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WORK at LIGHTSPEED™

Transforming Cost Analysis into Margin Analysis with ITFM

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FINANCE MANAGER, DISTRIBUTION SERVICES
ICS, AmerisourceBergen

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Speaker Introduction

NAME: Aileen Meadows

TITLE: Finance Manager, Distribution Services

FUNCTION: Financial Planning & Analysis

COMPANY: AmerisourceBergen, ICS

EXPERIENCE: 10 years Finance experience in 3rd party logistics, including 6 focused in pharmaceuticals

EXPERTISE: Contribution Margin & Economic modeling, Productivity Analysis, Process Costing

CURRENT PROJECTS: Cost to Serve Continuous Improvement, ROI on Capital Investments

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About AmerisourceBergen, ICS



NAME: AmerisourceBergen, ICS

INDUSTRY: Healthcare, Specialty Pharmaceutical Distribution

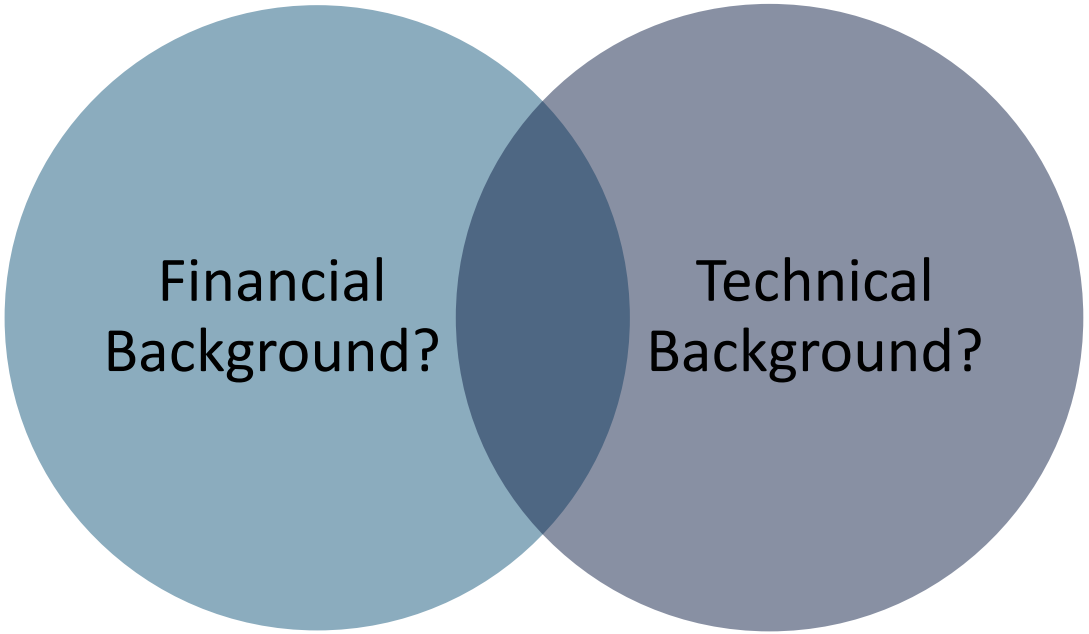
MARKET FOCUS: Small and medium specialty and biopharmaceutical manufacturers, niche product lines for large manufacturers, medical device manufacturers

COMPANY'S PRIMARY PRODUCTS/SOLUTIONS: Tailored and scalable supply chain and commercialization solutions including third party logistics, enhanced 3PL distribution, product storage, customer service, accounts receivable, chargebacks, and repackaging

COMPANY-WIDE INITIATIVES: Expansion of service opportunities and offerings

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About the Audience



- **Corporate Shared Services**
  - IT, HR, Finance
- **Consumer Services**
  - Call Centers, Sales, Healthcare
- **Professional Services**
  - Legal, Accounting, Consulting
- **Supply Chain Services**
  - Transportation, 3PL, Procurement

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Session Overview



Objectives

- Transform financial data into actionable insight through contribution margin modeling with ITFM



