




Implementing the future of procurement

Enabling global value delivery
and measurement in
the healthcare and
life sciences industry

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The healthcare and life sciences industry faces a growing number of challenges in the marketplace. Regulatory and legislative enhancements have led to an overall convergence of industry players. In a 2015 Harris Interactive Survey for KPMG in the US, 45 percent of respondents foresee physicians, hospitals, and insurers converging on a more integrated system. Furthermore, the industry is at a turning point as global financial markets are starting to reward companies that reorganize through mergers and acquisitions to obtain more focused business operations and leverage economies of scale.

The level of convergence and collaboration enhanced as a result of Healthcare Personal Information (HPI) requirements, the Sunshine Act, and the Affordable Care Act as a whole has been unprecedented in terms of the additional effort required by procurement organizations. The technological element required to support this has posed a significant challenge in addition to an even larger burden around managing this information and associated risks.

Emerging markets continue to enter the agendas of board rooms and procurement leaders across the globe due to the expanding market demand and supporting supply bases. Companies may see product revenues grow in these markets; however, realized profit margins may shrink due to price pressure from generics. By 2020, sales volume is forecasted to more than double in BRIC countries (Brazil, Russia, India, and China) with 67 percent of increased sales in China coming from generics (Business Monitor International).

KPMG Procurement Advisory practice believes that companies can position their procurement organizations to capitalize on these trends, enhance their processes and technologies, rethink their organizational structures, and deliver tangible value to the bottom line.

KPMG’s view on procurement maturity

In a KPMG-led study of procurement practices in over 580 organizations, those in the healthcare and life sciences space display mixed levels of maturity with considerable growth opportunities in terms of increasing efficiency and effectiveness of spend management.

Industry leading practices were reported in this sector for a few key categories:

- Majority of organizations report a centralized operating model that focuses over 80 percent of spend with fewer than 20 percent of their vendors, signaling alignment with strategic suppliers
- Procurement functions have a high level of involvement in demand management within healthcare and life sciences organizations

While some aspects of the procurement function display high levels of maturity, several others appear to lag behind their counterparts in other sectors:

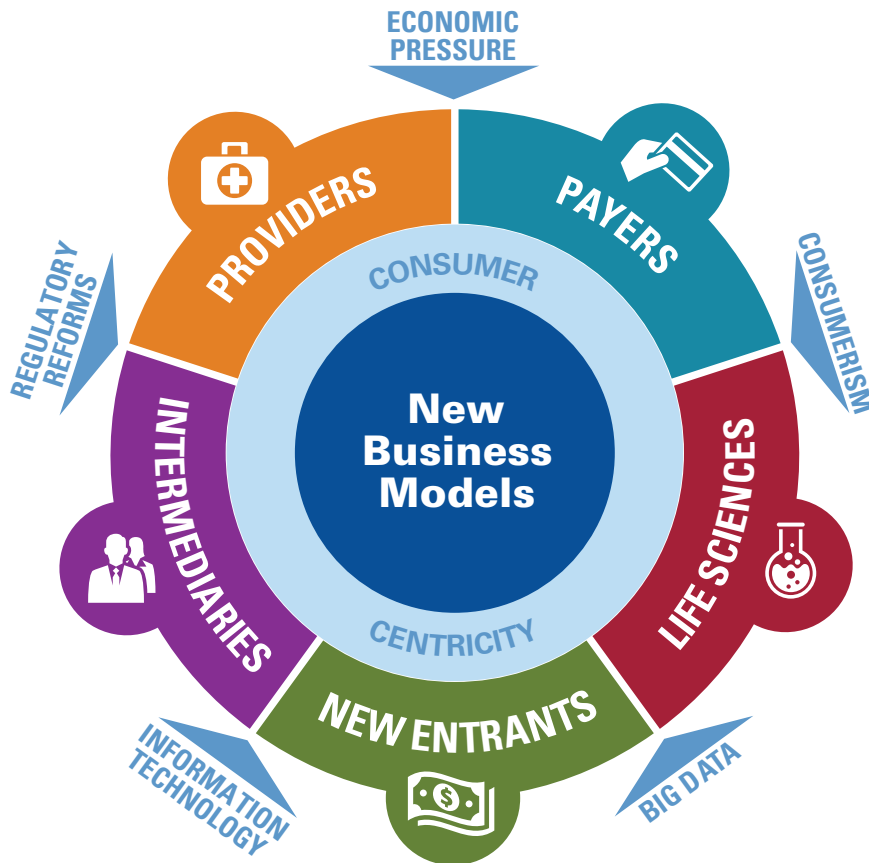
- Low percentage of procurement managed spend, especially in the indirect space, indicating the need for more strategic alignment of procurement with their business stakeholders
- Inconsistent use of systems and technology to enable end-to-end procurement processes resulting in poor master data and limited spend visibility
- Lack of focus on contract management resulting in erosion of negotiated sourcing savings
- Limited ability to create and implement procurement policy and manage noncompliance

