



# Ohio Assessment Update

THE OHIO TASK FORCE ON AFFORDABILITY AND  
EFFICIENCY IN HIGHER EDUCATION



# Steering Committee Update

## AGENDA

**Huron Consulting Group is pleased to have the opportunity to assist the Ohio Task Force on Affordability and Efficiency in determining potential cost-saving opportunities.**

### Discussion Agenda

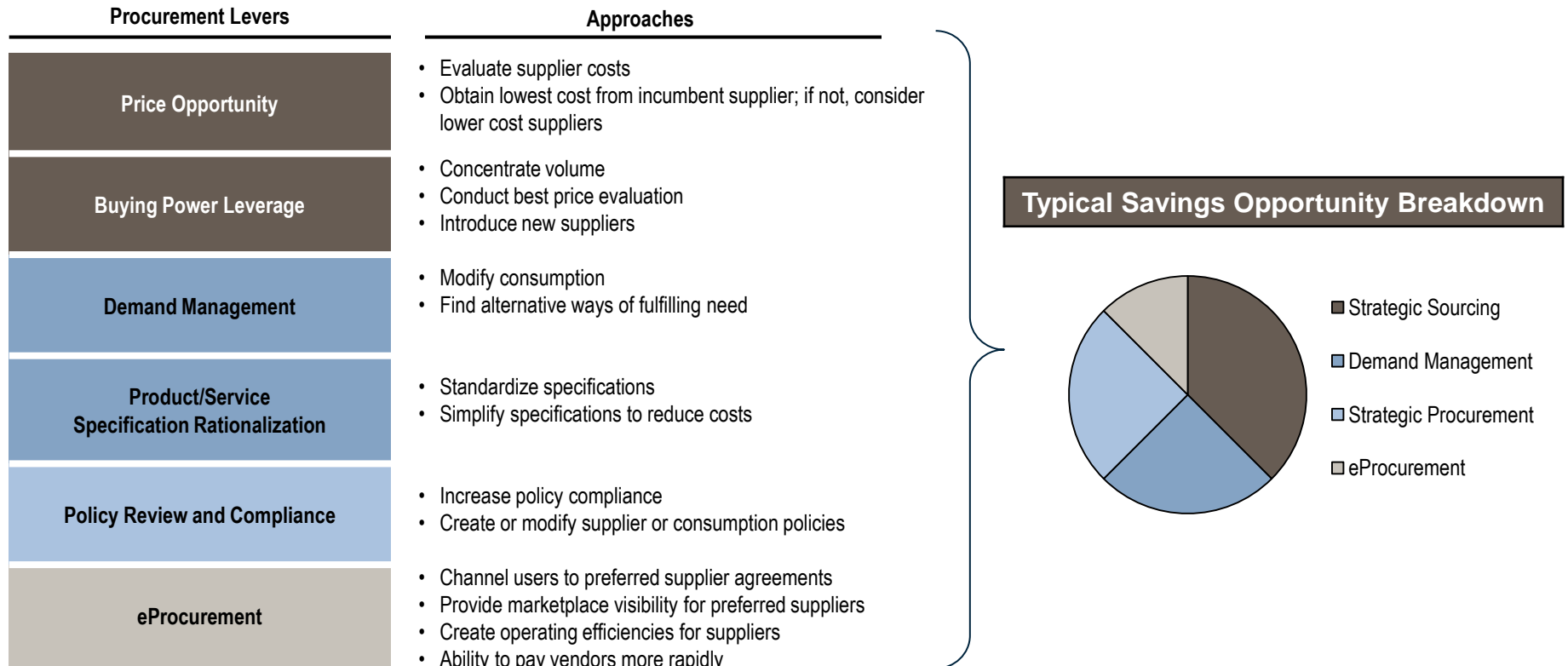
- Strategic Sourcing & Spend Categorization
- Benefits

# **Strategic Sourcing & Spend Categorization**

# Spend Categorization

## PROCUREMENT OVERVIEW

There are multiple procurement levers that can be used to realize cost savings; these levers include strategic sourcing, demand management, and strategic procurement.