What You Will Learn

- Understand the environment and challenges facing supply chain service providers
- Learn about ITFM
- Gather key lessons related to cost and contribution margin modeling
- Discuss how the lessons may apply to your business and financial planning needs

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Context – Setting the Stage

- Industry trends
  - Complex and continuously evolving healthcare landscape
  - Increased scrutiny of overall healthcare costs and pharmaceutical pricing dynamics
  - Drug Supply Chain and Security Act
- Competitive pressures
  - Focus on value and cost efficiency
  - Drive growth with a unique portfolio of integrated services
- Departmental drivers and goals
  - Calculate the contribution margin of our client portfolio
  - Define the cost drivers within our business functions and services

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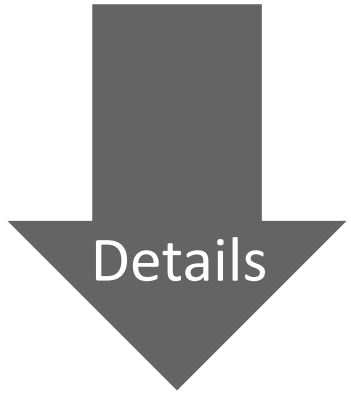
Challenges and Goals

- Primary Challenge: Complex modeling that outgrew Excel
  - Portfolio of 100+ clients
  - 35 distinct business services
  - Varying degrees of consumption from client to client
  - Monthly fluctuations in consumption for a given client
- Modeling Options:
  - Should we produce a “high-level” model that was easier to automate, but gave little attention to the nuances among our clients and business services?
  - Should we produce a detailed model utilizing a variety of cost drivers and data inputs, but was time consuming to create?

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Challenges and Goals

- A Study in Details
  - We produced 2 versions of modeling as a test case
  - High-level or broad-sweeping models showed inherent bias that clouded decision-making
  - Decision to pursue detailed modeling
- Goal: Define and implement a solution to create modeling that is
  - DETAILED enough to provide actionable insight
  - MANAGEABLE enough to be sustained in the long term

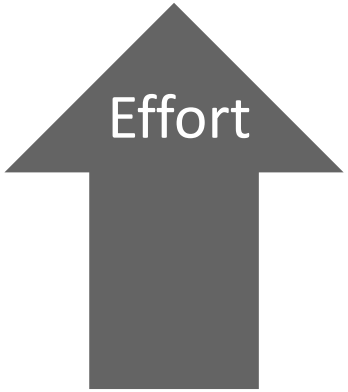


High-Level

- Single Cost Driver (orders) among all business services
- Labor Costs captured at the Function level

Detailed

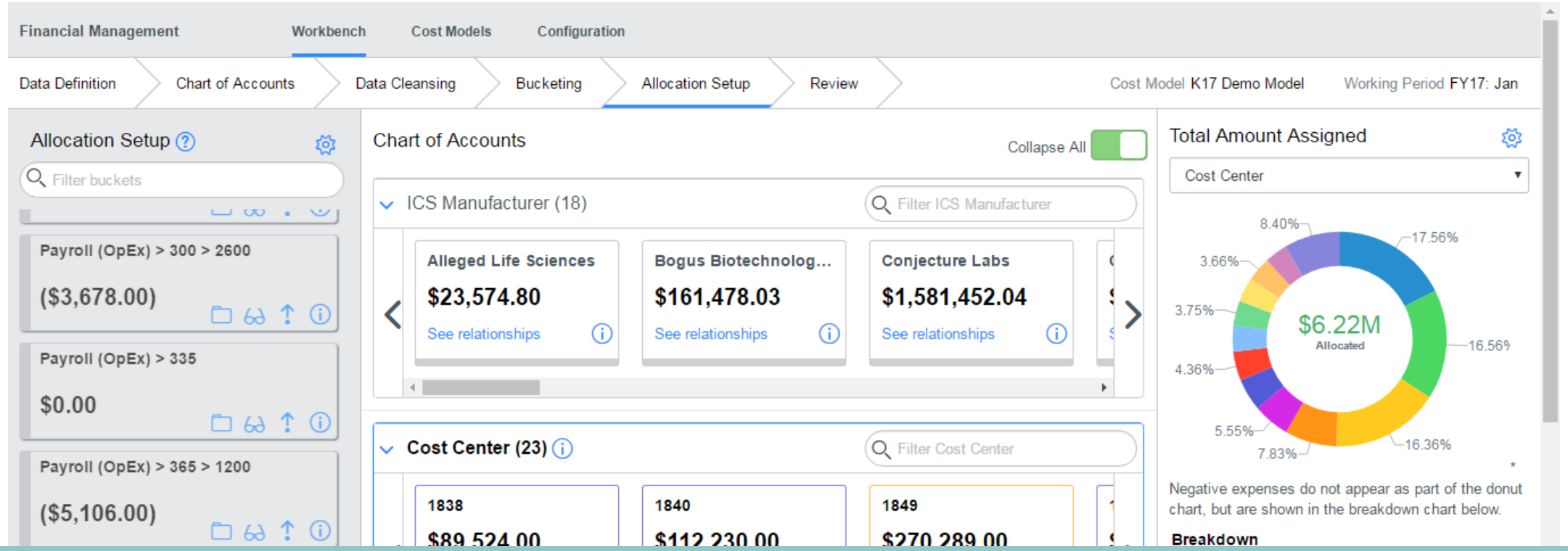
- Individualized Cost Drivers for each defined business service
- Labor Costs broken out into business services within each Function



