



Potential for creating the Purchasing Group for the Polish Hospitals Federation by PROFITIA and BATNA Med

AGENDA

A. About BatnaMed/Profitia

- B. Purchasing Center for courts in Poland (CZdS) – case study of a purchasing group development by PROFITIA
- C. Potential for group purchasing for hospitals
- D. Purchasing Groups in Poland
- E. BatnaMed – description of the cooperation model

BATNA/PROFITIA has experience in purchasing optimization and group buying

SELECTED PROJECTS OF PURCHASE CONSOLIDATION



PROCUREMENT CONSULTING IN TERMS
OF PURCHASING PROCESSES, ANALYSIS
OF SAVINGS POTENTIAL, STRATEGY
IMPLEMENTATION

SELECTED EXISTING PURCHASING GROUPS



ENERGY



MASS
PRINTING



FUEL



STATIONERY



MEDICAL
SERVICES/
HEALTH
INSURANCE



FIXED
TELEPHONY



NEGOTIATIONS WITH SUPPLIERS,
INDIVIDUAL APPROACH TO EACH COST
GROUP, COMBINING THE CATEGORIES

We are answering market requests in the purchasing area, implementing good purchasing practices and providing long-term savings

SAVINGS

- Category mapping / categorization – shopping tree
- Identification, measurement and prioritization of savings
- Durable implementation of identified savings, at the same time – a possibility of implementation of the so-called „quick wins“, i.e. fast savings



ORGANIZATION

- Centralization of purchasing, including e.g. purchasing services centres for capital groups
- Mapping of purchasing organization
- Implementation of new solutions in the area of purchasing organization, including the „leading buyer“ rule and the division of strategical purchases from accounting/ realization process

Professional Purchasing

TOOLS

- Purchasing supporting tools mapping
- Introduction of simple „forms“ improving rate of purchasing function
- Implementation of simple tools, providing transparency
- Consulting in the area of functionality of tools/ implementation of ARIBA

PROCESSES/PROCEDURES

- Common purchasing politics for large capital groups
- Process improvements – new purchasing procedures
- Division into strategic / operational processes

We are supporting numerous leading Polish and international companies in purchasing improvement

SAVINGS



ORGANIZATION



Professional Purchasing

TOOLS



PROCESSES/PROCEDURES



We specialize in conducting projects aimed at increasing companies' value and fast, visible, yet permanent results

Description of selected procurement projects conducted by PROFITIA

Client	Description of the project	Client	Description of the project
 	PURCHASING SYNERGIES DURING FUSION • Analysis of 37 purchasing categories and assessment of potential purchasing synergies • Elaboration of saving initiatives (process and benchmarking / negotiations)		PURCHASING SYNERGIES • Complex programme of developing central procurement for 20 companies in the Group • Development and implementation of the Policy of Central Procurement • Implementation of savings under the Polish Public Procurement Law
	PURCHASING TREE + PROCEDURE • Support in developing specification for business e-platform enhancing the procurement processes • Development of the Central Scheme of Categories		PURCHASING SERVICES CENTER • Concept of a Procurement Centre for courts in Poland – organization/process • Categorization of procurement spend • Sourcing in selected procurement categories
	SOURCING OF SELECTED CATEGORY • Analysis and categorising of PGE Capital Group spend • Assessment of the potential for centralization with the consideration of homogenous and strategic features of each procurement category under the Polish Public Procurement Law		PURCHASING TRAINING • Sourcing as a key purchasing process • Selection and implementation of purchasing strategy • Monitoring of implementation, measures of Purchasing operation efficiency • Negotiations with suppliers

**Recommendations / references from Purchasing Directors / Members of the Management
FOR ANY OF THE ABOVE PROJECTS AVAILABLE ON REQUEST**

We offer the opportunity to join purchasing groups within BATNA Group in 6 categories.

The scope of services in each group

	Category		The scope of services	Average savings
	Energy		• Analysis of metering-billing equipment • Matching ordered power tariffs to the real needs • Electricity costs reduction	15-20%
	Medical services/ Health insurance		• Health insurance (basic, extended, VIP or family package) • Medical subscriptions • Occupational medicine	10-20%
	Stationery		• The negotiated baskets (list of about 250 products) for: • Stationery (basket and discounts on products outside the basket) • Chemical products (sanitary articles) • Groceries	20-30%
	Fuel – retail/wholesale		• Discounts for: • Pb 95 • Pb 98 • ON	1-3%
	Mass printing		• BTL • brochures • POS printings	15-25%
	Fixed telephony		• National and international calls to landline and mobile • Equipment (telephones) • Installation (landline connection)	30-50%

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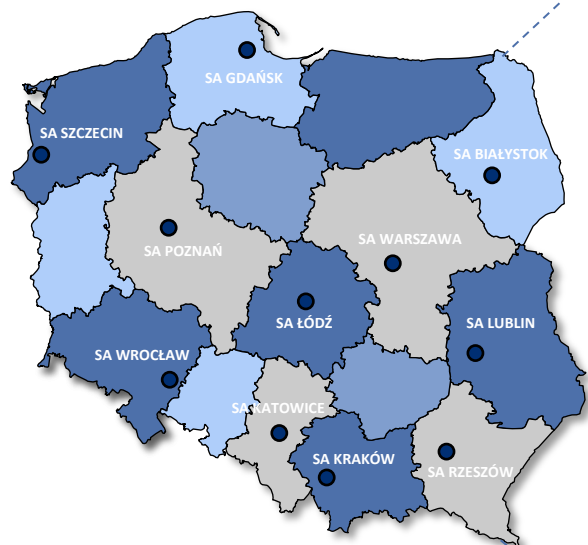
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PROFITIA started supporting the Ministry of Justice in 2011 by developing the strategy of CZdS operation – Group Purchases for 297 courts

