



University of Kentucky

Strategic Sourcing Business Case
Scientific Supplies – Distributors and Select Niche Vendors

January 25th, 2012

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Our Approach

Strategic Sourcing Guiding Principles

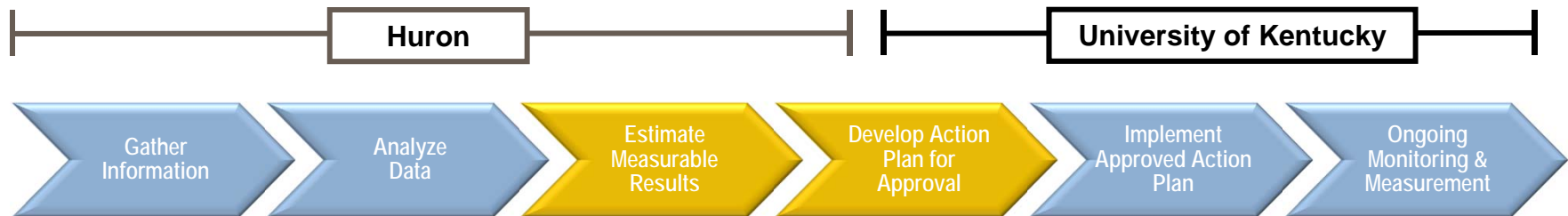
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- Total delivered cost reduction focus
- Maintain or enhance quality
- Optimize behavior change
- Fact based negotiations
- Deliver savings within a compressed time frame
- Leverage Huron knowledge and client team expertise
- Strengthen overall supplier relationships

Our Approach

Strategic Sourcing Methodology

Huron utilizes a proven six step methodology to help clients identify and implement cost savings.



Key Activities					
Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
<ul style="list-style-type: none"> Internal Data <ul style="list-style-type: none"> Spend data Contracts Invoices Reporting Market data Stakeholder discussions 	<ul style="list-style-type: none"> Spend analysis Contract analysis Determine key cost drivers Intellectual property Cost modeling Command of the facts 	<ul style="list-style-type: none"> Set targets Present compelling supportive facts Estimate opportunity Demand management 	<ul style="list-style-type: none"> Determine best approach Ensure team collaboration Solicit stakeholder input 	<ul style="list-style-type: none"> Determine desired outcome Fact-based negotiations Persistent approach 	<ul style="list-style-type: none"> Implement final agreement and processes Develop audit plan & monitoring process Ensure performance is compliant End user education and knowledge transfer

- **The scientific supplies market is dominated by two major distributorships and many regional and niche companies**
 - Larger distributors Thermo Fisher and VWR commonly buying up smaller niche companies
 - Many niche vendors offer highly differentiated products which have effectively gained researchers' loyalty

- **A high level of competition exists between Thermo Fisher and VWR**
 - Both suppliers strive to provide “one-stop-shop” service; both are capable of extensive product catalog offerings and similar level of customer services
 - Continual efforts to obtain primary or preferred status on campuses; long term preferred status is highly valued by suppliers
 - Exclusive agreements generally do not provide the required flexibility necessary for research activities

- **Varying contract structures and extensive catalog / product offerings create complexity in comparing suppliers**
 - It is often highly difficult to cross match between Fisher and VWR contract product categories to compare general discounts and pricing

- **In addition to pricing, other important elements of a preferred supplier relationship include:**
 - Account representatives
 - Additional incentives (volume rebate, order size rebate, conversion / loyalty bonus, etc.)
 - Shipping terms
 - On campus freezers / storeroom operation

- **The University of Kentucky conducted a general scientific supplies request for bid event in early 2007 in an effort to bring more spend in the scientific supply commodity area under contracts**
 - 18 vendors submitted pricing proposals and all were awarded contracts without further negotiations
 - Both the current Fisher and VWR contracts are the result of this 2007 bidding event

- **Fisher has been the University's unofficial primary scientific supplier since 1997 and has had the same account representative for close to 30 years**
 - Fisher also has an onsite customer service representative on campus for approximately 15 years
 - VWR does not have an onsite customer service individual on the UK campus, but desires for such an arrangement

- **The Procurement Card is UK's current preferred method of payment for products purchased from Fisher, VWR and other contract scientific suppliers**
 - End users can place their Fisher orders directly by calling the onsite representative or logging on to the UK specific Fisher website portal, paying with the Procurement Card for both methods of ordering
 - Similarly, VWR orders are either placed directly with the VWR offsite customer service representative or through the UK specific VWR website portal

- **UK recently went live with the SAP Supplier Relationship Management (SRM) module enabling UK with eProcurement functionalities such as punching out to a supplier website, hosted catalog management, etc.**
 - Currently the only supplier enabled in SRM is OfficeMax, with Dell very close to setup completion
 - UK desires to have the awarded preferred scientific supplier setup in SRM as well post the necessary competitive strategic sourcing process to establish improved contract structure and pricing

Perspectives

Commodity Area Spend Overview

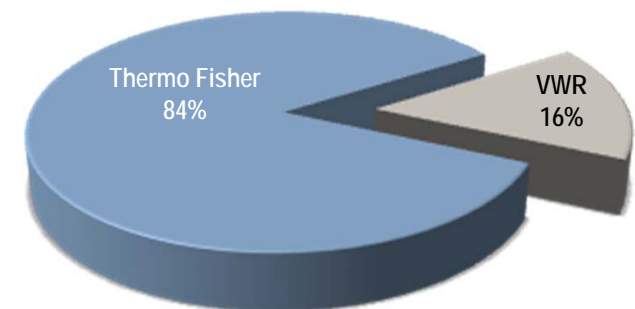
Large scientific supply distributors Thermo Fisher and VWR are the primary focus of the Huron strategic sourcing business case development; high level assessments are also conducted for select high spend niche vendors.

Scientific Suppliers Spend Overview (\$'s in 000s)

Supplier Name	Est. Annl. Spend	% of Total Spend	Contract Supplier	Supplier Sample Data
<i>Major Distributor</i>				
Thermo Fisher	\$8,605	50%	Yes	\$5,155
VWR	885	5%	Yes	\$960
Major Distributor Subtotal	\$9,490	55%		\$6,115
<i>High Spend Niche Vendor</i>				
Invitrogen Corp.	\$1,355	8%	Yes	\$1,740
Sigma-Aldrich	985	6%	No	-
Beckman Coulter, Inc.	930	5%	Yes	450
Applied Biosystems	810	5%	Yes	585
Target Niche Vendor Subtotal	\$4,080	24%		
Other Scientific Suppliers (19)	\$3,500	21%	All Contract Vendors	
Total	\$17,070	100%		

- Fiscal Year 2011 AP and P-Card data reveals that the University of Kentucky spent approximately \$9.5M with Thermo Fisher and VWR combined
- Detailed transactional data was requested from Thermo Fisher and VWR and are utilized as the basis for all subsequent analysis

Spend Distribution Between Thermo Fisher and VWR



- Combined, Thermo Fisher and VWR account for approximately 55% of scientific supply commodity area spend
- Fisher accounts for approximately 84% of total distributors spend while VWR accounts for the other 16%, making Thermo Fisher the clear primary supplier

Perspective

Fisher and VWR Contract Summary

Thermo
Fisher

VWR

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Thermo Fisher and VWR are on the same contract cycle, both contracts were established in March 2007 and are currently set to expire at the end of January, 2012.