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Solution at a Glance

ServiceNow ITFM Offered the Detail and Manageability We Needed

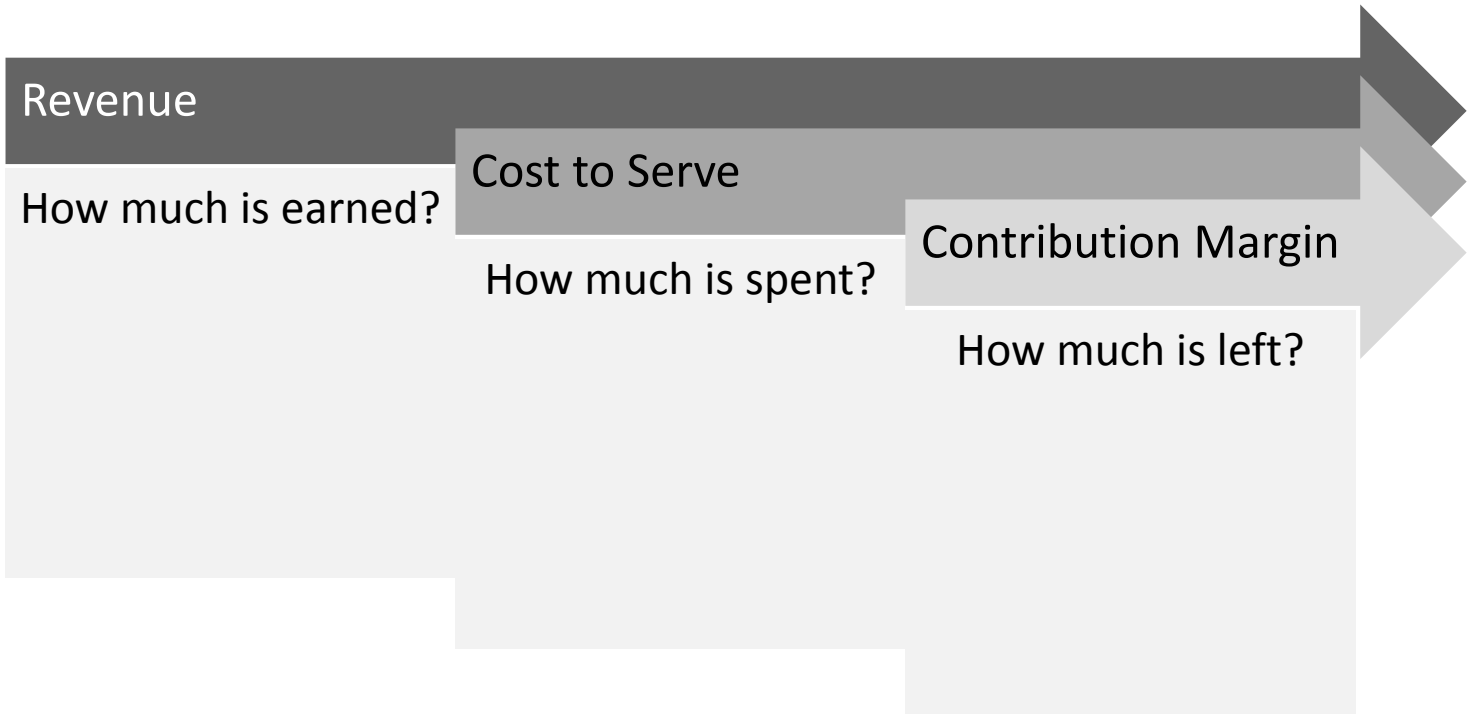


Note: All data shown in this presentation has been created for demonstration purposes only and does not represent actual or projected financial performance of ICS or other AmerisourceBergen divisions. Manufacturer names shown herein were created for the purpose of this demo and do not represent any actual client of ICS or AmerisourceBergen.

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Solution – Approach

- ITFM is traditionally utilized by IT service providers to analyze their costs to serve
- Cost to Serve was only part of our picture…



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Solution – Why Contribution Margin?

Contribution Margin Advantage Over Cost to Serve Alone

PERSPECTIVE

- How much of our business does it represent?

RELEVANCE

- Is our cost to serve high or low in relation to earnings?

