May 27, 2010

PRTM Medical Device & Diagnostics (MDD) Direct Material Sourcing Benchmark

UPDATE FOR MEDICAL DEVICE SCC

PRTM

Management Consultants

Where Innovation Operates

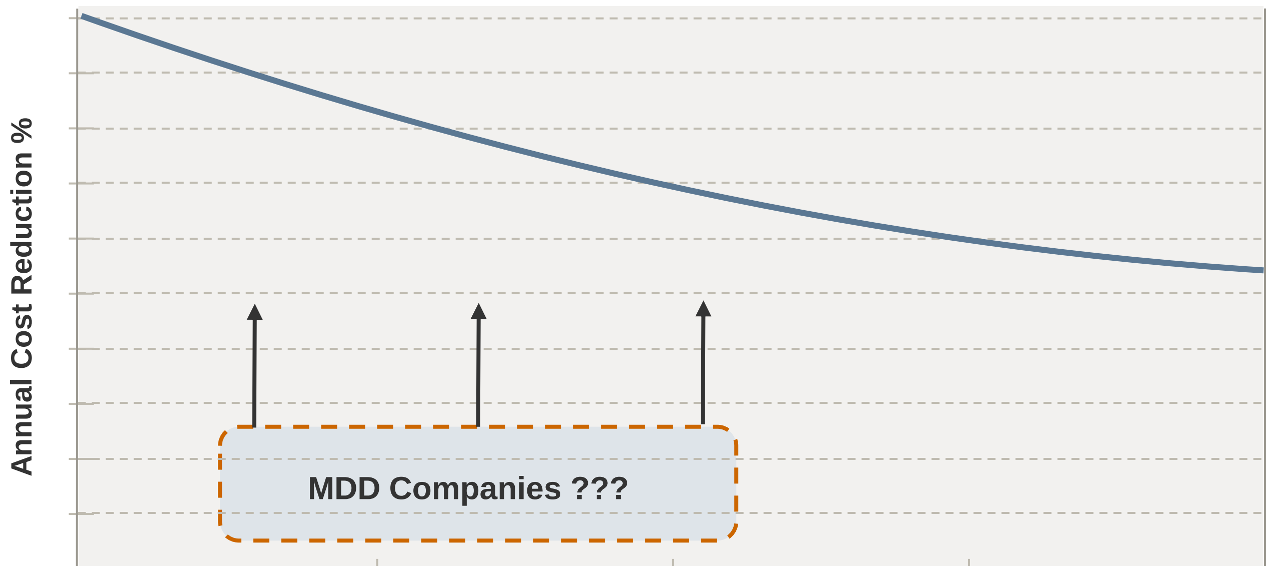
Study Background: Exploring Direct Material Sourcing Cost Trends & Performance Specific to MDD Industry

The PRTM MDD Direct Material Sourcing Benchmark study is aimed at filling key gaps in available industry procurement information:

1. *Address a lack of sourcing analysis specific to the Medical Device & Diagnostic industry*
2. *Assess sustainable cost reduction performance and targets rather than one time savings driven by intense, project specific efforts*
3. *Develop benchmarks that procurement professionals can use when establishing annual cost reduction targets*

Study Background: Annual Direct Material Cost Reduction Potential is a Function of Sourcing Maturity

