SUPPLIER DIVERSITY BUSINESS PRACTICES IN THE HEALTHCARE INDUSTRY

A progress report on working with Minority-owned, Woman-owned, Veteran-Owned and Small Business to enhance the health of communities.

Best Practices of Supplier Diversity in the Healthcare Industry

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"We can learn to see each other and see ourselves in each other and recognize that human beings are more alike than we are unalike." - Maya Angelou

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I. Executive Summary

A Supplier Diversity program is a proactive business initiative which encourages the procurement of goods and services from diverse (and in some cases small) suppliers. Those suppliers defined as diverse typically include but are not limited to those owned by women, minorities, veterans, and members of the LGBT community. These programs also include small business initiatives that typically follow the guidelines as defined by the Small Business Administration (SBA). Supplier Diversity is not directly correlated with supply chain diversification, although utilizing these types of vendors may enhance supply chain diversification. Supplier diversity programs recognize that sourcing products and services from previously underutilized suppliers helps to sustain and progressively transform a company's supply chain, thus quantitatively reflecting the demographics of the community in which it operates by recording transactions with diverse suppliers. Diverse- and women-owned business enterprises are among the fastest-growing segments of the U.S. economy. Diverse-owned businesses generated an estimated $417 billion in annual revenue in 2014 and employed nearly four million workers, while women-owned firms employed about 19 million people and generated $2.5 trillion in annual sales.

Alongside the Women-Owned Small Business Program, the US Small Business Administration also operates an Economically Disadvantaged Women-Owned Small Business (EDWOSB) program for preferential award of federal contracts in certain industries. Veteran-Owned Small (VOSB) and Service Disabled Veteran-Owned Small Business (SDVOSB) are some of the most prominent groups on the American entrepreneurial landscape and being sought after by corporate supplier diversity directors. There are over 25 million veterans in the USA, or roughly one in five adult males. One in seven small businesses is owned by a veteran.

II. The Business Case for a Diverse Supply Chain in the Healthcare Industry in 2016 and Beyond

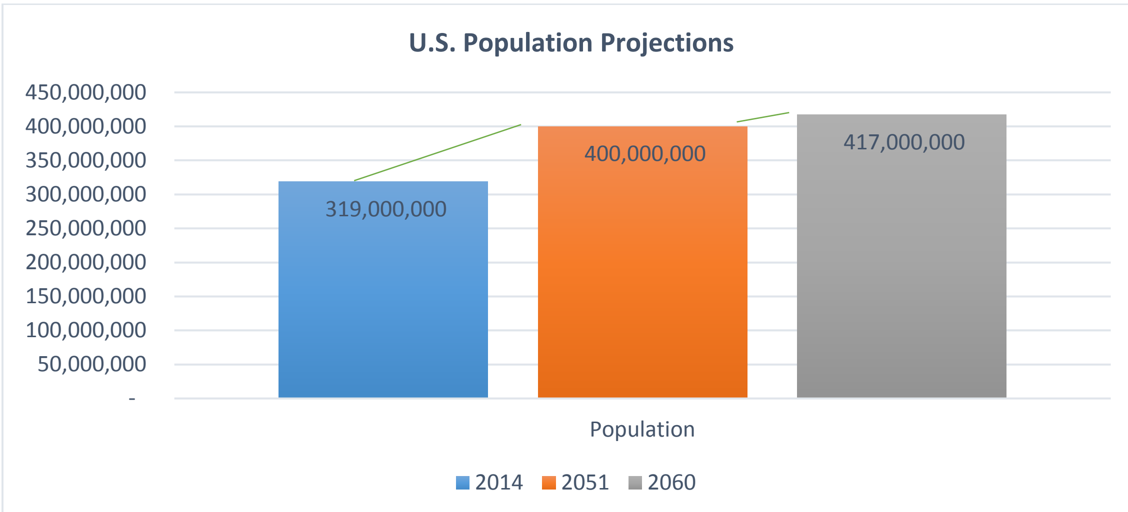
Healthcare Mission and Community Needs

As communities become more diverse, healthcare leaders are advocating that the supply chain represent products and services from a diverse supplier base. Over the past 20 years, these leaders have acknowledged that these suppliers provide in most instances cost-effective and innovative solutions.

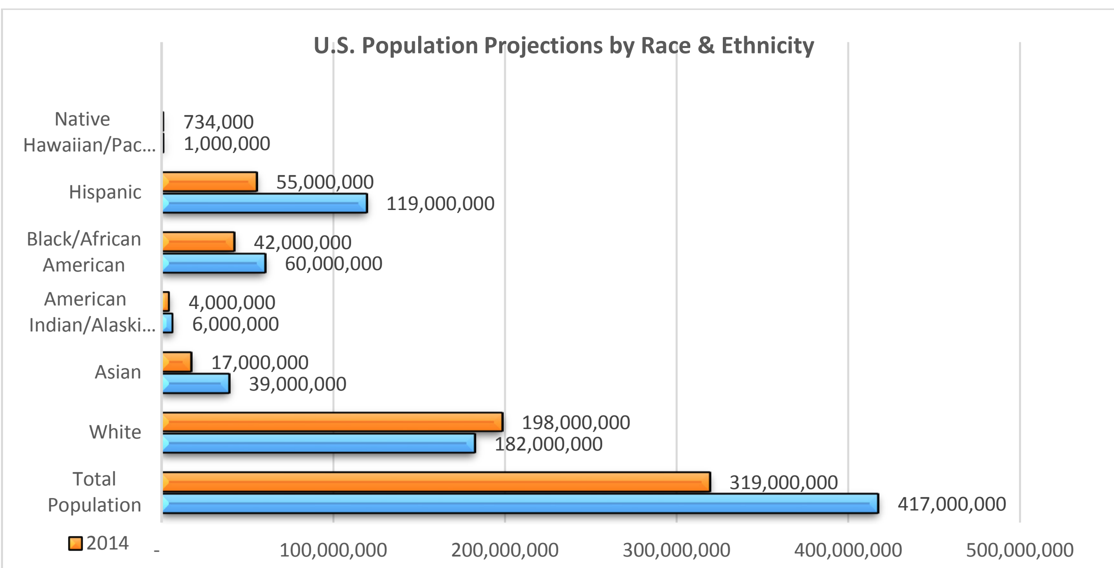
All of the organizations that contributed to this paper are committed to the power of diversity to ensure that their customers have diverse options for business consideration. Additionally, they believe this should be incorporated into the corporate strategic goals of an organization, resulting in diverse options that can result in exemplary patient care.