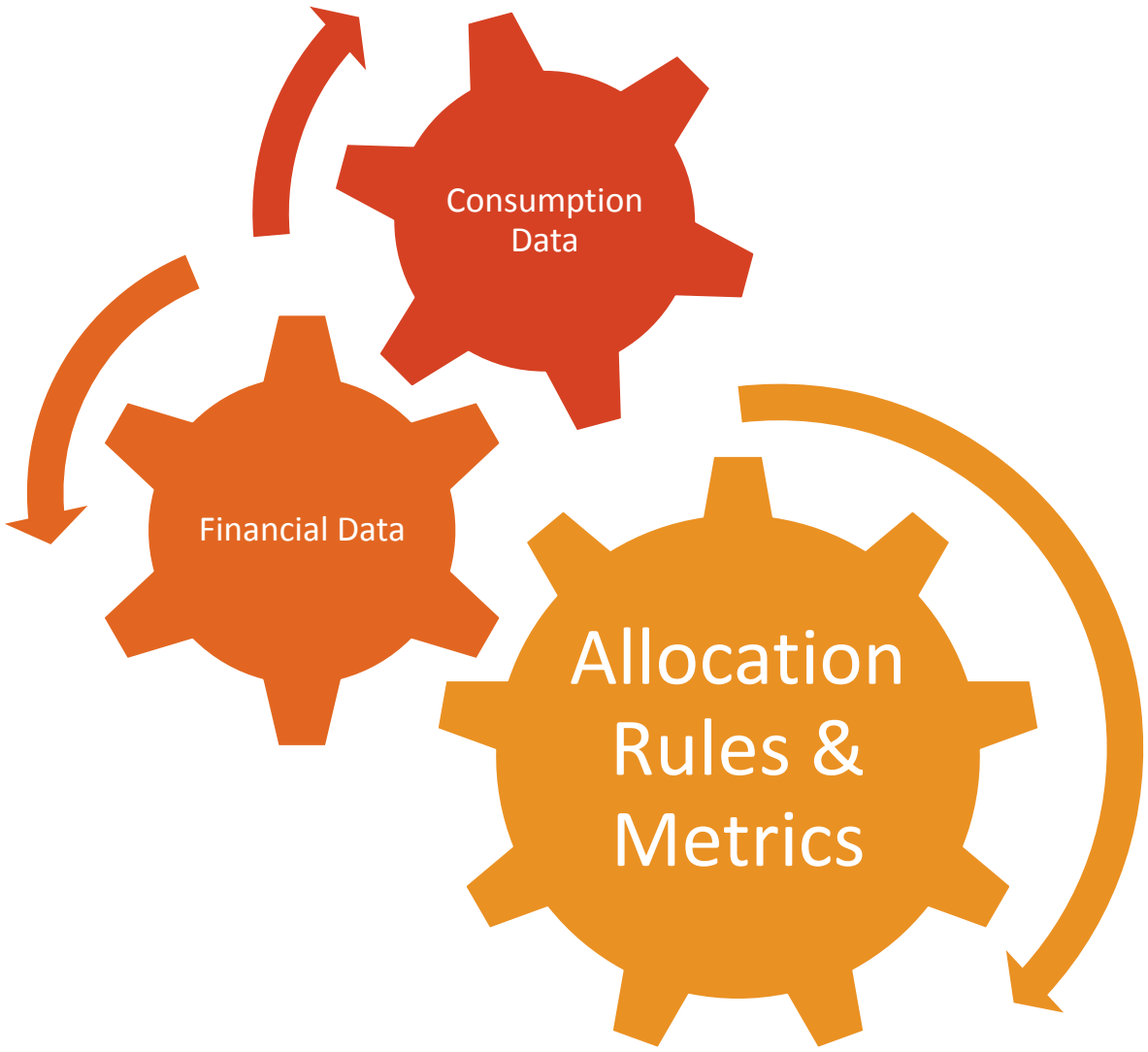
ACTIONABLE INSIGHT

- Where can we target improvement?

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Solution – Methodology

- High-Level Methodology used in ITFM
  - Business defined Rules & Metrics allocate financial data based on consumption data
- Financial Data: general ledger transactions.