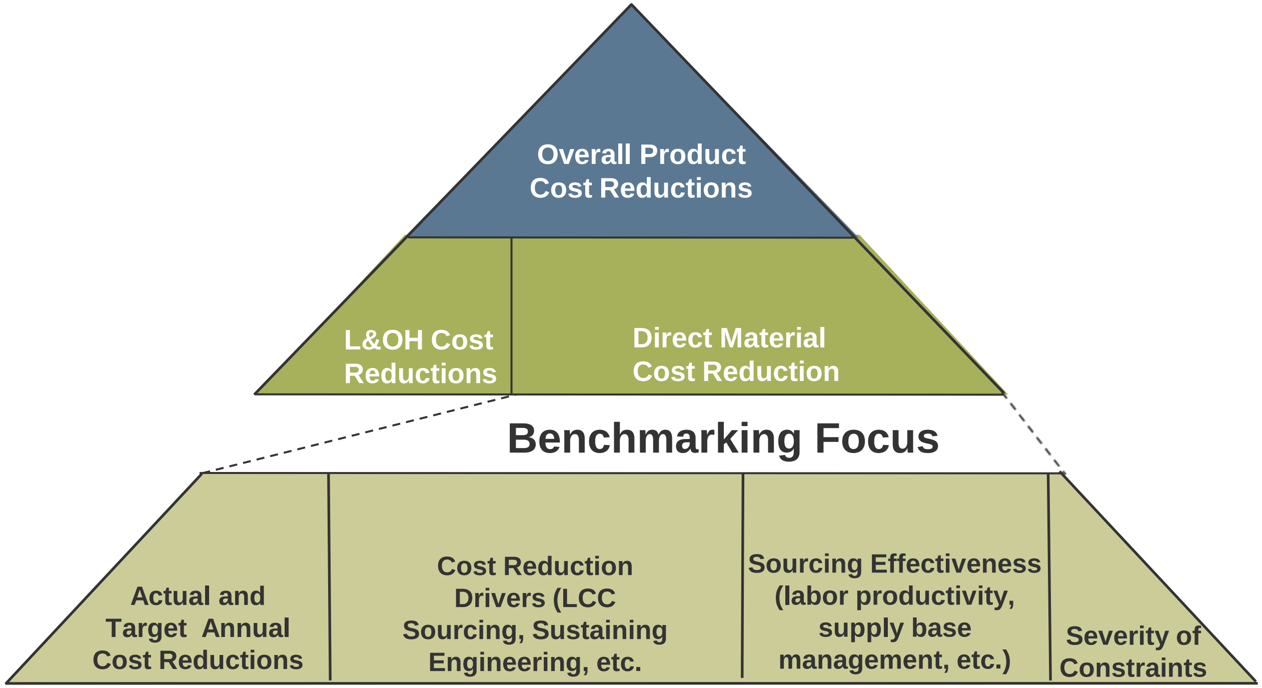
Annual Cost Reduction Efficient Frontier



LCC Sourcing %	0%	15%	30%	45%	60%
Spend per Supplier $M	$0.1	$0.3	$1	$3	$5
Sourcing/DFx Practices Maturity	Stage1				Stage 4
Complexity (P&Ls, Sites, PNs, etc.)	High				Optimized

Sourcing Maturity

Study Background: The Direct Material Sourcing Survey Studied Several Key Factors and Trends



- Level of ***year-over-year direct material cost reductions*** being achieved across the Medical Device & Diagnostics industry
- Impact of ***proprietary, sole sourced technology*** on direct material sourcing
- Current and future use of ***low cost country sourcing*** as a mechanism for cost reduction in the industry
- ***Sourcing levers*** that are providing the greatest benefit in reducing direct material costs
- Most significant ***constraints*** to achieving direct material cost reduction targets

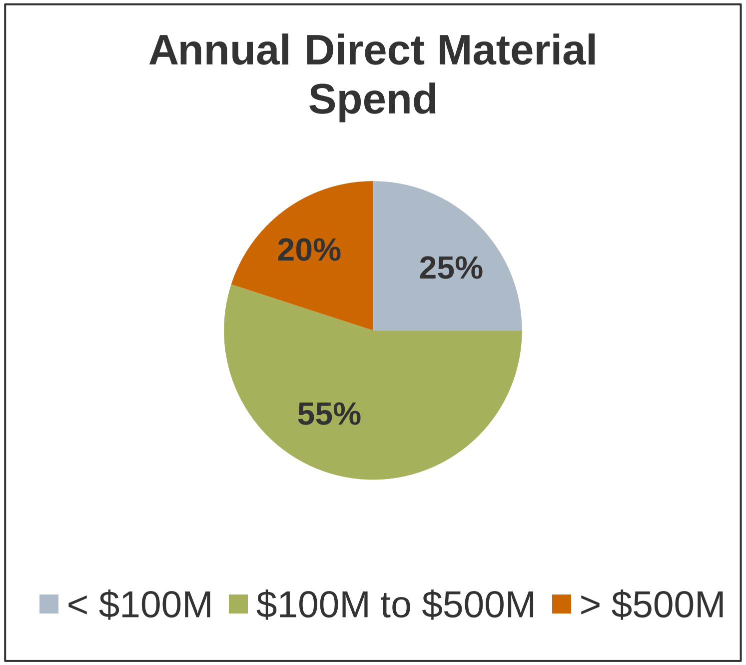
Direct Material Sourcing Survey Results

The Number of Participants has Doubled Since December, Primarily by Adding Device Manufacturers

