Getting the Most from Your Distributor Relationships

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Agenda

1. Facts about Healthcare Supply Chains
2. The View from the Outside: What is Important in Distribution?
3. Self-Distribution: Rationale & Benefits
4. The Future of Distribution

Facts about Healthcare Supply Chains

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Reality: IDN Margins Will Decline

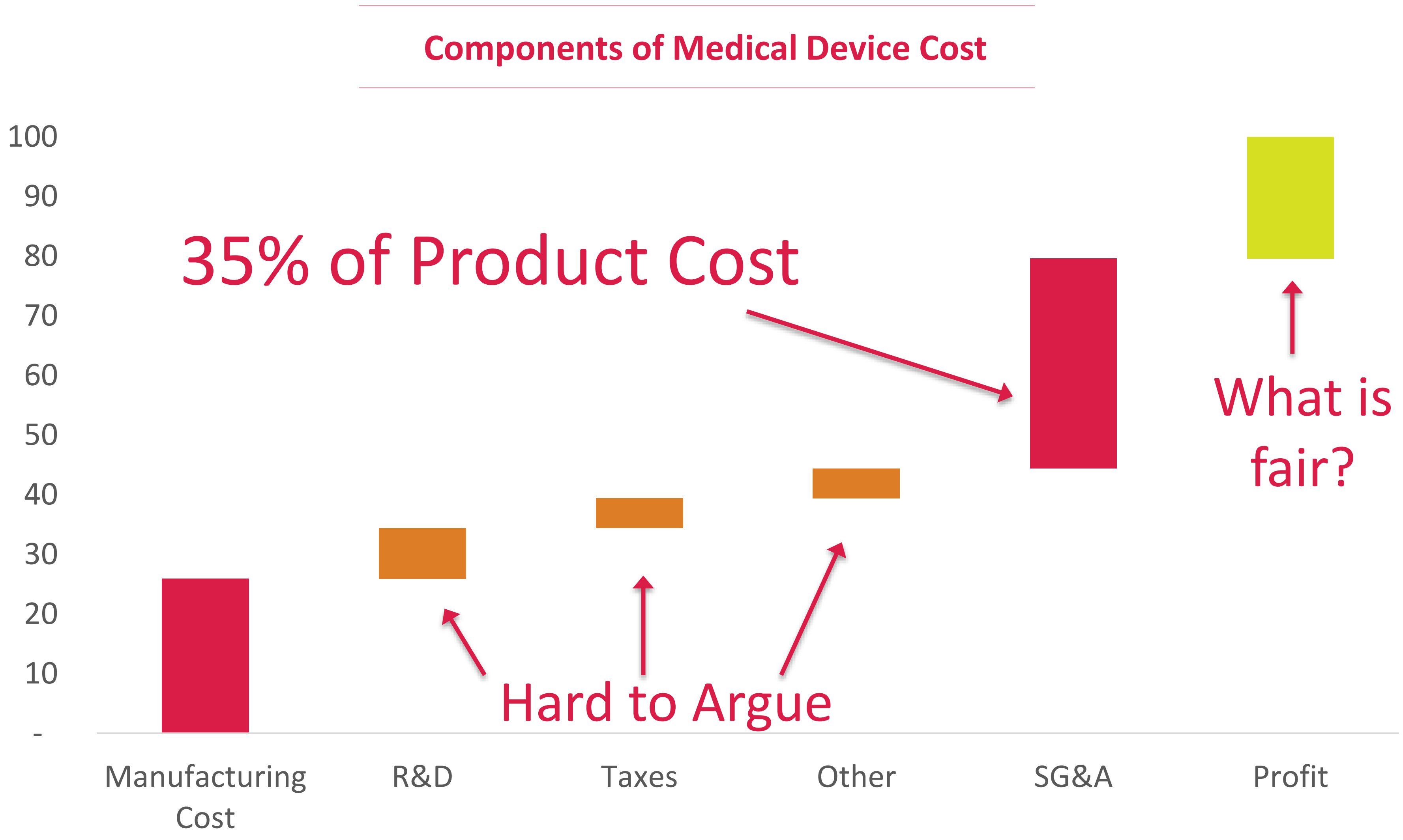
2012	2019
14%	**10%**
EBITDA Margin	**EBITDA Margin**

