



UPMC

**Cost-Cutting Strategies That Work:
Best Practices from a \$8b IDN**

Panel



Jim Szilagy
VP and Chief Supply
Chain Officer
UPMC



Bob Pavlik
Director, Strategic
Sourcing
UPMC



Michael DeLuca
Director, Supply
Chain Systems &
Consulting Services
UPMC



Nora Frank
Manager, NNN
UPMC

Talking Points

- UPMC Overview
- UPMC Transformation
- Results
- Q&A

UPMC Snapshot



Revenues: \$7.7 billion

Employees: 50,000

Hospitals: 20

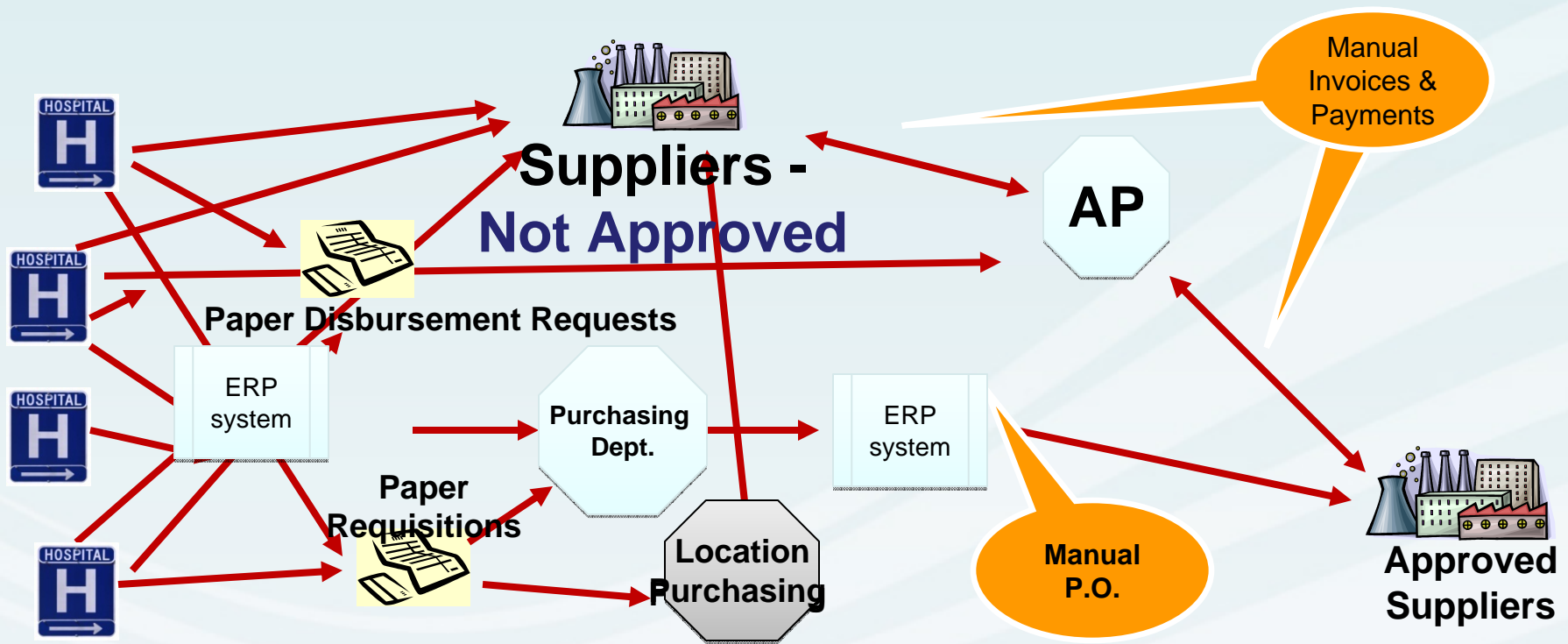
Physicians: 5,000

Beds: 4,000



#330

How Healthcare Purchasing Really Works



- Users are frustrated; search is slow and cumbersome
 - Contract compliance eroded by rogue spending
 - Automation is non-existent
 - Poor data quality; no data standardization
 - Match exceptions result in extensive rework
- Opportunity