  How much did we earn and spend?
- Consumption Data: data points that represent the cost drivers of your service offering.
  Why did we earn/spend those amounts?



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Solution – Methodology

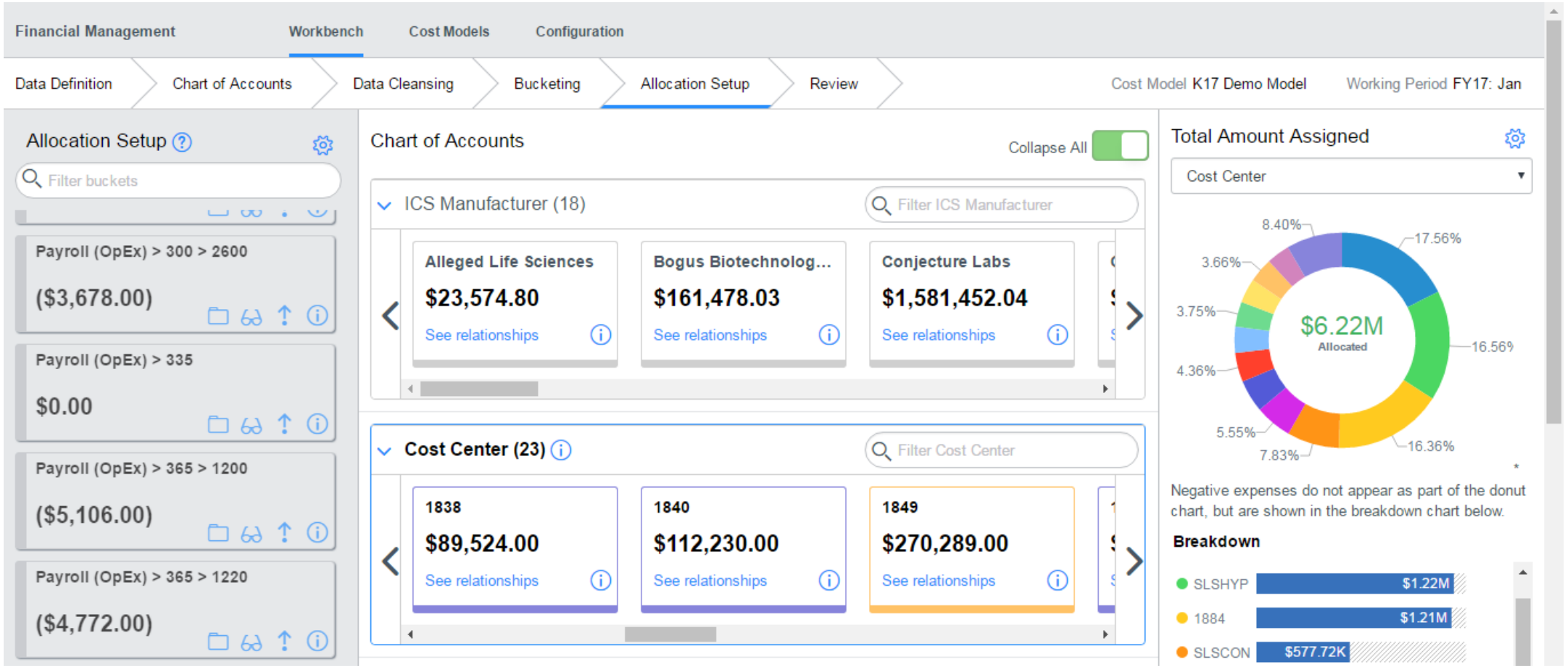
- Define the model
  - Functions
  - Business Services
  - Cost Centers
  - Manufacturers