The relatively low procurement maturity in this sector is driving an increasing number of healthcare and life sciences organizations to start implementing transformational programs aimed at driving costs out of their supply chain via increased process efficiency, optimal technology enablement, organizational realignment, robust reporting capabilities, and clearly established governance and controls.

Maturity of Procurement Organization

CLUSTER	DIMENSIONS	LAGGARD	ESTABLISHED	EXCELLENCE
STRATEGY	STRATEGY AND CHANGE MANAGEMENT	<ul style="list-style-type: none"> • Lack of strategy and vision or functionally constrained • Internal collaboration is missing 	<ul style="list-style-type: none"> • Defined/communicated strategy and vision • Required skills in place but limited within own function 	<ul style="list-style-type: none"> • Fully aligned and future-oriented strategy/vision • Long-term oriented and strategic partnering
	REGULATION AND COMPLIANCE	<ul style="list-style-type: none"> • Insufficient capabilities in change management 	<ul style="list-style-type: none"> • Standard systems/tools in place but lack monitoring or controlling 	<ul style="list-style-type: none"> • Tools/interfaces defined, monitored and regularly assessed
	GOVERNANCE AND CONTROLS	<ul style="list-style-type: none"> • Guidelines to govern procurement process are missing 	<ul style="list-style-type: none"> • Guidelines defined but their implementation is not sufficiently supervised 	<ul style="list-style-type: none"> • Internal and external audits on a regular basis
ORGANIZATION	STRUCTURE	<ul style="list-style-type: none"> • Minimal involvement of procurement • Decentralized with duplication of activities 	<ul style="list-style-type: none"> • Objectives support total cost reductions and adding value to the enterprise • Centralized organization with focus on strategic categories 	<ul style="list-style-type: none"> • Procurement is recognized as a key profit center • Fully-integrated and cross functional operation
	PEOPLE	<ul style="list-style-type: none"> • Less developed training system and measures • Disorganized, constrained or impeded knowledge management and sharing 	<ul style="list-style-type: none"> • Performance is monitored but with no active change plans • Knowledge sharing lacks formal process 	<ul style="list-style-type: none"> • General and tailored trainings are available with regular reviews and updates • Unconstrained access to both internal and external data
PROCESS	CATEGORY MANAGEMENT CYCLE	<ul style="list-style-type: none"> • Category strategy is missing or less developed/aligned 	<ul style="list-style-type: none"> • Improvement targets are set and tracked frequently 	<ul style="list-style-type: none"> • Demand & supply consistently profiled and reassessed
	SOURCE TO CONTRACT	<ul style="list-style-type: none"> • Very basic spend and supply market analysis 	<ul style="list-style-type: none"> • Strategic sourcing exists but limited in implementation 	<ul style="list-style-type: none"> • Both new suppliers and innovations identified through supply analysis
	SUPPLIER LIFECYCLE MANAGEMENT	<ul style="list-style-type: none"> • Unclear process ownership • Reactive and ad-hoc operation 	<ul style="list-style-type: none"> • Policies and procedures are in place but not widely followed 	<ul style="list-style-type: none"> • Outsourcing of non-core process
	OPERATIONAL PROCESS		<ul style="list-style-type: none"> • Proactive management only for very important risks 	<ul style="list-style-type: none"> • Real-time measurement and cross-company communicated
ENABLERS	MASTER DATA AND BUSINESS INTELLIGENCE	<ul style="list-style-type: none"> • Highly manual activities a wide range of processes • Lack of tools/platforms • Lack of standardization • Decentralized and reactive 	<ul style="list-style-type: none"> • Moderate use of enabling technology • Insufficient execution • High level of standardization • System based process and data transparency 	<ul style="list-style-type: none"> • Extensive use of advanced enabling technology • Strong governance and controls framework • Proactive information management • High data quality ensured by continuous monitoring
	SYSTEMS AND TECHNOLOGY			