Terms and Conditions	Thermo Fisher	VWR
Contract Term	<ul style="list-style-type: none">1 year initial term; March 1, 2007 through February 28, 2008Contract pricing has been extended since the last update in March 1, 2009 until July 31, 2012	<ul style="list-style-type: none">1 year initial term; March 1, 2007 through February 28, 2008Contract pricing has been extended until July 31, 2012
Termination	<ul style="list-style-type: none">University of Kentucky, Division of Purchasing, reserves the right to terminate all or part of the contract without cause, with a 30 day written notice	<ul style="list-style-type: none">University of Kentucky, Division of Purchasing, reserves the right to terminate all or part of the contract without cause, with a 30 day written notice
Pricing Terms	<ul style="list-style-type: none">General CDC discount scheduleApproximately 420 C-Contract pricing for Corning items through FisherOther special pricing such as manufacturer pricing for Falcon products	<ul style="list-style-type: none">General discounts by product / vendor category and subcategories
Shipping Terms	<ul style="list-style-type: none">Normal freight prepaid and absorbed by FisherUniversity of Kentucky is responsible for dry ice, fuel charges, hazardous material, special handling, and third party shipping charges	<ul style="list-style-type: none">Normal freight prepaid and absorbed by VWRUniversity of Kentucky is responsible for dry ice, fuel charges, hazardous material, special handling, and third party shipping charges

Business Case

Spend by Manufacturer

Thermo
Fisher

VWR

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Analysis of spend by manufacturer indicates that products made by many identical and similar manufacturers are currently purchased from both Fisher and VWR.

Thermo Fisher – Top 10 Manufacturers

Manufacturer	(\$'s in 000s)	
	Est. Annl. Spend	% of Spend
THERMO FISHER	\$2,285	44%
BD	350	7%
CORNING	340	7%
EPPENDORF	225	4%
MILLIPORE	210	4%
PROMEGA CORPORATION	195	4%
NALGE NUNC INTERNATIONAL	115	2%
GE HEALTHCARE	75	1%
KIMBERLY CLARK	60	1%
CEPHEID	55	1%
Top 10 Manufacturer Subtotal	\$3,910	75%
Other (518)	\$1,245	25%
Total	\$5,155	100%

VWR – Top 10 Manufacturers

Manufacturer	(\$'s in 000s)		Also Purchased / Available through Fisher
	Est. Annl. Spend	% of Spend	
VWR INTERNATIONAL	\$205	21%	Fisherbrand Private Label
EPPENDORF	75	8%	Fisher Top 10 Mfr.
BD	65	7%	Fisher Top 10 Mfr.
THERMO FISHER	50	5%	Fisher Top 10 Mfr.
PROMEGA CORPORATION	40	4%	Fisher Top 10 Mfr.
QUANTA BIOSCIENCES	35	4%	No
GE HEALTHCARE	30	3%	Fisher Top 10 Mfr.
CORNING	30	3%	Fisher Top 10 Mfr.
MILLIPORE	30	3%	Fisher Top 10 Mfr.
OMEGA BIO-TEK	30	3%	No
Top 10 Manufacturer Subtotal	\$590	61%	
Other Mfrs. (238)	\$370	39%	
Total	\$960	100%	

- Overall, products made by over 130 manufacturers were purchased from both Fisher and VWR during FY 2011; over 75% of spend from VWR could also be purchased from Thermo Fisher
- Both Thermo Fisher and VWR carry private label supplies and equipment which are mostly technical equivalents

Source: FY 2011 12 months supplier sample data provided by Fisher and VWR.

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Business Case

Purchase Duplications (1 of 2)

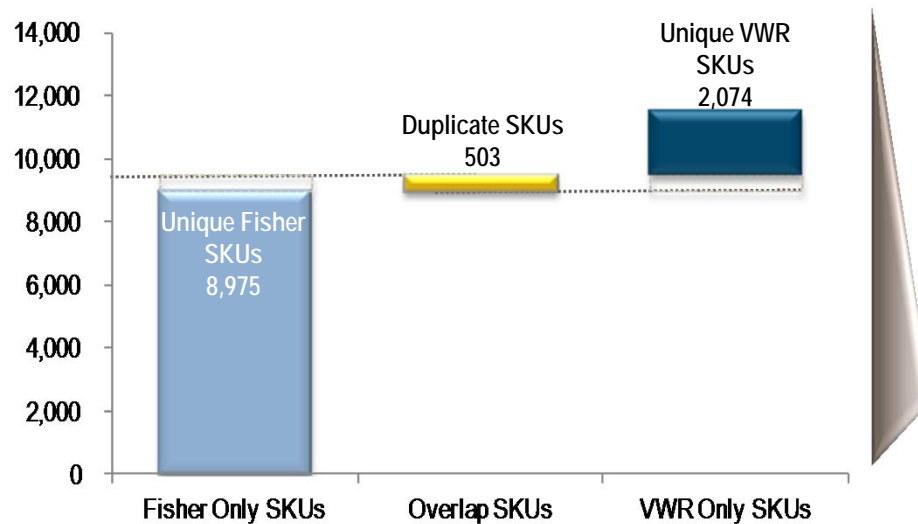
Thermo
Fisher

VWR

HuronEducation

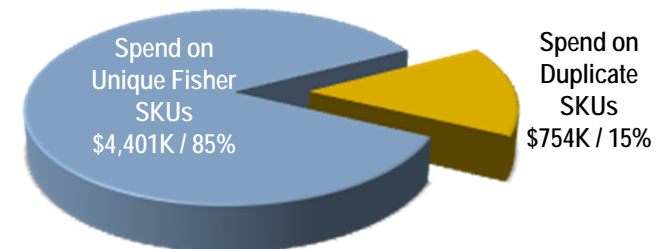
Detailed supplier data analysis indicates that over 500 identical items were purchased from both Fisher and VWR, suggesting opportunities to consolidate distributors spend and achieve improved spend leverage.

Number of SKUs Purchased from Fisher and VWR



- Total spend on duplicate items is approximately \$940K and accounts for an estimated 15% of Fisher and VWR combined total

Fisher Spend Breakdown



- A total of approximately 11,550 unique SKUs were purchased from Fisher and VWR, including 503 identical SKUs purchased from both vendors
- The duplicate SKUs account for 5% of all items purchased from Fisher and approximately 19% of all items purchased from VWR

VWR Spend Breakdown



Source: FY 2011 12 months supplier sample data provided by Fisher and VWR.

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Purchase Duplications (2 of 2)

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VWR

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UK campus users paid different prices for identical items purchased from Fisher and VWR; overall Fisher had better pricing on 260 of the duplicate items out of the 503 in total, while VWR had better pricing on 243 items.