UPMC's Supply Chain Environment

Spend Managed: \$1.8 billion

Team: 200 team members; centralized supply chain management organization

Suppliers: 12,000+ active suppliers

Volumes:

- Process 4,000+ purchase requisitions per week
- Receive 1.1M packages per year; central distribution center
- Manage over 600 point of consumption material carts (avg. 172 items per cart)
- Process 70,000+ invoices per month

State of Affairs (2006)

- **55%+ of Spend NOT through Purchasing**
- **Drowning in paper:**
 - 220,000+ Paper Requisitions & Purchase Orders
 - 525,000 Vouchers
 - Average 367,000 Paper Checks per year
- **Poor Vendor Management:**
 - 58,000 Vendors
 - 8,650 Blanket Orders
- **Tough negotiators, but poor follow-through:**
 - 84% Orders with Price Variance

Opportunities for Cost Reduction

- Poor contract compliance → waste
- Data Management and item-level detail is poor
- Minimal or no automation
- Manual processes = unnecessary FTE costs and waste
- Large volume of AP exceptions = rework / waste
- No Single User Interface → many “one off” connections
- Punchout pricing is inaccurate; no way to audit
- Excessive Purchase Order-to-Supplier transaction time
- Heavy reliance on GPOs → minimal local contracting

Automation

- Our Mantra
- Savings Drivers
- Key Areas:
 - Procure-to-Pay
 - Business to Business Transactions
 - Accounts Payable
- Results

UPMC Marketplace Growth

June 2007: UPMC implementation



2008: UPMC grew significant supplier connections



2009: Ecosystem of content keeps growing, driving automation and compliance



A Platform for Automation

How the UPMC Marketplace Drives Efficiency

University Hospital | e-Catalogs | Quick Order | Favorites | Packages | Saved Carts | My Settings | Logout

Search: Product Keyword [GO] Category Supplier Line Items: 0 Total: 0.00

Powered By Prodigio SOLUTIONS

Your Recent Search: needle, needle, needle, 1412748, calhtr

Things To Do: Share a saved cart

ALL Health System Item Catalogs

- ITEM MASTER: Childrens Hospital
- ITEM MASTER: Downtown Medical Center
- ITEM MASTER: University Hospital

Medical / Surgical Supplies

- Abbott Vascular
- McKesson
- Medline Industries
- Owens and Minor
- Sammons Preston