Source: Average IDN, Mckinsey Center for Healthy System Reform, Typical IDN

Reality: Supply Chain is EXPENSIVE

43% of the total delivered cost of a medical device is **sales and supply chain**

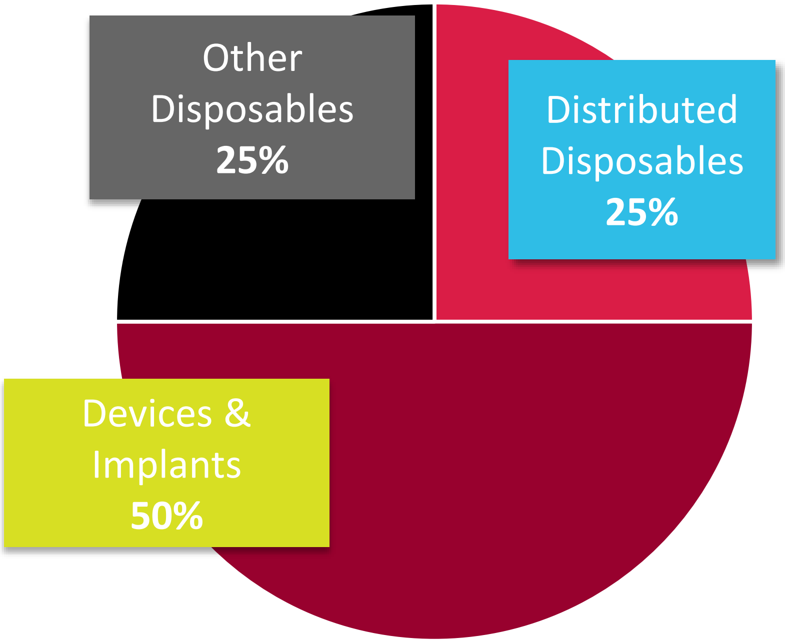
Supply Chain Hidden Costs



Source: Financial statements of largest medical device manufacturers

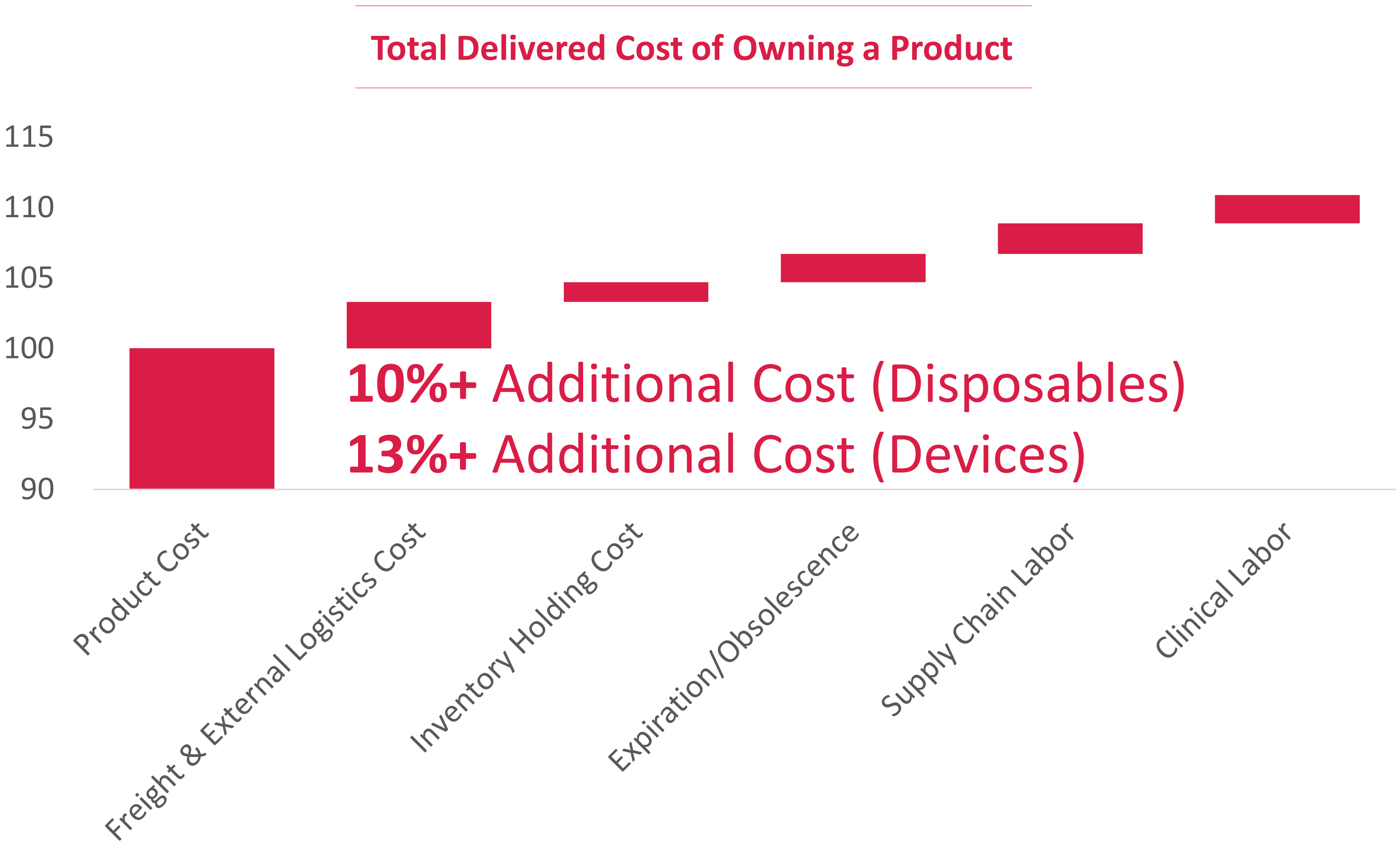
Fragmented Supply Chains

Total Medical Supply Spend



75% of medical product supply spend is unconsolidated

There is an internal cost for supply chain



Source: Owens & Minor Internal Data, HIDA

What is Important in Distribution?

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What do Providers Expect From Distribution?

Table Stakes

- Wide range of supply chain services
- Used by the most successful providers
- Thought leadership
- Measureable value
- Consistently delivers savings
- Collaborative & anticipatory

Minimum Expectations Attributes that are important to have, but further improvement will not yield that much	**Key Drivers** Important attributes for which further improvement will significantly impact preference
Non-Drivers Attributes that have relatively little impact on the market dynamics/preference today	**Secondary Drivers** Emerging drivers of tomorrow "tie breakers," or important areas where all competitors are seen as the same

Fundamental Importance

Business Impact

What do Providers Expect From Distribution?

Key Drivers

- Make my job easier
- Peace of mind
- Customizes solutions
- Long record of success
- True partner
- Aligned with my objectives

Fundamental Importance

Minimum Expectations

Attributes that are important to have, but further improvement will not yield that much

Key Drivers