Top 20 Identical Items Purchased from Both Fisher and VWR

Mfr. #	Item Description	Total Qty.	Est. Annl. Spend	Fisher		VWR	
				Qty	Average Unit Price	Qty	Average Unit Price
SH30396.03	CANADIAN CHARACTER FBS 500ML	247	\$29,085	227	\$117.07	20	\$125.37
430167	TIS CULT DISH 100X20MM 500/CS	94	22,035	93	234.41	1	233.99
RPN2132	ECL PLUS WB REAGENTS (1000CM2)	93	20,960	87	223.03	6	259.61
3422	COVER GLS 24X50MM 1/PK	156	20,580	140	131.97	16	131.59
351029	PETRI DISH STRL 100X15MM CS500	230	18,195	224	79.11	6	79.10
4488	STRIPETTE ORANGE 10ML CS200	461	17,750	450	38.50	11	38.44
AS1030	MAXWELL 16 TISSUE DNA 48PREPS	66	17,045	41	263.96	25	248.90
357551	PIPET SEROLOGICAL 10ML 200/CS	399	16,660	390	41.75	9	41.66
SH30071.03	CHARACTERIZED FBS 500ML	53	16,175	51	306.07	2	283.29
353003	CULTURE DISH ST 100X20MM CS200	127	16,145	104	125.46	23	134.73
N2615	RNASIN PLUS RNASE INHIBITOR	56	15,320	53	273.33	3	277.40
E1960	DLR 10 X 100 ASSAYS	12	14,900	9	1,237.47	3	1,253.67
357525	PIPET SERO DISP 25ML 200/CS	120	12,555	115	104.66	5	103.71
357543	PIPET SEROL 5 X 1/10ML 200/CS	286	11,495	279	40.20	7	40.19
A3500	REVERSE TRANSCRIPTION SYS 1SYS	26	10,990	16	423.99	10	420.50
4487	STRIPET 5ML PAP/PLAS ST 200/CS	289	10,700	278	37.04	11	36.67
3506	CLUSTER TC 6WELL 5/BAG CS100	89	10,275	87	115.49	2	113.71
430641	FLASK CANTED NECK 75CM2 CS100	86	10,030	83	116.44	3	122.34
4489	STRIPET IN PPR/PLST 25ML 200CS	104	9,880	102	94.97	2	96.25
34155	KIMWIPE SML 4-1/2X8-1/2 280/PK	568	9,820	539	15.78	29	45.38
...

- VWR's pricing for the duplicate items is approximately 6% higher compared to those paid to Fisher

Current Baseline for 503 Duplicate Purchase Items	\$940,055 Total	-
If Purchase All 503 Items from Fisher	\$941,860 Total	0.2% > Baseline
If Purchase All 503 Items from VWR	\$999,615 Total	6.3% > Baseline

Source: FY 2011 12 months supplier sample data provided by Fisher and VWR.

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Pricing Variance

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In addition to pricing variance observed between Fisher and VWR on identical items, pricing variance is also frequently observed for items only purchased through Fisher; variance exists to a lesser degree for VWR purchases.

Examples of Fisher Pricing Variance

Invoice Date	Mfr. #	Manufacturer Name	Item Description	UOM	Unit List Price	Unit UK Price	Discount off List Price
1/17/2011	ND-2000	THERMO FISHER	NANODROP 2000	EA	\$9,425.00	\$8,568.18	9%
4/12/2011	ND-2000	THERMO FISHER	NANODROP 2000	EA	9,425.00	8,870.59	6%
6/16/2011	ND-2000	THERMO FISHER	NANODROP 2000	EA	9,425.00	8,950.00	5%
12/20/2010	UFC801024	MILLIPORE	AMICN ULTRA CNTRFUGL 4ML 24PK	PK	\$118.59	\$118.59	0%
1/20/2011	UFC801024	MILLIPORE	AMICN ULTRA CNTRFUGL 4ML 24PK	PK	118.59	106.00	11%
3/17/2011	UFC801024	MILLIPORE	AMICN ULTRA CNTRFUGL 4ML 24PK	PK	118.59	111.00	6%
9/2/2010	GD14955127	THERMO FISHER	CUVETTE SEMI-MICRO 1.5ML 500CS	CS	\$139.18	\$41.80	70%
12/9/2010	GD14955127	THERMO FISHER	CUVETTE SEMI-MICRO 1.5ML 500CS	CS	139.18	34.42	75%
5/26/2011	GD14955127	THERMO FISHER	CUVETTE SEMI-MICRO 1.5ML 500CS	CS	139.18	72.93	48%
10/12/2010	05090100	THERMO FISHER	MINI CENTR W/2 ROTORS 115-240V	EA	\$424.11	\$276.60	35%
5/24/2011	05090100	THERMO FISHER	MINI CENTR W/2 ROTORS 115-240V	EA	424.11	212.42	50%
5/26/2011	05090100	THERMO FISHER	MINI CENTR W/2 ROTORS 115-240V	EA	424.11	214.92	49%
2/15/2011	SH30200.01	THERMO FISHER	MCCOY S 5A W/ L-GLUT 500ML	EA	\$16.84	\$12.00	29%
4/19/2011	SH30200.01	THERMO FISHER	MCCOY S 5A W/ L-GLUT 500ML	EA	16.84	13.47	20%
6/9/2011	SH30200.01	THERMO FISHER	MCCOY S 5A W/ L-GLUT 500ML	EA	16.84	6.26	63%

Source: FY 2011 12 months supplier sample data provided by Fisher.