Demographic Changes in the U.S.

Communities in the United States are becoming more and more diverse, with the growth of immigration and population shifts. According to the U.S. Census Bureau statistics for 2010, the racial and ethnic group distributions nationally indicate that while the non-Hispanic white population is still numerically and proportionally the largest major race and ethnic group in the United States, it is also growing at the slowest rate. Conversely, the Hispanic and Asian populations have grown considerably, in part because of relatively higher levels of immigration.



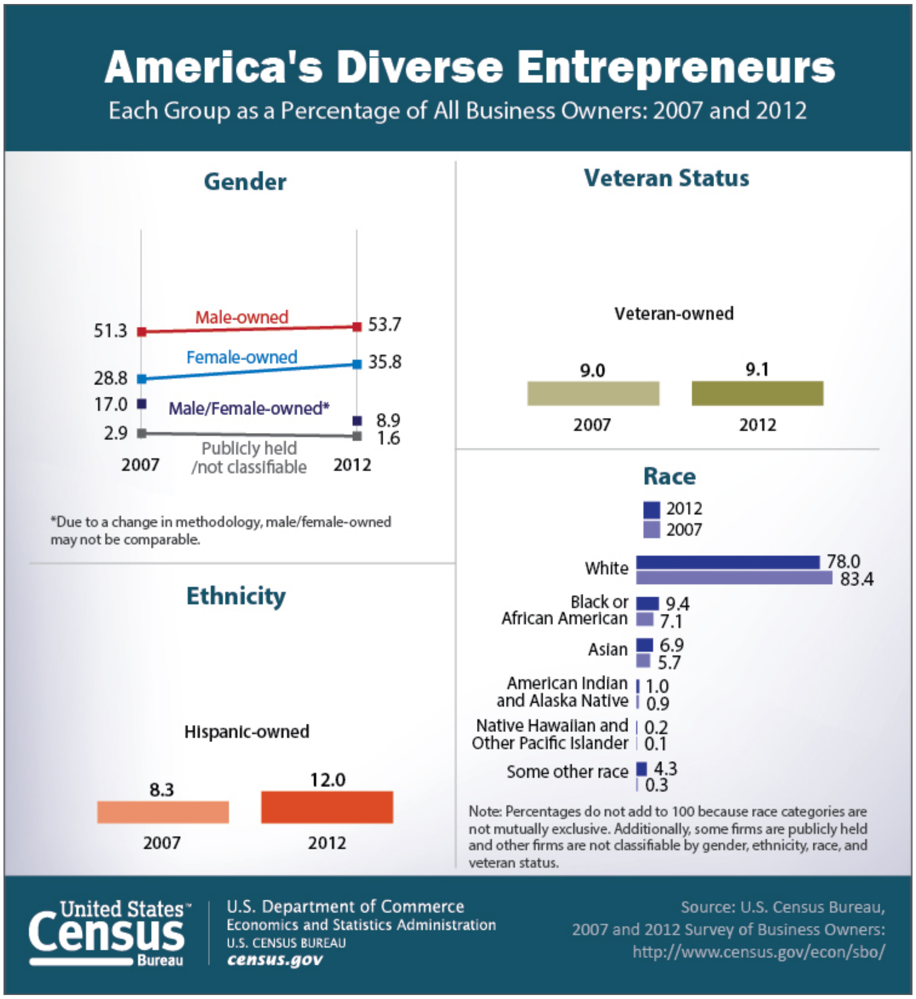
"Projections of the Size and Composition of the U.S. Population: 2014 to 2060 *Population Estimates and Projections" – U.S. Census Bureau March 2015 Issue*



"Projections of the Size and Composition of the U.S. Population: 2014 to 2060 *Population Estimates and Projections" – U.S. Census Bureau March 2015 Issue*

Disparity Studies

According to the U.S. Department of Commerce, collectively, minority-owned firms: Hispanic, Asian, Black or African American, American Indian and Alaska Native and Native Hawaiian and Other Pacific Islander rose from 5.8 million in 2007 to 8.0 million in 2012.



Minority–owned businesses are a critical measure of the nation's economic health. The National Minority Supplier Development Council (www.nmsdc.org) prepared a study in 2014 that illustrated the economic impact of certified minority business enterprises (MBEs), which generate more than one billion dollars in economic output every day. In 2014, MBEs created 2.2 million jobs, and also contributed $49 billion in local, state and federal tax revenues. MBEs now number more than three million or 21% of all U.S. businesses.

Joset Wright-Lacy, president of NMSDC, points to the automotive and telecommunications industries as early adopters of supplier diversity; in general, customer–oriented companies, that sell their products to consumers, are more aware of the need to support supplier diversity. On a macro-economic level, this awareness is vital to the nation's commerce, because a contract with a minority–owned business is more likely to create a job for a person of color.

