

OWS16

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HCSC's Enterprise Supplier Management Journey

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Company

- Total HCSC employees nearly 23,000 in 60 local offices
- Blue Cross and Blue Shield health plans:
 - Illinois: Nearly 11,000
 - Montana: Nearly 600
 - New Mexico: Nearly 1,400
 - Oklahoma: More than 1,100
 - Texas: More than 6,500
- Wholly-owned subsidiaries: Nearly 2,700

Membership

- Nearly 14.7 million (nation's largest non-investor owned health insurer and fourth-largest overall)
- By State:
 - Illinois: More than 7.9 million
 - Montana: More than 240,000
 - New Mexico: More than 500,000
 - Oklahoma: More than 830,000
 - Texas: More than 5.1 million

Quick Facts

- Headquartered in Chicago, IL
- Founded in 1936
- Gross annual revenue of approximately \$61 billion
- Offers variety of group and individual benefit plans, related services and life insurance products



WHO WE ARE



KPMG helps clients transform business services to improve value, increase agility and create sustainable performance.

We bring a specialized global team of more than 1000 professionals who blend insight and operational talent to help our client design, build and manage multi-functional business processes



1000+
PROFESSIONALS



HOW WE DO IT

We have a proven methodology that covers all angles of the Global Business Services life cycle including change management, IT, governance, risk and compliance.



Transition strategy



Location analysis

We apply focused research, automating tools, proprietary data, clear business acumen, and a mindset to get quickly to what matters in providing objective, actionable advice and practical answers to clients.



Governance organization design



Service delivery model guide



Target operating model framework



Process maturity assessment

WHAT WE DO



We help clients align a business services management model with an emphasis on common processes, technology and services on an enterprise delivery platform



GBS represents a transformational journey in business services. While there are common design principles, there is no "one size fits all" model and must be designed to align and enable company priorities

WHY KPMG



Independence: Solution agnostic, we apply market knowledge & unbiased objective advice to help clients

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Trusted partner: For over 100 years, organizations around the world have trusted KPMG for our business advice

2013

Gain access to our ongoing GBS industry studies and maturity research via www.kpmg.com/us/GBS

Research-based methodology: In 2013, KPMG and HfS Research completed one of the largest and most comprehensive studies ever conducted on GBS.

Service Level Management



Difficulty managing large volumes of **service levels** and associated additional charges and credits

Manual Processes



Significant bandwidth consumed by **manual processes**, including invoice validation, contract change management & reporting

Data Overload



Difficulty in standardizing, rationalizing and analyzing large volumes of **data** streaming in from vendors each month

Risk Management



Challenges effectively monitoring and managing **risk** associated with outsourcing relationships

Value Creation



Difficulty finding time for **high value** activity such as relationship management with BUs

Talent



Challenges finding and retaining vendor management **talent** to staff key positions

ESM Value



Lack of mechanism for demonstrating **value** of the vendor management function to the enterprise

Compliance



Challenges **complying** with Internal Audit and external regulatory requirements

Business Case Realization



Lack of capability and tools to track **business case** realization causing value leakage

Up to
40%

- In 2011, HCSC formally implemented a supplier governance program
- Primary objectives of the program were to **MINIMIZE RISK** by deepening HCSC's knowledge of both their suppliers and contracts
- Enterprise Supplier Governance Office (ESGO) was formed to establish supplier governance at the enterprise level to:
 - Create and provide a **consistent, repeatable and documented** approach to supplier governance across HCSC
 - Support the **enterprise** supplier governance framework operating model
 - More clearly **communicate expectations** to our suppliers
 - Leverage **best of breed approaches** already in use by our divisions
 - Streamline how we approach our external partnerships with key suppliers, in which both parties have a vested interest in our **mutual success**.