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Business Case

Core List Establishment and Target

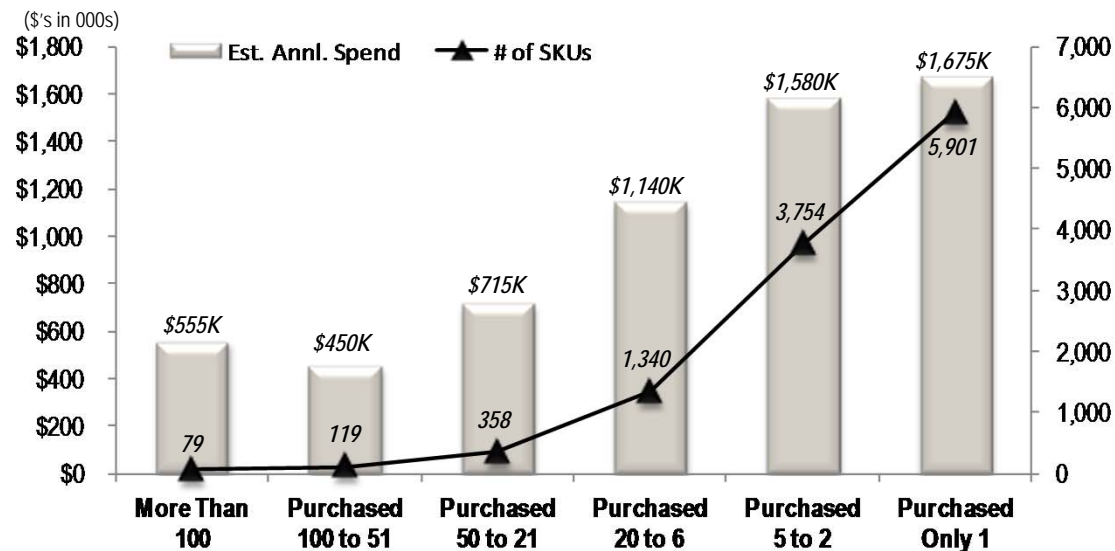
Thermo
Fisher

VWR

HuronEducation

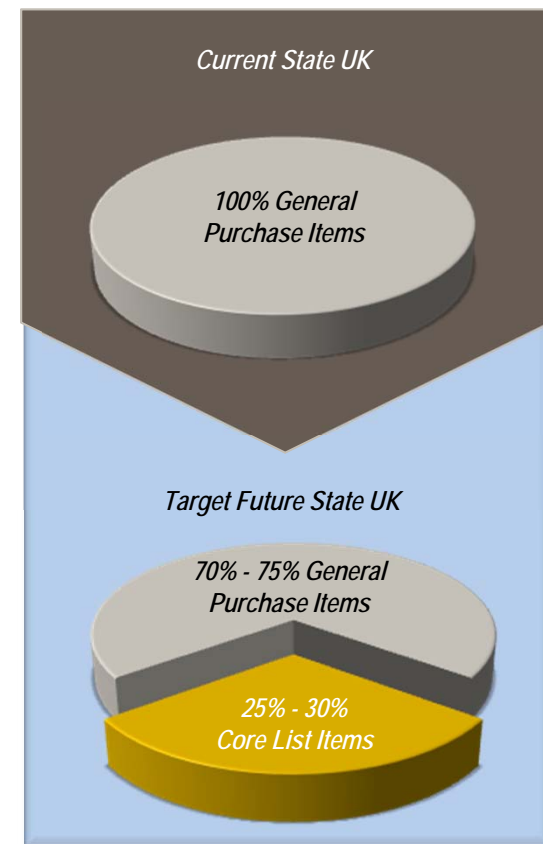
Due to spend duplication between Fisher and VWR as well as UK's general purchasing pattern, establishing a combined core list of high spend and high volume items would improve pricing and generate cost savings.

Fisher and VWR Combined Spend Stratification



- Over 51% of combined Fisher and VWR unique SKUs were only purchased once during the past 12 months; these items account for an estimated 27% of sample spend
- 556 items purchased in quantities greater than 20, or 5% of total unique SKUs, account for approximately \$1,720K, or 28% of total spend
- Industry best practice indicates that an appropriately constructed core list of high spend and high volume items can account for between 25% to 30% of total distributor spend to achieve cost savings through aggressively discounted pricing

Target Spend on Core List Items



Source: FY 2011 12 months supplier sample data provided by Fisher and VWR.

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Potential UK Core Items

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Fisher

VWR

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Detailed data analysis indicates that a list of 370 combined high spend and high volume Fisher and VWR items would account for approximately 27% of total combined spend, which makes those items good core list candidates.

Examples of Ideal Core List Items

Mfr #	Item Description	Manufacturer	UOM	Total Qty	Est. Annl. Spend	Purchased From	Discount Received	Potential Core Item
SC2500461	SMARTCYCLER II, 2 BLOCK LAPTOP	CEPHEID	EA	1	\$55,700	Fisher	2%	
30450-01	VIDAS BRAHMS PCT 60/PK	BIOMERIEUX	PK	20	40,075	Fisher	6%	Yes
SH30396.03	CANADIAN CHARACTER FBS 500ML	THERMO FISHER	EA	247	29,085	Fisher / VWR	22%	Yes
4951PLUS-600621	SLIDE SUPERFR + 25X75MM144/GR	THERMO FISHER	GR	445	27,220	Fisher	46%	Yes
1387	CLASS II A2 6 115V PACKAGE	THERMO FISHER	EA	3	26,675	Fisher	15%	
ND-2000	NANODROP 2000	THERMO FISHER	EA	3	26,390	Fisher	7%	
DEL/46900	WX 80 ULTRA SORVALL	THERMO FISHER	EA	1	25,970	Fisher	35%	
11386R9A1D0	ULT1386-9-A -86C 115V UPRIGHT	THERMO FISHER	EA	2	25,420	Fisher	13%	
316-156	PF 10% FORMAL 90/45ML PP 75/CS	THERMO FISHER	CS	374	22,890	Fisher	0%	Yes
11210807	LEGEND 14 MICROCENTRIFUGE	THERMO FISHER	EA	28	22,820	Fisher	40%	Yes
PICM03050	MILLICELL CM .4UM 30MM 50/PK	MILLIPORE	PK	91	22,685	Fisher	13%	Yes
993/DEL	ULT FORMA FRZR 17 UR DBLDR 120	THERMO FISHER	EA	2	22,595	Fisher	25%	
DEL/46900	SORVALL WX 80 ULTRA	THERMO FISHER	EA	1	22,215	Fisher	44%	
430167	TIS CULT DISH 100X20MM 500/CS	CORNING	CS	94	22,035	Fisher / VWR	69%	Yes
51027120/SPEC	KS18 BIO SAFTEY CABINET 6'	THERMO FISHER	EA	2	21,085	Fisher	25%	
RPN2132	ECL PLUS WB REAGENTS (1000CM2)	GE HEALTHCARE	EA	93	20,960	Fisher / VWR	16%	Yes
3422	TC INSRT 24WL 6.5MM 8UM 48/CS	CORNING	CS	154	20,580	Fisher / VWR	36%	Yes
M1369-1125	FERMENTOR ADVNCD 120V 7.5L HB	EPPENDORF	EA	1	20,270	Fisher	14%	
9741WGYPLUS	PROB-ON PLS SLDE GRYTAB 144/PK	THERMO FISHER	PK	308	19,840	Fisher	9%	Yes
2131031813	ISOTEMP 3016S STD 115/60 EA	THERMO FISHER	EA	10	19,555	Fisher	30%	
...

Potential Core List Summary

Core List Selection Criteria

- Total Quantity > 20
- Total Spend > \$1,000

Total SKUs on Core List **370**

- Unique Fisher 231
- Unique VWR 25
- Purchased from Both 114

Est. Total Core Item Spend

\$1,645K

% of Total Fisher and VWR Spend

27%

Savings Opportunities

Current Weighted Average Discount

45%

Weighted Average Discount Target

53% - 58%

- Significant savings opportunities exist to establish a core list of combined Fisher and VWR high spend and high volume items; aggressively discounted pricing for core items can be achieved during the negotiation process

Source: FY 2011 12 months supplier sample data provided by Fisher and VWR.

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Business Case

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Fisher

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Discount by Category Opportunities

Outside of net priced core list items, the primary discount and pricing mechanism that Fisher utilizes is the Category Discount Codes or CDCs; contract discounts are often established for over 120 different CDC numbers.