Participants

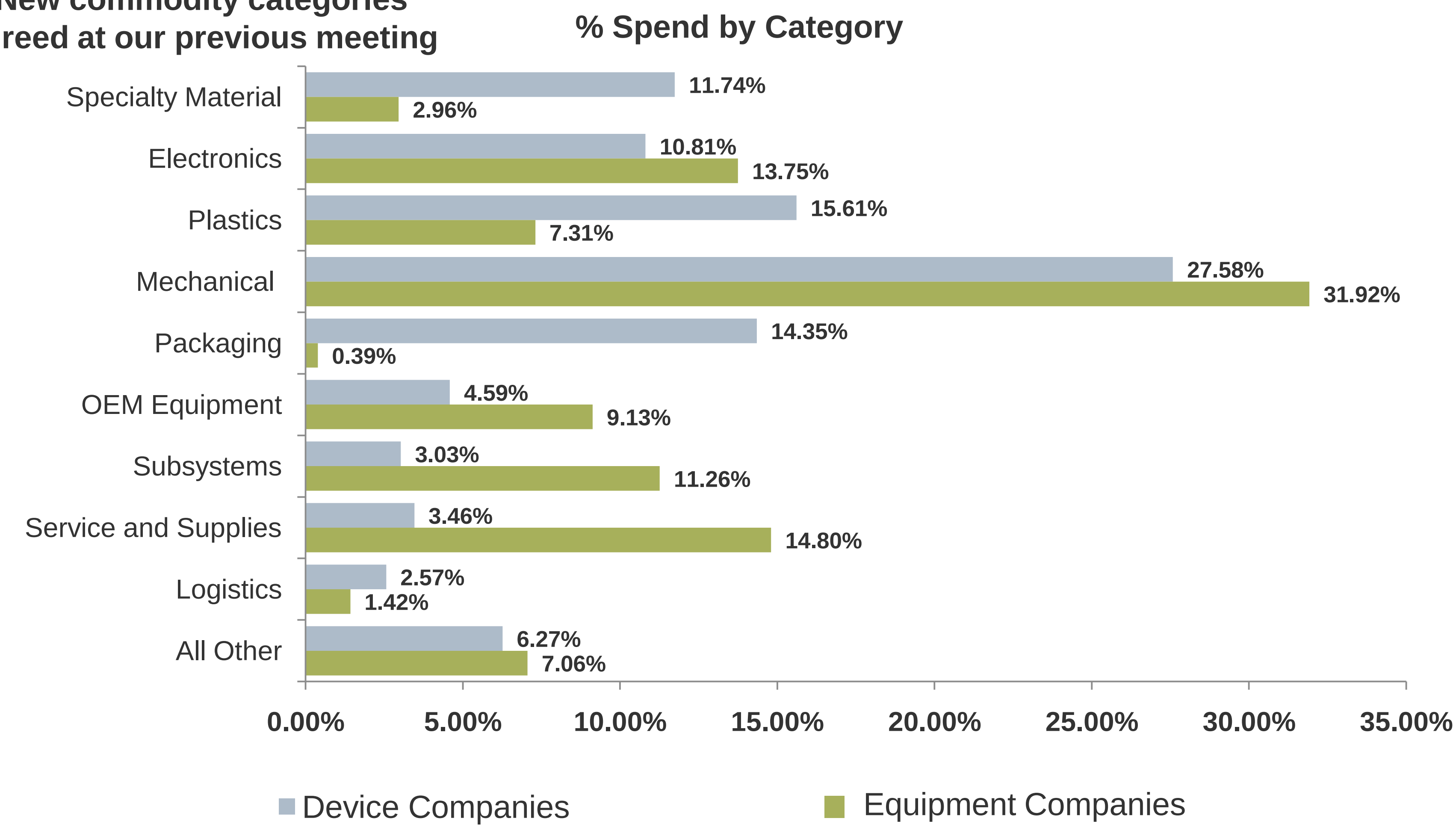
CIBA VISION®	J&J MD&D	Stryker Endoscopy
Boston Scientific	Abbott Laboratories	Edwards Lifesciences
Alcon Laboratories	ev3	Cardinal Health – Medical Mfg
ConMed	Advanced Bionics	ConvaTec
Stryker Orthopaedics	Stryker Medical	Sybron Dental
Philips Healthcare	BD Biosciences	Bausch & Lomb
Carestream Health	Varian Medical	Unnamed