Opportunities exist to **improve** the following areas of focus:

- Establish enterprise 3rd party management model with defined processes and tools
- Formalize the engagement model with updated roles and responsibilities
- Identify suppliers used by multiple divisions and determine a mechanism for coordination
- Establish an organized approach for non-contracted Client committed 3rd parties

*Validate,
Organize &
Transform*

Objectives:

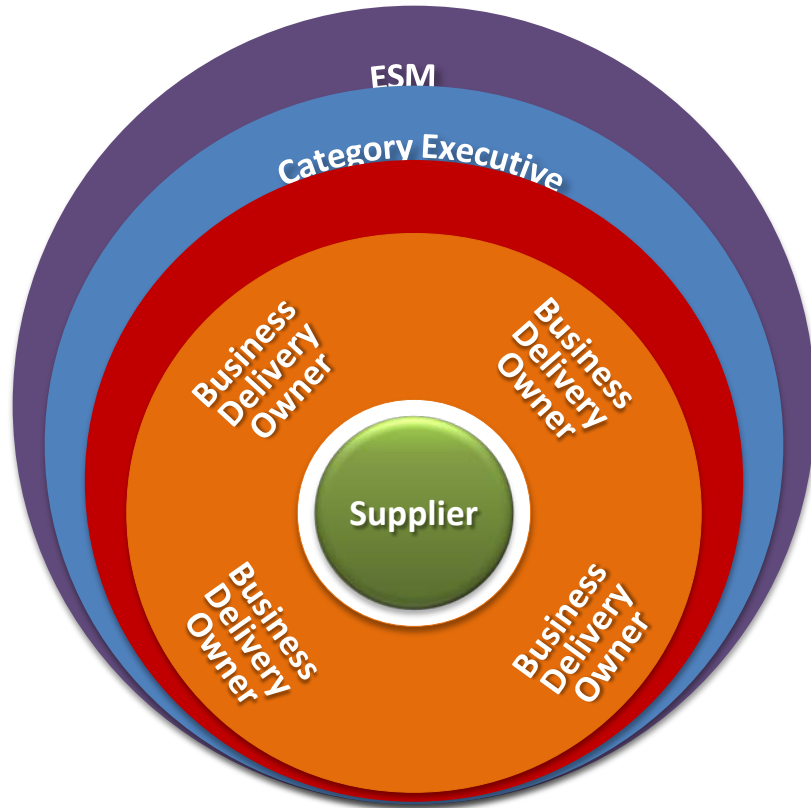
- Meet all government requirements regarding the use and management of third parties.
- Deliver consistent auditable Governance and Compliance oversight
- Provides organizational accountability and simplicity
- Maximize value created with suppliers
- Identify and appropriately manage supply chain risk

Goal

- Designated Business Owner completes risk questionnaire per supplier/contract ownership
- Weights assigned to each category and question - six categories, total of twenty questions
- Risk Tier (I, II & III) assigned based on overall contract score from risk questionnaire
- Aggregate and category specific risk scores calculated
- Scale below is for total aggregate risk score

Supplier Risk Category Review

- Regulatory Compliance
- Branding Reputation
- Operational
- Scope of Services
- Service Location
- Financial Health

**Enterprise Supplier Management (ESM)**

- Centralized group of skilled resources responsible for driving the implementation of the Enterprise Third Party governance framework, Third Party profiling, administering the risk assessment model, contract change management process, supporting HCSC business delivery owners in the governance of third party relationships and tracking compliance to the framework.

Category Executive

- HCSC executive will be responsible for the categorical oversight for all suppliers within their category.

Strategic Relationship Owner (SRO)

- HCSC executive will be responsible for the enterprise relationship, governance oversight and will have significant influence on strategic decisions over assigned third parties. Prioritizes strategies and ensures alignment of HCSC strategy with the third party.

Business Delivery Owner (BDO)

- HCSC business owner's will be responsible to manage day to day activities, contract compliance, integration, performance management and issue management reporting as well as contributes to third party inclusion for all functional areas within a business delivery area.

