strategic sourcing and logistics); some interest in outsourcing arrangements**
- **Continued rapid growth in non-acute market, and increasing focus on purchased services**
- ***Imperative to maintain and improve clinical outcomes at same time***