Date	Device Participants	Equipment Participants
Dec. 2009	6	5
May 2010	15	6



Commodity Spend Levels Vary as You Might Expect Between Device Companies and Equipment Companies

New commodity categories agreed at our previous meeting



Median Actual Performance Far Exceeded Cost Reduction Targets in 2009

	Overall MDD Companies		
	Benchmark Population Metrics	**Median**	**Best in Class**
Direct Material Sourcing Cost Reduction Targets and Performance	2008 Target	3.0%	5.5%
	2008 Actual	2.5%	5.6%
	2009 Target	3.2%	5.8%
	2009 Actual	4.4%	6.9%
	Expected Long-Term Average %	4.0%	6.0%

In 2010 the window may be rapidly closing for achieving cost reductions driven by excess supplier capacity and lower raw material costs

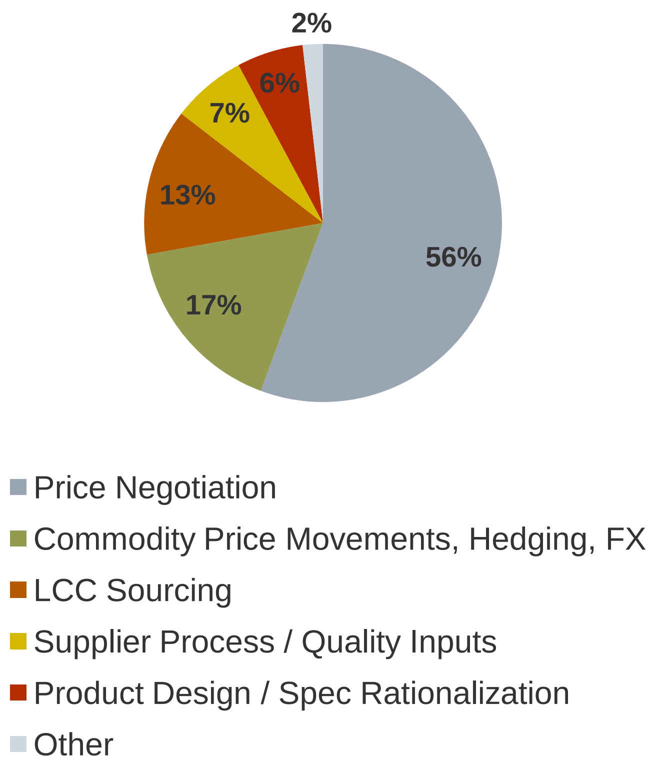
Medical Device Companies Achieved Greater Levels of Cost Reduction in 2009

		Medical Device		Medical Equipment	
	Benchmark Population Metrics	Median	Best in Class	Median	Best in Class
Sourcing Cost Reduction Targets and Performance	2008 Target	3.1%	5.5%	2.9%	5.2%
	2008 Actual	2.3%	5.9%	2.7%	5.3%
	2009 Target	3.0%	5.8%	3.9%	5.8%
	2009 Actual	4.7%	7.1%	3.7%	6.5%
	Expected Long-Term Average	3.8%	5.0%	5.0%	6.5%

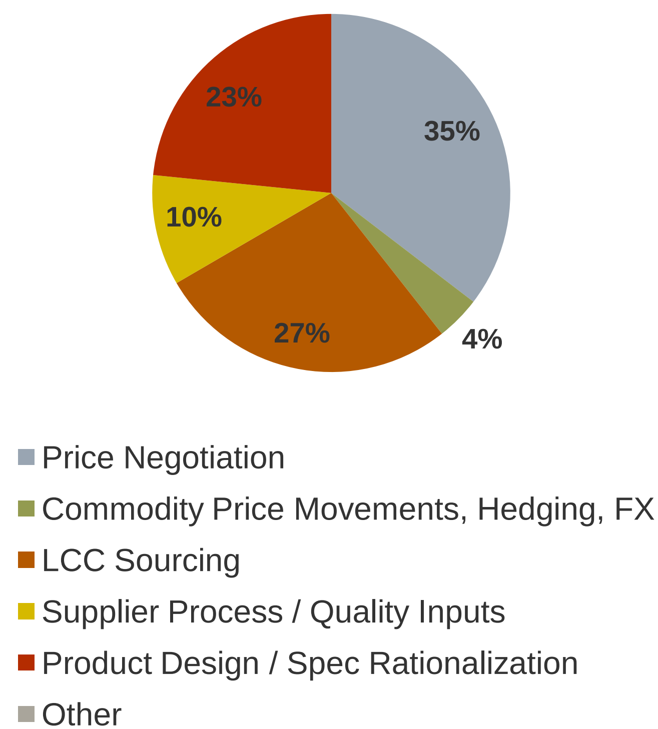
The impact of size is bimodal: Companies with spend between $100M - $500M fare worse in every metric than both smaller and larger companies

