

Quality health plans & benefits  
Healthier living  
Financial well-being  
Intelligent solutions



# The Art of Procuring Services



## Agenda

- Who is Aetna
- Composition of a Services Supply Chain
- Services Sourcing Lifecycle
- The Way We Were
- Forces that Drive a Services Supply Chain
- The Delivery Landscape of a Services Organization
- A Delicate Balancing Act
- The New Operating Environment
- Assessing Risk
- Migration to Supply Chain Excellence
- Hurdles to Overcome
- Governance
- Conclusions
- Questions

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## Who we are

### Why we exist: The Aetna mission

Aetna is dedicated to helping people achieve health and financial security by providing easy access to safe, cost-effective, high-quality health care and protecting their finances against health-related risks.

Building on our 158-year heritage, Aetna will be a leader cooperating with doctors and hospitals, employers, patients, public officials and others to build a stronger, more effective health care system.

### Our values

Everything we do at Aetna starts with our values -- a clear, strongly held set of core beliefs that reflect who we are and what you can expect from us. We created our core values together, as one company with more than 30,000 individual voices, and with guidance from our customers. Our values carry through our thoughts and actions every day, inspire innovation in our products and services, and drive our commitment to excellence in all we do.

- Chairman, CEO and President Mark Bertolini



- **Integrity** - Do the right thing for the right reason
- **Excellence** - We strive to deliver the highest quality and value possible through simple, easy and relevant solutions
- **Caring** - We listen to and respect our customers and each other so we can act with insight, understanding and compassion
- **Inspiration** - We inspire each other to explore ideas that can make the world a better place

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## Aetna Overview



### Customers

- We serve ~35.3M unique people
- Customers include individuals, employer groups, health plans, hospitals/physicians, government-sponsored plans and expatriates



### Membership (as of 12/31/10)

- 18.5 million medical members
- 9.4 million pharmacy members
- 13.7 million dental members
- ~10.0 million PHR members



### USA Networks

- 1M+ health care professionals (561K+ primary care doctors & specialists) and 5K+ hospitals
- Aexcel high-performance provider network focused on clinical performance and cost efficiency



### International Presence

- Health benefits for expatriate employees and dependents
- Access to 61K+ health care providers outside the U.S.
- Global presence with locations throughout the world



### Medical Management

- Processed ~350 million claims in 2010, representing over \$63 billion in total medical costs
- Over 3,000 nurses and 100 physicians on staff

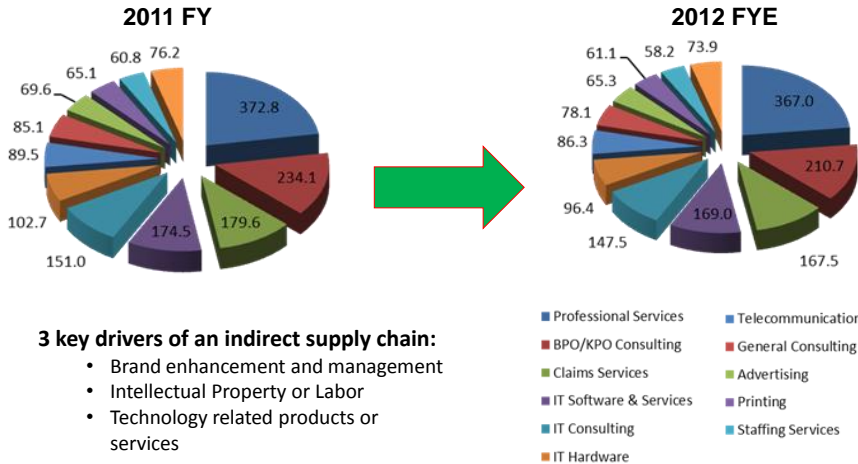


### Health Information Technology

- Acquired Medicity, a leading Health Information Exchange
- Evidence-based clinical rules engine (CareEngine®) identifies gaps in care
- One of the largest clinical data warehouses in the U.S.
- Using technology and management resources to work with providers

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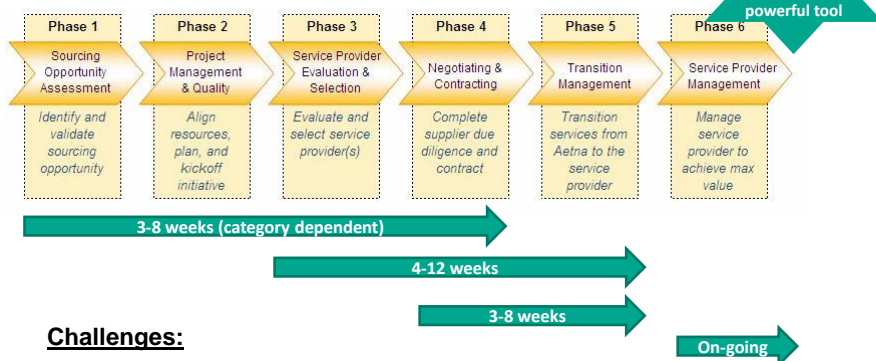
## Composition Of A Services Supply Chain



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## The Sourcing Lifecycle of a Services Organization

The process to source a service is no different than one for direct materials.....