KPMG segments the healthcare and life sciences industry into four key subsectors



Payers – Entities that assume the risk of healthcare for themselves or others in terms of payment. These companies include insurance providers, managed care organizations, and health insurers.



Providers – Entities that provide a healthcare product or service directly to the patient. Hospitals, long-term care, and outpatient service providers compose this subsector.



Life Sciences – Entities that provide a service or product to payers, providers, products manufacturers, or directly to patients. This subsector includes pharmaceutical, biotech, and medical device companies.



Intermediaries – Entities that facilitate a transaction or an exchange of information between payers, a payer and provider, or a payer and the patient. These companies differ depending on which subsectors they cross over.

- Payers – Life Sciences: Pharmacy benefit management, mail-order, and pharmacies
- Life Sciences – Providers: Distributors, group purchasing organizations, and clinical research organizations
- Providers – Payers: Infomediarities



New entrants – Entities that have recently entered any of the previously described subsectors.

Each subsector faces a unique set of challenges in the procurement landscape

Healthcare Payers



Due to the Affordable Care Act in the US, healthcare exchanges, and the general sensitivity to privacy and data security, payers have had to revolutionize the way they manage their customer data and apply these quality and risk mitigation concepts to enterprise data. From this regard, there are procurement impacts on Master Data Management (MDM), the processes and technologies used in support of MDM, and the implications on supplier relationship and risk management.

Healthcare Providers



Shrinking revenue pools have driven providers to increase the size of populations they serve by acquiring physician networks and hospital groups as well as protecting their current market share from new entrants such as retail pharmacies adding clinics to their offering. As acquisitions take place, the supply base will need to be reevaluated to maintain operational continuity, maximize cost saving opportunities, and effectively manage supplier risks and supplier relationships.

Life Sciences



Restructuring of the provider networks and general availability of information to the customer has forced life sciences companies to place a greater emphasis on competitive positioning. As a result, companies must shift internal operating models to adjust to the changes in the customer base as well as improve cost competitiveness through concerted category sourcing and management efforts. In support of this, clients should consider evaluating the level of technology enablement, optimality of processes, and efficiency of tax practices.

Intermediaries



The highly active merger, acquisition, and divestiture activities have led to a consolidation of companies within this subsector, which presents supply base synergy opportunities. These can be realized through contract consolidation and strategic sourcing activities. Additionally, intermediaries face very similar challenges as payers in terms of data privacy and security. On a comparable level, intermediaries may benefit from an evaluation of MDM, supporting processes/technologies, and understanding the impacts on supplier risk management practices.



Healthcare Payers



Entities that assume payment risks are leveraging the procurement function to address challenges resulting from operating margin pressures, regulatory requirements and data security needs.

