



University HealthSystem Consortium

DRIVING DOWN SUPPLY COSTS THROUGH PRICE MANAGEMENT

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Amid the rough economic climate, health care organizations everywhere are facing unprecedented financial pressures. With a decline in admissions, increased borrowing costs and bad debt and decreased reimbursement from Medicaid and Medicare to name a few, hospitals are struggling just to make ends meet.

University HealthSystem Consortium (UHC) and its contracting services company Novation, remain committed to easing the financial strains academic medical centers are facing. We are taking aggressive measures to ensure that the value members receive from contracts remains best-in-class.

By applying data-driven contracting decisions in daily operations, Novation is able to define, monitor and enforce pricing on the member's behalf to provide unmatched pricing performance throughout all phases of a contract's life cycle.



The Economy's Impact on Hospitals

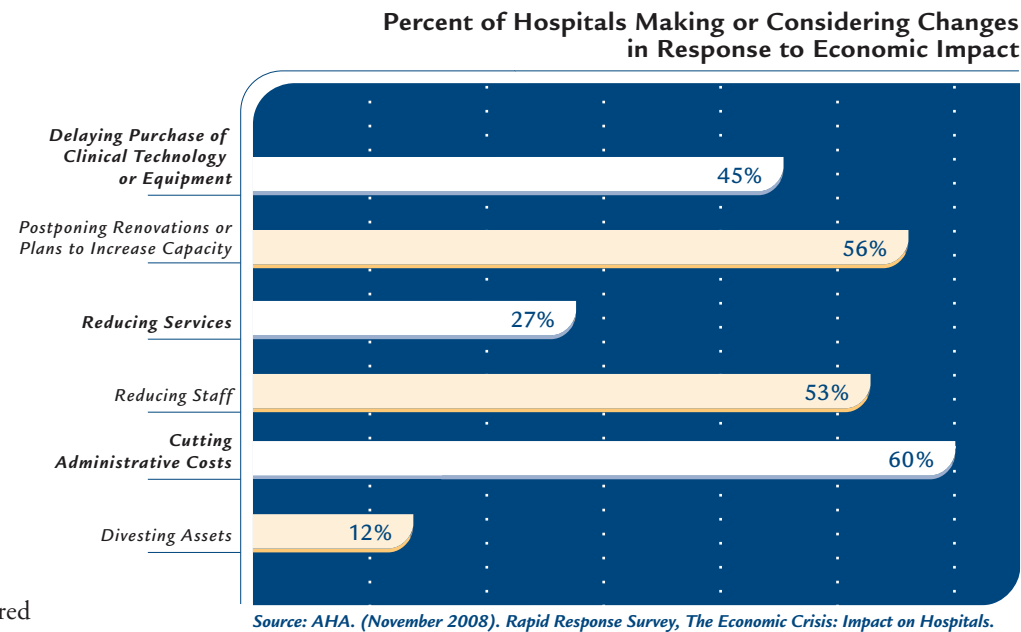
Hospitals face numerous challenges to their budgets and overhead expenses as the result of a weakened economy. According to a report by the American Hospital Association (AHA), total margins have dropped over 7 percent into negative territory in 2008.

Fewer patients are seeking hospital care because of economic uncertainty. Therefore, hospitals are experiencing moderate to significant declines in elective procedures and overall admissions. As a consequence, uncompensated care is on the rise.

The turbulent financial markets have further worsened the financial conditions of hospitals. Tight credit markets have made it more difficult for hospitals to secure financing for facility and technology improvements. What's more, invested hospital assets have suffered from costly stock market dips. Hospital

administrators watched the returns on their hospital's investment portfolios sink as interest payments on borrowed funds – money their hospital owed – began to soar.