**The ability to achieve maximum savings is dependent on organizational willingness to coordinate in establishing buying power leverage and negotiating contracts, and the ability to implement changes beyond the price opportunity.**

# Spend Categorization

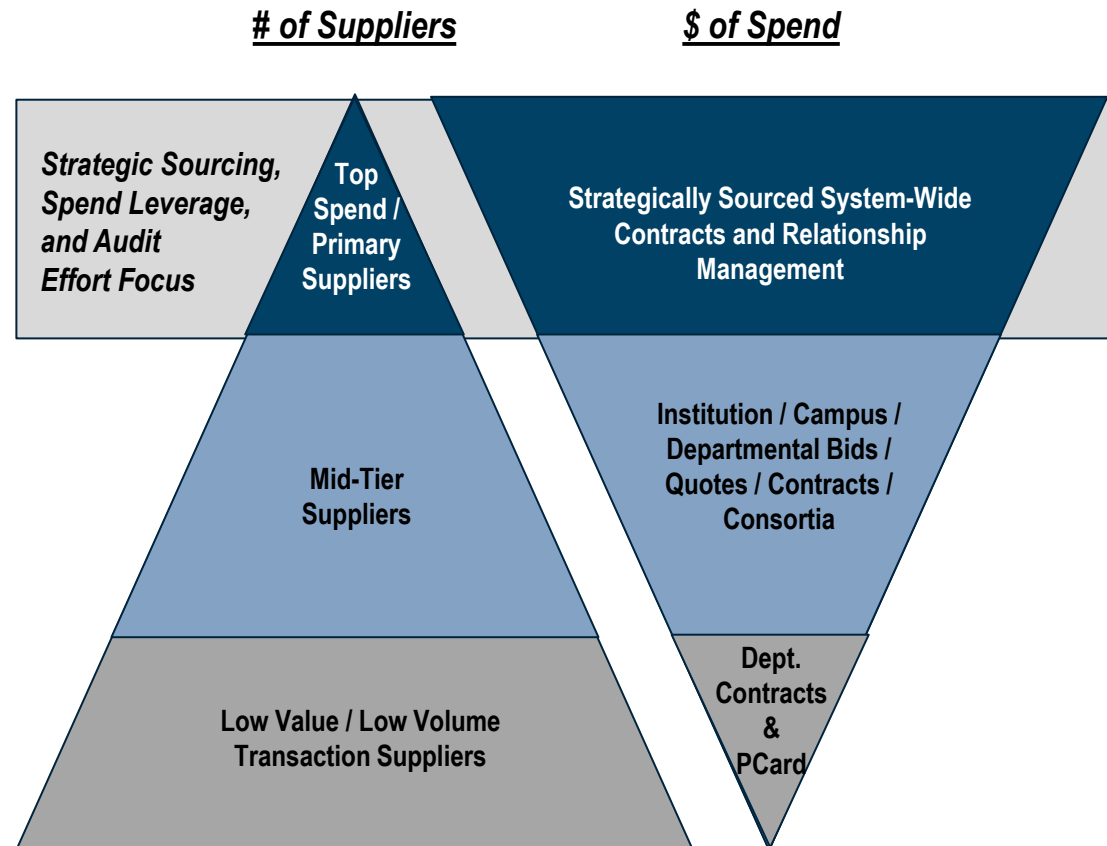
## STRATEGIC SOURCING

While Ohio institutions have negotiated contracts with vendors, there exists an opportunity to engage in true strategic sourcing with select vendors.

### Considerations

- True strategic sourcing involves evaluating spend distribution, establishing primary vendors for commodities, and establishing demand management principles and policies which serve to funnel spend towards those primary suppliers
  - Vendors are more willing to establish and provide heavily discounted contracts and products when they are guaranteed a high amount of spend; by consolidating purchasing power across Ohio institutions, Ohio can significantly increase its purchasing leverage leading to increased discounts
- Negotiate master agreements with high spend, primary suppliers to achieve greater discounts and improve customer relationships

### Elements of a Strategic Sourcing



# Spend Categorization

## OBJECTIVES AND APPROACH

**Huron requested a fiscal year's worth of both accounts payable and p-card spend data from all public Ohio institutions to assess the overall spend profile of the entire system at a high level.**