Important attributes for which further improvement will significantly impact preference

Non-Drivers

Attributes that have relatively little impact on the market dynamics/preference today

Secondary Drivers

Emerging drivers of tomorrow "tie breakers," or important areas where all competitors are seen as the same

Business Impact

What do Manufacturers Expect From Distribution?

Table Stakes

- Makes my job easier
- Customizes supply chain solutions
- Help me make better business decisions
- Manage contracts portfolio

Minimum Expectations Attributes that are important to have, but further improvement will not yield that much	**Key Drivers** Important attributes for which further improvement will significantly impact preference
Non-Drivers Attributes that have relatively little impact on the market dynamics/preference today	**Secondary Drivers** Emerging drivers of tomorrow "tie breakers," or important areas where all competitors are seen as the same

Fundamental Importance

Business Impact

What do Manufacturers Expect From Distribution?

Key Drivers

- Trust & integrity
- Long-track record of success
- Gives me peace of mind
- Customizes supply chain solutions
- True partner
- Enhances my ability to service my customers
- Aligned with my business objectives

Minimum Expectations Attributes that are important to have, but further improvement will not yield that much	**Key Drivers** Important attributes for which further improvement will significantly impact preference
Non-Drivers Attributes that have relatively little impact on the market dynamics/preference today	**Secondary Drivers** Emerging drivers of tomorrow "tie breakers," or important areas where all competitors are seen as the same

Fundamental Importance

Business Impact

Why Self-Distribution?