MRO Supplies

- Masterwork Paint Co.
- MSC Industrial

IT Supplies

- CDW
- World Wide Technology
- DeJi

Scientific / Lab Supplies

- Fisher Scientific
- Invitrogen
- Ventana Medical
- Sigma-Aldrich

Office Forms & Cards

- Jeter Systems Corp
- WorkflowOne

Office Supplies

- BatteriesPlus
- Corporate Express
- Intercontinental Subscription Service

Gases

- Airgas

Furniture

- Franklin Interiors

- Drive UNSPSC or GS1 standards
- Built-in punchout price audit

eCommerce Capable Sites


Local Hosted Catalogs

GPO Catalogs

Item Master Data

Internal Services / Specialized Processes

Panel Discussion

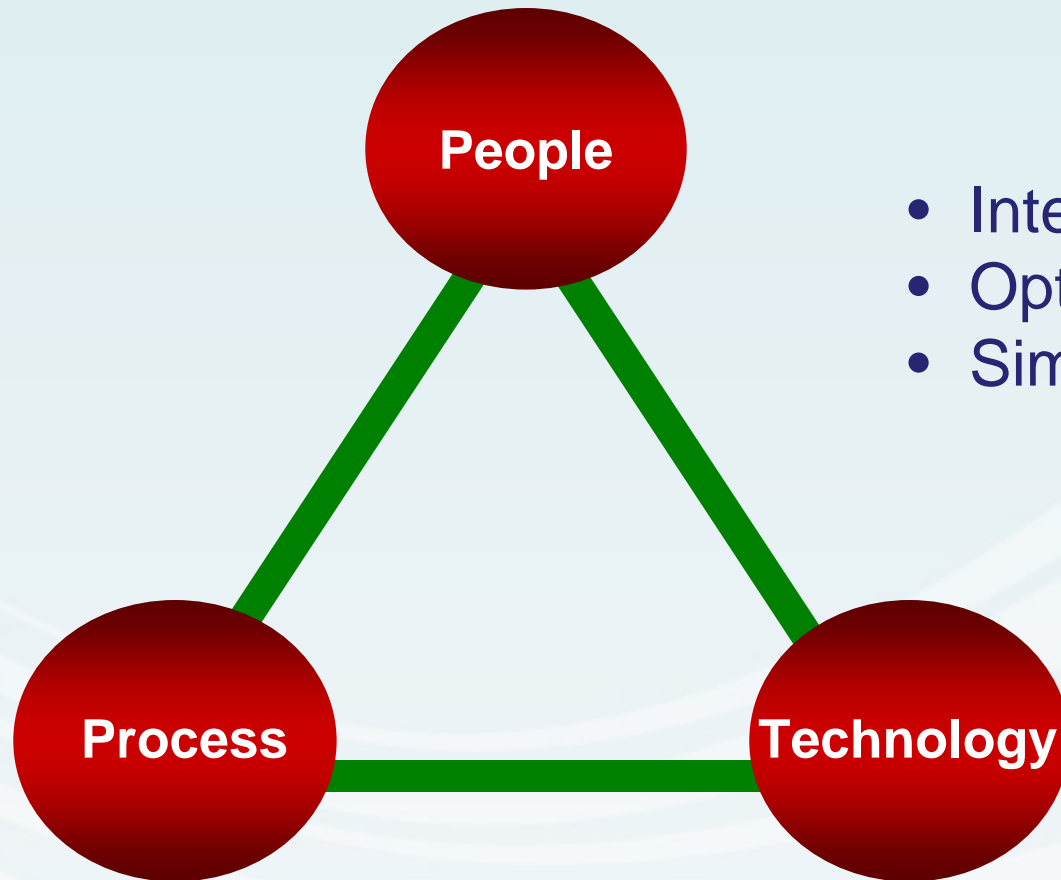


Excellence isn't just a goal
at UPMC. It's part of who we are.