### Data and Data Categorization Objectives and Approach

- All spend was categorized at the vendor level according to Huron's category (Level I) and subcategory commodity / service areas (Level II) hierarchy to give directionally accurate indications of spend allocation for all institutions from which data was received; the purpose of the analysis is to identify joint strategic sourcing opportunity areas for further detailed data analysis and business case development
- Huron segmented Ohio institutions into groups and utilized AP and P-card spend as a percentage of total institutional spend to estimate spend for institutions from which no data was received

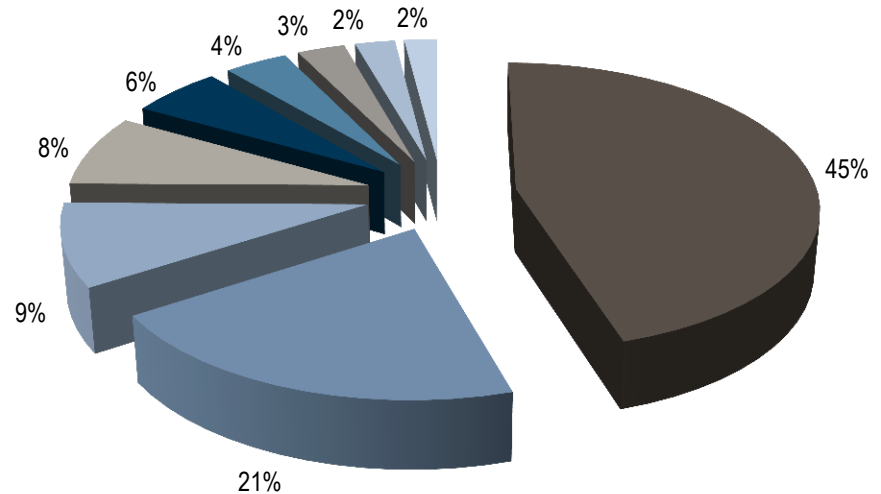
# Spend Categorization

## ADDRESSABLE SPEND – LEVEL 1

Huron estimates approximately \$3.3B in addressable spend across 9 Huron level 1 categories; these categories were further divided in to 45 level 2 commodity/service areas to perform additional spend analysis.

Category Level 1	Combined Spend (\$)
FACILITIES	1,503,336,342
FINANCIAL SERVICES	683,148,702
INFORMATION TECHNOLOGY	306,882,084
SCIENTIFIC & MEDICAL	264,067,446
PROFESSIONAL SERVICES	185,833,216
FOODSERVICE	128,639,464
LIBRARY RESOURCES	97,049,837
TRAVEL	81,155,094
ADMINISTRATIVE	66,644,538
<b>TOTAL EXPENDITURE</b>	<b>3,316,756,723</b>

Total Yearly Addressable Spend



### Comments:

- Addressable spend represents vendor spend that can be influenced by sourcing efforts to achieve better pricing, financial incentive terms, improved supplier relationships, etc.
- Non-addressable categories include: internal transfers, research subcontracts, not-for-profit institutions, payments to individuals (due to lack of visibility into expense reimbursement, payments to government, etc.)

# Spend Categorization

## SPEND EVALUATION

Huron has identified 9 level 2 categories in which there is a high estimated spend volume as well as significant distribution across vendors.

Category Level 1	Category Level 2	Combined Spend (\$)	Number of Vendors Accounting for over 5% of Total Level 2 Spend	Number of Category 2 Vendors over \$5M	Total Number of Vendors
FACILITIES	Maintenance and Repair Products	49,304,883	2	1	84
INFORMATION TECHNOLOGY	Computer Hardware	78,997,502	3	3	16
SCIENTIFIC AND MEDICAL	Medical Supplies and Equipment	111,084,811	3	3	103
	Scientific Supplies and Equipment	68,740,088	3	2	114
FOODSERVICE	Foodservice Products	80,545,713	2	1	43
ADMINISTRATIVE	Office Related Products	17,912,592	4	0	22
	General Retail	17,606,179	3	0	27
	Document Service	16,910,692	3	0	21
	Shipping & Logistics	14,215,075	4	0	19

**Huron believes these categories represent areas in which there are significant savings opportunities available to Ohio by consolidating spend to fewer vendors.**



# Potential Categories for Strategic Sourcing

EXAMPLE SPEND ANALYSES (1 OF 2)

Huron has presented example savings opportunities in select categories below.