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## The Way We Were



### Show Me the Money



The art of the deal was simple.....

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## Forces That Drive A Services Supply Chain

Beyond  
Cost &  
Quality

### Internal

- Increased reliance on third parties
  - Outsourced Operations
- Competing Goals and Objectives
  - Supplier Diversity vs. YOY Productivity
- Expanded use across Functions/business lines
  - Back-office operations across different domains
- Broader geographic coverage
  - Global operations
  - Off-shore vs. near shore, etc.
- Plan Sponsor Requirements
  - Off-shore/On-shore requirements

### External

- Legislation
  - Health Care Reform, Medicare, etc.
  - Call Center and Worker Protection Act
- Increased Privacy Requirements
  - PHI, Confidential Information, etc.
- Competitive Landscape
  - Cost, quality and delivery of service
  - Rising Off-shore Labor Costs
- Cyber Crime
  - Intrusion Protection
- Corporate Social Responsibility

Mounting pressure requires a carefully well defined and executable strategy

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## A Services Landscape



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CORPORATE  
SOCIAL RESPONSIBILITY

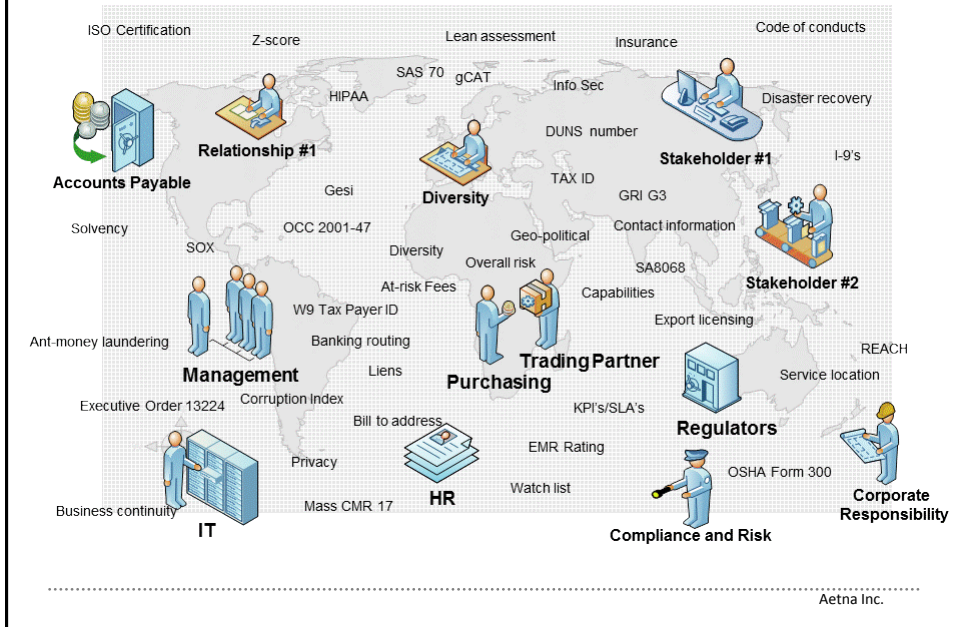
## A Balancing Act



Negotiating beyond cost and quality

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## Risk Factors:

**Services Provided:** Access to PHI/NPI and PCI is key criteria which assesses the potential total number of members impacted

**Unique Services:** Supplier provides a unique service or is the only supplier or one of a few to provide the same service

**Subcontractors:** The number of and use of subcontractors to assist in performing services on behalf of Aetna

**Transaction Volume:** The number of services or functions performed and the volume of those services provided.

**Length of Service:** Number of years supplier has provided service.

**Geographic Location:** Service delivery includes multiple domestic and global locations.

**Operations on Infrastructure:** Supplier uses customer's infrastructure; their own at their primary location, or their corporate infrastructure at another or 'parent' location.

