Value Based Procurement

AmCham, Riga - 2023

Hugo Senichault

BUSINESS ENTHUSIASTIC


DATA ANALYSIS FASCINATED

Who am I ?

- Engineer + corporate finance degree
- Worked 6 years for KPMG Finance Advisory services
- Has joined Abbott in 2017 as Strategic Pricing Manger

What does that mean ?

- I have supported Railway / FR government negotiation about Public railway company funding for 2 years
- I have been involved in 6 GPO tenders (RESAH, UGAP, AGEPS,...), 20 large public tenders, 200 customers negotiations for in vitro diagnostic (private and public)
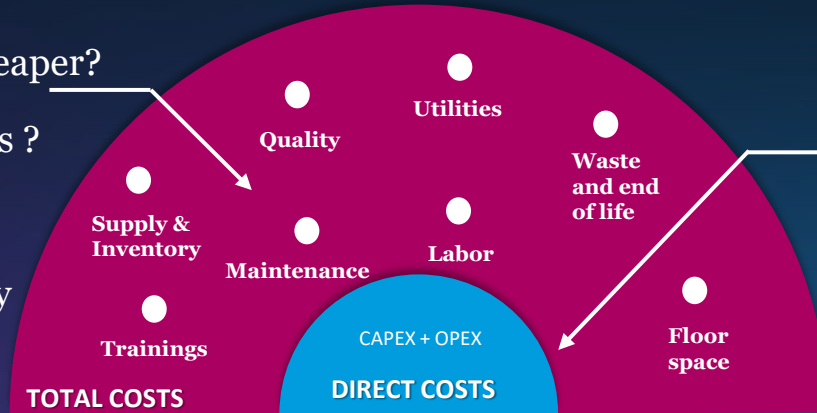
Context

New technologies increase investment costs

Financial pressure on cost reduction
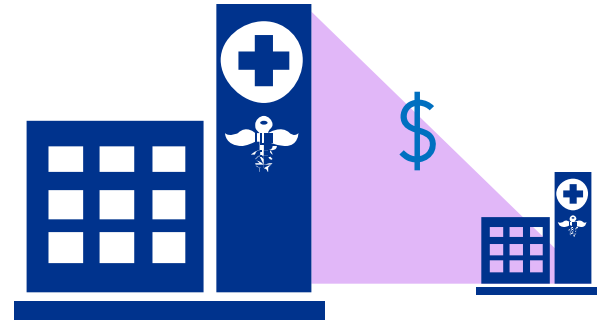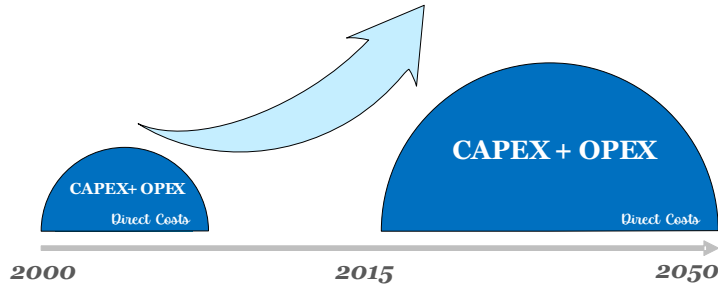
PART 1 :
Theory

Scope and pre-requisites

CAPEX + OPEX

DIRECT COSTS

- How to compare various economical model?

- Who is the cheapest ?

Scope and Pre-requisites

- Is the cheapest really cheaper?
- What are all related costs ?
- How to model them ?
- How to estimate them by providers?
- What and who to trust?