Potential Category	Primary Potential Target Vendors	Est. Annual Spend Total (\$)	Estimated Savings (%)	Estimated Savings (\$)		Notes
				Low End	High End	
1. Desktops/Laptops	CDW	26,995,889	8 - 15%	\$6.3M	\$11.9M	~Spend likely overlaps IT Peripherals
	Dell	21,557,821				
	Apple	20,707,189				
	Remaining Computer Hardware	N/A				
2. Scientific Supplies, and Equipment	Fisher	13,507,812	3-7%	\$2.2M	\$4.6M	~ Opportunities for further supplier consolidation and spend leveraging
	Bruker Biospin Corp.	11,013,109				
	Thermo Electron North America LLC	3,917,933				
Remaining Scientific Supplies and Equipment	N/A	40,301,234				
3. Office Supplies and Paper and Office Equipment	Office Max	4,045,730	7-14%	\$1.3M	\$2.5M	~ Toner spend likely overlaps IT Peripherals
	Staples	2,677,328				
	Xerox	3,488,310				
	Ricoh	1,696,242				
Remaining Office Related Products	N/A	5,643,747				

# Potential Categories for Strategic Sourcing

EXAMPLE SPEND ANALYSES (2 OF 2)

Huron has presented example savings opportunities in select categories below.

Potential Category	Primary Potential Target Vendors	Est. Annual Spend Total (\$)	Estimated Savings (%)	Estimated Savings (\$)		Notes
				Low End	High End	
4. General Maintenance Products, Electrical, Plumbing, and Mechanical Supplies	Enerfab Electric	8,687,967	3-7%	\$1.3M	\$3.7M	~ Category contains many lower spend niche and small, local suppliers
	Precision Industrial	3,074,233				
	Grainger	1,559,197				
	Sauer Technical	1,258,838				
	Fastenal	1,187,730				
	Trane Columbus	1,162,445				
Remaining MRO Products	N/A	32,374,473				
5. Express Shipping	USPS	1,647,405	7-11%	\$938K	\$1.6M	~Opportunities for supplier consolidation to improve spending leverage
	Federal Express	481,493				
	UPS	762,013				
Remaining Shipping & Logistics	N/A	11,324,164				

# Benefits

**Huron was unable to evaluate benefits offerings in detail, however, information related to top practices and strategies for evaluating retiree benefits and healthcare offerings have been provided.**

- Sampling of best practices
- Healthcare
  - Example Plan Offerings

# Benefits

## SAMPLING OF BEST PRACTICES

**Top practices associated with different benefits sections are outlined below; Ohio should evaluate its current benefits offerings to determine where there may be savings opportunities available.**

Top Practices	COMMENT
Medical Contribution	Benchmark the current medical contribution to determine if it is below 50 <sup>th</sup> percentile. Determine if there is opportunity to bring contributions to 50 <sup>th</sup> percentile. and if tiers are in line with benchmarks.
Opt Out	Organizations may offer money for employees to opt out of benefit plan offering. It is best practice to remove the opt out option.
Working Spouse/Domestic Partner Premium	It is leading practice to implement working spouse premium for medical plan offerings. The working spouse premium charges \$ per pay period if spouse/domestic partner have access to coverage through their employer.
Dental Contribution	Benchmark the current medical contribution to determine if it is below 50 <sup>th</sup> percentile. Determine if there is opportunity to bring contributions to 50 <sup>th</sup> percentile. and if tiers are in line with benchmarks.
Pharmacy – Generic Dispensing Rate Improvement	Review the current generic drug utilization and dispensing rate to determine if opportunity exists to implement mandatory generic
Medical and Employee Prescription Plan Changes	Modify plan design according to industry benchmarks
Dental Plan Changes	Modify plan design according to industry benchmarks
Retirement Contribution	Modify contribution and plan design according to industry benchmarks
Life Insurance	Evaluate the cost of existing program by facilitating a request for proposal
Wellness Incentives – Non-Wellness and Wellness Contribution	Determine if opportunity exist to implement wellness incentives such as wellness and non-wellness contribution structure