"It seems obvious that the more jobs consumers have and the more wages they earn, the more they are able to participate in the economy, whether that means buying healthy foods or snacks, durable goods or over–the–counter drugs, life's essentials or entertainment, even cars and houses. We cannot expect to have a truly robust economy unless everyone can participate. Putting people to work at good wages is good for what ails the American economy. Corporations that understand this macro-economic principle are figuring out ways to make sure MBEs have the opportunity to participate in job creation so people of color can participate in the economy," according to Ms. Wright-Lacy.

Diverse Supplier Definitions

Today, small and diverse suppliers wishing to do business with majority owned corporations must obtain third-party certifications that confirm that the owner of the company is a U.S. citizen and fits into one or more of the following classifications:

- Minority Business Enterprise (MBE) is a business that is at least 51 percent owned/operated/controlled by an African-American, Hispanic-America, Asian-Pacific American, Asian-Indian American, Native American or veteran-owned/service disabled veteran-owned.

- Women Business Enterprise (WBE) is defined as a business that is at least 51 percent owned/operated/controlled by a non-minority woman.

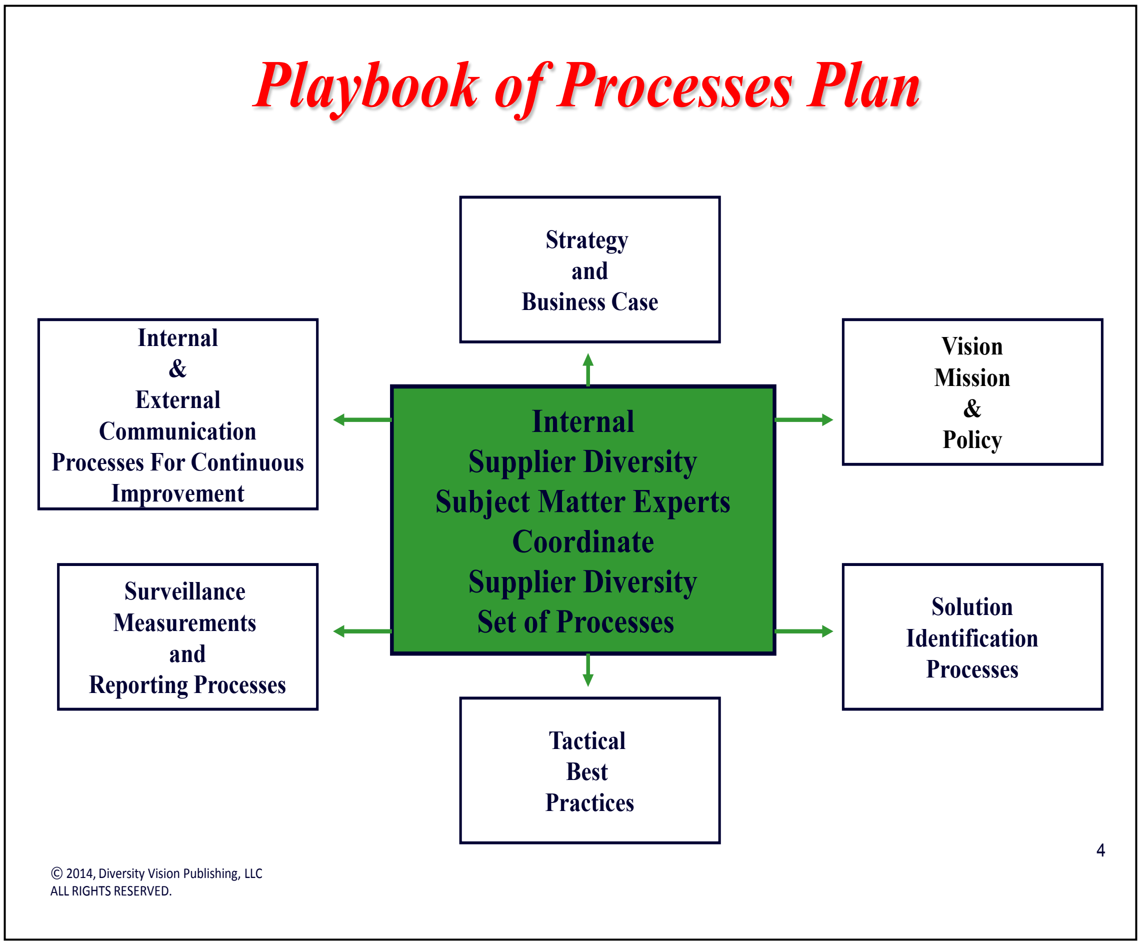
- Veteran Business Enterprise (VET) is registered and indicated in the VETBiz.gov database as a business that is 51 percent owned/operated/controlled by a veteran and/or service disabled veteran.

- Small Business Enterprise (SBE) is defined as a business that meets the definition criteria according to the standards set by the Small Business Administration at www.sba.gov.