ESM

Provides a consistent, repeatable and documented approach to supplier management across HCSC

Provides a mechanism to leverage best of breed approaches and processes across the enterprise

Helps business owners fully understand the services HCSC purchases and how the Suppliers that provide these services perform

Provides a better understanding of our supplier relationships at the enterprise, divisional and operating levels

Provides a mechanism for issue resolution and escalation related to supplier services

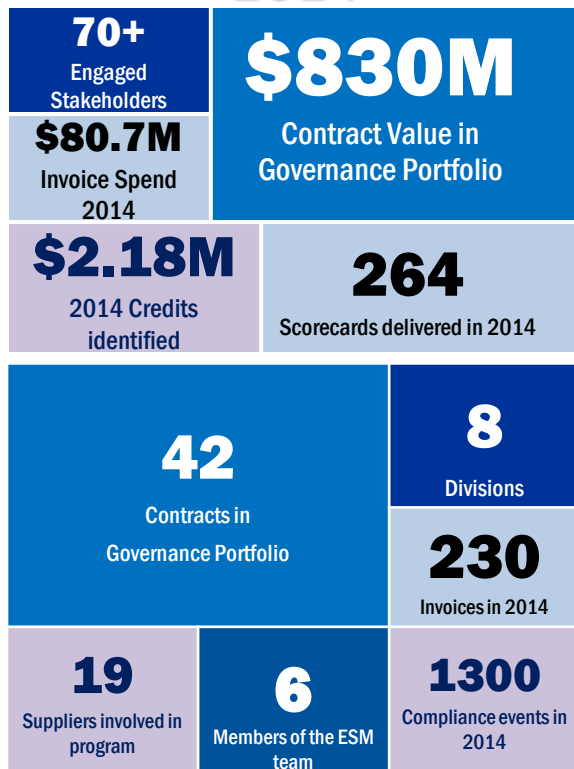
Helps to understand the risks inherent in each supplier agreement and how to mitigate them

Identifies problems early rather than later

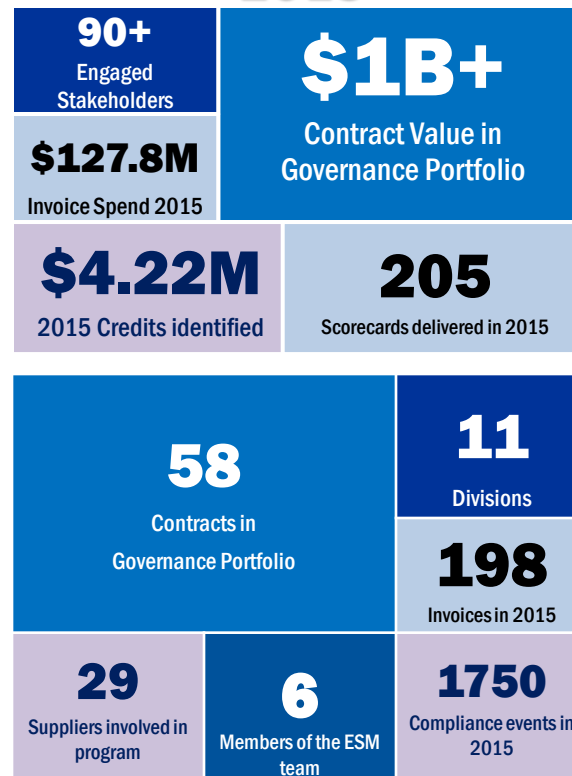
Validates that HCSC is achieving contract value