Quality

Utilities

Waste and end of life

Supply & Inventory

Maintenance

Labor

Trainings

CAPEX + OPEX

Floor space

TOTAL COSTS

DIRECT COSTS

- How to compare various economical model?
- Who is the cheapest ?
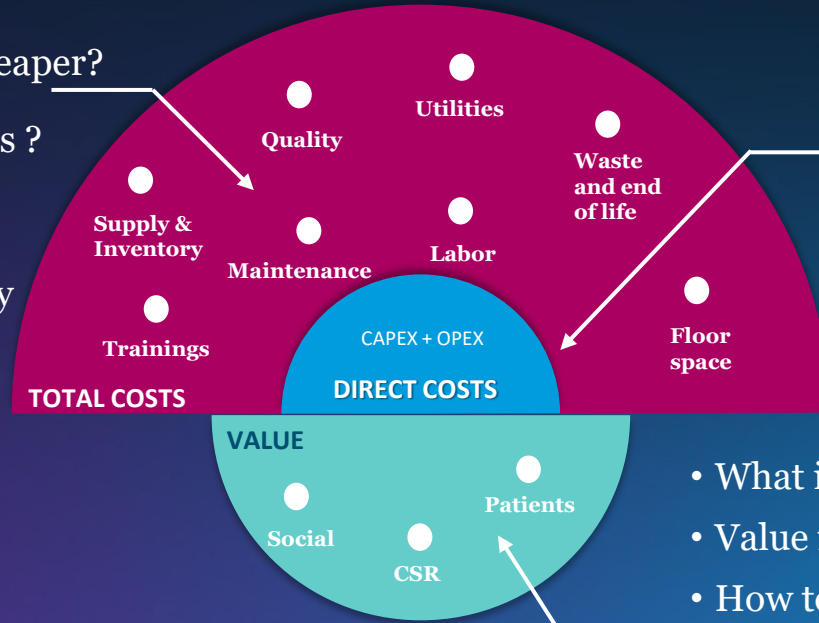
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CAPEX + OPEX

DIRECT COSTS
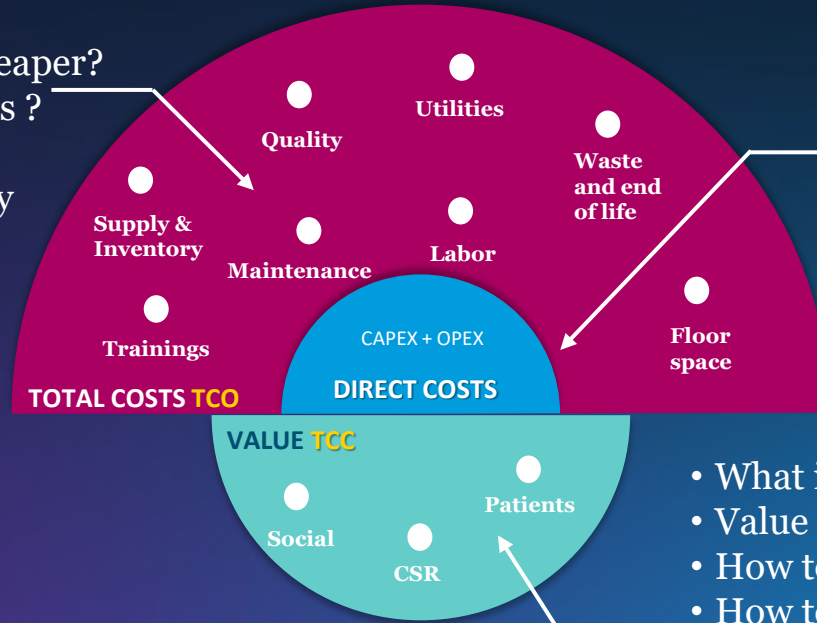
TOTAL COSTS

VALUE

Social

CSR

Patients

- How to compare various economical model?

- Who is the cheapest ?

- What is value ?

- Value for who?

- How to estimate it?

- How to capture it?

- How to make it real?

Scope and Pre-requisites

- Is the cheapest really cheaper?
- What are all related costs ?
- How to model them ?
- How to estimate them by providers?
- What and who to trust?

Level 2

Level 1

- How to compare various economical models ?
- Who is the cheapest ?

Quality

Utilities

Waste and end of life

Supply & Inventory

Maintenance

Labor

Trainings

Floor space

CAPEX + OPEX

DIRECT COSTS

TOTAL COSTS TCO

VALUE TCC

Social

CSR

Patients

Level 3

- What is value ?
- Value for who?
- How to estimate it?
- How to capture it?
- How to make it real?

TCO = Total Cost of Ownership
TCC = Total Cost of Care

PART 2 :

What does that mean to me?

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Current situation

From a linear and one timer approach ....

Start

End

CUSTOMER

Set RFP

Analyze + Ask for additional details

Decide

Run

PROVIDER

Build Proposal

Implement

- Define the scope
- Identify the procedure, based on amounts and internal knowledge
- Write the RFP the RFP
- Define criteria
- Communicate the RFP to providers