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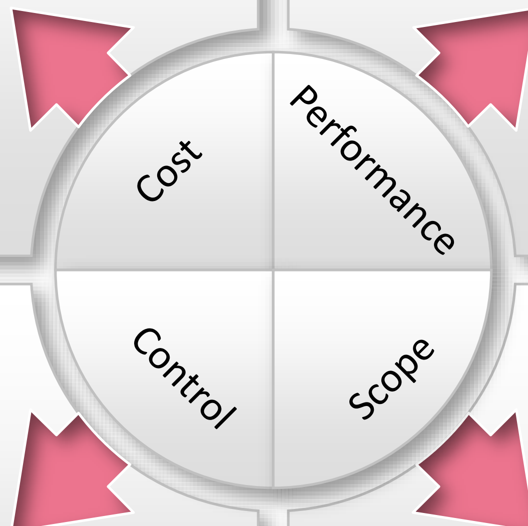
A (Small) Selection of Reasons for Self-Distribution

Lower costs by removing distributor and/or GPO

Improved service levels and product availability



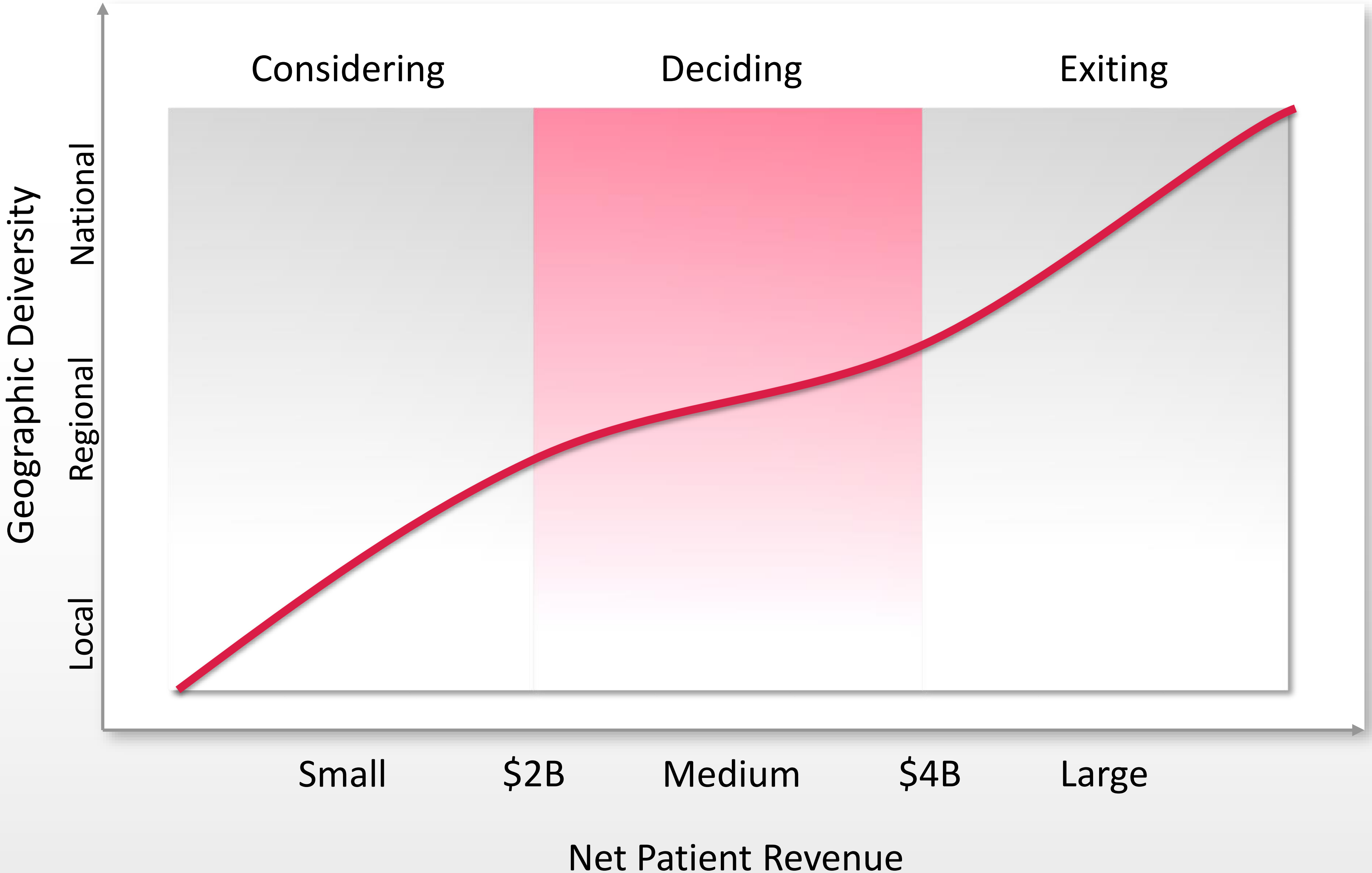
Better contract compliance and product standardization