Challenge: Increased operating margin pressures resulting from convergence in this sector

Procurement implications:

- Enhance spend visibility and execute strategic sourcing initiatives to drive cost efficiencies
- Reduce operational burden by streamlining transactional procurement processes and deploying 'best of breed' tools

Challenge: Greater sensitivity to data privacy and security

Procurement implications:

- Cleanse and standardize master data and deploy tools to facilitate de-duplication and error checking
- Formalize master data governance and establish data standards and policies to sustain quality

Challenge: Increased regulatory pressures driven by Affordable Care Act and Sunshine Act

Procurement implications:

- Improve reporting capabilities to track and attain the Affordable Care Act requirement that 80-85 percent of all premiums be spent on healthcare services and activities
- Design and enforce risk management and measurement processes to avoid paying rebates or penalties resulting from noncompliance related to supplier interactions as required by the Sunshine Act

KPMG client experience

A KPMG member firm developed a multicategory sourcing roadmap for a FORTUNE 100 healthcare insurer supported by detailed spend analysis to identify category improvement opportunities.

Client challenge

A FORTUNE 100 healthcare insurer was expanding its business model to include clinical service delivery for plan members as a way to improve members' health, reduce service delivery costs, and to position for potential future pay-for-performance industry revenue transformation. KPMG was engaged to create spend transparency through data analytics, establish a clinical category spend taxonomy, establish a sustainable spend data refresh process, and assess clinical spend category opportunities.

Our approach

After developing a ~US\$300 million spend cube, KPMG was able to analyze the spend data by category to identify opportunities driven by spend fragmentation, different price points, specification proliferation, and insufficient demand/consumption management practices. These opportunities were further vetted with the business owners through a value lever workshop led by procurement and supported by eBrainstorming. The value lever workshop also aligned procurement and the business stakeholders on concrete action plans for initiatives based on benefits and implementation ease.



Healthcare Providers



With greater horizontal and vertical integration in the provider space, procurement will play a key role in driving a competitive advantage by lowering costs and managing risks.

Challenge: Margin pressures driving horizontal integration via hospital – hospital acquisitions

Procurement implications:

- Consolidate services, prioritize programs, and leverage the increased purchasing power to negotiate more competitive contracts
- Minimize the role of management and clinicians in the transactional procurement related activities by implementing efficient and tool-enabled Procure-to-Pay (P2P) processes

Challenge: Master data inaccuracy due to complicated healthcare supply chain, compounded by M&A consolidations and major ERP upgrades

Procurement implications:

- Assess state of master data across various domains (item, vendor, customer) and define cleansing and enrichment rules to drive enterprise-wide standardization
- Deploy a governance model needed to sustain and continuously improve master data quality to enhance spend visibility and enable better sourcing decisions

Challenge: To provide patients with a full suite of offerings, hospitals are becoming more vertically integrated by buying physician practices, diagnostic centers, home care services, and wellness companies

Procurement implications:

- Evaluate and address risks and controls for all key processes in the Order to Cash cycle across the entire care continuum
- Harmonize and simplify the IT landscape across the global enterprise to enable standardized reporting and transparency

KPMG client experience

A KPMG member firm conducted a gap assessment around source-to-pay controls and developed a three-year roadmap for a leading network of research and treatment centers incorporating leading practices.

Client challenge

A leading network of research and treatment centers was implementing PeopleSoft and updating its P2P security design. KPMG was engaged to identify opportunities to help consolidate, streamline, and improve existing processes and controls. KPMG researched and incorporated leading practices in the areas of segregation of duties, roles and responsibilities, and developed a roadmap for implementing these process and control enhancements.

Our approach

KPMG interviewed cross-functional stakeholder groups to understand as-is supply chain issues and controls gaps using current PeopleSoft design. We developed a three-year roadmap of opportunities to address the identified issues and control gaps with key dependencies mapped. We validated the roadmap via a workshop with cross-functional and executive stakeholders to solidify the action plan and move forward.



Life Sciences



Procurement will serve as a strategic function for life sciences companies to resolve challenges around decreasing margins, increasing regulations, and divestiture activity.

