



Medical Device Supply Chain Council  
Jerry Brown – Tornier Inc.



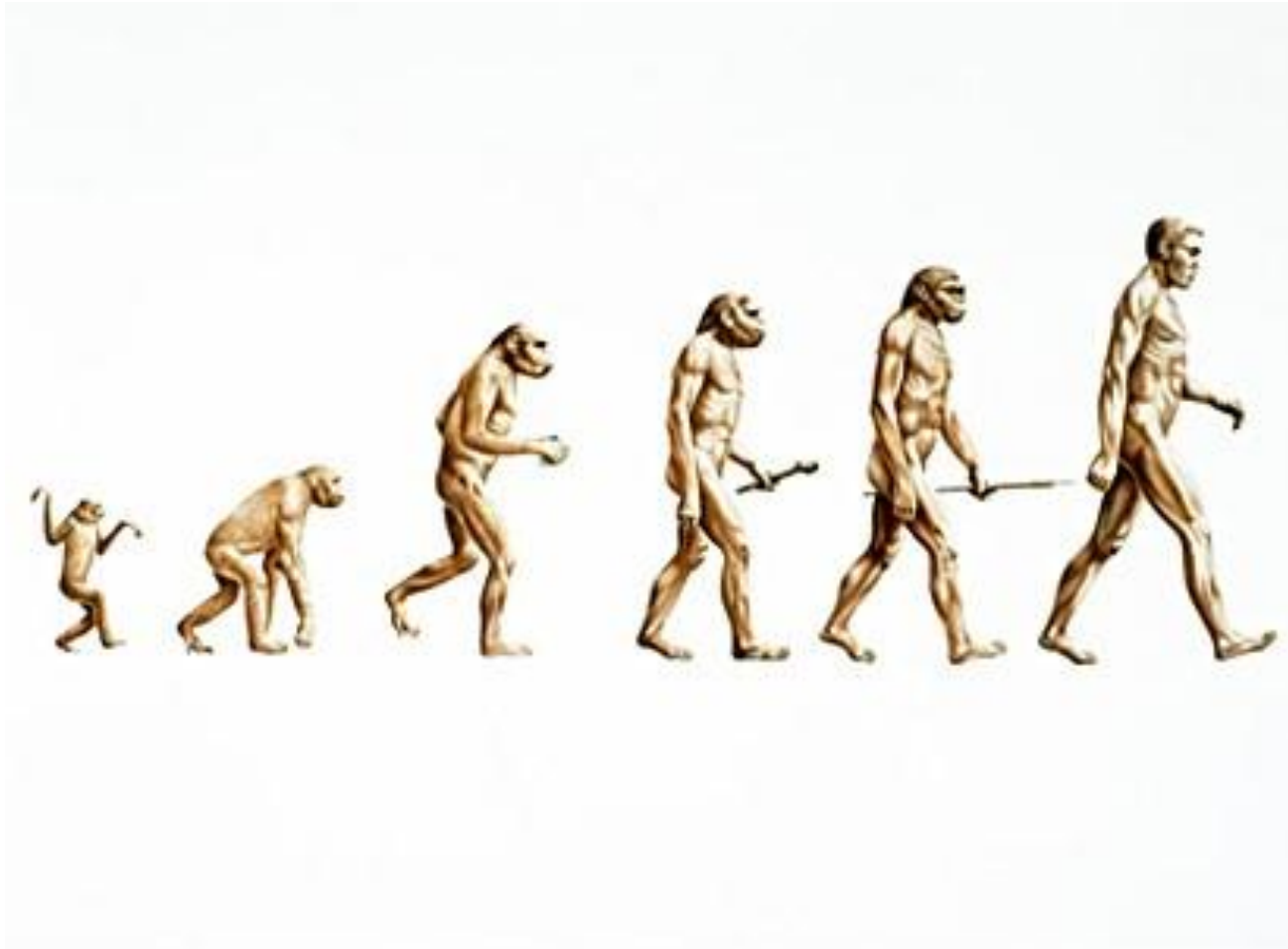


Health Care **Providers** and  
**Suppliers** are losing  
**hundreds of millions\***  
of dollars each year by not  
managing high-value medical  
**consigned products**  
better.

\* - *perhaps billions*



# One company's evolution in field inventory management





# The Tornier Business Model

- Our business is in the “Physician Preference Item” (PPI) sector
  - orthopedics, sports med, and biologics
- We provide reusable instrumentation sets (fixed assets) as well as implant banks (inventory)
  - High value, low turns
  - Bell curve of various sizes of implants
- We sell through 3<sup>rd</sup> party distributor sales force
  - A mix of distributor consignments, hospital consignments, and national loaner bank
- Orthopedics are primarily sales rep ‘trunk stock’
  - sales reps carry it into each surgery
- 75% of our inventory is in the field



## PPI is a Supply Chain Black Hole...

- “60% of my O/R spend is on consignment products and I have zero visibility into what I’m spending.”
  - VP Supply Chain, Healthcare Provider
- “We closely track our \$500,000 in hospital supplies, but I have a closet with over \$3M in consignment inventory that I am not tracking at all.”
  - Director, Materials Mgmt, Healthcare Provider



# Things we have done at Tornier

- I. Approaches to auditing field inventory
- II. Policy and Behavioral changes
- III. Use of technology
- IV. Interesting areas for the future



## Results of our Journey (so far...)

- Reduced our inventory loss by 80%
- Improved field inventory accuracy > 99%
- Increased our sales with less inventory
- Better asset utilization and inventory turn rates
- Reduced our balance sheet reserves for excess, obsolete, lost and expired

And most importantly...