Sectors Achieving Savings Through Different Levers

Reported Sources of 2009 Cost Reductions
Medical Device Companies



Reported Sources of 2009 Cost Reductions
Medical Equipment Companies



Device Company Achieving Savings Primarily Through Price Negotiation Lever While Equipment Companies Also Using LCC Sourcing and Product Design

Benchmarks For Sourcing Practices Show Mixed Relative Performance by Industry Sector

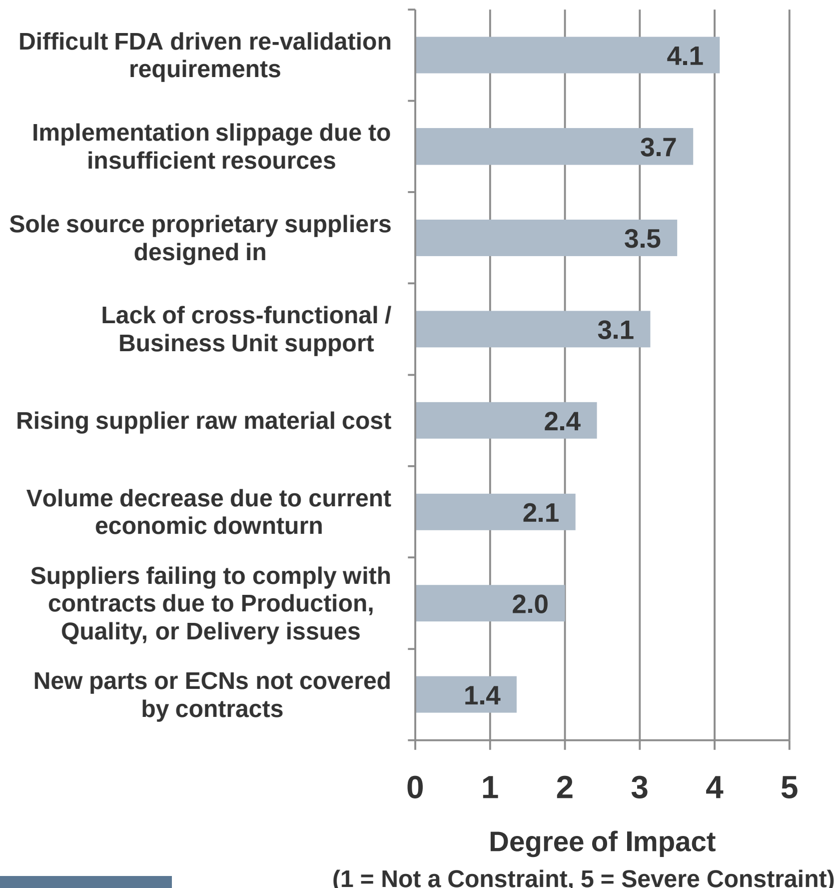
	Medical Device		Medical Equipment	
Benchmark Population Metrics	Median	Best in Class	Median	Best in Class
Spend/Supplier	$429 k	$2,380 k	$222 k	$1,266 k
% of Suppliers Constituting 80% of spend	16.4%	12.0%	4.3%	1.7%
LCC Sourcing	9.0%	22.5%	17.0%	27.9%
% Proprietary/Sole-Sourced Spend	25.0%	3.0%	26.0%	21.0%
Spend/Sourcing FTE	$21.0 M	$82.9 M	$16.2 M	$20.7 M

Spend volume matters: In every metric except % Proprietary/Sole Source Spend, performance correlates closely with spend volume