Access to med/surg products and/or centralization of other services

Defining Self-Distribution

- Facility: Operates or outsources a warehouse, typically greater than 75,000 sq. ft.
- Size: More than 50% of their total product spend comes direct from manufacturer
- Control: Consolidates both product and services through the facility
- Contracting: May self-contract

The Self-Distribution Curve



The Future of Distribution

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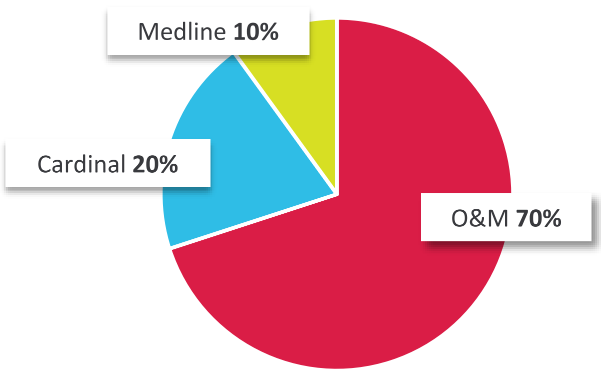
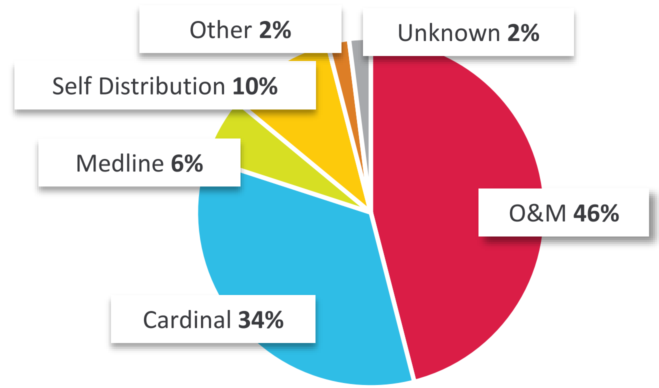
Current Primary Logistics Relationships

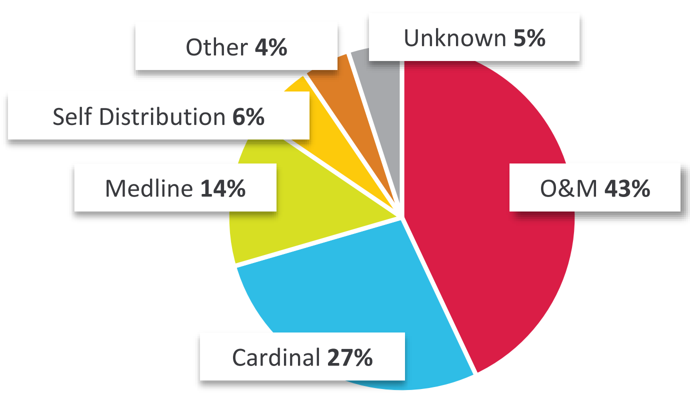
Top 10 IDNs by Revenue



Top 50 IDNs by Revenue



Top 200 IDNs by Revenue



Source: O&M tracking of top 200 IDNs

Note: Does not indicate market share, only which company is the primary distributor for the IDN