- Capture consumption data from the defined business services

- Create the model in the ITFM workbench

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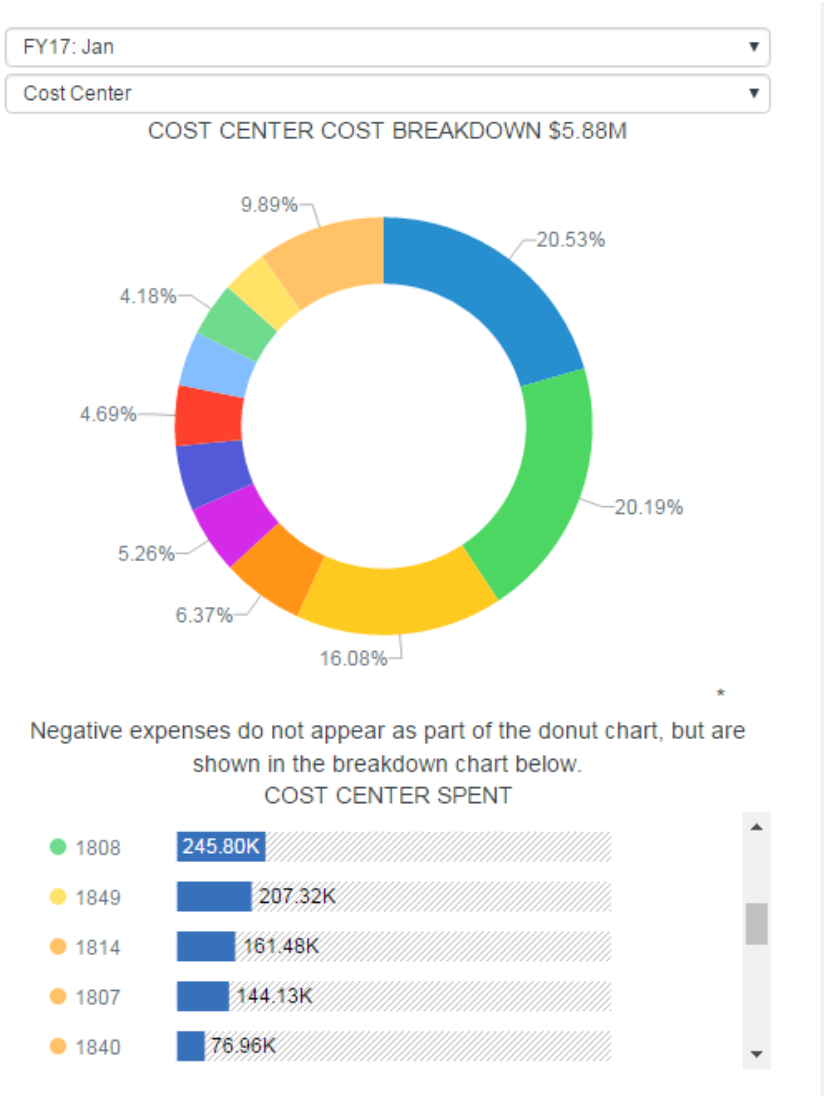
Solution – Demo