Challenge: Decreasing margins as a result of shrinking revenue streams and patent expirations

Procurement implications:

- Deliver higher value component cost savings through strategic category management
- Transform the transactional procurement processes to drive process efficiencies and to rationalize the technology footprint

Challenge: Increasing regulations, enforcement, and scrutiny over the entire product life cycle management process

Procurement implications:

- Increase emphasis on supplier information reporting requirements to meet regulatory needs
- Develop, negotiate, and monitor supplier SLAs in a segmented manner across a wide range of shared risk/responsibility areas

Challenge: Shifting asset and operational portfolios driving splits, spin-offs, and divestments

Procurement implications:

- Mitigate operational risks arising from third-party contracts and commitments by understanding open obligations at deal-close, defining the transition process, and applying the appropriate treatment throughout the transition
- Define IT separation strategy including postclose capability gaps, master data gaps, and synchronization with procurement to meet closing conditions related to supplier data transition

KPMG client experience

A KPMG member firm is executing a global procure-to-pay transformation at a FORTUNE 200 life sciences company to drive increased spend visibility and improved contract compliance for US\$3 billion in spend.

Client challenge

A FORTUNE 200 medical products and life sciences manufacturing company was using an on-premise system that was ten years old as its eProcurement system. As such, there was limited visibility to spend and a lack of confidence that end users were effectively using contracts. The KPMG member firm was engaged to evaluate the current P2P process and technology, assist in the selection of new procurement systems, and advise on the execution of the global implementations in 40+ countries.

Our approach

A time-boxed assessment was executed to include a global scope of P2P activities, systems, and processes. This resulted in an opportunity roadmap and business case detailing a multiyear transformation program. A globally standardized tool-enabled design along with the supporting organizational model and governance implications has been developed and global system implementations are currently underway.



Intermediaries



Since intermediaries 'sit in the middle', they face a number of challenges as they relate to margin pressures, data security, and a converging marketplace that procurement can help address.

Challenge: Growing need to maximize the realization of synergy benefits resulting from constant merger, acquisition, and divestiture activities

Procurement implications:

- Assess third-party contracts and commitments and drive strategic sourcing initiatives to maximize cost savings and establish strong supplier relationships
- Standardize processes and realign roles and responsibilities to optimize post-merger procurement efficiencies

Challenge: Increased focus on data security and privacy, especially for intermediaries as they exchange information across various subsectors

Procurement implications:

- Establish appropriate controls when implementing supplier/customer collaboration tools to meet the requisite levels of data privacy and security
- Standardize, cleanse, and establish governance to sustain high-quality master data across various domains

Challenge: Margin compression resulting from a greater number of individuals being insured by Healthcare Insurance Exchanges and Medicaid

Procurement implications:

- Lower SG&A expenses by driving cost savings within indirect spend categories
- Streamline transactional procurement processes and shift activities to cost-effective locations using a shared services construct

KPMG client experience

A KPMG member firm assisted a FORTUNE 50 pharmacy benefits management company through a major acquisition to realize synergy savings of US\$30 million through category and contract management activities.

Client challenge

A FORTUNE 50 pharmacy benefits management company recently completed an acquisition and engaged KPMG to support indirect procurement-related post-merger integration activities. KPMG identified potential synergy (supplier) savings of US\$30 million across several indirect categories of expenditure, consolidated and right-sized the supply base across the two combined entities, and facilitated contract rationalization of the client's existing agreements.

Our approach

We analyzed a spend base of indirect categories and identified and estimated opportunities based on levers such as consolidation, rationalization, offshoring, commercial terms, and demand management. We developed category management strategies, corresponding sourcing strategies, and then advised on the execution of sourcing development, to e-RFX execution, to supplier selection.