Fundamental Choices

Manufacturers	Distributor	Providers
	Global	
	National	
	Regional	
	Local	

Point of Manufacture

Outside the Provider

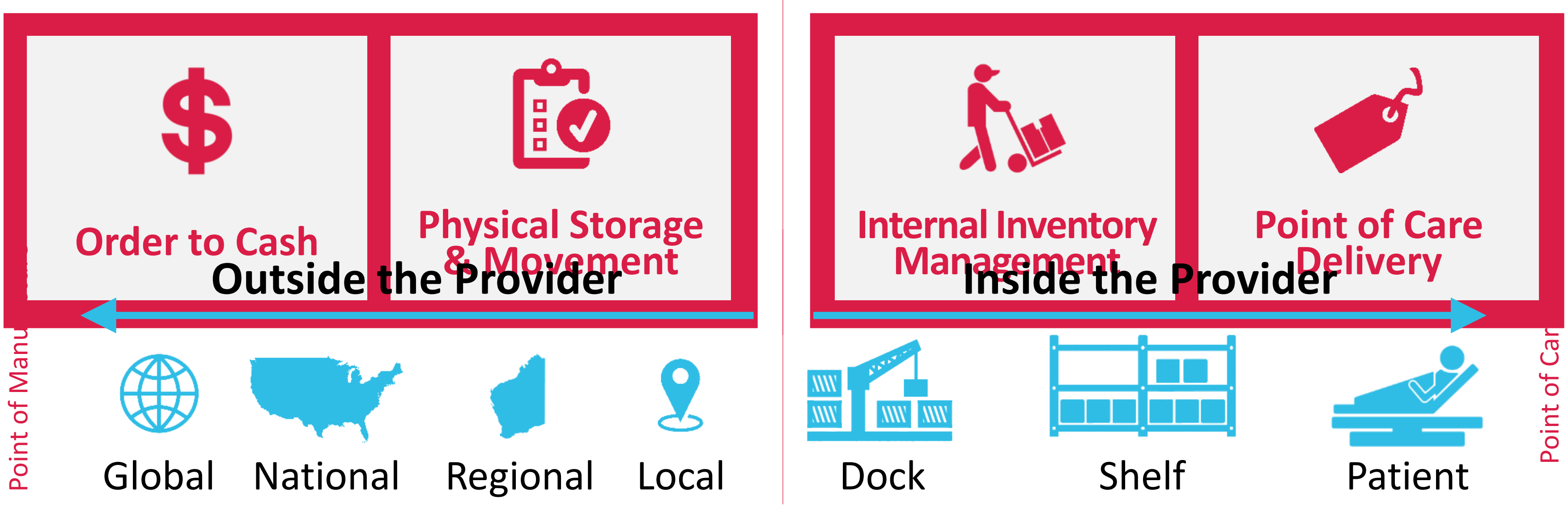
Global National Regional Local

Inside the Provider

Dock Shelf Patient

Point of Care

Beyond Distribution



Solution #3: Eliminate Waste

On average,
20% of the
supplies delivered
into an OR are
unused

Source: Owens & Minor CarePoint Reporting

3 Trends

POINT OF CARE INTEGRATION

VISIBILITY & CONTROL

COST & PRICE

"Retail Checkout" – Scanning at point of care

Delivery of procedure, not just of product

Move outside of the hospital

Inventory, Inventory Everywhere

The average device has more than 200 days of inventory in the channel

3 Trends

POINT OF CARE INTEGRATION

VISIBILITY & CONTROL

COST & PRICE

GS1/GTIN and Data Standards

Provider visibility inside the distributor

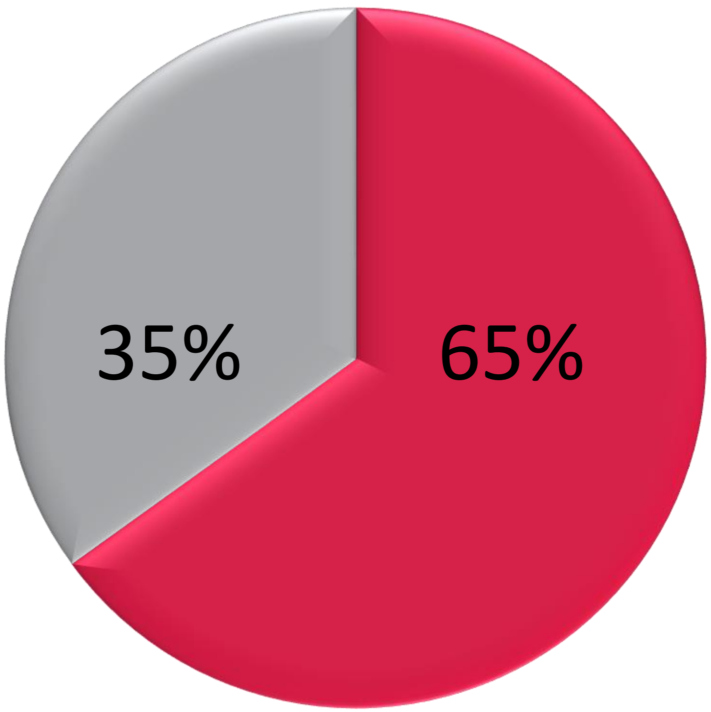
Multiple product ownership models

Traditional Market was Clearly Defined…

Distribution