**Corporate Structure:** Start-up, global operation, Fortune 100, Fortune 500, or other.

**Spend:** Annual supplier spend

**Results of Onsite Assessments:** Level of control indicated in previous on-site assessments.

**Breach or Security Incident Reported:** A breach or security incident reported within the last 24 months.

## Risk Assessment Results

	High Risk	Medium Risk	Low Risk
% of Suppliers:	23%	69%	17%
# of Suppliers:	36	94	26

## Analysis

(9) of the high risk supplier group had a Third Party Onsite assessment in 2008 or 2009

(11) of the high risk suppliers are EDI Clearinghouses. A total of 30 tier 1 suppliers are EDI Clearinghouses. EDI Clearinghouses are covered entities and require alternate certifications (EHNAC, required in EDI industry)

Of the 156 tier 1 suppliers from 2007 to ytd 2009, 20 suppliers have had an onsite assessment.

All tier 1 offshore suppliers (7) have had an onsite assessment.

Mitigating Risk Protects the Brand



## Migration to Supply Chain Excellence

### Master:

Moving to a managed services or outcome based operating model. Goal is a sustainable operating model that is adaptable to external impact.

### Visionary:

Bundling of services or related functions with some degree of outsourcing or out-tasking as well as the assessment of various inputs on the cost of the operations. Typically Level II Category Management with some minor enhancements

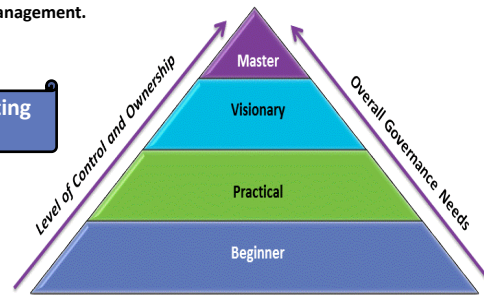
### Practical:

Typically 2<sup>nd</sup> generation sourcing activity, assessing supply chain levers such as demand management, etc. Level II category management

### Beginner:

Traditional procurement or sourcing related operations and functions. Pure expense reduction and level 1 category management.

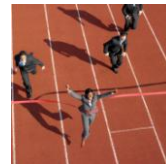
Fundamental shift in business and operating model.....from B2B to D2C



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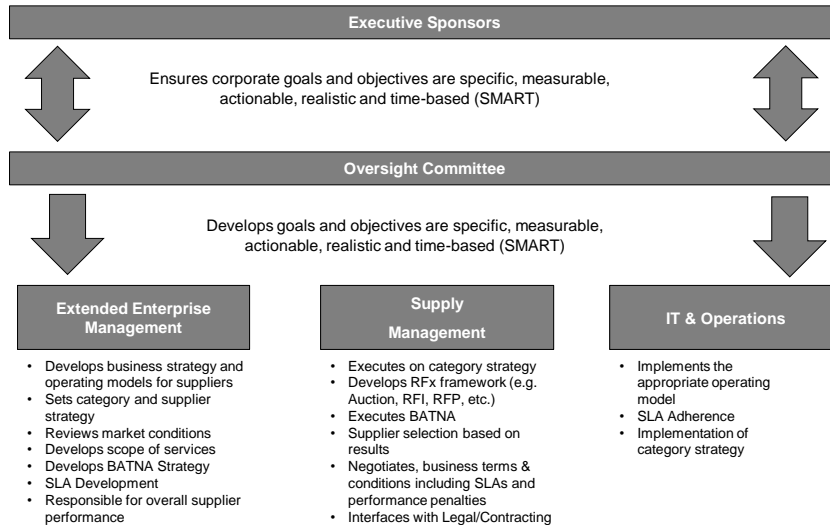
## Hurdles



- Usage of suppliers on or off-shore) typically is tactical and fragmented.
- External sourcing strategies tend to be weak or nonexistent in many enterprises
- Alignment on what a "good deal" means between business units, the team managing a deal and the service provider.
- Skill development necessary to manage service providers.
- Vendor selection focused on lowest price vs. differentiated services, value and delivery options
- Management of outsourced relationships specific each line of business
- Vendor management practices tend to be incomplete and dependent on specific individuals.

An enterprise approach to sourcing and service provider management is paramount to success

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**A carefully well defined and executable strategy is necessary**

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- Sourcing services in not too different than sourcing direct materials or products
- Understand and assess the “new operating environment”
- Quantify risks and develop plans to reduce or eliminate them
- Define a strategy to continuously improve performance building an executable path of work
- Know where you are on the Migration Path to Supply Chain Excellence
- Govern the process by including the appropriate stakeholders and business constituents



**Create Value, Partnerships and Deliver Results Everyday!**

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Healthier living  
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Intelligent solutions



## Questions?

### Contact Information