The range of CZdS operation and selected purchase synergies

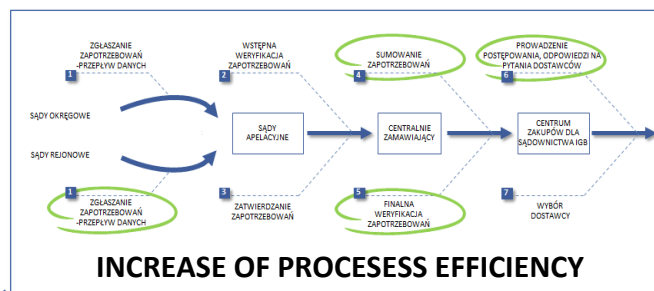
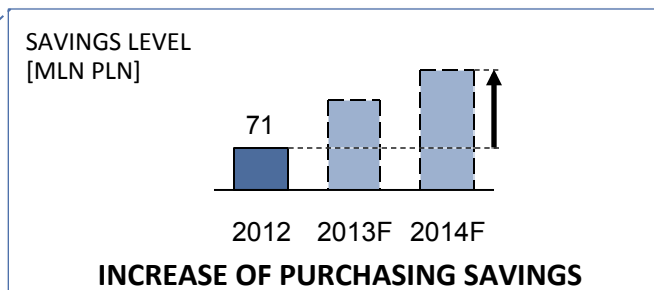
RANGE OF ORGANIZATION OPERATION

 Employment ~40 thousand



Appeal Courts • 11
District Courts • 45
Regional Courts • 242

ACHIEVABLE PURCHASE SYNERGIES



FACTORS OF SUCCESS

- Analysis of needs, demand management and implementation of lever savings
- Benchmark analysis

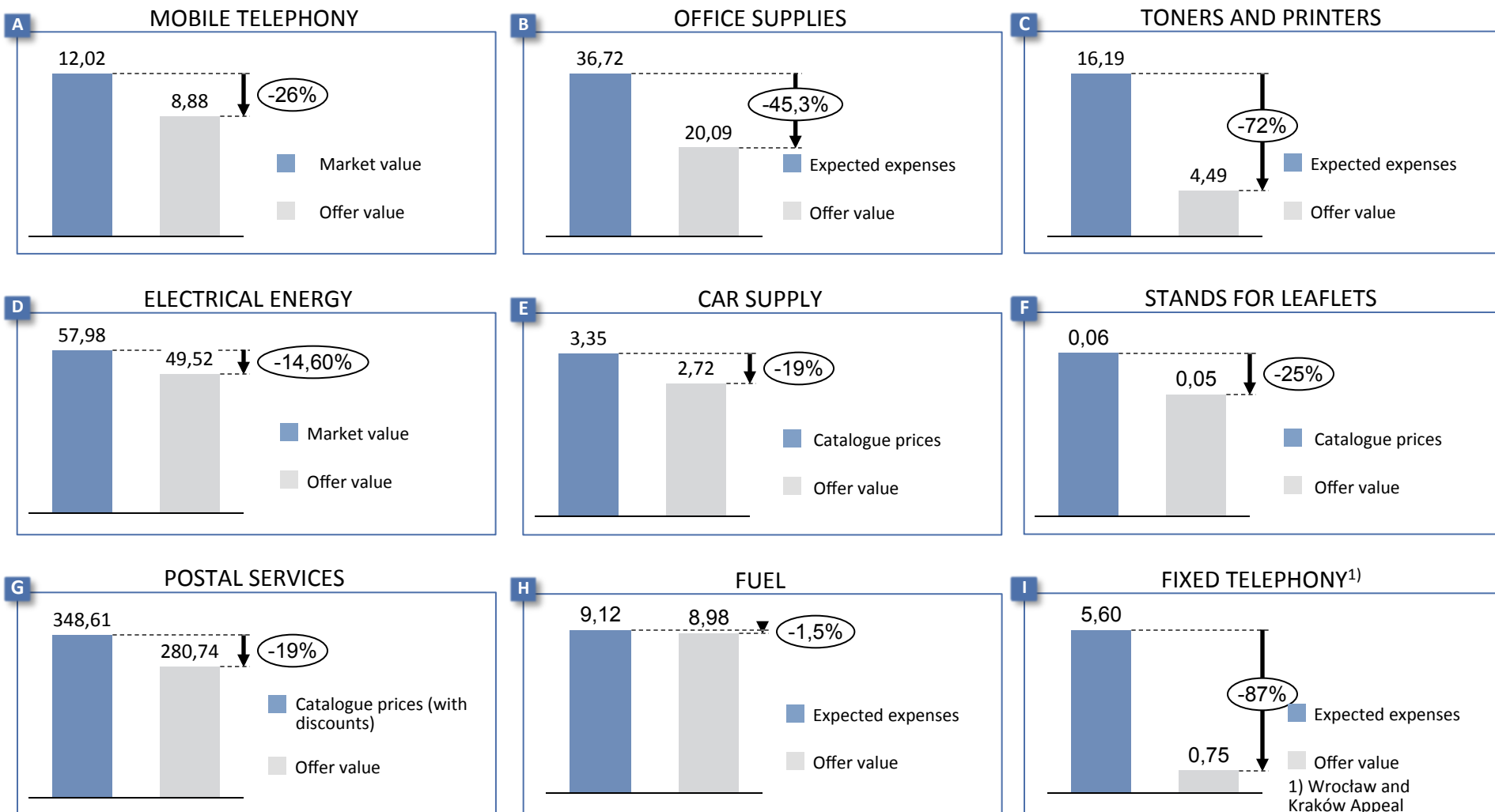
- Analysis of suppliers market, regionalization of orders / division for baskets
- Improvement of internal communication, workshops with representatives of the appeal