**In assessing healthcare plan offerings to determine where savings opportunities may be available, Ohio should evaluate and compare the metrics described in detail below.**

- Total Benefits Expense per Employee FTE: Total dollars payable for employee benefits both provider and non-provider / sum of benefit eligible FTEs
- Health Insurance Expense per Employee FTE: Total employee cost of employee health insurance and supplementary programs, such as dental and vision, whether through premiums or self insured programs for both employed providers and employed non-providers / sum of benefit eligible FTEs
- Health Benefits Expense per Covered Employee: Total employer cost of employee health and employee Rx coverage / sum of employees electing health benefit coverage
- Benefits Expense as a % of Net Operating Revenue: Total dollars payable for employee benefits both provider and non-provider / total institutional dollar revenue
- Benefits Expense as a % of Total Operating Expense: Total dollars payable for employee benefits both provider and non-provider / total operating expense

**Ohio should evaluate and compare healthcare plan offerings both within the Ohio system and to institutional benchmarks.**

# Benefits

## HEALTHCARE – EXAMPLE PLAN OFFERINGS

Huron evaluated healthcare plan offerings from select Ohio universities and found significant variability in in both the plan and deduction designs; examples of two plans are shown below.

The Ohio State University								
Monthly Cost	Prime Care Advantage	Prime Care Choice		Prime Care Connect Network	Out-of-Area Plan Non-Network	Basic PPO Plan		Basic Out of Area Plan Non-Network
		Network	Out-of-Network			Network	Out-of-Network	
<b>Full Time Employees</b>								
Employee Only	\$79.23	\$38.55	\$38.56	\$79.23	\$79.24	\$98.33	\$98.33	\$98.33
Employee + Children	\$160.37	\$85.11	\$85.12	\$160.37	\$160.38	\$202.80	\$202.80	\$202.80
Employee + Spouse	\$206.59	\$121.17	\$121.18	\$206.59	\$206.60	\$243.53	\$243.53	\$243.53
Family	\$304.44	\$177.32	\$177.33	\$304.44	\$304.45	\$369.52	\$369.52	\$369.52
<b>Part-Time Employees</b>								
Employee Only	\$219.62	\$178.94	\$178.95	N/A	\$219.62	\$196.66	\$196.67	\$196.68
Employee + Children	\$410.54	\$335.28	\$335.29	N/A	\$410.54	\$363.82	\$363.83	\$363.84
Employee + Spouse	\$476.69	\$391.27	\$391.28	N/A	\$476.69	\$422.99	\$422.10	\$422.10
Family	\$706.92	\$579.80	\$579.81	N/A	\$706.92	\$624.56	\$624.57	\$624.58
Annual Deductible	\$200 per person	\$600	\$1200	None	None	\$800	\$1600	\$800
	\$600 per family	\$1800	\$3600			\$2400	\$4800	\$2400
Annual Out-of-Pocket	\$2,000 per person	\$3,000	\$6,000	\$1,000	\$2,000	\$3,500	\$7,000	\$3,500
Maximum	\$4,000 per family	\$6,000	\$12,000	\$3,000	\$4,000	\$7,000	\$14,000	\$7,000

Ohio University	
Monthly Cost	PPO Plan
<b>Full Time Employees – Rates vary by salary level</b>	
Employee Only	\$43.63 - \$77.56
Employee + One	\$87.25 - \$155.12
Employee + Family	\$130.88 - \$232.68
<b>Part-Time Employees – Rates vary by hours worked per pay period</b>	
Employee Only	\$30.20 - \$225.23
Employee + One	\$60.41 - \$443.82
Employee + Family	\$90.61 - \$665.72
Annual Deductible (In Network)	\$200 Individual, \$400 Family
Annual Out-of-Pocket Maximum (In Network)	\$1,200 Individual, \$2,400 Family

- Plan designs vary significantly making direct comparisons difficult
- An opportunity exists to leverage purchasing power and establish consistent medical plan offerings across institutions to reduce overall cost
- Combing plans would likely lead to efficiencies in plan administration as well