UPMC

Backup Slides

The Framework for Transformation



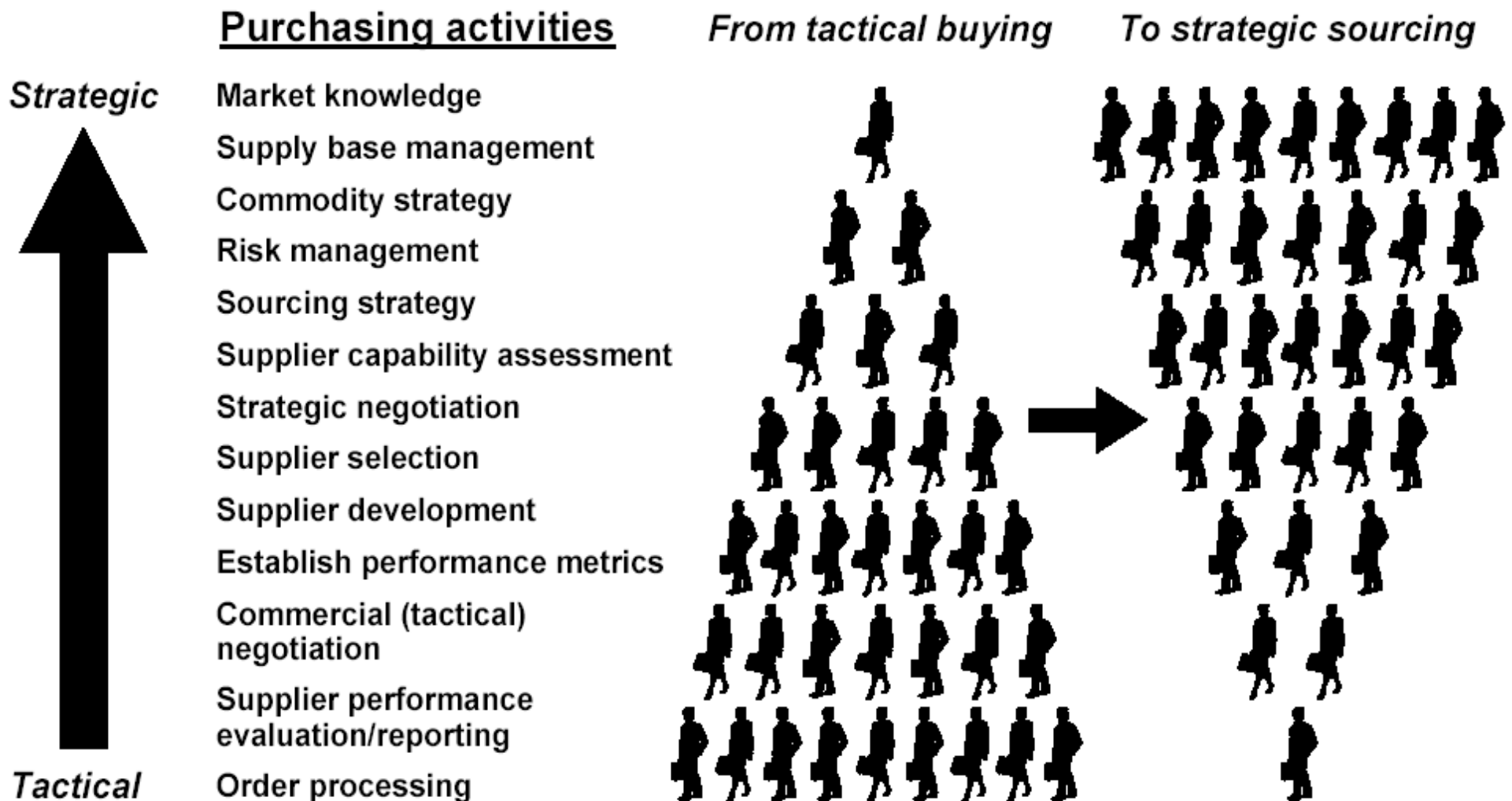
- Integrate
- Optimize
- Simplify

Transactional
-to-
Analytical

People

- Organizational Re-Structure
- Chief Supply Chain Officer
- Skill Mapping (20/70/10)
- Matrix for Accountability and Recognition
- Industry Cross-Pollination (infusing “top talent”)
- Investment in staff training and development
- Flattening the reporting structure
- Change Agents