- Based on the RFP define a proposal
- Raised question on appropriate platforms
- Fill in requested documents
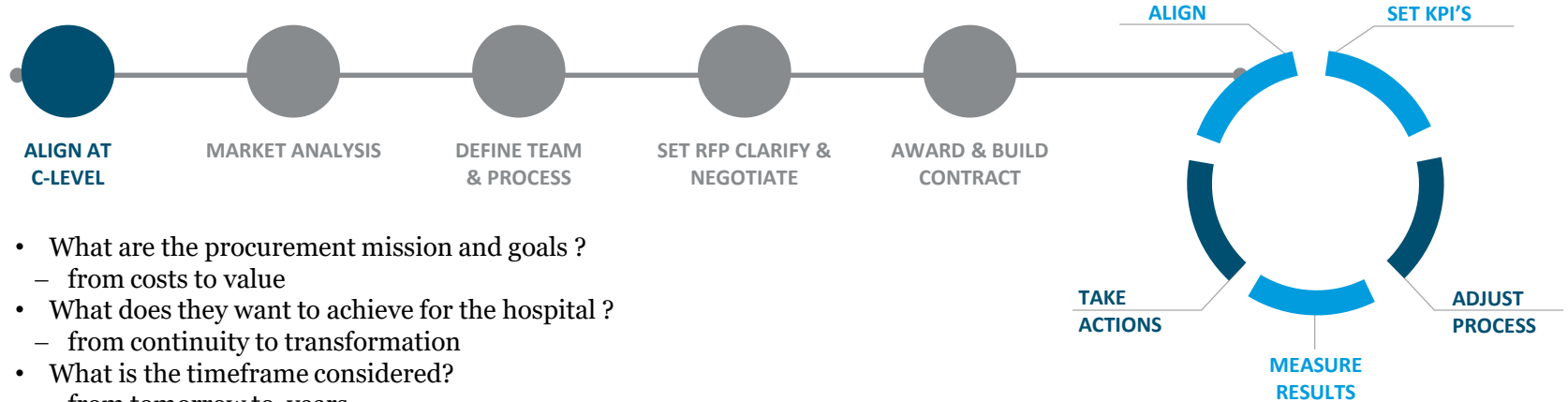- Provide the answer to the customer
- Present the offer

- Ensure legal validity of offers received
- Compare offers based on criteria
- Align internally on decision

- Final adjustments before implementation
- Administrative and technical implementation

Target

... TO AN INTERLOCKED CONTINUOUS APPROACH

ALIGN AT C-LEVEL — **MARKET ANALYSIS** — **DEFINE TEAM & PROCESS** — **SET RFP CLARIFY & NEGOTIATE** — **AWARD & BUILD CONTRACT**

ALIGN — SET KPI'S — ADJUST PROCESS — MEASURE RESULTS — TAKE ACTIONS
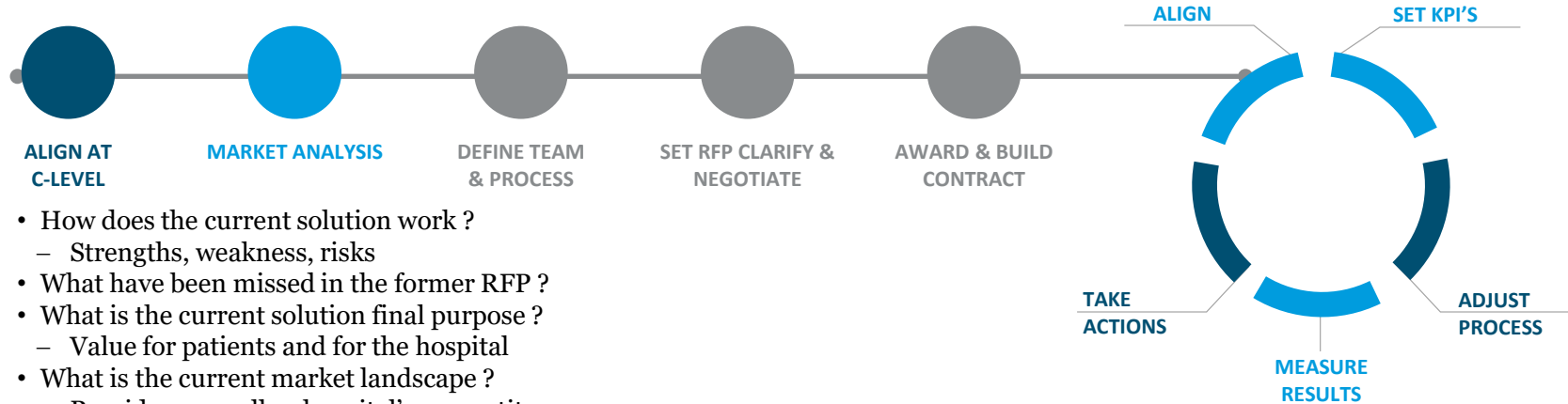
- What are the procurement mission and goals ?
  - from costs to value
- What does they want to achieve for the hospital ?
  - from continuity to transformation
- What is the timeframe considered?
  - from tomorrow to years
- What are the capabilities available at the hospital level ?
  - legal, technical teams, IT, environmental,...
- What are the blocking constraints ?
  - CAPEX constraints ? OPEX ? Communication?