Core Functions	Definition	Examples
Performance Management	Ensures the quality of Third Party provided services through the measurement, monitoring, and management of service levels and deliverables.	<ul style="list-style-type: none"> – Scorecards – Review and acceptance of deliverables – Monitoring of KPI's, SLO's, SLA's
Relationship Management	Ensures effective relationships and governance between Third Party and HCSC stakeholders. Including improvement of Third Party provided services through direct and open innovation activities.	<ul style="list-style-type: none"> – Scheduled management reviews – Strategy discussions
Financial Management	Ensures the value of Third Party provided services through financial analysis and invoice management.	<ul style="list-style-type: none"> – Invoices reviews and approvals – Achieving business case/budget – On-going cost reduction
Contract Administration	Ensures compliance with contractual terms and conditions; manages contract renewals and facilitates dispute resolution.	<ul style="list-style-type: none"> – Managing expiring contracts – Contract compliance – Dispute resolution
Risk Management	Ensures appropriate risk assessment and management and migration activities.	<ul style="list-style-type: none"> – Risk assessment and quantification – Review of Business Continuity Plans (BCP's)
Tools, Processes & Training	Ensures the appropriate infrastructure is in place to sustain and optimize Third Party management.	<ul style="list-style-type: none"> – ESM Software Tool – Training business to manage Third Parties