III. How has the supplier diversity process evolved in the healthcare industry?

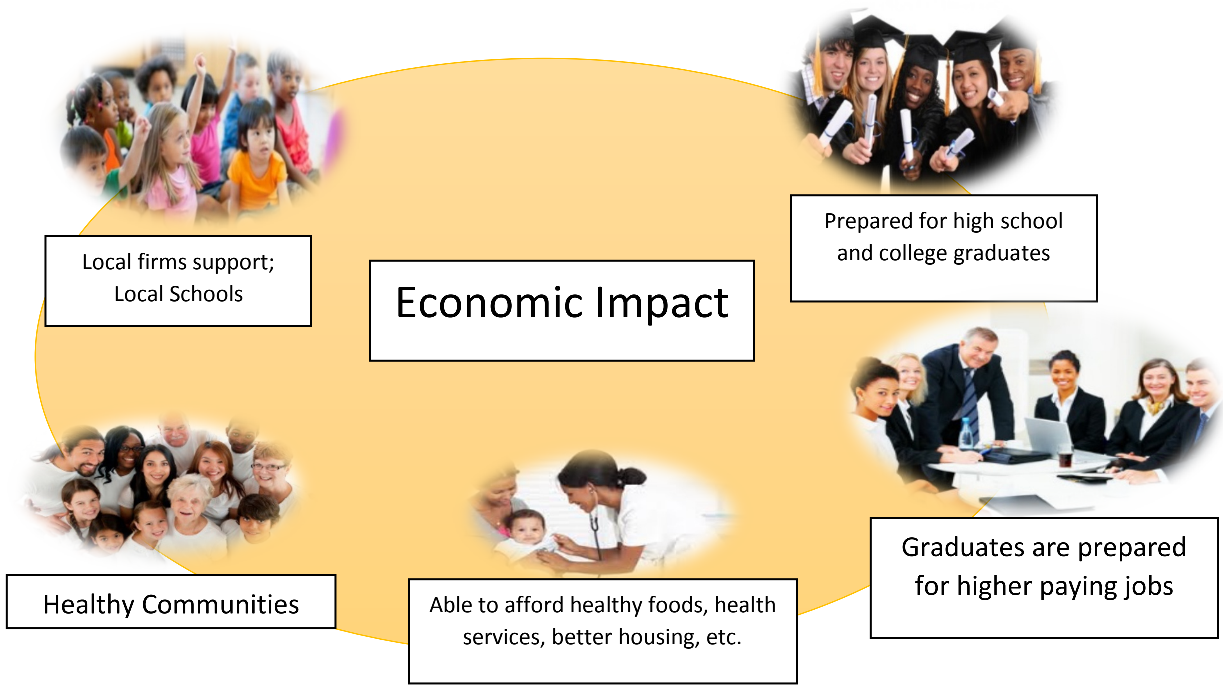
Commitment to Diversity Brings Results

The most sophisticated supplier diversity initiatives have developed around the idea that supplier diversity should be a strategy that accentuates a corporate plan of action and should be comprised of a set of processes that identify historically underutilized population groups that bring solutions which support that corporation's needs.



Promoting the Development of Diverse Suppliers Spark the Emergence of Domestic Markets

Leading corporations in the healthcare industry have embraced leveraging their strength in supplier diversity to position their brands in a very positive manner within minority communities. Minorities' purchasing power has increased at a very dramatic rate in the past 30 years. Core to the business case for supplier diversity is the creation of wealth-generating local or regional businesses in minority communities, which are emerging markets for healthcare-related goods and services. Moreover, minority businesses themselves represent another business opportunity for goods and services. Healthcare corporations have integrated supplier diversity with other outreach initiatives, affecting brand awareness and driving increased market share.



What are the strengths, weaknesses, opportunities and threats facing supplier diversity champions in the healthcare industry?

Approximately 60% of supply chain contracts are negotiated by Group Purchasing Organizations (GPO) directly with the manufacturer of medical devices for branded, private label and pharmaceuticals products. Historically, minority and women-owned companies have been challenged with developing the human capital, financial capital, technological or legacy relationships that would allow them to manufacturer branded and patented pharmaceutical devices in any substantial way. An additional 20% of GPO supply chain spend involves routine supplies for which there is extreme competition due to the outsourcing of manufacturing overseas. Certain contracting services have been expanded to include local service providers; however, the majority of these suppliers are represented in the low-spend areas for a hospital, such as staffing and IT services, etc. The national GPOs all have dedicated supplier diversity staff and continue to see incremental gains in the number of diverse suppliers under contract, as well as aggregate diverse spend. But for the reasons identified above, significantly increasing inclusion within the healthcare supply chain will be a continuous challenge. Some healthcare systems are facing state and/or local diversity spends goals as high as 30%, which are completely unrealistic. It is a mistake to associate outcome with effort and commitment. A healthcare system, which through its GPO contracts procures 10% of its goods and services from diverse suppliers, should not be seen as lacking a commitment to supplier diversity. Inclusion within the healthcare supply chain will occur at an evolutionary rate and not at a revolutionary rate. Those third parties that continually press for unattainable outcomes may foster behaviors counter to the goals of supplier diversity initiatives.

Well-run healthcare providers aim to focus on continuous improvement of their core business. But for many reasons, they remain mired in providing non-core resources and services. The healthcare industry has historically used its own resources to provide all measure of non-core services from professional services to housekeeping and food, to engineering and computer services. While these services are vital and often uniquely specialized to the healthcare industry, they are not core. Physicians, nurses, technical service support teams and social workers who care for patients and their families are the core business of healthcare.

The challenge is that healthcare providers have spent decades building up resources and structure around these non-core services. With belt-tightening comes restructuring, and there has been movement as healthcare providers have turned to Tier 1 service management companies to take on more and more non-core services. Still, most of the labor needed to provide these services, as well as the associated overhead cost, remains on the books of the healthcare providers. And Tier 1 suppliers often face the same challenges as the healthcare providers, competing in the same local labor market for employees. Over time this approach has lowered productivity, as healthcare providers compete for the same employees in the same markets.

In order to advance supplier diversity, the healthcare provider's commitment to focus on its core business must include a commitment to rethink its provision of non-core services and to be willing to change internal paradigms about how those services can be provided. The goals and objectives surrounding supplier diversity and the development of a Tier 2 program need to be a primary focus for those charged with leading the healthcare provider's non-core areas. It *is middle management that will make or break any strategy for organizational change.* The healthcare provider's commitment must extend to meeting and overcoming internal resistance to change in non-core areas.