General CDC Discount Opportunities

(\$'s in 000s)

CDC #	CDC Description	(\$'s in 000s)		UK Contract Discount	Actual Wtd. Avg. Disc.	Huron Experience Contract Discount	
		Est. Annl. Non-Core Spend	% of Non-Core Spend				
999	Miscellaneous Supplies and Equipment	\$890	24%	N/A	17%	No contract discount for CDC 999	
082	Life Science Accommodation	235	6%	2%	4%	15%	- 18%
011	Vacuum pumps, centrifuges, stereo scopes, etc.	190	5%	22%	26%	30%	- 34%
015	Belt guards, cages, weights, tissue grinder, etc.	120	3%	23%	30%	34%	- 38%
016	Gloves, ampoules, filters, weights, balances, etc.	110	3%	27%	34%	36%	- 40%
014	Scope accessories, chromatography paper, etc.	105	3%	15%	30%	34%	- 37%
028	Fisher Private Label instruments	90	2%	22%	28%	30%	- 32%
018	Lab coats, coveralls, weights, beakers, etc.	80	2%	34%	38%	46%	- 48%
012	Vacuum pumps, microscopes/accessories, etc.	80	2%	22%	30%	34%	- 37%
081	Life Science Biochemicals.	80	2%	21%	25%	32%	- 35%
033	Acros Chemicals.	75	2%	9%	10%	12%	- 15%
017	Statfree wear, vacutainer tubes, bottles, etc.	70	2%	29%	33%	41%	- 45%
001	Centrifuges, rotors, incubator ovens, etc.	60	2%	26%	44%	37%	41%
030	Cover glass, slides, vials, separators, etc.	60	2%	50%	51%	58%	- 62%
065	Life Science Exclusives/Premium Products	45	1%	4%	5%	8%	- 12%
021	Lab coats, autoclaving, weights, beakers, etc.	45	1%	49%	52%	58%	- 62%
Top 15 CDC Subtotal		\$1,445	39%				
Other (117)		\$1,350	37%	Various Levels		Various Levels	
Total Non-Core CDC Spend		\$3,685	100%				

- The top 15 contract CDCs account for approximately \$1,445K or 39% of remaining Fisher spend outside of potential core list items
- Observed actual CDC discounts received are usually higher than those stated in the contract due to periodic supplier and manufacturer promotions
- Experience suggests that opportunities exist to improve select CDC general contract discounts and actual discounts received

Business Case

CDC 999 Analysis

Thermo
Fisher

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CDC 999 products account for approximately \$890K or 24% of Fisher spend outside of potential core list items; the CDC 999 covers miscellaneous supplies and equipment and do not have an associated contract discount.

CDC 999 Stratification

Description	# of SKUs	% of SKUs	(\$'s in 000s)	
			Est. Annl. Spend	% of Spend
Purchased > 20	23	4%	\$165	15%
Purchased 6 - 20	48	7%	75	7%
Purchased 2 - 5	234	36%	390	36%
Purchased Only 1	346	53%	445	42%
Total	651	96%	\$1,075	100%

- A total of 651 CDC 999 items were purchased by UK during fiscal year 2011, accounting for approximately \$1,075K in spend; pricing for CDC 999 items are often quoted at time of purchase
- CDC 999 items are generally low frequency and low quantity purchases; 89% of CDC 999 SKUs were purchased in quantities of 5 or less, accounting for an estimated 78% of total CDC 999 spend

Top 15 High Spend Fisher CDC 999 SKUs

Mfr. #	Item Description	Mfr. Name	Est. Annl. Spend	Total Qty	Avg. Unit Price	Wtd. Avg. Disc.
SC2500461	SMARTCYCLER II, 2 BLOCK LAPTOP	CEPHEID	\$55,700	1	\$55,700.00	2%
1387	CLASS II A2 6 115V PACKAGE	THERMO FISHER	26,675	3	8,891.67	15%
ND-2000	NANODROP 2000	THERMO FISHER	26,390	3	8,796.67	7%
11386R9A1D00100A	ULT1386-9-A -86C 115V UPRIGHT	THERMO FISHER	25,420	2	12,710.00	13%
316-156	PF 10% FORMAL 90/45ML PP 75/CS	THERMO FISHER	22,890	374	61.20	1%
993/DEL	ULT FORMA FRZR 17 UR DBLDR 120	THERMO FISHER	22,595	2	11,297.50	25%
51027120/SPEC	KS18 BIO SAFTEY CABINET 6'	THERMO FISHER	21,085	2	10,542.50	25%
SH30396.03	CANADIAN CHARACTER FBS, 500ML	THERMO FISHER	20,060	173	115.95	24%
RPN2132	ECL PLUS WB REAGENTS (1000CM2)	GE HEALTHCARE	19,405	87	223.05	18%
222263000/SPECUK	LUMINA FLURESCENCE SPEC	THERMO FISHER	17,990	1	17,990.00	18%
75810885	SORVST16RCENTPKG BT28/32	THERMO FISHER	15,745	3	5,248.33	10%
SH30071.03	CHARACTERIZED FBS 500ML	THERMO FISHER	15,610	51	306.08	18%
036190240SPECUK	SYNTH 1 MULTICHANNEL EVAP 50ML	HEIDOLPH USA	13,770	1	13,770.00	0%
4701070	FINNPIPETTE F2 GLP KIT 4	THERMO FISHER	13,020	25	520.80	35%
75002446SPECUK	SORVALL LEGEND 21R WRTR	THERMO FISHER	12,385	4	3,096.25	55%

- Over 20 CDC 999 items were purchased in quantities of greater than 20 during the sample period; it is often possible to add those high spend and high volume CDC 999 items to the core list to achieve improved pricing and cost savings
- Additional sourcing events for high dollar value equipment products can result in further cost savings for CDC 999 purchases

Business Case

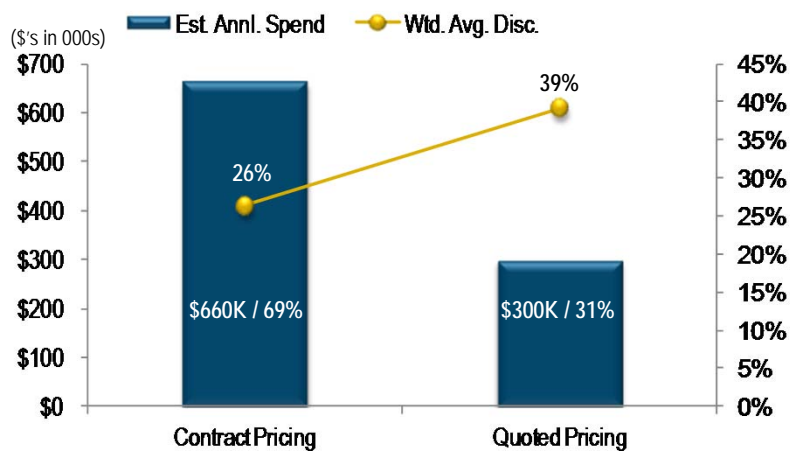
VWR Pricing and Contract Structure Overview

VWR

HuronEducation

Spend with VWR accounts for approximately 16% of scientific supply distributor spend at an estimated \$885K annually; VWR has its own unique contract structure which is very different from that of Fisher.

VWR Pricing Method and Weighted Average Discount



- VWR FY 2011 supplier usage data shows that approximately 69% of the spend or \$660K were priced based on contract discounts; the remaining were priced from special quotes
- Analysis further reveals that special quoted items received a higher weighted average discount compared to contract priced items, 39% versus 26% respectively
- The VWR contract structure first divides items into Product Group and Vendor Group, each group of products are then divided into subcategories and often further divided again based on product type or unit of purchase, making contract comparison and audit of VWR items extremely difficult

VWR Contract Pricing Structure

Discount By	Product Group	Vendor	Other Discounts
Example Discount off List Price	<u>Life Sciences</u>	<u>BD and Company</u> 15%	Private Label - Spec Wipes 15%
	Molecular Bio/Spec. Reagents 4%		Private Label - Cell Dividers 15%
	Microbiology - Exclusive 5%	<u>BD Labware / Clinical</u>	Private Label - Wipers 30%
	Cell Culture - Exclusive 5%	Plasticware - Tissue Culture 27%	Private Label - Pad W/Plastic 10%
	In Silico - Exclusive 5%		Private Label - Gloves 25%

Business Case

VWR Spend by Category and Subcategory

VWR

HuronEducation

Detailed review of the VWR supplier usage data shows that many product categories and subcategories provided in the data set can not be matched up to the discount structure provided in the UK contract.