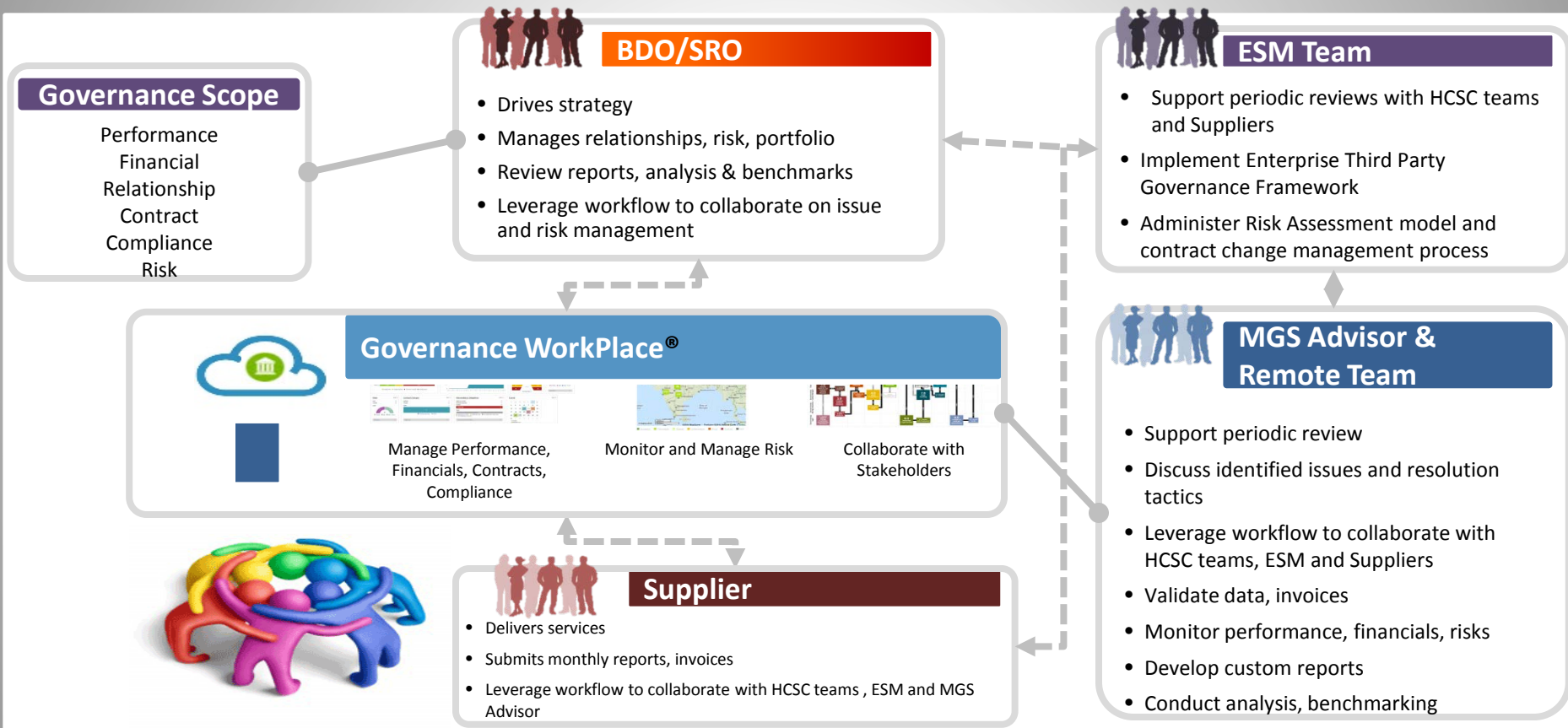
2014



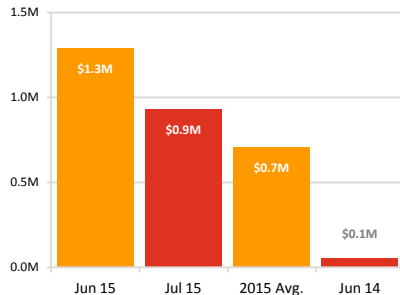
2015



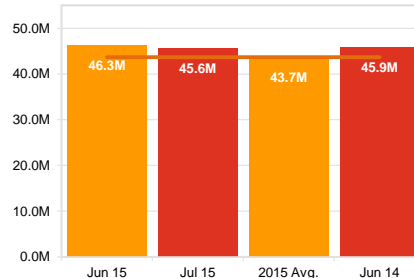
After All those Years



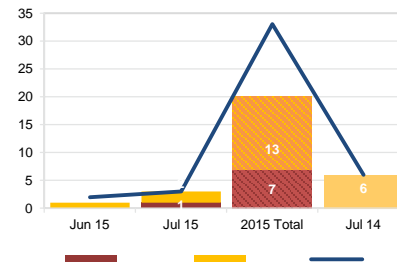
Charge Activity



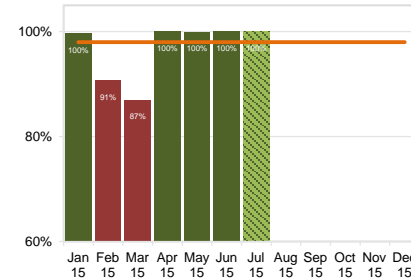
Widget Activity



GWP Reported Critical / High Issues



Overall Job Timeliness



Reporting Month

Contract & Related Info

Contract Reported in GWP	YES
Contract Termination	8/18
Contract Amendment Version	4*
MSA Termination	8/15
Contract Value	\$72M
Realized Savings	TBD
Month SLA Credits	\$233K
YTD SLA Credits	\$2.8M
AP Invoice Aging >30 days	0

This report summarizes the results of [Supplier]'s services provided in July 2015 for Widget Services.

Financial Summary

July charges have not been finalized for Widget. As soon as the invoice(s) have been generated than the data will be reflected in the Summary and detail scorecard pages. Indicated a variance of \$358,090. Overall, preliminary total charges for the reporting month decreased by \$358,090 from June 2015.

Consumption Summary

B&W Widgets declined by 661,504 from last month and in comparison to last year monthly volume dropped 249,018. Decline in Widget volumes are due to.... July's Actuals have exceeded the 2015 average by 1.9M Widgets, 4.4%.

Performance Summary

The Overall Job Timeliness performance metric reported another strong month. Job timeliness has remained steady meeting or exceeding the target for the past four months and five out of seven months.

Issues Summary

[Supplier] and HCSC teams have reported one (1) critical and two (2) high issues in GWP for the month of July.

Audit & Compliance Monitoring Summary

[Supplier] is currently self-reporting they are meeting all Compliance and Audit requirements and obligations.

- For organizations starting on the road what would you tell are the three key aspects of the program to get right?
- Do you think HCSC could have achieved more in less time?
- How is the program viewed today by HCSC leadership and business?
- What if anything would you have done differently?
- How would you describe the value of the program to HCSC?