Optimising procurement outcomes

Ensuring a focus on quality; and obtaining reduced costs while meeting all contract requirements

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Director Group Procurement

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Our mission

As part of The Uniting Church, the mission of UnitingCare Queensland is to improve the health and wellbeing of individuals, families and communities as we:

- reach out to people in need
- speak out for fairness and justice
- care with compassion, innovation and wisdom

UnitingCare Health, UnitingCare Community, Blue Care, and ARRCS are vital expressions of this mission.
Established in July 2014, provides aged care and community services in the Northern Territory.

The Wesley Hospital
St Andrew’s War Memorial Hospital
St Stephen’s Hervey Bay Hospital
The Sunshine Coast Private Hospital

Support for children and families, people with disabilities and for people and communities in crisis.

Assisting people to remain independent for as long as possible through services provided in their home, and in local community centres, residential aged care facilities and retirement communities.

Established in July 2014, provides aged care and community services in the Northern Territory.
Current context

- Highly regulated, compliance-based service operating environment
- Multiple levels of jurisdiction
- Increasing demand for service, together with decreasing traditional government funding model
- Increasing complex client needs – social, physical, emotional
- Move to consumer directed care
- Contestable marketplace
- Increased competition with “for-profits” entering the service arena
Group Procurement’s progress to date

Group Procurement’s purpose, to enable our staff to deliver compassionate care, by bringing together our people and suppliers to optimise value and outcomes from our external resources.

- Working in collaboration end-users
- Continuous focus on building capability and quality of service
- Category management plans in place with a significant project pipeline, a third of our spend under review
- Group Procurement delivering considerable savings back to the business
So... how do we?

Ensure a focus on quality; whilst obtaining reduced costs and meeting all contract requirements
Procurement outcomes focused on quality

Quality is a state free from defects, brought about by consistent commitment to certain standards that achieve uniformity. ‘Fit for purpose.’

Engagement
- Appropriate governance at executive level
- Appropriate subject matter experts engaged

Process
- Process and key documents agreed and signed off by key stakeholders

Capability
- Staff knowledgeable on process and tools to drive quality and value
- Staff ability to engage effectively with stakeholders

Focus on Quality
Engagement & Governance

Executive
- Represented by CFO on Executive Leadership Team

Senior Management
- Procurement Advisory Group

Specialists/End-users
- Clinical Advisory Groups
  - Hospitality
  - Property
  - ICT
Bringing together – Grocery, real savings achieved without compromising on quality

Stage 1 – Preferred Distributor

- Over 10% savings as result of tender
- Reduced prices and increase in rebates
- Opportunity to build strong partnerships

Stage 2 – Brand Consolidation

- Target additional rebates by increasing volumes with preferred manufacturers
- Real savings achieved without compromising on quality or quantity
- Worked with hospitality leads across the Group
- Estimated additional 2 - 4% savings per annum

Stage 3 – Menu Planning and Pantry Consolidation

- Opportunity to reduce pantry items, consolidate from 1,600 to 800 items
- Menu Planning System to assist in consolidation, budget forecasting and measurement
Quality outcomes built into our processes

- Sign-off gates at planning, post market engagement and contract signing
- Multi-functional teams supporting the procurement end-to-end, including:
  - Agreeing the procurement strategy, scope and vendor selection
  - Multi-functional evaluation committee
  - Agreed evaluation criteria
- Joint responsibility for developing service levels, contract implementation and ongoing contract management
The importance of probity in managing risk – Income Protection

Reinsurance Group of America (RGA) Press Release - July 2013
“...a number of environmental factors in the Australian market leading to a significant rise in claim levels and reporting lags.” “analysis indicates a more dramatic deterioration than we previously anticipated, a development we believe to be consistent across the industry.” “observed underperformance... ...potential additional deterioration in the projection of future claims development on the entire book of business.”

- Current policy with provider had expired
- Due to a number of workforce claims premium had more than doubled (1.064% to 2.28%)
- Complication of income protection being part of the Enterprise Bargaining Agreement
- Unions challenged the process due to vendor preference
- Had to demonstrate transparent and fair process
- Resulted in reduced premium
- Increased benefits, including death and funeral benefits
People are the only true asset any procurement function has - the best procurement people demonstrate highly developed soft skills. *Supply Management 2014*
Technical skills capability spider map

Mapping of each team member’s current skills to assess individual development plans
Obtaining reduced costs while meeting all requirements

- Taking a broader perspective on savings, and consider the total cost of ownership – estimate cost elements over the next 5 years
- Understanding of internal vs external opportunities to reduce costs
- Breakdown the cost of each component or driver
- Brainstorm savings opportunities with stakeholders
- Rank impact versus ease of implementation

Example: **Total cost of ownership** over 5 years for **multifunctional devices**, where consumables, machine cost and maintenance labour comprise 89% of print TCO
“Procurement professionals continue to push the line — ‘standardise the spec, reduce suppliers and cut unit costs’ without considering the full range of benefits across the demand, source, fulfil and manage value chain. Procurement can deliver a lot more that unit cost reduction including value generation, cost reduction and speed to revenue.”