- High volume
- Minimal IP
- <$800/unit ASP
- Low complexity
- Nearly 100% - GPO contracting
- Uncomplicated use
- Private label
- Minimal direct sales

Supply Mode of Purchase



Direct

- Low to moderate volume
- Higher IP distinctions
- >$800/unit ASP
- Higher to very high complexity
- Direct sales force
- High prevalence of local contracting

By volume: 75% Distribution / 25% direct

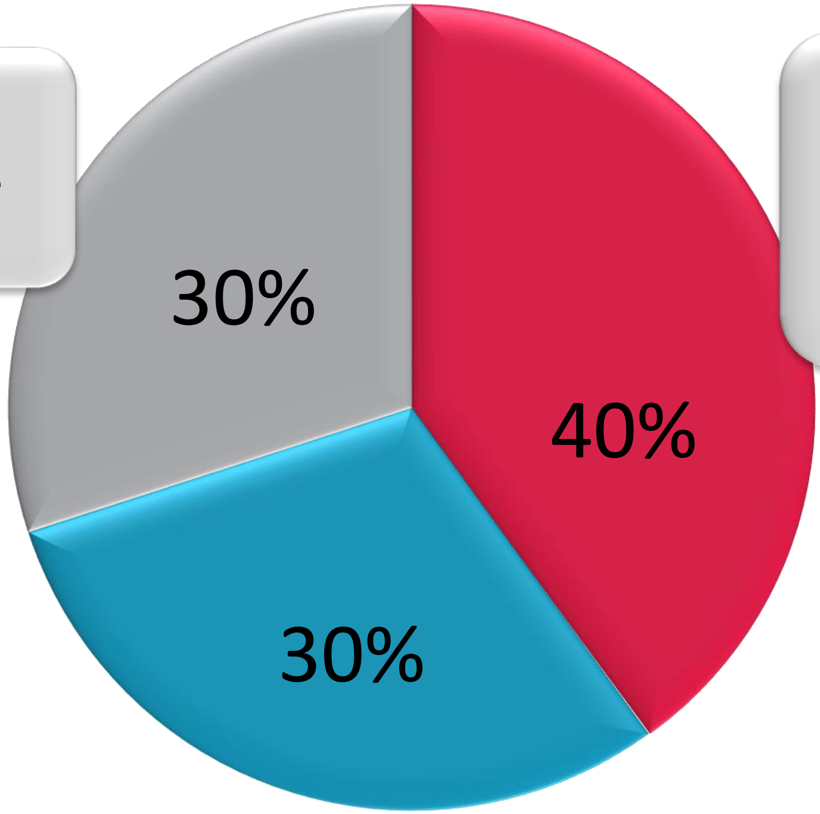
AHA, Gartner Research, 2011

2012 O&M research, estimates

But the Delivery Dynamics are Changing Rapidly…

Distribution

Self distribution by some Providers erodes growth



Direct

Downward pressure on revenues forces re-evaluation of SG&A elements

Fee for Service/Shared Financials

Rapid rise in need for healthcare specific logistics; few firms fit the need

AHA, Gartner Research, Company research, O&M research & esimates

3 Trends

POINT OF CARE INTEGRATION

VISIBILITY & CONTROL

COST & PRICE

Continued pressure on distributor price

Migration away from cost-plus