Ensure Alignment With C-level

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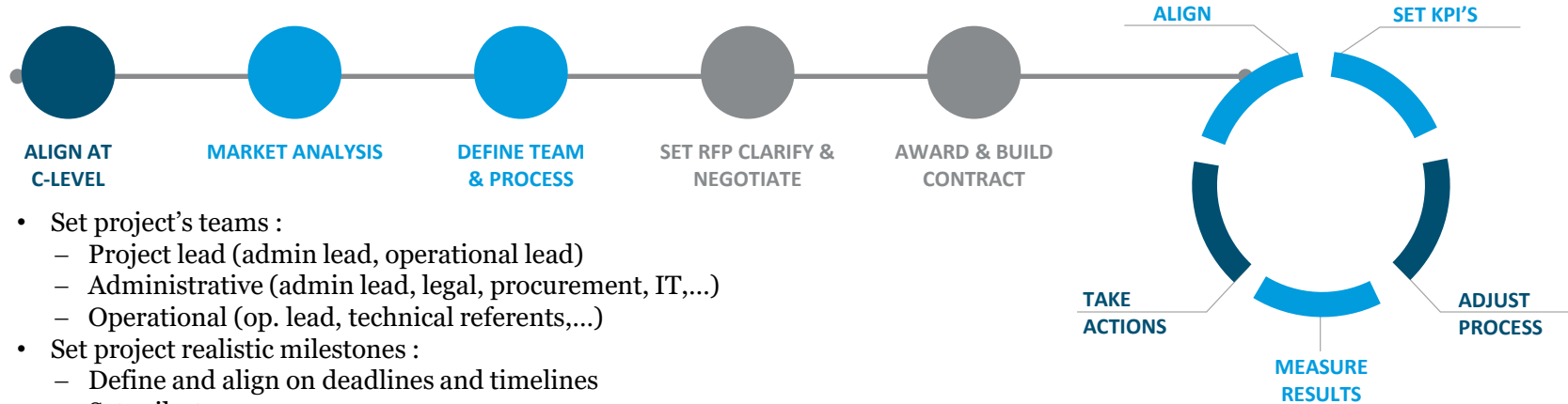
- How does the current solution work ?
  - Strengths, weakness, risks
- What have been missed in the former RFP ?
- What is the current solution final purpose ?
  - Value for patients and for the hospital
- What is the current market landscape ?
  - Providers as well as hospital's competitors
- What are the solutions available on the market ?
  - Differentiators, innovation, brand reputation
- What are the procurement process constraints ?
  - Specific procedures, transparency in process

- Meet providers, discuss, visit, discuss and discuss again
- Ideally prequalify potential suppliers based on basic criteria (financial stability, experience, alignment on value proposal)

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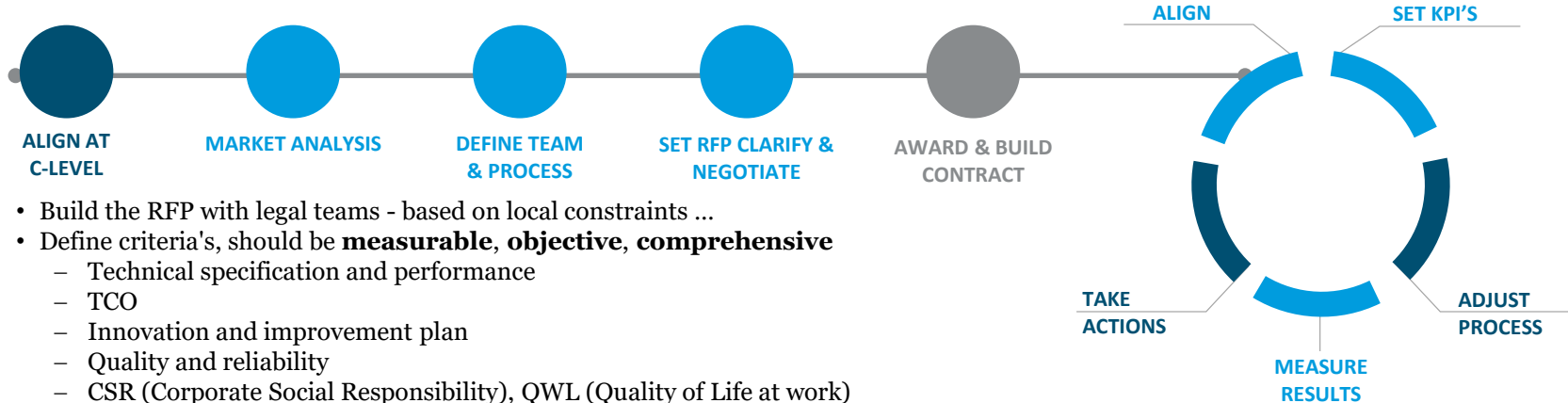ALIGN · SET KPI'S · ADJUST PROCESS · MEASURE RESULTS · TAKE ACTIONS