According to the AHA report, hospital CEOs are considering the following cost-cutting strategies to adapt to the economic environment:

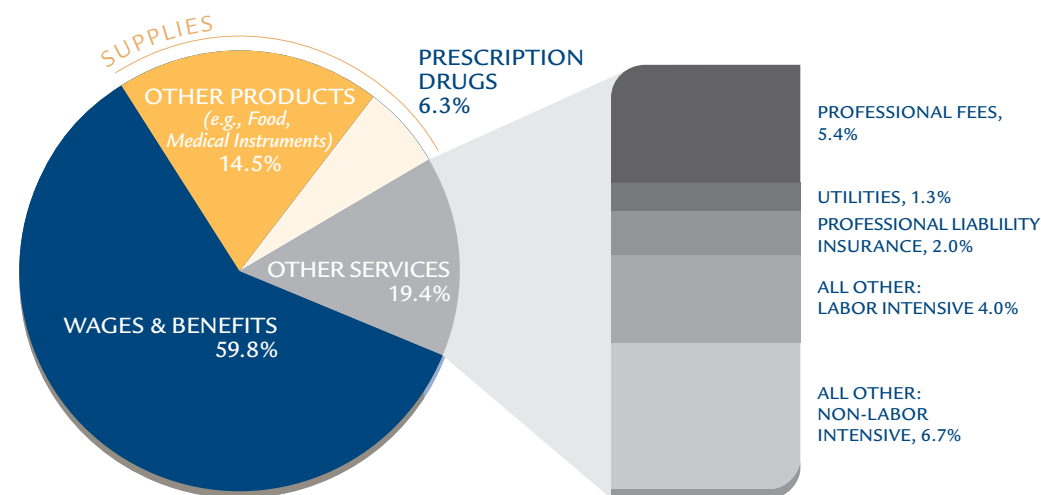


Lowering Supply Costs

The struggling economy has hospitals paying considerable attention to expense control and hospital executives are looking to the supply chain as one way to cut costs. Consequently, these executives are under pressure to show immediate results. According to the AHA and Avalere Trendwatch Chartbook 2008, nearly 21 percent of a hospital's quarterly budget expense is supplies and that does not include capital expenses.

To help UHC members reduce overall supply expenses and remain financially viable in the current economic environment, Novation employs aggressive and proactive price management strategies that focus on contract and supplier performance.

Percent of Hospital Costs by Type of Expense



Source: AHA and Avalere Trendwatch Chartbook 2008



Ongoing Proactive Price Management Strategies

UHC members have access to pricing they can depend on. Novation uses price management strategies that ensure the value of contracts from initial launch to expiration.

Competitive Contract Process – To gain industry-leading pricing, Novation applies a rigorous nine-step competitive contract process. Novation's team of experts works with member councils and task forces to ensure not only the quality of products on

agreement, but market-leading, firm pricing terms and conditions.

Market Knowledge – Novation continuously tracks and monitors market conditions and pricing on behalf of members to enforce terms within supplier agreements. Novation also tracks key raw materials and consumer price indices to address pricing for products within highly volatile categories.

Data-driven Contract Management – To evaluate pricing performance, Novation utilizes comprehensive member spend data and contract performance tools to defend against price increases and further identify opportunities for price improvements. Supplier agreements are continually revisited to address any deficiencies in pricing.

ONGOING COMMITMENT TO MEMBERS

UHC and Novation remain committed to delivering unmatched savings and value to members. In addition to our efforts to drive down supply costs, we also help members in overall budget planning. We provide numerous resources which are available on the Market Research page on Marketplace, UHC's members' only contracting Web site, including:

- **Budget Impact Report** – This semiannual report provides price-related data for the supply budgeting process by utilizing both Novation contract information and federal statistics from the Producer Price Index.
- **Trends and Forecasts for Raw Materials** – Novation actively monitors 13 indices and provides data snapshots to assist health care organizations with planning in these areas. The indices are updated monthly to provide members with the most available data on record.

For more information regarding UHC and Novation's position on price management strategies, please contact your UHC account executive.



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Since its inception in 1998, Novation has delivered superior contracting and supplier management services to the members of UHC. Novation's mission is to be the industry's leading health care contracting services company that delivers unmatched savings and value. With more than 1,000 contracts covering approximately 80 percent of a typical member's purchases, Novation is committed to providing the most comprehensive contract portfolio at the best price in the industry.