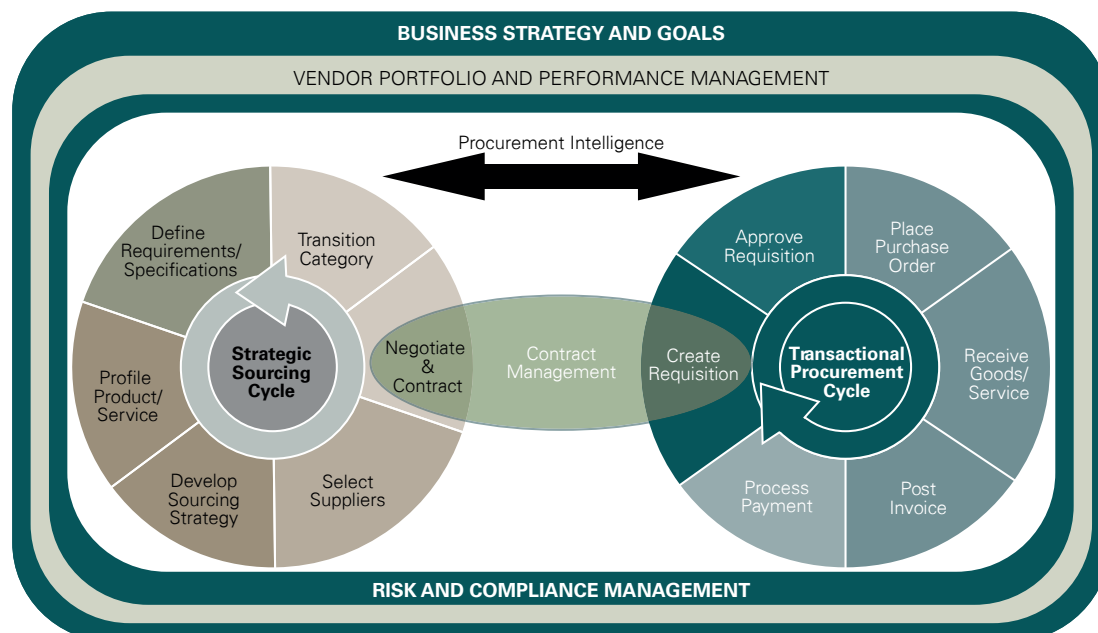
Trusted global advisors implementing the future of procurement

Our team

KPMG's 400+ Procurement Advisory practitioners around the globe are seasoned supply chain specialists, coming from a rich background of industry, technology, and advisory experiences. KPMG member firms deliver practical, fit-for-purpose designs across the procurement life cycle, from category management to process and technology enablement to organizational effectiveness.

Our approach

Our perspective on the integrated life cycle of sourcing and procurement drives an approach focusing on **identifying, capturing, delivering, and sustaining value**.



Client value

- **Focus on total value delivered:** Holistic lens to help maximize value across the supply chain instead of localized, incremental cost savings
- **Sustainability of benefits:** Overriding focus on structural improvements and knowledge transfer to help deliver sustainable benefits
- **Genuine functional insight:** Experienced practitioners with domain knowledge and industry insights to tackle complex client challenges
- **Collaboration in vision and execution:** Business advisors from concept to realization of future-state vision
- **Trusted advisor:** Objectivity in recommendations and solution design, not compromised by affiliation to technology or outsourcing providers
- **Global reach:** Network of professionals across major sectors and countries to address global client needs