- Set project's teams :
  - Project lead (admin lead, operational lead)
  - Administrative (admin lead, legal, procurement, IT,…)
  - Operational (op. lead, technical referents,…)
- Set project realistic milestones :
  - Define and align on deadlines and timelines
  - Set milestones
- Set the procedure :
  - What is the most pertinent procedure?
  - Identify potential criteria based on final value (discuss with suppliers)

- Build a proper project approach (who is doing what, when in which timeframe)
- Don't rush the deadlines
- Promote discussion (choose the most open to discussion procedure available)

Target

... TO AN INTERLOCKED CONTINUOUS APPROACH

ALIGN AT C-LEVEL — **MARKET ANALYSIS** — **DEFINE TEAM & PROCESS** — **SET RFP CLARIFY & NEGOTIATE** — **AWARD & BUILD CONTRACT**

ALIGN · SET KPI'S · ADJUST PROCESS · MEASURE RESULTS · TAKE ACTIONS

- Build the RFP with legal teams - based on local constraints ...
- Define criteria's, should be **measurable**, **objective**, **comprehensive**
  - Technical specification and performance
  - TCO
  - Innovation and improvement plan
  - Quality and reliability
  - CSR (Corporate Social Responsibility), QWL (Quality of Life at work)
  - Integration and compatibility with existing systems / process
  - Training and support
- Identify commitments and counterparts (penalties, risk sharing?)
- Communicate internally and externally
- Discuss with providers, clarify and adjust if needed terms to ensure alignment with suppliers

- Ideally open procedure should enable adjustments at any time based on discussions
- Be open to reconsider deadlines

Target

... TO AN INTERLOCKED CONTINUOUS APPROACH

ALIGN AT C-LEVEL — **MARKET ANALYSIS** — **DEFINE TEAM & PROCESS** — **SET RFP CLARIFY & NEGOTIATE** — **AWARD & BUILD CONTRACT**

Life cycle: ALIGN — SET KPI'S — ADJUST PROCESS — MEASURE RESULTS — TAKE ACTIONS

- Award based on defined criteria's
- Set shared indicators that will be used to measure commitments and review in committees – **not only supplier responsibility**!
  - What data will be used ?
  - Who is in charge of providing them and when ?
  - What should be done with them ?
- Define the life cycle project committees and cadence (steering, operational,…)
- Build with the supplier and legal teams the final "contract" including supplier commitment (be clear on penalties, risk sharing)
- Follow up on KPI's, ensure actions are taken **on both sides**
- Set actions to measure the final value, calculate savings / costs to retribute or require penalties

- Build a proper project approach again (who is doing what, when in which timeframe)
- Ensure committees happen, actions are taken, and value is created

Conclusion

Conclusion & Concreate ideas

- VBP is a journey, requires resources and is about building together
- VBP implies strong understanding and capabilities in both market understanding and costs analysis
- VBP promotes procurement at the next level but alignment with C-level expectation is crucial!

NO	YES
- Promote value and set a 30 days deadline tender during summer - Rate will be defined 70% on technics and 30% on price - Clearly state, the comparison will be based on bottom line - Formal tender to grand impartiality but avoiding formal and unformal discussions with suppliers - Restrict involved teams to procurement - No time for life cycle follow-up	- Build with providers TCO approach to understand potential hidden costs / values - Build Year End Rebate mechanism for later projects (envelop that can be used only for projects – innovation, solution upgrades,…) - Set a risk sharing approach. Based on final value targeted make the supplier commit set penalties as counterpart - Set a value sharing approach. Based on final value targeted ensure the supplier will be rewarded for continuous improvement - Include CSR (Corporate Social Responsibility), and QWL (Quality of Life at work) analysis - Build RFP criteria with suppliers to capture market understanding / differentiators - Involve legal from the beginning, don't underestimate contract terms writings