Supplier diversity can create the opportunity to support an array of Tier 1 and Tier 2 diverse suppliers, capable of providing solutions that are uniquely tailored to an industry like healthcare. Fortunately, through the commitment and real efforts of a significant number of healthcare corporations, there are examples today of such businesses that have already reached a level of success. A number of staffing firms, law firms, healthcare instrument distributors, logistics firms, office supply firms, stenography firms, IT consultants, facilities management suppliers, small construction companies, housekeeping services, paint supply distributors, etc., have found success through unique relationships and diversity programs sponsored by large corporations in healthcare and other industries. The challenge for these small and mid-sized suppliers is that they quickly plateau due to a variety of factors. Without sustainable growth, they will eventually fail.

Smaller diverse suppliers often face increased risks due to one or more of the following reasons.

1. The reality of having only a few primary customers. The unique relationships which are often created within healthcare diversity programs are very difficult to duplicate.

2. Larger competitors may eventually win back the business because they have the wherewithal to undercut the smaller diverse supplier during future bid cycles.

3. The difficulty in developing basic business infrastructure such as financial management and capabilities such as sales and marketing which are necessary to create a sustainable business models.

4. The lack the capital to overcome cash flow challenges necessary to compete with larger competitors for large healthcare customers in a sustainable manner.

Most healthcare-sponsored diversity programs stop short of addressing these primary reasons for failure. *The healthcare industry leaders need to commit to a more structured approach to insure that the goodwill created by their diversity program has the desired and lasting effect*.

The healthcare industry must create and drive innovative solutions to be inclusive of doing business with diverse, veteran and small business enterprises.

Diverse suppliers need more capacity and capabilities to diversify and grow with healthcare corporations.

1. Diverse suppliers need to use strategic partnerships more (such as strategic alliances and joint ventures) to strengthen their resources with corporations working on building alliances.

2. Diverse suppliers need to redefine their ownership and control to provide more flexibility with corporations using more creativity in supporting diverse supplier's growth initiatives.

3. Diverse suppliers need to become more proactive and corporations must understand that diverse suppliers are true economic development factors.

4. Diverse suppliers need to use varied debt and equity capitalization including commercial loans, venture capital, crowdfunding, angel investors, and providing a minority interest..

5. Diverse suppliers need to diversify into growth-oriented segments of the healthcare industry with corporations creating more opportunities in these areas.

IV. How do we make supplier diversity relevant to an Integrated Delivery Network (IDN) of healthcare providers?

A. What does having a supplier diversity strategy mean?

The corporation is required to have an inclusive policy of considering and doing business with diverse suppliers as part of their sourcing DNA; and there is accountability throughout the organization to ensure that this process is a systemic part of how they do business.

B. How should you position corporate supplier diversity policies?

Supplier diversity policies should adopt a corporate pillar that aligns with an organization's strategic business decisions to ensure the strategy helps the company meet or exceed its core business objectives.

For example, at Henry Ford Health System supplier diversity is aligned with the organization's strategic objectives and includes annual targeted spend goals. Supplier diversity is nestled within the "community pillar" because our patients come from diverse communities, our employees live and work in diverse communities and our suppliers are based in and/or hire from diverse communities.

C. Role of the third party certifying agencies (i.e., NMSDC, WBENC, etc.)

The importance of doing business with certified suppliers

Most diversity programs do not have the manpower to thoroughly vet all potential suppliers to ensure that they are in fact a diverse company. Therefore, there is reliance upon outside organizations to complete this task. The use of a third-party certifying body ensures consistent and fair treatment of suppliers. These organizations also take on the role of educating suppliers on good business practices and facilitating networking among prime suppliers, corporations, and diverse suppliers.

Certified diverse suppliers have additional access to resources to better service their clients. These resources are made available to them as a product of their certification process and the agencies that certify them. Corporations depend on certifying agencies such as NMSDC, WBENC, NGLCC and USBLN to 1) confirm and validate ownership; 2) are fiscally, technologically and operationally qualified to do business; 3) have strong and reliable foundations for future growth and 4) provide access to training, education and resources for development opportunities that enable growth and sustainability.

D. Why does doing business with “pass-through” businesses hurt your communities’ economic development?

Supplier diversity focuses on growing diverse companies. “Pass-through” businesses take advantage of the diversity status of a company to gain entry into a particular market. They usually have no intention of mentoring the diverse supplier, or ever truly partnering by providing support in the areas of logistics, administrative processes, sales, etc. Often times, once the business is firmly established, the Prime will sever ties with the diverse supplier. This type of arrangement is counterproductive to the mission of supplier diversity.

When a business’s primary reason for existence is to ‘trick’ the system, the value proposition for diversity, economic impact, is not achieved. This type of business structure also takes opportunities away from legitimate diverse businesses that may have been able to provide the goods or services, but were denied the opportunity due to the presence of a ‘pass through’ business.

E. What are the tactical best practices in the Healthcare Industry that will better enable end-users to capitalize on the innovative solutions provided by diverse suppliers?

- Develop a strong base of diverse suppliers
- Mentor your supplier base, always looking for opportunities to help them grow
- Encourage suppliers to FOCUS on what they do well
- Always look for opportunities for new diverse suppliers
- Offer educational opportunities for Diverse suppliers

V. Business case and benefits of having a diversified supply chain in the healthcare industry

THINK DIFFERENTLY (AND STRATEGICALLY) ABOUT MINORITY BUSINESS DEVELOPMENT

The business case for supplier diversity has been clearly articulated and closely linked to corporate strategic imperatives. Significant focus has been placed on providing adequate resources — both human and financial — to create a competitive cadre of suppliers from minority communities and among diverse stakeholders. The "new" supplier diversity professional possesses a broad base of knowledge and is an integral part of a corporate "team" approach. In mature programs, companies are thinking differently about the roles key suppliers can play in reaching a variety of constituencies.

- The resource question: The growth of diversity programs despite corporate cost pressure
- The team approach: CEO to shop floor focus on supplier diversity

VI. Reporting Requirements in Supplier Diversity in the Healthcare Industry

Role of OEM

An original equipment manufacturer refers to a company that makes a final product for the consumer marketplace. For example, Ford and General Motors are OEM companies that manufacture cars, and Apple is a computer OEM. In the healthcare industry, OEMs would be General Electric, Johnson & Johnson, Merck, Inc.