High Spend VWR Product Category and Subcategory

<i>Contract Category and Subcategory</i>	Est. Annl. Spend	% of Contract Spend	Wtd. Avg. Discount
<i>LIFE SCIENCE</i>			
PCR REAGENTS	\$44,510		29%
MOLECULAR BIOLOGY REAGENTS	30,090		5%
DNA/RNA EXTRACTION	21,800		4%
Other Subcategories (32)	88,750		8%
Life Science Subtotal	\$185,150	28%	13%
<i>PLASTICWARE</i>			
TISSUE CULTURE	\$35,300		50%
COATED PLATES & INSERTS	10,360		14%
HTS	7,475		38%
Other Subcategories (14)	19,415		48%
Plasticware Subtotal	\$72,550	11%	45%
<i>PL LIQUID HANDLING</i>			
PL PIPET TIPS-FILTERED	\$15,020		36%
PL PIPET TIPS	11,700		49%
PL MICROCENTRIFUGE TUBES	5,790		39%
Other Subcategories (14)	16,725		34%
Private Label Liquid Handling Subtotal	\$49,235	7%	39%
All Other Categories and Subcategories (260 +)	\$355,370	54%	25%
Total Contract Spend	\$662,305	100%	26%

- During the sample 12 month, UK purchased items that were priced based on contract discounts from over 320 different product categories and subcategories
- Not including potential VWR core list items, the top 3 broader product categories account for approximately 46% of total VWR spend
- Actual subcategory discounts received often vary greatly within the same broader product category, and are also often not specified in the actual UK VWR contract

Business Case

VWR Pricing and Discount Variance

VWR

HuronEducation

Data review shows that items falling under the same product category / subcategory combination often received a wide range of different discounts.

Discount Variance Example I: Product Category / Subcategory Combination Not Included in UK Contract

Product Category	Product Subcategory	Mfr. #	Item Description	Manufacturer Name	Pricing Method	UOM	Qty	Est. Annl. Spend	Wtd. Avg. Disc.
LIFE SCIENCE	PCR REAGENTS	95048-100	QSCRIPT CDNA SUPERMIX, 100R	QUANTA BIOSCIENCES	Contract Pricing	EA	32	\$9,370	42%
LIFE SCIENCE	PCR REAGENTS	95073-05K	PERFECTA SYBR FASTMX ROX 5000	QUANTA BIOSCIENCES	Contract Pricing	EA	4	8,250	37%
LIFE SCIENCE	PCR REAGENTS	95048-500	QSCRIPT CDNA SUPERMIX, 500R	QUANTA BIOSCIENCES	Contract Pricing	EA	3	4,390	40%
LIFE SCIENCE	PCR REAGENTS	M8298	TAQ FLEXI DNA POLYMERASE10000U	PROMEGA	Contract Pricing	EA	3	3,180	5%
LIFE SCIENCE	PCR REAGENTS	95054-500	PERFECTA SYBR SUPERMIX, 500R	QUANTA BIOSCIENCES	Contract Pricing	EA	5	2,900	27%
LIFE SCIENCE	PCR REAGENTS	95073-012	PERFECTA SYBR FASTMX ROX 1250	QUANTA BIOSCIENCES	Contract Pricing	EA	4	2,370	32%
LIFE SCIENCE	PCR REAGENTS	95071-012	PERFECTA SYBR FASTMX IQ 1250R	QUANTA BIOSCIENCES	Contract Pricing	EA	4	2,370	33%
LIFE SCIENCE	PCR REAGENTS	M7123	GOTAQ GREEN MASTER MIX	PROMEGA	Contract Pricing	EA	6	1,980	5%
LIFE SCIENCE	PCR REAGENTS	95073-250	PERFECTA SYBR FASTMX ROX 250R	QUANTA BIOSCIENCES	Contract Pricing	EA	8	1,470	4%
LIFE SCIENCE	PCR REAGENTS	95047-100	QSCRIPT CDNA SYN KIT 100R	QUANTA BIOSCIENCES	Contract Pricing	EA	2	720	0%

Discount Variance Example II: UK Stated Contract Discount for Life Science / Molecular Bio Reagents is 4%

Product Category	Product Subcategory	Mfr. #	Item Description	Manufacturer Name	Pricing Method	UOM	Qty	Est. Annl. Spend	Wtd. Avg. Disc.
LIFE SCIENCE	MOLECULAR BIO REAGENTS	21059	BOTTLE RESTORE WB STRIPPING	PIERCE CHEMICAL	Contract Pricing	EA	10	\$1,155	0%
LIFE SCIENCE	MOLECULAR BIO REAGENTS	1700	ACRYL/BIS 29:1 40% WVSL 500ML	Millipore	Contract Pricing	EA	9	655	22%
LIFE SCIENCE	MOLECULAR BIO REAGENTS	4099-06	TRIS(BUFFER) BKR ANL UPR RE5KG	AVANTOR	Contract Pricing	EA	2	475	28%
LIFE SCIENCE	MOLECULAR BIO REAGENTS	50081	NUSIEVE GTG AGAROSE	LONZA WALKERSVILLE INC	Contract Pricing	EA	2	250	6%
LIFE SCIENCE	MOLECULAR BIO REAGENTS	4095-02	SODIUM DODECYL SULFATE REG 1KG	AVANTOR	Contract Pricing	EA	1	240	14%
LIFE SCIENCE	MOLECULAR BIO REAGENTS	230760-10MG	CHRYSAMINE G-10MG	Millipore	Contract Pricing	EA	1	110	0%
LIFE SCIENCE	MOLECULAR BIO REAGENTS	786-046	APROTININ 100MG	G-BIOSCIENCES	Contract Pricing	EA	1	110	4%
LIFE SCIENCE	MOLECULAR BIO REAGENTS	786-460	PCR DNTP SET 4 X 25UMOLE	G-BIOSCIENCES	Contract Pricing	EA	1	80	5%
LIFE SCIENCE	MOLECULAR BIO REAGENTS	10082180	5-AZACYTIDINE 100.00 MG	MP BIOMEDICALS	Contract Pricing	EA	1	30	3%
LIFE SCIENCE	MOLECULAR BIO REAGENTS	17-942E	TRYPAN BLUE 0.4% SOLTION 100ML	LONZA WALKERSVILLE INC	Contract Pricing	EA	1	10	13%

Source: FY 2011 12 months supplier sample data provided by VWR.

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Business Case

Private Label Products

Thermo
Fisher

VWR

HuronEducation

In addition to distributing products manufactured by a large number of scientific vendors, Fisher and VWR both carry their own private label line of products and equipment.

