



Cost to Serve: The Collective Challenge

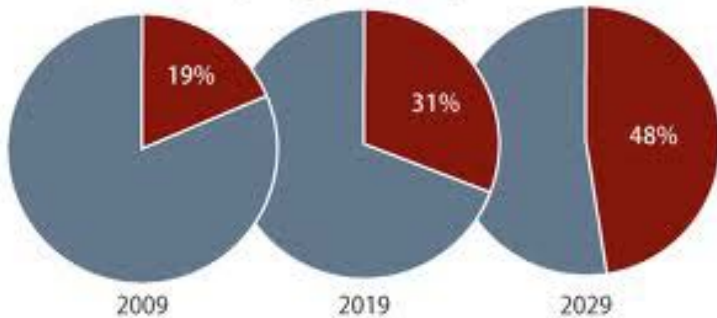
B. Scott McCallum
Vice President, Enterprise Solutions
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My Diverse Cost to Serve Experience

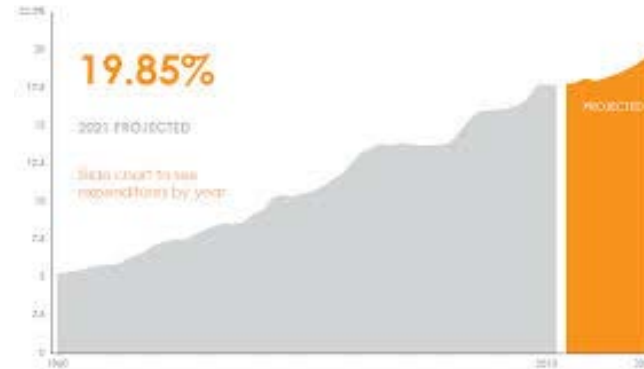


Collective Challenge: Model is Unsustainable

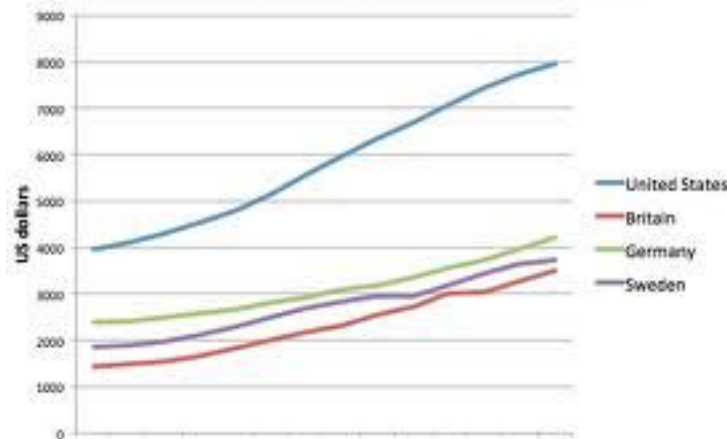
Growth in health care spending eats up family income, 2009-2029



U.S. HEALTH CARE SPENDING RELATIVE TO GDP



Health care costs per capita, 1996-2009



U.S. Healthcare Model

Bugatti Veyron



- **Fastest Production Car in the World**
- **254 Miles Per Hour, 8 mi/gallon**
- **\$2.4M**

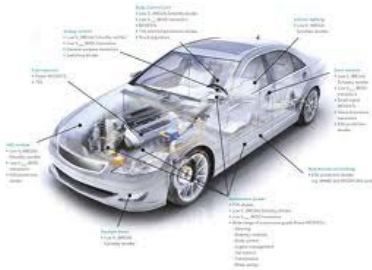
- **Designed to optimize performance in narrow categories**
- **Outcome trumps cost**
- **For many, wasteful, not great value for the money**
- **Elite, not easily accessible**

Customer Requirement

“I want to own the fastest production car in the world. I don’t care what it costs”



Customer Requirements DRIVE Costs



- Performance
- Features
- Efficiency

- Location
- Sq Ft, Beds, Baths
- Level of Finish

- Resolution
- Size
- Features

Transparent,
Consumer
Driven
Markets



Customer Requirements DRIVE Costs



- Quality ?
- Service ?
- Location ?
- Placement ?



- Quality ?
- Service ?
- Location?

Historically
Opaque Markets,
*With Emerging
Transparency &
Consumerism*



Customer Requirements Drive the Cost to Serve



↑ Patient Requirements

Upscale Hotel Level Service
Want Private Rooms
Want service closer to home
Want robot technology

↑ Provider Cost to Serve

↑ Services and Staffing \$
Facility Redesign \$ ↑
New Regional Facilities ↑
↑ \$M Capital Investment

Like the Bugatti owners, Patients in the U.S. have historically set requirements with little to no understanding to the implication on cost



Medical Device: Customer Requirements Impact on Cost to Serve



Requirement	Cost to Serve Implications
Accommodate individual Physician preferences	<ul style="list-style-type: none">• Redundant inventory & instrumentation, Reps
Ongoing training	<ul style="list-style-type: none">• Meetings, Grants, Reps
Evidenced based medicine	<ul style="list-style-type: none">• Pre/post launch clinical studies
24/7 Case coverage with limited advance notice	<ul style="list-style-type: none">• Reps and operations infrastructure to ensure coverage
Post implantation support for patient follow up (ex. CRM)	<ul style="list-style-type: none">• Reps, Remote patient monitoring hardware and IT infrastructure
Ability to determine implant selection during surgery	<ul style="list-style-type: none">• Redundant inventory & instrumentation, Reps