F – forecasted values

In 2012 and 2013, CZdS succesfully completed 12 tender procedures, finalized by signing contracts with winning suppliers

Group purchases of judiciary units and optimization of processes resulted in savings of 15-72% in particular categories

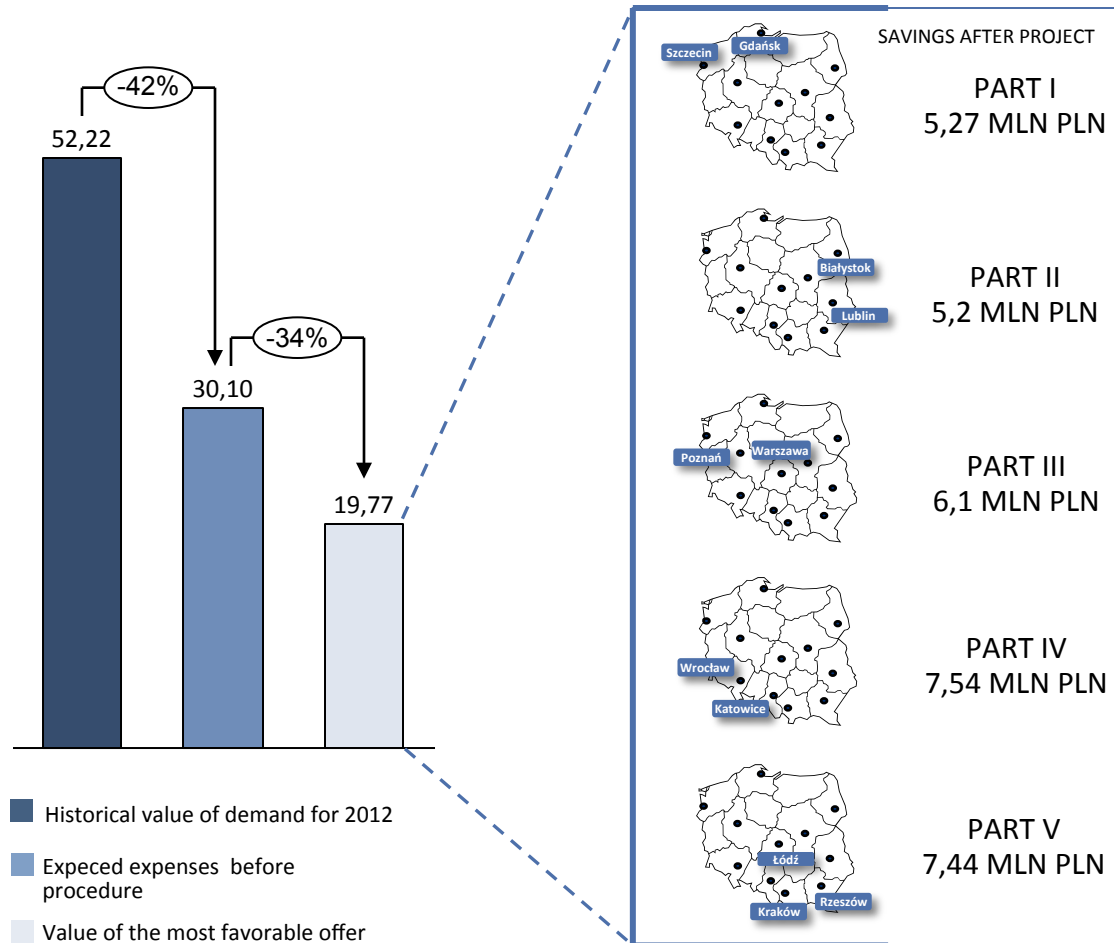
Savings estimation [MLN PLN] from procedures started in 2012



Implementation of recommended purchase leverages and consolidation of the volume in one of the tenders resulted in savings of 32 mln zł

An example of office supplies group purchases results

EXPECTED SAVINGS [MLN PLN] AND ASSUMED PURCHASE DIVISION FOR PATRS

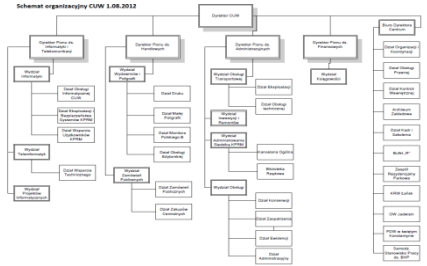


COMMENT

- Value of initially ordered demand for 2012 as 52 MLN PLN
- Reduction of initial value to the 30 MLN PLN (-42%) as a result of implementation of normative analysis results and use of purchase leverages, among others demand management and expenses linking
- Necessity of dividing the order into 5 parts, regions of delivery due to high value
- Savings resulting from conduction of a joint tender for participating units at the level of 34% from expected expenses

The high efficiency of CZdS operation is confirmed by comparative summary with organizational structure and results achieved by Government Shared Services Center (CUW)

Operation comparison of CZdS and Government CUW

	Purchasing Center for courts(CZdS)	Shared Services Center (CUW)
Date of establishment	11 January 2012 (appointment)	1 January 2011
Organizational range – subordinate units	~370 units of jurisdiction (by initial division)	61 units, including ministries and agencies
Employment	~10-15 employees	~500 employees in multi-level structure
		
Amount of finalized tender procedures in 2012	13 finalized procedures (one more ending in 2013)	106 finalized procedures
Savings achieved at the end of 2012	~71 mln PLN (at the level of contracts, which are implementing since beginning of 2012; another elaborated progressively in 2013)	~50 mln PLN

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Examples of purchasing groups in the world indicate a giant potential for savings and a significant possibility of purchasing processes optimization