Noah Costelloe
Partner, Ernst & Young, Australia
Savings lever tree gives a structured way to identify and problem solve which savings levers may deliver the most value.

<table>
<thead>
<tr>
<th>Tool</th>
<th>Savings Lever Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cost of Ownership</td>
<td><strong>Vendor</strong> - Savings levers which impact on costs under primary control of vendor</td>
</tr>
<tr>
<td>Savings Opportunities</td>
<td><strong>Demand</strong> - Saving levers which impact on costs under primary control of buyer</td>
</tr>
<tr>
<td></td>
<td><strong>Process</strong> - Savings levers which impact on efficiency and effectiveness of procurement</td>
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</tbody>
</table>

### Savings Lever Matrix

- **Greatest opportunity to reduce cost to the business**
- **Will need sponsorship from business to drive change**

- **Ease of Implementation**
- **Savings**

$0 \rightarrow $250k \rightarrow $500k

**H**

**M**

**L**
Engaging staff in education programs increases levels of recycling; driving sustainability as well as delivering additional savings to the business.

### Savings Lever Group

- **Vendor** - Savings levers which impact on costs under primary control of vendor
- **Demand** - Saving levers which impact on costs under primary control of buyer
- **Process** - Savings levers which impact on efficiency and effectiveness of procurement

### Savings Levers

- Tender was issued for waste services, across Blue Care, UCC and UCH saving 17% across the group
- Waste services included confidential waste, general waste, clinical waste, recyclable and sharps
- Waste education programs included in scope of requirements to increase volume of recycling, including on-line staff training
- Incentives to staff to increase levels of recycling e.g. Morning tea’s
- Additional 8% savings obtainable for every addition ton diverted to from general waste to recycled.
- Monthly reporting trending recycling levels by site
- Consolidating invoices to provide accounts payable efficiencies
Saving's ideas are identified across vendor, demand and process groups for wound care products

<table>
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<th>Savings Levers</th>
<th>Savings Impact</th>
<th>Ease</th>
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</thead>
<tbody>
<tr>
<td><strong>Vendor Savings</strong></td>
<td>• Reduction in consumable costs • Reduction in freight costs</td>
<td>• 16% • 2%</td>
<td>High High</td>
</tr>
<tr>
<td><strong>Demand Savings</strong></td>
<td>• Rebates for growth • Product standardisation &amp; rationalisation • Reduction in suppliers • Practice change via product enhancements</td>
<td>• 1% • 5% • 2% • 2%</td>
<td>High Medium Medium Low</td>
</tr>
<tr>
<td><strong>Process Savings</strong></td>
<td>• Better education &amp; training from contracted vendors • Implemented better control mechanism for specialised wound care</td>
<td>• 1.5% • 1%</td>
<td>Medium Medium</td>
</tr>
</tbody>
</table>
Contract Compliance

- The government funded agreements require Blue Care to have written contracts in place with all subcontractors (500+ contracts)
- These subcontracts must contain various special terms and conditions specified in the funding agreements
- Blue Care also has obligations to manage necessary probity requirements for accreditation – recent audits have shown non-compliance
- Implemented an on-line contract compliance system which automates the necessary probity checks and places the onus back on the vendor to ensure that their contract is complaint
- End users can now manage their contractors compliance, with the reassurance that their suppliers have adequate insurance, licences relevant to their industry and necessary probity checks
Lesson’s learnt

• Continued focus to educate stakeholders on the role of procurement

• Staff need to have the ability to engage and bring your stakeholders along on the journey - collaboration critical to our success

• Planning is important, the more you do upfront the better the outcomes

• Access to good data supports decision making and builds confidence

• Good governance is key, where good consultation occurs across the organisation projects are successful and well supported through implementation

• Communication is key for successful contract implementation - ensuring benefits realisations

• If at first you don’t succeed try, try and try again

• Celebrate success and have some fun along the way…
Thank you for listening

Questions?