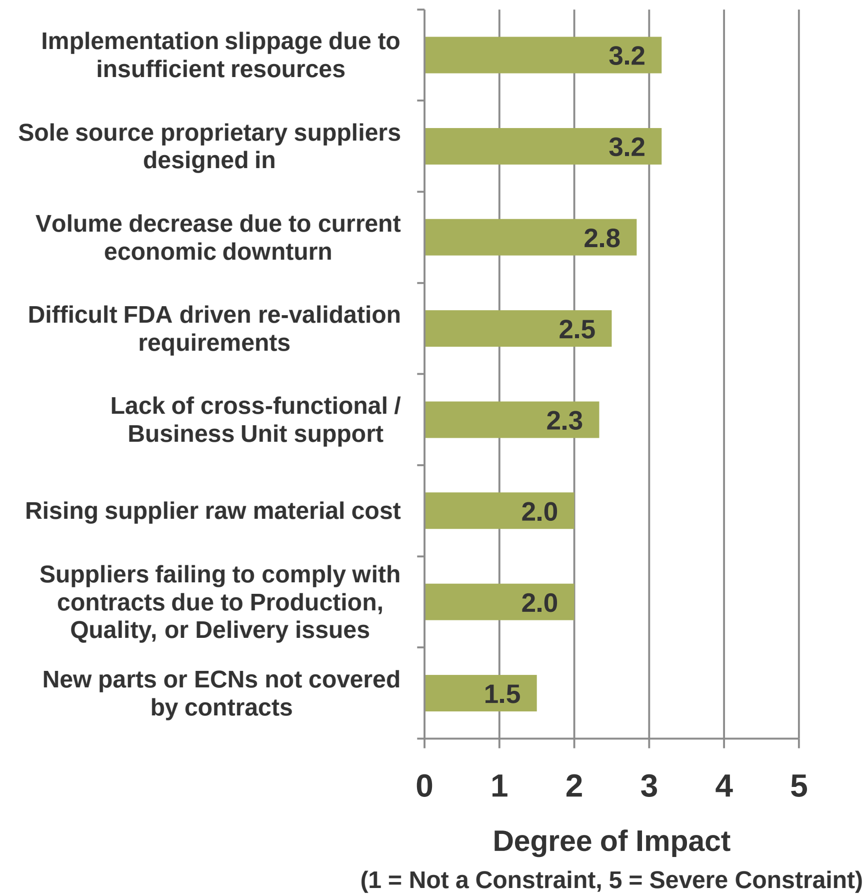
FDA Requirements are the Biggest Constraint for Device Companies

Greatest constraints to realizing 2009 cost reduction targets

Medical Device



Medical Equipment



This Survey is Still Open for Additional Participants

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In addition, we plan to update the survey data in its entirety in late 2010 and we hope all participants will participate

Appendix:

Understanding the Value Potential of Strategic Sourcing

PRTM RAPID ASSESSMENT

Establishing Goals for Sustainable Sourcing Cost Reduction

Achieving World Class Purchasing Excellence

Validate that profit objectives are supported by a competitive, realizable and appropriately risk managed global sourcing strategy that optimizes cost reduction opportunities and has full executive management support

Goals & Objectives

1 Provide detailed procurement best practices and performance for comparable companies

- Baseline current purchasing functions across all product teams and commodities
- Validate strengths and identify gaps to "best practices" as defined above
- Have quantitative data to back up qualitative evaluations of the sourcing organization, processes, tools, training, etc.

2 Develop a quantitative assessment and plan of attack to achieve cost reduction targets

- Baseline commodity cost reduction performance over the past several years
- Validate current plans and identify any incremental cost deflation opportunities
- Quantify what additional resources might be required to obtain a specific incremental savings level

PRTM Rapid Spend Assessment Categorizes Sourcing Maturity and Identifies Potential Areas of Opportunity

Rapid Spend Analysis
2 – 4 weeks

Profile Spend

- Review past strategic sourcing analysis and results
- Collect and analyze past 12 month spend cube (spend by category, supplier, and BU)
- Review key contracts

Benchmark Procurement Performance

- Collect and review appropriate supply market intelligence (leveraging PRTM knowledgebase)
- Develop initial savings estimates based on category profiles and PRTM experience
- Identify high potential categories warranting in-depth analysis