Examples of purchasing groups in the world

COUNTRY	OPERATION MODEL	DESCRIPTION OF GROUP
United States of America 	- Hospitals as shareholders of purchasing groups - Groups operation based on administrative fees, paid by suppliers - Important role of consulting services for groups participants	HEALTHTRUST PURCHASING GROUP  - Over 4000 members - Date of establishment: 1999 - Common purchases for over \$ 21 bn in 2012 - Average savings – 7% Range: medications, medical equipment, energy, office supplies and IT, courier services, consulting services, supplies management
		NOVATION  - Over 65 000 members - Members, which use NOVATION services stands for over 40% hospital beds in USA; 45% of serviced patients in the institutions and 47% of surgical patients - Year of establishment: 1998 - Common purchases for over \$43 bn in 2012 - Listed among most ethical companies in the world (Ethisphere's World's Most Ethical Companies) - Uses services from over 600 suppliers Range: medications, medical equipment, food, IT, cleaning, office supplies, courier services, consulting services, logistics, HR services, financial services
		AMERINET  - Over 175 members - Year of establishment 1986 - Common purchases for over \$8 bn Range: medicines, medical equipment, services

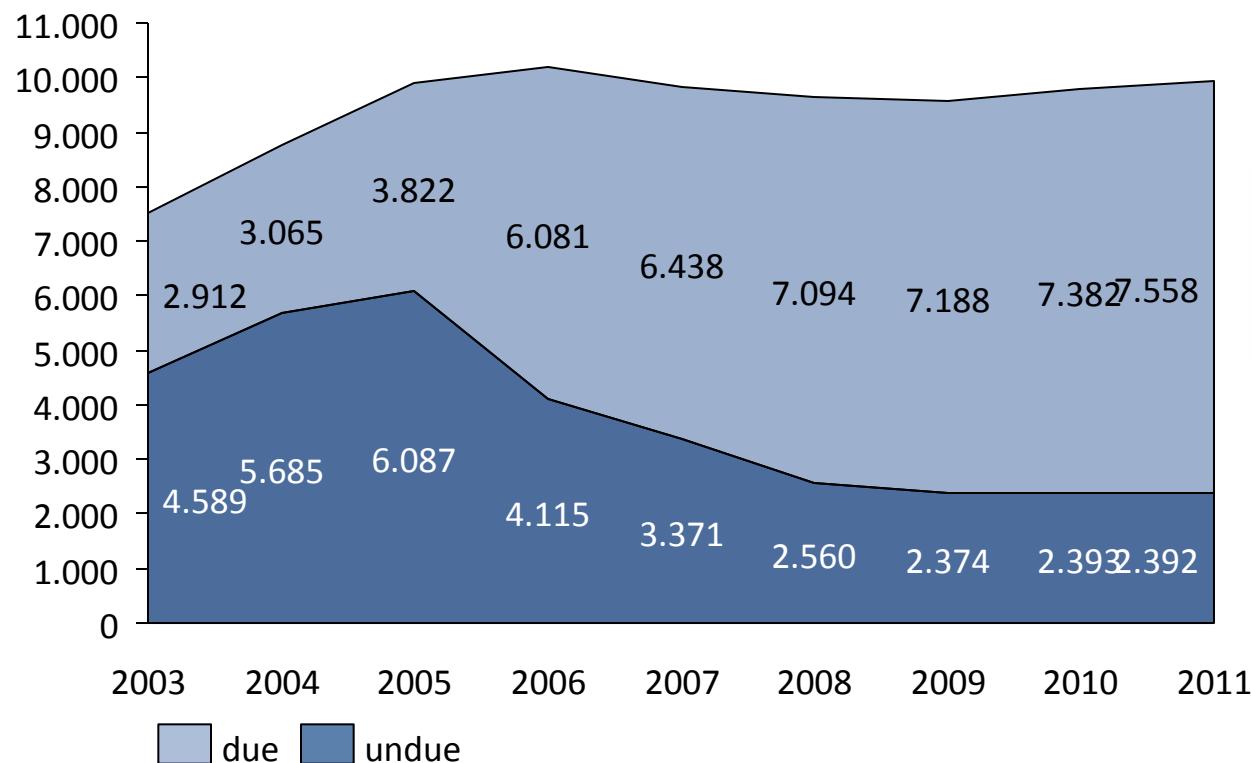
Many years of purchasing groups experience shows that common purchasing is possible even for very difficult categories, e.g. drugs and medications

Examples of purchasing groups in the EU

COUNTRY	OPERATION MODEL	DESCRIPTION OF GROUP
France 	One dominating group, appointed and maintained by public hospitals	UNI H.A. - Covers offer 56 biggest hospitals in France - Year of establishment: 2005 1,5 bn EUR of purchases and 141 mln EUR of savings since establishment Range: medications, medical equipment, energy, IT, gastronomy, services
Germany 	- Groups with various type and remuneration method - Biggest – commercial purchasing groups (<i>Kommerzielle Einkaufsgemeinschaften</i>) financed by industry – no direct costs from members	PROSPITALIA - Over 700 institutions of health care - Year of establishment: 2007 - Over 1,0 bn EUR of purchases Range: medications, medical equipment, food, telecommunication
United Kingdom 	- Regional associations – „hubs” – shareholders are medical units from region (trusts) - Operation basing on non-profit rules, expenses covered by membership fees	EAST OF ENGLAND COLLABORATIVE PROCUREMENT HUB - Over 70 members - Year of establishment: 2007 - Savings: £11mln yearly, £64mln in 5 years Range: medical equipment, medications, energy, services, consulting, support in contracts management
Spain 	Creation of public-private partnership model called „Alzirs Model”	RIBERA SALUD GRUPO - Over 109 units (hospitals, health care institutions, laboratories etc.) - Year of establishment: 1997 Range: medical equipment, medications, also logistics and maintenance of B2B platform

In Poland, the creation of purchasing groups may be a response to the growing debt of hospitals