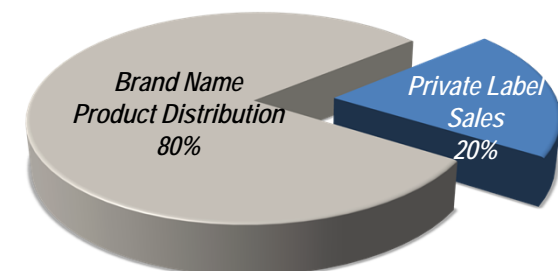
VWR / Fisher Private Label Product Types

FLASK	PIPET	GLOVE	TIP	REGULATOR	TUBE
SLIDE	BLOCK	HOTPLATE	NOTEBOOK	CLAMP	SYRINGE
SHAKER	BOX	PIPETTER	WIPERS	WEIGHT	MARKER
DISH	BEAKER	RACK	PLATE	CUVETTES	BAG
TAPE	FUNNEL	CARBOY	SPINBAR	BRACKET	DIVIDER
FLAT	VIAL	LENS PAPER	BOTTLE	STIR	STOPPER
FREEZER	ALARM	CAP	THERMOMETER	TIMER	DISPENSER
LABEL	FILTER	CLYLINDER	PAD	BLADES	BURNER
BULB	COVER	SCOOP	SWAB	FORCEPS	BASIN
BRUSH	SPONGE	CYLINDER	LEVEL		

- Both Fisher and VWR private label lines offer similar scientific supply and equipment products
- Private label products represent significant savings over technical equivalent brand name manufactured products

- Currently, UK's purchase and utilization of private label items is approximately 20% of total distributors spend – 20% of VWR spend is private label and 21% of product spend from Fisher are on Fisherbrand items
- 20% of private label product utilization is consistent with industry best practice and UK should continue to drive utilization of private label items to obtain best value and cost savings

Fisher / VWR Private Label Purchase Distribution



Source: FY 2011 12 months supplier sample data provided by Fisher and VWR.

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Business Case

High Level Analysis – Life Technologies

Upon request, Invitrogen and Applied Biosystems submitted UK's FY2011 detailed usage data; high level data analysis suggests there are potential opportunities to achieve cost savings with Life Technologies vendors.

Invitrogen Top 15 High Quantity Items

Item SKU #	Item Description	Total Qty	Est. Annl. Spend	Discount Received	Contract Item
10629186	PRIMER 25 NMOL TUBE 25NMOL	61,125	11,900	49%	
817003DE	SYN GENE 0 - 3 KB PORTAL RATE	17,961	7,160	0%	
10629012	PRIMER 50 NMOL 50 NMOL	3,937	1,085	43%	
817017DE	MARK-UP COMPLEX SYN GENE EA	2,429	2,030	0%	
25200056	TRYPSIN 0.25% EDTA 100ML	408	2,285	44%	Yes
4331182	FG,OFF THE SHELF GX SET 10	369	51,680	10%	
N8010560	MICROAMP 96-WELL RXN PLATE	204	6,605	44%	
15140122	PENICILLIN STREPTOMYCIN SOL 100ML	200	2,730	23%	Yes
15140148	PENICILLIN STREPTOMYCIN SOL 20ML	128	1,190	0%	
26140079	FBS QUALIFIED, USA ORIGIN 500ML	119	18,735	43%	Yes
11269016	AMNIOMAX II COMPLETE 100ML	109	6,305	0%	Yes
4427975	TAQMAN MICRO RNA ASSAYS INV SM 10	108	14,925	10%	
NP0322BOX	NUPAGE 4-12% BT GEL 1.0MM12W 10 PER BX	104	12,040	10%	
11668019	LIPOFECTAMINE 2000 REAGENT 1.5 ML	101	41,670	11%	Yes
10748010	BENCHMARK PRESTAIN PROT LADDER	101	12,610	11%	Yes

- A total of 1,570 unique SKUs were purchased through Invitrogen during FY2011, over 70% of which were purchased in quantities of 5 or less
- 72 items out of the 75 contract net priced items were purchased, indicating good contract utilization; however data analysis suggests opportunities exist to expand the contract net priced items to capture more savings through improved contract item pricing – over 145 items were purchased in quantities of 20 or greater

Applied Biosystems Sample Spend Stratification

Description	# of SKUs	% of SKUs	Total Spend	% of Spend
50% + Discount	7	5%	\$22,875	4%
21% - 50% Discount	30	22%	277,215	48%
6% - 20% Discount	40	29%	186,070	32%
1% - 5% Discount	23	17%	42,140	7%
No Discount	37	27%	54,730	9%
Total	137	100%	\$583,030	100%

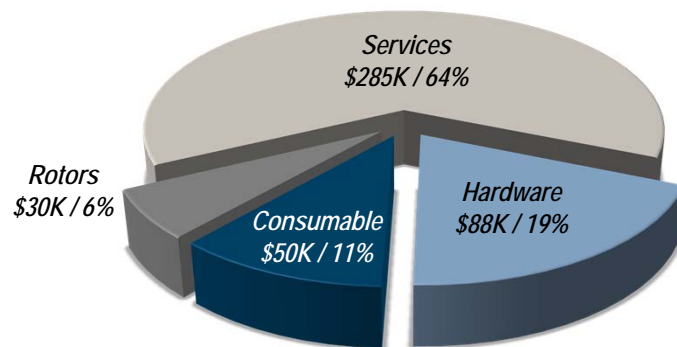
- UK purchased a total of 137 unique items during the sample 12 month period; data analysis shows that most items purchased from Applied Biosystems received some form of discount
- Overall UK received a weighted average discount of approximately 26%

Business Case

High Level Analysis – Beckman Coulter

Beckman Coulter also responded to UK's supplier data request by submitting detailed transactional data for FY2011; a similar data request was also sent to Sigma-Aldrich but the supplier did not respond.

Beckman Coulter Sample Spend by Product Type



- Data analysis shows that majority of UK spend through Beckman Coulter are equipment maintenance related charges, such as labor and travel for service, which are not covered under the current agreement
- Consumables which account for 11% of Beckman Coulter purchases are also not covered under the current contract
- The current contract only covers Hardware and Rotors which together account for approximately 25% of total Beckman Coulter sample spend; however since the supplier did not provide the list pricing, Huron was unable to assess current discount level received

Hardware and Consumables Spend Breakdown

Product Class	Qty	Sample Total	% of Product Class Spend
Hardware			
Instrument Sales Group	1	\$53,295	60%
Instrument	1	33,925	39%
Accessory	1	375	< 1%
Part	4	160	< 1%
Adapter	1	90	< 1%
Hardware Subtotal	8	\$87,845	100%
Consumables			
Reagent	203	\$24,510	49%
Consumable	21	12,050	24%
Tubes	72	9,305	19%
Supply	49	3,220	6%
Kit	2	540	1%
Calibrator	3	340	1%
Consumable Subtotal	350	\$49,965	100%

Business Case

High Spend Niche Vendor Summary and Next Steps

In addition to large distributors such as Fisher and VWR, UK also spends considerable amount annually with various niche scientific vendors, namely Life Tech (Invitrogen / Applied Bio), Sigma-Aldrich and Beckman Coulter.