Medical Device: Customer Requirements Impact on Cost to Serve



Specification

Never delay a case due to product unavailability

Eliminate or minimize ownership of device inventory

Cap procedure pricing models

Individual replenishment order release vs. batched

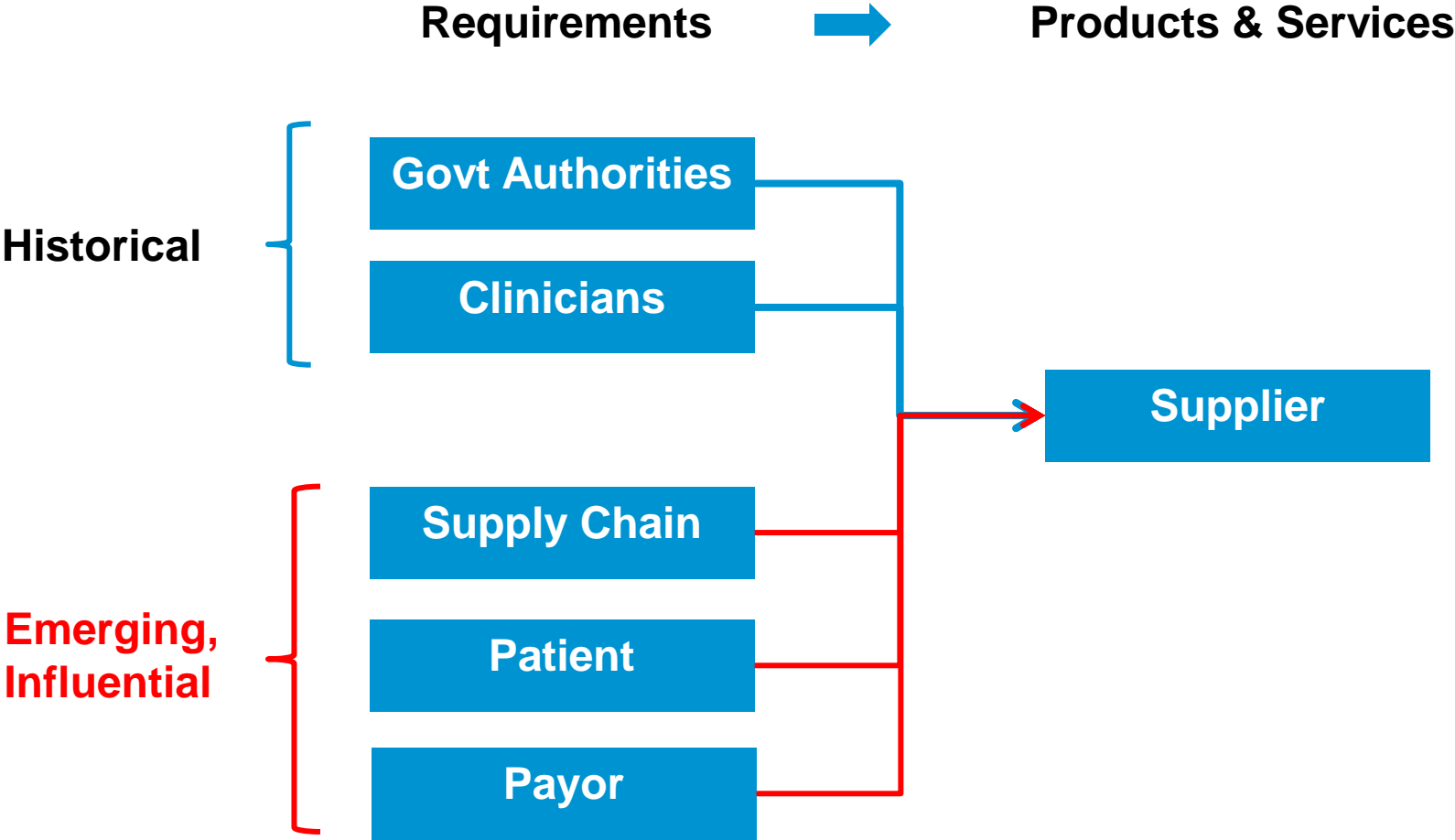
Documented sales representative credentialing

Cost to Serve Implications

- Redundant inventory & instrumentation
- Premium freight standard
- Supplier management of hospital inventory & instrumentation
- Expensive high touch distribution channel supported by supplier
- Manual order process vs. EDI
- Multiple pick, pack, ship activity for same customer, same day
- Credentialing infrastructure and vendor fees



Medical Device: Voice of the Customer



Healthcare: Simple Formula

**Better
Information**



**Better
Decisions**



**Better
Outcomes,
Lower Cost**

***Suppliers not your enemy,
collaborate to understand
joint requirements***

***Preserve requirements that
are valuable, discard or
alter those waste***

Achieve Sustainability





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