Public Health Care Centre (SP ZOZ) debt in the years 2003-2011 [bn PLN]

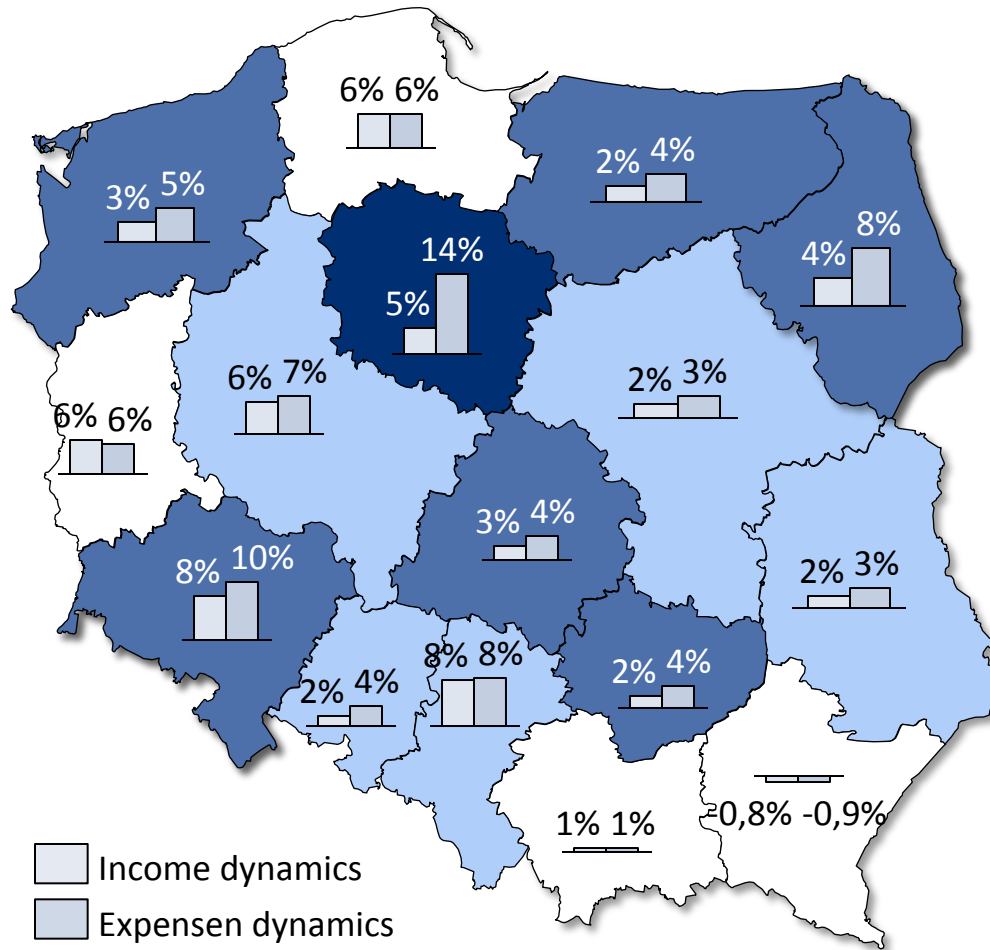


KOMENTARZ

- After a slight downward trend in 2007 and 2008, we notice the increase in debt of hospitals since 2009
- Transforming hospitals into commercial companies is one of the government's planned strategies to combat debt

Financial specificity of Polish hospitals as a significant factor in the proces of hospital purchasing group creation

Income and expenses of Public Health Care Centres in Poland by administration regions[%]



COMMENTS

- The positive revenue growth in 15 regions (two years earlier - 6) – one case of double-digit revenue growth
- On average ~5% increase in the cost of Health Care Centre (SP ZOZ). Double-digit average increase in the cost of Health Care Centre (SP ZOZ) in 2 regions
- **Higher costs than revenues growth rate in 12 regions**
- Poor procurement processes and lack of price renegotiations by renewing contracts as one of the reasons for the costs increase
- Salary of purchasing group operator must take into account not only the aspects of the regime of the Polish Public Procurement Law but also the financial capacity of hospitals

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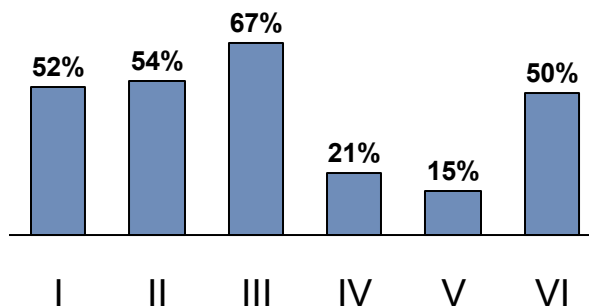
Existing purchasing groups for hospitals didn't avoid errors that mainly resulted from the lack of focus on the purchasing aspects

Comparison of the existing purchasing groups models for hospitals

DESCRIPTION OF PURCHASING GROUPS MODELS

- Purchasing Group – SupraHolding
- Focus on **medical categories**
- 4 purchasing categories: infusion fluids and preparations for enteral and parenteral nutrition, medical gloves, antibiotics, medical gases
- Number of completed tenders: 7

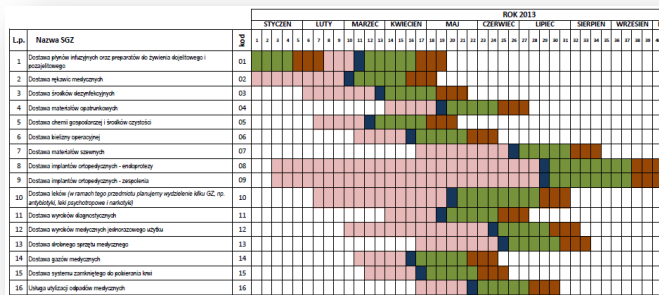
SHARE OF CANCELED PACKAGES UNDER SPECIFIC PROCEEDINGS



OUR OBSERVATIONS

- The organization of tenders in the approach of **cost categories**, **NOT purchase categories**, such as lack of combining indexes supplied by the same suppliers and distribution procedures such as medical gloves and dressings
- Huge offers fragmentation on packages - **lack of standardization in the group purchasing**