Description	Invitrogen (Life Tech)	Sigma-Aldrich	Beckman Coulter	Applied Bio (Life Tech)
Est. Annl. Spend	~\$1,355K	~ \$985K	~ \$930K	~ \$810K
Contract Status	Established in April 2007; Latest modification extends the contract through July 2011, on a month to month extension	UK currently does not have a contract with Sigma-Aldrich	Established in May 2007; latest modification extends the contract through July 2011, on a month to month extension	Established in April 2007; Latest modification extends the contract through July 2011, on a month to month extension
Supplier Overview	Life Tech is a global biotechnology tools company providing premier systems, consumables, and services for scientific researchers around the world	Specialty chemical supplier	Beckman Coulter focuses on manufacturing biomedical laboratory instruments such as centrifuges and liquid handling systems	Life Tech is a global biotechnology tools company providing premier systems, consumables, and services for scientific researchers around the world
Pricing / Discount Details	<ul style="list-style-type: none"> • Latest version contains 75+ net priced items for the Life Science Center receiving discounts between 5% - 55% • Original contract contains 165+ net priced items receiving 5% - 55% discount 	<ul style="list-style-type: none"> • Many if not all items potentially being purchased at list price or receiving minimal discounts 	<ul style="list-style-type: none"> • Contract for instrument and major accessories, does not cover consumables • Contract has 600 plus net priced items receiving discounts between 0%-14% 	<ul style="list-style-type: none"> • Contract structure includes net priced items and discount off list price by product categories ranging from 0% up to 75%; also includes list and net pricing for thousands of catalog items
Other Terms	<ul style="list-style-type: none"> • \$15 flat fee per order; UK responsible for dry ice, haz mat and other special shipping – Haz Mat is approximately \$20/applicable order 	<ul style="list-style-type: none"> • UK end users pay full shipping cost when purchasing from Sigma 	<ul style="list-style-type: none"> • Does not charge regular shipping 	<ul style="list-style-type: none"> • Does not charge regular shipping
Suggested Next Steps / Strategy	<ul style="list-style-type: none"> • Update list of net priced contract items to better align with actual purchase • Potentially negotiate more favorable haz mat charges per order 	<ul style="list-style-type: none"> • Bring Sigma into conversation to establish an UK specific pricing agreement 	<ul style="list-style-type: none"> • Discuss with Beckman Coulter UK's current spend pattern and how best to incorporate consumables and services into the overall contract 	<ul style="list-style-type: none"> • UK has a fairly comprehensive overall contract agreement with Applied Bio; pricing negotiation should focus on high spend high volume items
Challenges	<ul style="list-style-type: none"> • Life Technologies is very difficult to work with due to established industry market share and brand prominence 	<ul style="list-style-type: none"> • Sigma did not want to enter into contract with UK previously 	<ul style="list-style-type: none"> • Potentially challenging to successfully negotiate more favorable service and maintenance fees 	<ul style="list-style-type: none"> • Life Technologies is very difficult to work with due to established industry market share and brand prominence

Source: UK contract documents for Invitrogen, Beckman Coulter and Applied Biosystems.

Savings Summary

Huron's estimation of savings opportunities for Fisher and VWR is based on the assumption that the University of Kentucky will pursue a single Preferred Scientific Supply Distributor strategy and leverage the combined spend size.

Savings Opportunities Summary
<ul style="list-style-type: none"> Detailed Fisher and VWR data analysis indicates that opportunities exist to establish a combined core list of high spend high volume items with a single preferred scientific supply distributor to drive aggressive net pricing and cost savings Experience suggests that opportunities exist to improve current contract discount on general product categories for both Fisher and VWR; analysis further indicates that VWR pricing is approximately 6% higher than Fisher on 500+ identical items, suggesting additional savings Conducting individual quote / sourcing event for high dollar value equipment or products can achieve additional opportunities An account size of UK's scientific supply distributors spend is highly valued by vendors and warrants significant financial incentives, including one time signing bonus, volume rebates, and eProcurement related prompt payment discount

(\$'s in 000s)

Spend Area Description	Est. Annl. Spend	Opportunities %		Opportunities \$	
		Low	High	Low	High
Pricing Improvement					
Core List Items (~ 27% of combined spend)	\$2,560	17%	24%	\$445	\$615
General Category Discount	4,745	5%	8%	235	380
Quoted / Miscellaneous Purchases	2,185	1%	2%	20	45
Pricing Opportunities Subtotal	\$9,490	7%	11%	\$700	\$1,040
Financial Incentives					
One Time Contract Signing Incentive				\$200	\$350
Volume Rebate		2%	4%	190	380
Prompt Payment Discount		1%	2%	95	190
Financial Incentive Subtotal		5%	10%	\$485	\$920
Total First Year Distributor Savings	\$9,490	12%	21%	\$1,185	\$1,960
One Time Financial Incentive		2%	4%	\$200	\$350
Recurring Savings and Revenues		10%	17%	\$985	\$1,610
Target Niche Vendor Opportunities	\$4,080	TBD		TBD	

Strategy Recommendation

Detailed implementation strategy recommendation is as below for scientific supply distributors as well as target high spend niche vendors.

- **Scientific Supply Distributors Strategy – Fisher and VWR**
 - Combine spend and establish a single non-exclusive Preferred Scientific Supply Distributor contract through a competitive RFP process
 - Establish a joint core list of high spend high volume items and negotiate aggressively discounted net pricing; core list shall be updated periodically going forward to align with purchase pattern
 - Improve general product category based contract discounts, especially for high spend product categories / subcategories
 - Increase and improve sourcing events for high dollar equipment and product purchases to achieve additional savings – establish single sourcing even dollar threshold
 - Negotiate market competitive financial incentives appropriate for the combined UK distributors account size including one time contract signing and recurring volume rebate, prompt payment discount, etc.
 - Setup the newly awarded preferred distributor in the SRM system; also setup the other large distributor in SRM but with limited catalog product offerings

- **Select Target High Spend Niche Manufacturers Strategy**
 - Focus negotiation effort on high spend high volume items that are frequently purchased by UK
 - Negotiate free standard shipping and favorable / reduced charges related to dry ice, haz mat, and other delivery fees
 - Work with the awarded Preferred Scientific Supply Distributor to understand to what degree these high premium proprietary branded products can be substituted by same quality, lower cost technical equivalents; partner with the preferred distributor to market and promote technical equipment products to the research community

Implementation Timeline

Huron estimates that it would take approximately between 15 to 17 weeks to approve and implement the recommended preferred scientific supply distributor strategy.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
<i>Week Beginning</i>	1/23	1/30	2/6	2/13	2/20	2/27	3/5	3/12	3/19	3/26	4/2	4/9	4/16	4/23	4/30	5/7	5/14
<u>Key Implementation Activities</u>																	
Present business case draft to Purchasing team; make suggested edits and changes	█																
Present the updated business case to the Scientific Advisory Committee; incorporate any edits and changes		█															
Discuss and finalize implementation strategy for select target scientific suppliers			█														
Discuss and form implementation core team; assign roles and responsibilities			█														
Draft scientific supply distributor RFP document and supporting materials such as the core list, market basket			█	█	█	█											
Implementation team and Scientific Advisory Committee review and approval of documents						█											
Send RFP to Fisher and VWR and allow time for suppliers to submit their proposals							█	█	█	█							
Review and analyze supplier initial proposals, identify gaps and prepare negotiation materials, i.e. MOT											█						
Conduct subsequent rounds of distributor negotiations											█	█	█	█	█		
Discuss and determine specific implementation strategy for other high spend niche scientific vendors								█	█	█	█	█	█	█			
Wrap up scientific supply distributor negotiation and award Preferred Distributor status																█	
Finalize the MOT document and roll out contract to campus users																	█