Purchasing-to-Supply Chain Shift

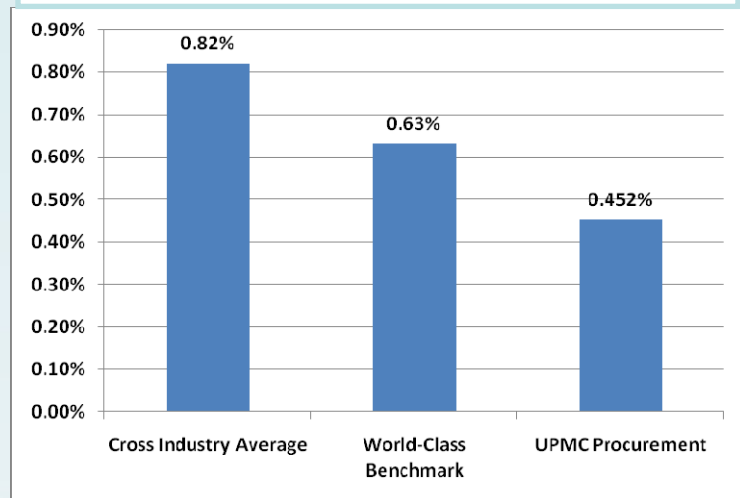


Marketplace Results

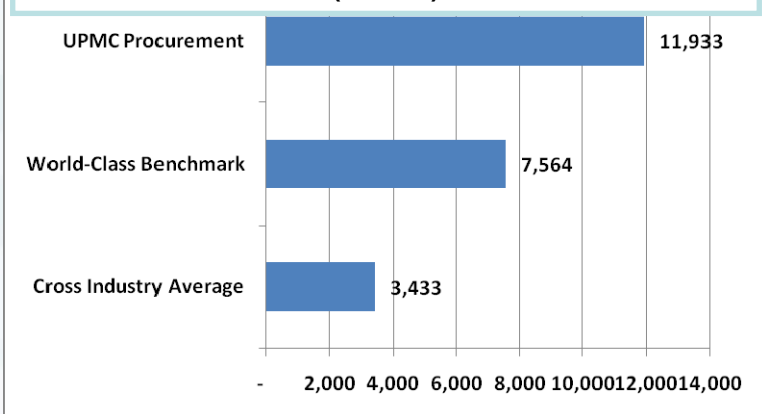
Results to date:

- \$3M in estimated annualized hard-dollar savings resulting from improved compliance and automation
- 40%+ increase in contract compliance
- 100% e-Enabled (all requisitions originate via eprocurement) with ~40% of all purchase orders fully automated or “touchless”
- 40% reduction in special requests
- 40% reduction in time dedicated to item master management
- 30 suppliers on-boarded in 24 months

UPMC Procurement Cost as a Percentage of Spend



UPMC Purchase Order Transaction Productivity (Annual)



Results

Transforming Supply Chain Organization/People

THEN

- Unclear organizational structure
- Education Level:
 - Bachelor Degree 31%
 - Master Degree 0%
 - Professional Cert 0%
- Undefined performance objectives and poor metrics
- No documented strategic plan

NOW

- Defined organization structure
- Education Level:
 - Bachelor Degree 61%
 - Master Degree 15%
 - Professional Cert 11%
- Clear objectives including metrics to measure progress
- Mission and values statement with strategic plan

Results

Transforming Supply Chain Systems

THEN

- Used limited functionality
- Paper intense procure-to-pay process
- Unable to validate spend authorization
- No integration with other systems
- No electronic invoicing
- Minimal Electronic Data Interchange (EDI)

NOW

- World class eMarketplace
- Automated P2P for 113 vendors
- Automated approval workflow
- Full integration with OR system
- EDI vendors: 129 vendors
- Electronic invoicing: 79 vendors

Results of Deployment

Results of Deployment

- Eliminated Paper Disbursement Requests
- Eliminated Paper Requisitions
- Eliminated 60% of faxed/phoned PO's to supply base and working toward 100%

Hard Impact

- eVoucher application eliminated 4 FTE's in the AP Entry Group
- eProcurement/eMarketplace eliminated 6 FTE's that comprised the SCM Pre-Key Group
- Allowed for the reduction or limited the need to hire 15.31 FTE's and counting as eMarketplace and "Lights Out" programs expand.....

Soft Impact

- Efficiencies gained with supply base
- Efficiency & effectiveness of remaining Proc. Operations staff
- Increased control through automation & interfaces: ↑ PO spend ↓ rogue (limit use of P-Card, Flat File Invoice & Blanket PO spend)