LAST YEAR IMPLEMENTATION SCHEDULE – ONLY 4 OUT OF 16 PLANNED CATEGORIES WERE COMPLETED IN 2013



IMPLICATIONS FOR PARTICIPANTS

- Lack of delivery of demand report indexes
- Necessity to buy outside the purchasing group
- Inability to plan purchases
- No purchases in terms of non-medical categories - no savings in high cost categories such as energy
- Purchases limited to the medical category (difficult to standardize) – necessity of extension of each tender implementation
- Loss of synergies and cost savings resulting from group purchasing

Existing purchasing groups for hospitals didn't avoid errors that mainly resulted from the lack of focus on the purchasing aspects



Comparison of the existing purchasing groups models for hospitals

DESCRIPTION OF PURCHASING GROUPS MODELS

- Purchasing Group – Synergy Platform
- Operator remuneration model:
 - 3% of the total amount of purchases to 14 000 EUR
 - **2000 PLN subscription fee** payable to the outcome of the tender, and
- Project of electronic order placing

POTENTIAL CAUSES OF FAILURE

- Creation of vast purchasing group in terms of a number of entities without prior background check of operating leading joint purchasing capability
- Implementation of too broad and heterogeneous scope of purchases in terms of market vendors: „**purchase of materials and disposable equipment**”
- Lack of standardized shopping basket

PRESS QUOTES AND WEBSITES PROOVE THE EXTENSION OF THE COMPLETION OF THE FIRST TENDER

„The creation of purchasing group, including as many as 300 medical centers, which will cover nearly half of the hospital market— We're talking with single public and private hospitals, as well as with the organizations uniting them. In total there is already more than 200 outlets.

W. Kaszyński *Puls Biznesu* 2011-11-22

„ 50 hospitals have shown interest in joining the purchasing group so far, 10 have already decided to do so”

W. Kaszyński *Rzeczpospolita* 2012-06-20

"At the moment more than 50 heads of hospitals are interested in the new rules of cooperation and strongly increased interest in joining the group."

www.synergyplatform.pl 2013

IMPLICATIONS FOR PARTICIPANTS

- **Lack of joint purchasing implementation**
- High cost of participation in the group with no guarantee of savings
- Lack of faith in group purchasing as a concept among participants

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Combination of proven skills of group purchasing implementation and purchasing consulting services ensures creation of a vibrant purchasing group

Presentation of BatnaMed model

DESCRIPTION OF PURCHASING GROUPS MODELS

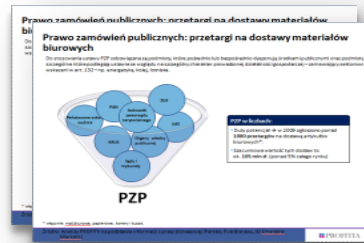
- Purchasing Group– BatnaMed
- Operator remuneration model:
 - **High flexibility - the model must take into account the benefits of a federation**
- Flexibility in terms of payment for the service provider
- Support purchasing tool PANDA

BEST PRACTICE

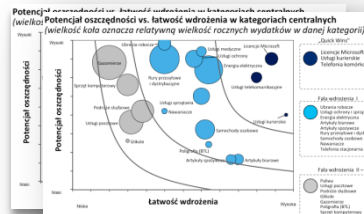
- Procurement analysis based on make vs. buy/ TCO framework to select categories prior to optimization process
- Standardization in terms of both quality and quantity of the goods/ services ordered in accordance with best of the class benchmarks Supplier
- Relationship Management (SRM) - intended to actively manage the supplier base for the purchasing group and follow the newest market trends

KEY SUCCESS FACTORS

EXPENDITURES ANALYSIS



OPTIMAL CATEGORY SELECTION



STANDARDIZATION OF SHOPPING BASKET



IMPLICATIONS FOR PARTICIPANTS

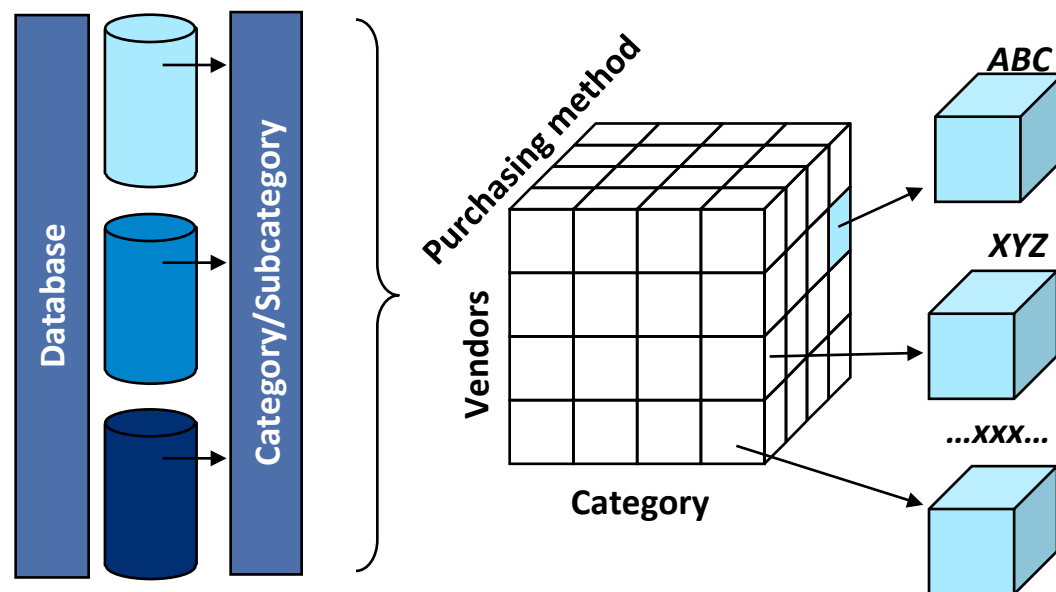
- **savings of XX-XX%**
- savings also on services of an advisory nature, arising of demand-side management, specifications alterations, standardization of the shopping basket
- fair system of remuneration - no subscription fees
- implementation of various categories - fast effects of purchase group participation
- **flexibility in charging allows to fund participation in the group after achieving savings**