- We are a lot smarter about our business than we were a couple of years ago.



# A Story....







# I. Approaches to Managing Field Inventory

Approach	Challenges, Comments
Distributor self-audits.	<ul style="list-style-type: none"><li>• Lack of process.</li><li>• No sales rep motivation – takes time away from selling.</li></ul>
Hired 3 <sup>rd</sup> party inventory counters.	<ul style="list-style-type: none"><li>• Lack of management oversight.</li><li>• 3<sup>rd</sup> party auditors were retail inventory focused, not med device.</li></ul>
Deployed an internal audit team.	<ul style="list-style-type: none"><li>• Much improved audit results.</li><li>• Very resource intensive, and didn't create accountability in sales force.</li></ul>
Deployed sales force inventory management and order placement software. (Mobile Workforce)	<ul style="list-style-type: none"><li>• Created process and accountability.</li><li>• Reduced audit effort by 5-10X.</li><li>• Improved audit accuracy to &gt; 99%.</li><li>• Provides process and technology for self-audits. As a result we've disbanded our internal audit team.</li></ul>



## II. Policy and Behavioral Changes

Change	Challenges, Comments
Stop moving inventory around in the field. (Everything comes in and out of Central DC.)	<ul style="list-style-type: none"><li>• Eliminated our biggest source of inventory loss.</li></ul>
Charge distributor / sales rep for missing inventory.	<ul style="list-style-type: none"><li>• It's heavy-handed, it's adversarial, and it works!</li></ul>
Loaner Kit Policies: <ul style="list-style-type: none"><li>• No extensions on loaned sets.</li><li>• Charge distributor / sales rep for late returns of loaner sets.</li><li>• Implement ship hold if not returned after 15 days.</li></ul>	<ul style="list-style-type: none"><li>• Improves set availability = higher service levels.</li><li>• Expectation of fines after 5 days creates accountability.</li><li>• Ship hold results in immediate resolution.</li></ul>



## II. Policy and Behavioral Changes ... continued

Change	Challenges, Comments
Analyze individual instrument set / SKU turns at each account. Reposition assets from low-volume to high-volume locations.	<ul style="list-style-type: none"><li>• Creates a “facts and data” context for defining field inventory requirements.</li></ul>
Change our inventory model: more loaner kits, less consignments.	<ul style="list-style-type: none"><li>• Much better asset utilization.</li><li>• Higher labor and freight costs.</li></ul>
Inventory management training for sales reps.	<ul style="list-style-type: none"><li>• Done as part of field software implementation.</li></ul>
Alternative model for hospital consignments: give away initial consignment. (treat as direct sale account)	<ul style="list-style-type: none"><li>• Simplifies transaction processing.</li><li>• Creates accountability in marketing for cost of consignment.</li><li>• Financial hurdles; patient implant tracking questions</li></ul>



### III. Use of Technology

Technology	Challenges, Comments
Implement sales rep software (Mobile Workforce).	<ul style="list-style-type: none"><li>• Game changer – provides rep level tracking and visibility.</li><li>• Creates responsibility and accountability with sales rep.</li></ul>
Bar coding of instrument sets and implant banks.	<ul style="list-style-type: none"><li>• Improved tracking in field.</li><li>• Helps Tornier track sets in our DC.</li></ul>
Install GPS trackers on instrument sets.	<ul style="list-style-type: none"><li>• The technology works and the cost-benefit is there.</li><li>• Q: How to scale up and integrate with ERP?</li><li>• Alternative: don't lose it in the first place!</li></ul>



## IV. Interesting areas for the future

Idea	Comments
RFID sterile implants.	<ul style="list-style-type: none"><li>• Visibility at point of sale. Big time saver in warehouse returns processing.</li></ul>
RFID instruments or instrument cases.	<ul style="list-style-type: none"><li>• At high volumes, this could be a big time saver in processing loaner sets in the DC.</li><li>• Limited application for instrument sets in hospitals.</li></ul>
GPS tracking – Sensaware or similar.	<ul style="list-style-type: none"><li>• Visibility between DC and hospital shelf.</li></ul>
Forward stocking depots in major metropolitan areas.	<ul style="list-style-type: none"><li>• Reduce redundant inventory among several sales reps.</li></ul>
Less inventory and assets required per surgery.	<ul style="list-style-type: none"><li>• Fewer implant sizes.</li><li>• Single deep.</li><li>• left vs. right.</li><li>• modular sets.</li><li>• custom sets for each surgery.</li><li>• Lower cost components.</li></ul>



## Value Proposition – Version 1

By doing this well, we can:

- Reduce excess, expired and obsolete inventory costs
- Improve service levels and reduce distribution expenses
- Free up sales rep time to focus on selling
- Capture lost revenues – for implanted not billed



Healthcare has fundamentally changed, and we must change with it.

- The major health care insurers had record profits in the 1<sup>st</sup> quarter because of “decreased health care utilization.”
  - *New York Times, May 13, 2011*
- Medicare is projected to run out of money in 2024, five years sooner than last year’s estimate.
  - *Medicare trustees 2011 annual report, May 13, 2011*
- For-profit health care providers are showing improved profitability because of a strong focus on cost containment and operational efficiency
  - *Fitch Ratings, September 14, 2010*



Questions?

Thank You!