Tier 1

Tier 1 companies are direct suppliers to OEMs or healthcare providers. The term is especially common in the automobile industry and refers to major suppliers of parts to OEMs or healthcare providers. For example, Sensata Technologies is a Tier 1 supplier of exhaust gas sensors to automotive OEMs and GE Healthcare is a Tier 1 supplier of capital equipment in over 17 clinical modalities, i.e., radiology, cardiology, imaging, etc.

Tier 2

Tier 2 companies are the key suppliers to Tier 1 suppliers, without supplying a product directly to the healthcare provider. However, a single company may be a Tier 1 supplier to one company and a Tier 2 supplier to another company, or may be a Tier 1 supplier for one product and a Tier 2 supplier for a different product line.

Other Meanings

The terms Tier 1 and Tier 2 are sometimes adopted with slightly different meanings or definitions. For example, companies might use billing patterns to define tiers. Companies that submit bills to OEMs or healthcare providers are considered Tier 1 and companies that submit invoices to OEM companies are Tier 2.

Data Integrity

From the healthcare provider's perspective, the Tier 1 relationship is generally desirable in terms of control and accountability. The broker relationship is generally undesirable, because the healthcare providers have only an indirect relationship with secondary suppliers who are responsible for performance. The perception is that broker relationships add complexity and cost.

The Tier 2 relationship can provide opportunities for small and diverse suppliers in areas where there is a scarcity of diversity suppliers at the Tier 1 level. At times the Tier 2 relationship is a structural necessity. Construction is the classic example. A healthcare provider who has little construction capability contracts with a *general contractor* (GC) to assume the risk for the project financially and for a successful outcome. The general contractor in turn hires *sub-contractors* in a Tier 2 relationship to perform portions of the work (e.g. plumbing, electrical).

The rationale for the Tier 2 relationship that has been used so successfully in construction is multifaceted and well established.

- Tier 2 brings **lower cost**. Through the process of bidding out subcontracts, the GC helps to maintain a healthy competition that helps to control and lower construction cost in the market.

- Tier 2 is **efficient**. The GC does not have to maintain a full staffing compliment in all disciplines. Sub-contracting allows the GC to flex resources to meet peak demand while remaining within budget.

- Tier 2 adds **speed**. By tapping into subcontract labor, the GC is able to respond more rapidly to sharp increases in demand. Sometimes multiple subcontractors may even be used in the same discipline.

- Tier 2 brings **quality**. While the GC has general knowledge in all elements of the construction process, areas of specialization that are not required for every project are difficult for the GC to maintain. Subcontracting is a cost effective way for the GC to access a high degree of specialization.

- Tier 2 enables **focus**. The GC is able to maintain a core focus on project management and budget oversight. With full transparency to the Healthcare Provider, sub-contracting sets up a healthy tension within the project budget, one that prevents cost shifting among project disciplines. The GC also provides the Healthcare Providers with a single point of contact for the project.

<u>Tier 2 works in construction</u> and the construction industry has been utilizing a formalized approach to Tier 2 relationships for decades. The reality is that the benefits of Tier 2 in construction (i.e. sub-contracting) flow to the healthcare providers in the form of efficiency, cost savings and quality.

VII. Growing scale and capacity for small and diverse suppliers in the healthcare industry

a. Key Element for a Successful Tier 2 Approach

Any business would clearly be enhanced by a business process that brings lower cost, increased efficiency and speed, and better quality and focus. The question is how can Tier 2 be applied to produce these same results in virtually any area?

The key to a successful Tier 2 model within healthcare is the healthcare provider's commitment to providing services only within its core business. Involvement in non-core activities can detract from the healthcare provider's focus on its core business. In the construction example above, healthcare providers do not carry construction as a core discipline and they have no plans to do so. So the healthcare providers hire a GC to act on their behalf. The GC then hires subcontractors to complete the work per the healthcare provider's requirements. This is done mainly because construction is non-core to the Healthcare Provider's business.

In the same manner, a Tier 2 strategy should be applied in areas judged to be *non-core to the healthcare provider's primary business.*

Another key element for a successful Tier 2 approach involves the commitment to develop the *capacity* of necessary resources in the market. Again in the case of construction, the general contracting approach has resulted in the development of a burgeoning industry for subcontractors across all disciplines. The development of this capacity has in turn led to market competition that has allowed healthcare providers to choose from qualified resources that are readily available.

So key element for a successful Tier 2 approach starts with the healthcare provider's commitment to focus on core the business and grow the capacity of suppliers in key markets.

Some of the foundation has already been laid for a comprehensive Tier 2 strategy aimed at enhancing supplier diversity. Consolidation has already caused many healthcare providers to outsource services to Tier 1 suppliers that can both manage in-house services and provide services directly. Siemens provides comprehensive management of telecommunications and computer systems. Sodexho provides comprehensive facilities management and food services. Both of these are examples of large, internationally-held Tier 1 Suppliers. Many of the services (or portions of the services) provided by these companies are available within the local economy, but on a much smaller scale.

This would suggest that a Tier 2 approach to diversity can be accomplished by asking each Tier 1 to allocate a portion of its business to diverse Tier 2 suppliers. This has been tried, but with very little lasting success. The reasons for failure follow from an understanding of the primary motivations of any successful business: profit, reputation and growth.