Procurement Advisory's offerings promote excellence and innovation

Category Sourcing & Management	Reducing and improving costs through strategic long-term supplier relationships	<ul style="list-style-type: none"> • Spend Analytics • Direct and Indirect Sourcing • Category Management
Supplier Relationship Management	Developing tools and processes to streamline supplier interactions and improve supplier performance	<ul style="list-style-type: none"> • Supplier Enablement • Supplier Performance Management • Diversity Analysis and Management
Process Optimization	Improving the efficiency and effectiveness of procure-to-pay and source-to-contract processes across the organization	<ul style="list-style-type: none"> • Source-to-Contract • Contract Life Cycle Management • Procure-to-Pay
Supplier Risk Management	Implementing programs to strategically evaluate and address supplier risk	<ul style="list-style-type: none"> • Risk Program Assessment • Risk Program Implementation • Supplier Contract Audit and Verification
Organizational Effectiveness	Aligning roles and skills to process needs for long-term sustainment of procurement capabilities	<ul style="list-style-type: none"> • Organization Strategy • Organizational Design • Performance Management
Technology Enablement	Tools to support key processes to improve efficiency and effectiveness	<ul style="list-style-type: none"> • Package Selection • Technology Assessment • Systems Integration
Master Data Management	Developing infrastructure and governance to improve master data quality	<ul style="list-style-type: none"> • Data Quality • Data Standards • Governance Model
Tax Efficient Procurement	Identifying and capitalizing on opportunities for tax savings within the procurement process	<ul style="list-style-type: none"> • Captive Purchasing Company Design and Implementation • Sales and Use Tax Automation • Tax Advantaged Sourcing

KPMG's thought leadership and knowledge in the industry extends beyond procurement



Convergence is Coming: A Brave New World for US Healthcare

Healthcare payers, providers, and life sciences companies should be thinking beyond transformation and focus more on healthcare 'convergence' and the broader implications of operating in a more collaborative and integrated US healthcare delivery model.



Issues Monitor: Acute or Chronic? The impact of economic crisis on healthcare and health

Healthcare systems currently face a funding crisis, which is adversely affecting health outcomes. High unemployment and the slow pace of recovery have further weakened the sector and its ability to supply quality health services in Europe. This trend is spreading to other geographies.



Contracting Value: Shifting Paradigms

Improving the quality of service to patients makes healthcare less – rather than more – expensive according to a new report from KPMG's Healthcare practice. Our analysis examines the root causes of suboptimal healthcare around the world and identifies three core principles that demonstrate a clear path to driving value from healthcare systems.




Advisory services: Transforming the business of healthcare

The healthcare industry is facing a number of complex challenges. This piece of thought leadership provides an outline of the full portfolio of advisory services we provide to help healthcare organizations address those challenges.



Managing risk in a transforming healthcare organization: *How to stay competitive in a converging healthcare system*

Healthcare organizations must transform their operations to stay competitive in a converging healthcare system. KPMG's Enterprise Risk Management (ERM) approach and framework are tailored to help healthcare organizations identify and manage the risks that are most significant in today's rapidly changing landscape.



“The thing that differentiated our experience with KPMG among all of the consultants that we use is that they brought analytical rigor and results to a complex transformation, but did it in a language that we understand. No consultingese; just fact based, practical and implementable solutions that they work side by side with our team to deliver.”

**Global Procurement Transformation Project Sponsor,
FORTUNE 500 Life Sciences Company**

“Critical to their success in delivering post-merger integration savings was KPMG’s ability to establish themselves as a trusted advisor early on in an environment where they were not a known commodity. Our relationship has continued to grow since then.”

**VP of Corporate Procurement,
FORTUNE 50 Pharmacy Benefits Management Company**



Notes

Contact us



Paul Jones

Practice Leader
Procurement and Supply Chain Advisory
KPMG in the UK
+44 161 246 4634
paul.jones@kpmg.co.uk



Dr. Marcus Schueller

Practice Leader
Procurement and Supply Chain Advisory
KPMG in Germany
+49 221 2073 1100
mschueller@kpmg.com



Christoph Wolleb

Practice Leader
Procurement and Supply Chain Advisory
KPMG in Switzerland
+41 58 249 54 97
cwolleb@kpmg.com



Jos Joos

Practice Leader
Procurement and Supply Chain Advisory
KPMG in Belgium
+32 2708 3684
josjoos@kpmg.com



Bertrand Vigner

Practice Leader
Procurement and Supply Chain Advisory
KPMG in France
+33 6 85 26 12 63
bvigner@kpmg.fr

www.kpmg.com

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