Outputs

Organization and practice maturity assessment

Initial savings estimates and category prioritization

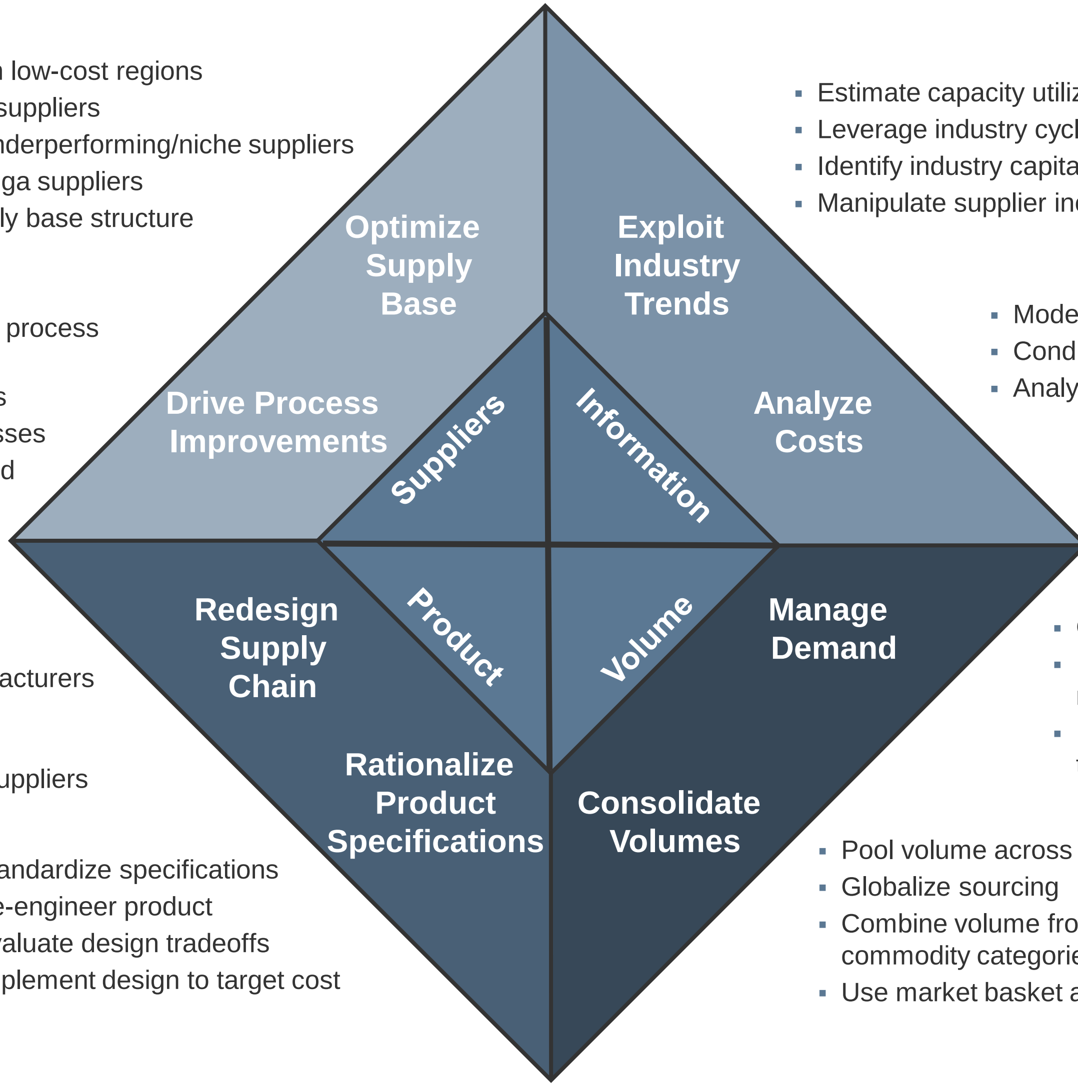
Sourcing Breakthroughs Are Achieved by Evaluating the Complete Portfolio of Strategic Options and Levers

- Source from low-cost regions
- Induct new suppliers
- Eliminate underperforming/niche suppliers
- Develop mega suppliers
- Tiered supply base structure

- Estimate capacity utilization
- Leverage industry cyclicality
- Identify industry capital inflows
- Manipulate supplier incentives

- Drive supplier business process improvements
- Share productivity gains
- Reengineer joint processes
- Deploy vendor-managed inventory

- Model should-be costs
- Conduct best BOM analysis
- Analyze total cost of ownership



- Evaluate make vs. buy
- Engage contract manufacturers and original design manufacturers
- Contract with sub-tier suppliers

- Create preferred parts lists
- Implement demand management policies
- Manage product EOL transitions

- Standardize specifications
- Re-engineer product
- Evaluate design tradeoffs
- Implement design to target cost

- Pool volume across units
- Globalize sourcing
- Combine volume from different commodity categories
- Use market basket approaches