> ***Profit.*** As profit margins shrink, it is more difficult for the Tier 1 to give up margin to a Tier 2 Supplier. To protect its margin, the tendency is for the Tier 1 to impose excessive control over the Tier 2, requiring the Tier 2 to meet stringent business terms even higher than its own. Ultimately, the Tier 2 fails to meet the terms and fails as a business.
>
> ***Reputation.*** A Tier 1 interested in maintaining a reputation for quality, sees the Tier 2 as a risk to its reputation. The best case is that the Tier 1 must add administrative oversight and cost to insure that the Tier 2 delivers quality.
>
> ***Growth***. A Tier 1 interested in growth will not see a Tier 2 approach as helpful in achieving its goals. The Tier 1 is more interested in growing its own volume to further dilute its fixed cost. It is difficult for the Tier 1 to see how a Tier 2 approach can help it grow.

So to the list of key elements for a successful Tier 2 approach, we will add a final healthcare provider's commitment to:

- Focus on its core business;
- Nurture prosperity of its target markets/communities by growing the capacity of suppliers in its markets; and
- **Create a win for the Tier 1.**

These key elements will be examined in more detail in order to develop a tactical approach to a successful Tier 2 program.

An expanded role for larger companies in developing minority suppliers was accomplished along three fronts: the creation of authentic Tier 2 supplier diversity programs; pro-active coaching of minority businesses around the key factors for success in the alliance process; and fostering collaboration across corporate boarders that developed "mega" suppliers.

- The Tier 2 challenge: Down-streaming the responsibility and controlling the outcome
- Understanding the alliance process: Coaching minority businesses on building effective alliances
- Collaborative initiatives: Multi-corporate initiatives that work to create large opportunities

For a manufacturer of commercial products in a heavily regulated industry like healthcare, the opportunity to engage diverse device and drug suppliers is extremely limited. For the purpose of evaluating whether or not manufacturers are meeting the 'intent' of supplier diversity initiatives, their success in the inclusion of indirect Tier 2 suppliers should be considered. Also since many manufacturers are global businesses and indirect Tier 2 is based on the percent of business a given customer represents, it is not practical to put a dollar or specific % goal against any corporation without first looking at these factors. A more reasonable goal would be to require the manufacturer to have a certain % of their sales volume with diverse suppliers. While this may not carry over Tier 2 numbers for specific customers, it is meeting the 'intent' of our supplier diversity programs.

b. Identifying non-core, general services categories

Core services are considered central to operations (cardiology, radiology, imaging, operating room, laboratory services, etc.), whereas non-core activities are considered incidental, peripheral, or, sometimes, an expensive distraction (central processing, housekeeping, environmental services, etc.).

The Foundation is there

Healthcare is an example of an industry in which greater use of Tier 2 relationships could provide benefits. Historically hospital resources have been spread too thin. Caring for patients should be core. But due to size and complexity, hospitals have also been forced to maintain internal resources for an array of non-core, general services from building maintenance to patient billing services. The same was once true for construction, but the practice of subcontracting for the building trades allowed hospitals to virtually eliminate internal construction resources.

Listed below are the kinds of services that may be considered for a Tier 2 approach in an industry like healthcare. The list is not exhaustive.

- Accounting Services
- Building Maintenance
- Computer Services
- Construction
- Equipment Maintenance
- Food Services
- Housekeeping
- Legal Services
- Mail Services
- Marketing
- Printing
- Security
- Supply Distribution
- Transcription Services

c. Addressing excluded category challenges

Before we indicate the procurement categories where there are few to no M/WBE suppliers, listed below are some of the challenges a supplier faces if they were to consider launching a business as a medical device manufacturer.

- As hospitals transition from a volume to value-based reimbursement system, reimbursements are expected to decline. Given that hospitals are already surviving on a thin margin (on average 2%), uncovering opportunities for savings is more important the ever.
- Many M/WBE suppliers do not have established relationships with prime distributors within the healthcare industry i.e., Cardinal, Medline, Owens & Minor, etc.
- Direct sales representation is frequently limited to local or regional coverage.
- M/WBEs suppliers may not fully appreciate what responsibilities they are agreeing to in a GPO contract, i.e., monthly reporting requirements, administrative fee payment, etc.
- Large numbers of diverse suppliers exist in categories that represent a low percentage of a hospitals discretionary sales volume, i.e., staffing services, IT services, etc.

Establishing achievable goals have to take into consideration high spend areas for a hospital. For example, in CY2015, 65% of the GPO contracted sales were with drug or medical device manufacturers, in the following areas: branded/generic pharmaceuticals, cardiovascular devices, capital equipment that leverages the clinical data for a hospital to drive better clinical and financial outcomes associated with clinical modalities such as Interventional Radiology, Laboratory (Hematology), Oncology, etc.

d. Setting goals that are obtainable for the healthcare industry stakeholders

One option to consider to transform the healthcare industry, is to set obtainable goals and facilitate the progression of economic inclusion to parallel the approach taken by the utilities industry and the California Public Utilities Commission (CPUC). However, in order to avoid yet another certification agency, there would need to be a unified approach to governance and information sharing to optimally evolve supplier diversity in the healthcare industry. ….Merck

The breadth of small/diverse suppliers that can support manufacturing of direct materials for large corporations is minimal. Thus, quantitative Tier 1 and Tier 2 goals would need to be established accordingly. Tier 3 goals may also be an option. However, qualitative goals that would facilitate the establishment of new suppliers and growth of existing suppliers could also be established with the requirement of development plans and timelines. ….Johnson & Johnson

"Supplier diversity ensures that we are fully utilizing the capabilities within our community to support our mission, vision and values. Supplier diversity aligns with our values and is a driver of ***economic growth within our community****."*
… Nancy Schlichting, CEO, Henry Ford Health System

VIII. Corporate Best Practices – Success Stories

In 2009, **Premier** launched a program called Sourcing Education and Enrichment for Diverse and Small Suppliers (SEEDS™). This program is a component of the Premier Supplier Diversity Initiative and provides providers and suppliers with the following support:

Members:

- The ability to recommend suppliers for contract consideration mid-contract cycle.
- Provide suppliers with an opportunity to build scale across the Premier membership alliance
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Suppliers:

- Premier University provides suppliers with information about the GPO Industry, their responsibilities as a GPO contract suppliers, general information specific to making sure that they have positioned their companies to take full advantage of a GPO contract.
- Introduction to Premier's electronic sourcing process
- Robust coaching and mentoring meetings scheduled quarterly to review what assistance the GPO can provide in the following areas:
    - Marketing/Branding
    - Business Goal Review

In 1999, **HealthTrust** provided a contract to a small, minority and veteran-owned business in a low spend contract category. As a result of this opportunity, and much hard work through coaching and mentoring the supplier has grown their contract portfolio with us to represent ten contracts totaling a value of $17M over the last 17 years. This has also allowed the company to build scale representing $70M in U.S. domestic sales and they have grown their workforce to 85+ employees. In regards to creating Tier 2 relationships we have provided diverse (M/WBE), VET and SBE with an opportunity to establish joint ventures that provide value to our hospitals and take advantage of focusing on what their core business.

Vizient's efforts to foster inclusion within the healthcare supply chains have resulted in multiple national awards. The stated mission of the Vizient supplier diversity program is "to help our membership champion inclusion in their supply chains and accelerate economic growth in their local communities through the engagement and empowerment of high quality and cost competitive small and diverse suppliers." This mission is carried out through the focus on three primary pillars:

1. Maximizing opportunities,

2. Fostering collaboration; and

3. Mentoring and enrichment.

While adherence to its mission and supporting pillars has allowed Vizient's supplier diversity program to garner several awards, the true satisfaction comes in the growth and success of its numerous contracted minority, women and veteran-owned suppliers.

Closing Comments and Observations

(Frank Cirillo, VP, Business Development, GNYHA)

While GPOs have come a long way in establishing robust supplier diversity programs that provide diverse (M/WBE), Veteran and Small Business Enterprises with the ability to grow their market share in the healthcare industry, there is still more that needs to be done.

- Letter of Commitment from each GPO participating in this report that they are committed to take the following steps to expand supplier diversity participation and growth within the healthcare industry:
    - ✓ Set Annual aggressive diversity expansion goals;
    - ✓ Expand the number of diverse suppliers they mentor and include within their contract portfolios;
    - ✓ Advocate on behalf of providers to obtain standard federal/state/county goals that are realistic and achievable;
    - ✓ Develop robust programs that require and encourage joint venture strategies for diverse suppliers to build long-term sustainable relationships with Tier 1 manufacturers and distributors across the healthcare industry;
    - ✓ Create an offering that provides these suppliers with access to capital that include reasonable terms & conditions; and
    - ✓ Encourage third party certification that encourage reciprocal relationships across all local, state and federal agencies.

(Durral Gilbert, President, Supply Chain Services, Premier, Inc.)
At Premier, we value having a diversified contract portfolio. Fostering an environment rich in diversity provides our members and suppliers with extraordinary opportunities to bring unique perspectives to their respective supply chains. Moreover, our commitment in support for our members in creating a sustainable supply chain is part of our DNA. For example, our coaching and mentoring assistance has provided suppliers with the ability to grow their market share across our alliance year over year. In most recent years, we have seen this growth exceed 10 percent annually. We also provide robust marketing assistance that empowers our suppliers with the ability to differentiate their products/services from the market share leaders within their respective product category. All-in-all, diversity empowers our members with a sense of community to do business with the companies that employ the patients to whom they deliver quality care.

Pete Allen, executive vice president, sourcing operations for Vizient

The complexity of the healthcare supply chain provides some unique challenges in fostering inclusion within the providers' supply chains. Three primary complexities are the role of the GPO as an intermediary, the necessity of having a distributor relationship in order to get product to the point of care and the lack of diverse suppliers within the high spend sectors of healthcare. To help solve these challenges, the national GPOs and distributors have had formal supplier diversity programs for quite some time now, and as more providers come on board there are legitimate reasons for optimism related to growth in this area.

At Vizient, we are also encouraged by the increasing number of members launching formal supplier diversity programs, with a particular focus of creating economic opportunity within their geographic footprint. Vizient stands ready to assist them in their efforts by identifying and engaging high quality, cost competitive diverse suppliers at both the national and local levels. We also pledge to continue our collaborative efforts with our fellow GPOs and other players within the healthcare supply chain. Together, real progress to improve the number of diverse suppliers serving health care can be made.

(Aron Khoury, Principal Supplier Diversity, Medtronic)

The consolidation currently occurring in the healthcare sector is expected to continue into the near future. Through this we expect customer commitment and it is a community imperative to have a diverse supply chain that continue to grow in scale. Conversely diverse, vet and small businesses will be required to provide a consolidated and comprehensive solutions that addresses the needs of the providers. Critical to sustaining and growing a base of diverse manufacturer's through this period will be the strategic engagement and targeted development of the corporations across the healthcare supply chain i.e., manufacturers, providers, GPOs, distributors, etc. This collaboration and development from a strategic perspective will provide suppliers with the capabilities to build their infrastructure to create scalable partnerships, making for better product manufacturing, delivery and community impact.

(Janet McCain, Director, Supplier Diversity, HealthTrust Purchasing Group)

As competition narrows and suppliers become more strategic in their contract negotiations with GPOs, providers, and distributors, they will see their margins shrinking. To survive and sustain growth, it will be important for diverse suppliers to diversify their businesses, consider joint ventures, seek high tech products and become more innovative in bringing solutions through their products/services to market. With that being said, as the healthcare industry continues to adjust to changes in how they provide services, so must all suppliers adjust to meet the customer where they are today and where they need and will be going in the future?

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