At a pre-tender phase, purchasing expenditures cube is prepared for a client in order to show three dimensions of their purchases

DATA SOURCE / CATEGORIZATION

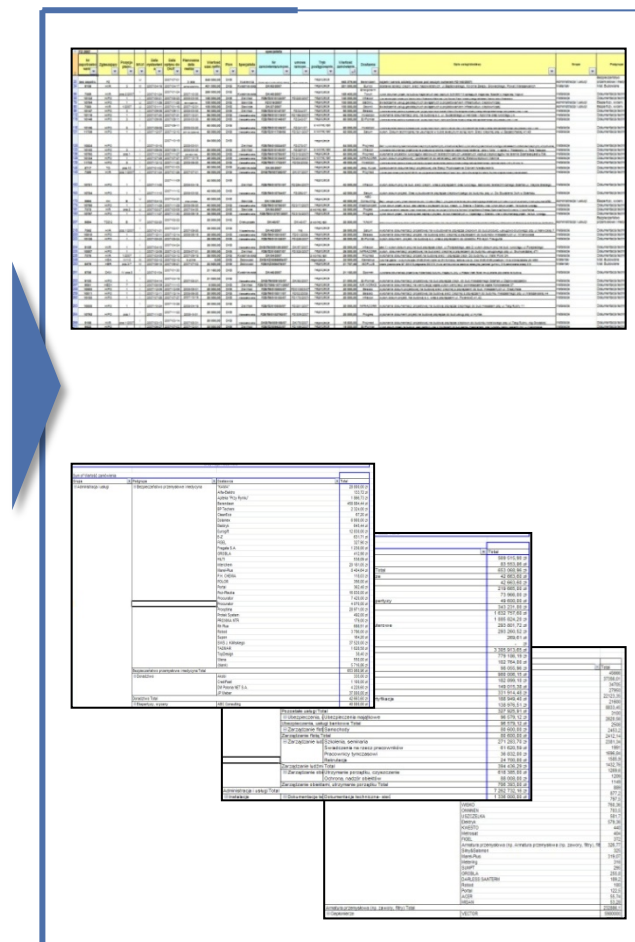
RESULT: EXPENDITURES CUBE

ANALYSIS OF PURCHASING TREE



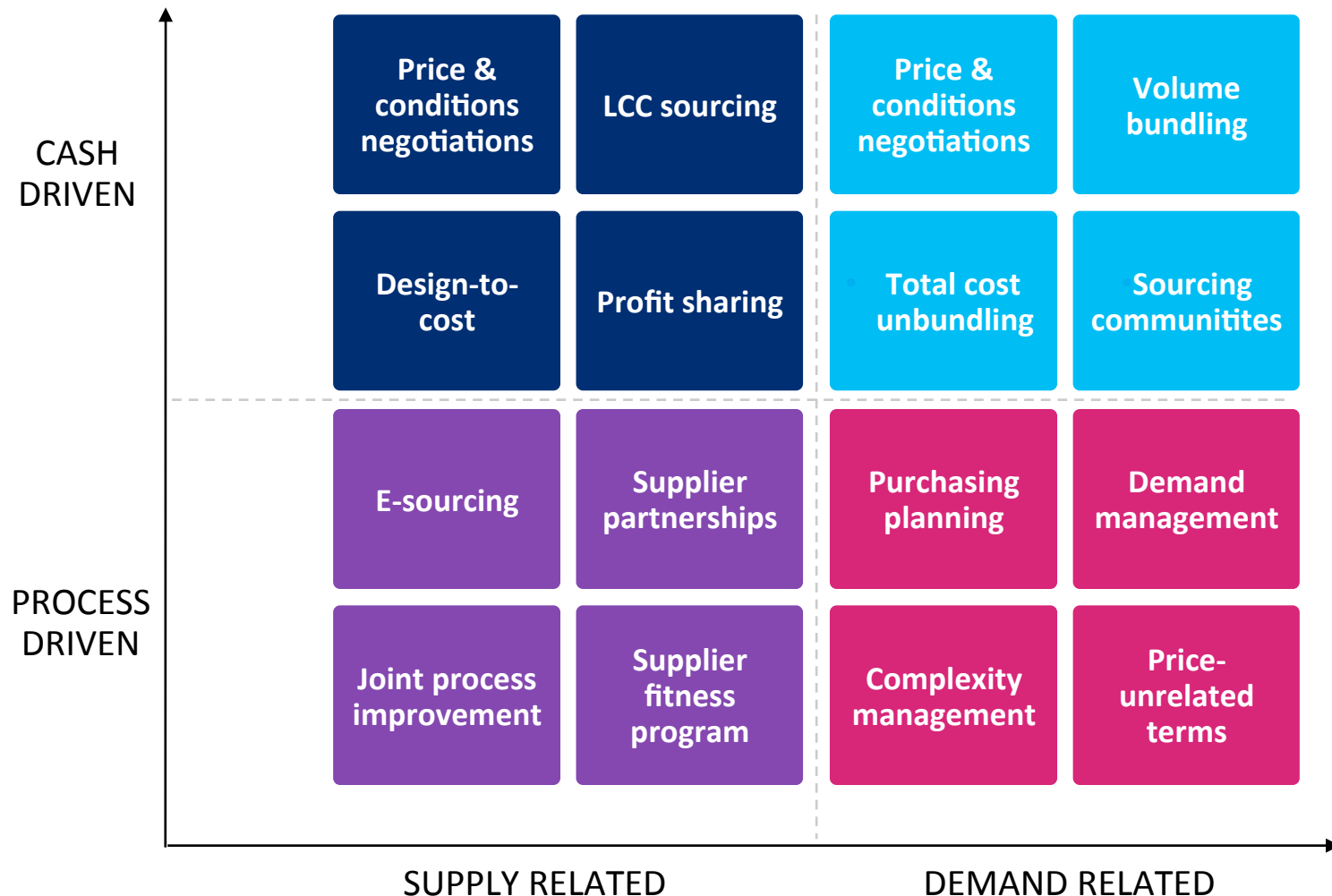
GOALS

- Purchase categories profiling (at the level of expenditure)
- Designation of the purchasing initiatives / prioritization
- Identification of key suppliers
- Identification of missing data



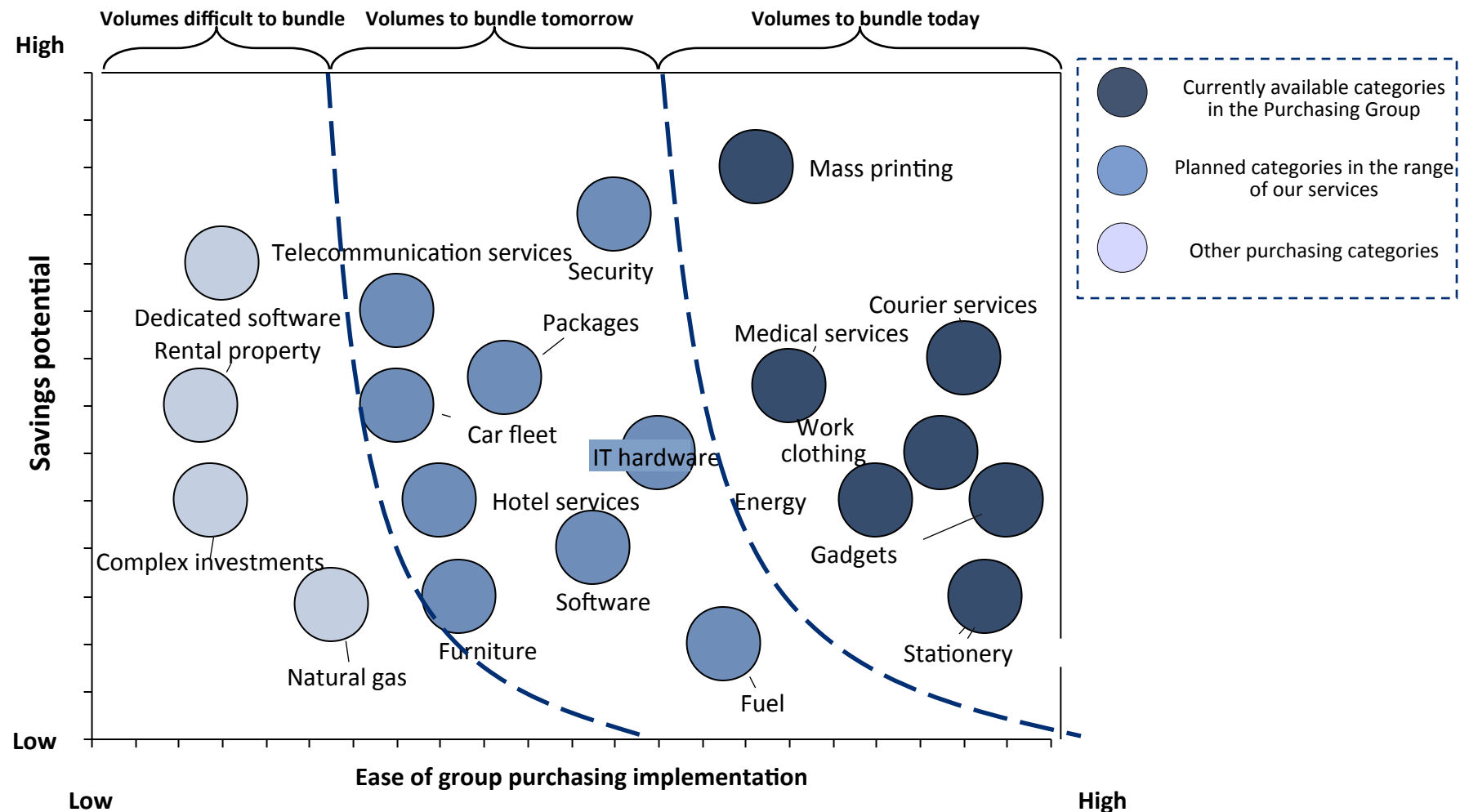
Focus on savings by opportunities identification across 16 sourcing levers in 4 categories presented in „PROFITIA SOURCING MATRIX”

PROFITIA sourcing levers „SOURCING MATRIX”



Dividing categories into implementation stages enables achieving the best results for the purchasing group

Best fit purchasing categories for group purchasing



Do not hesitate to contact us!



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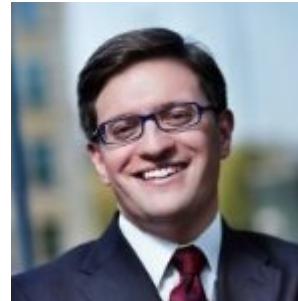
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