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Solution – Reporting Insights

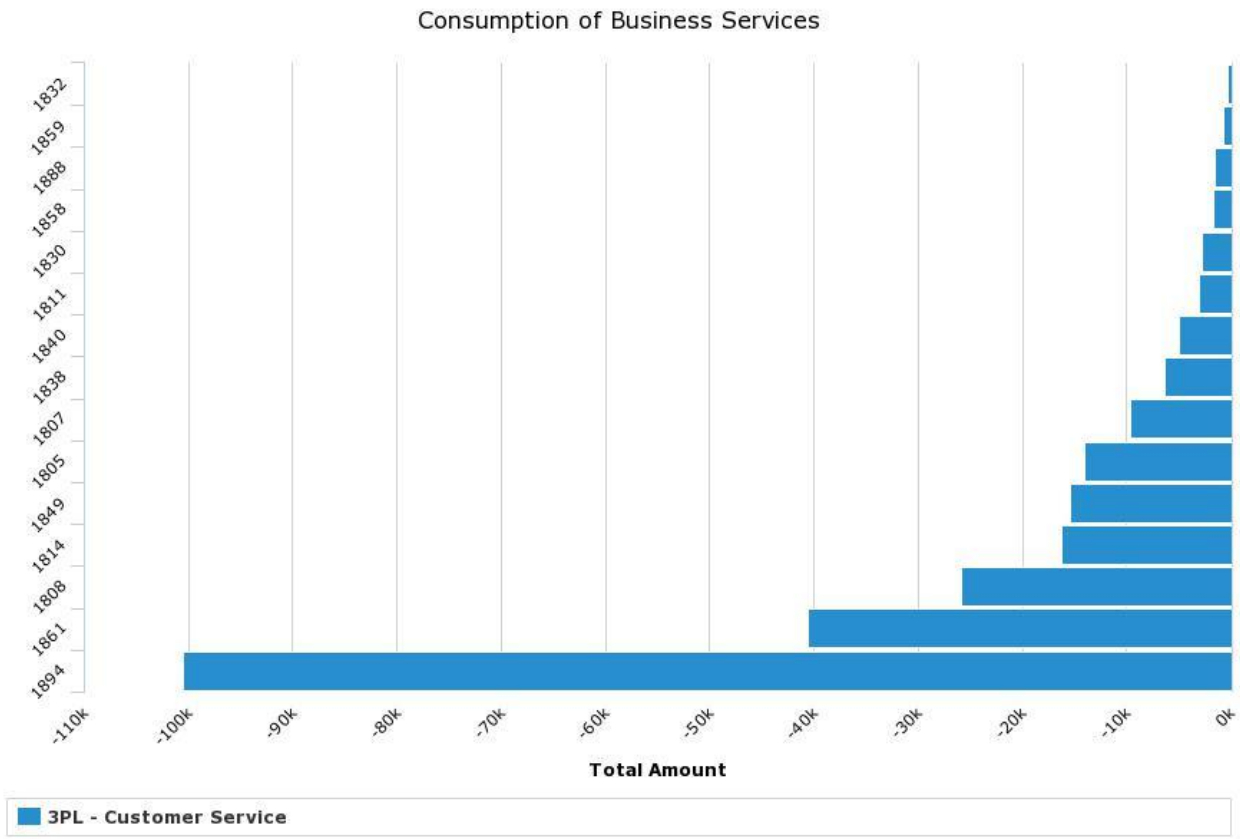
- View: overall contribution margin
- Review the make-up of our overall performance
- What “piece of the pie” does each cost center represent?



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Solution – Reporting Insights

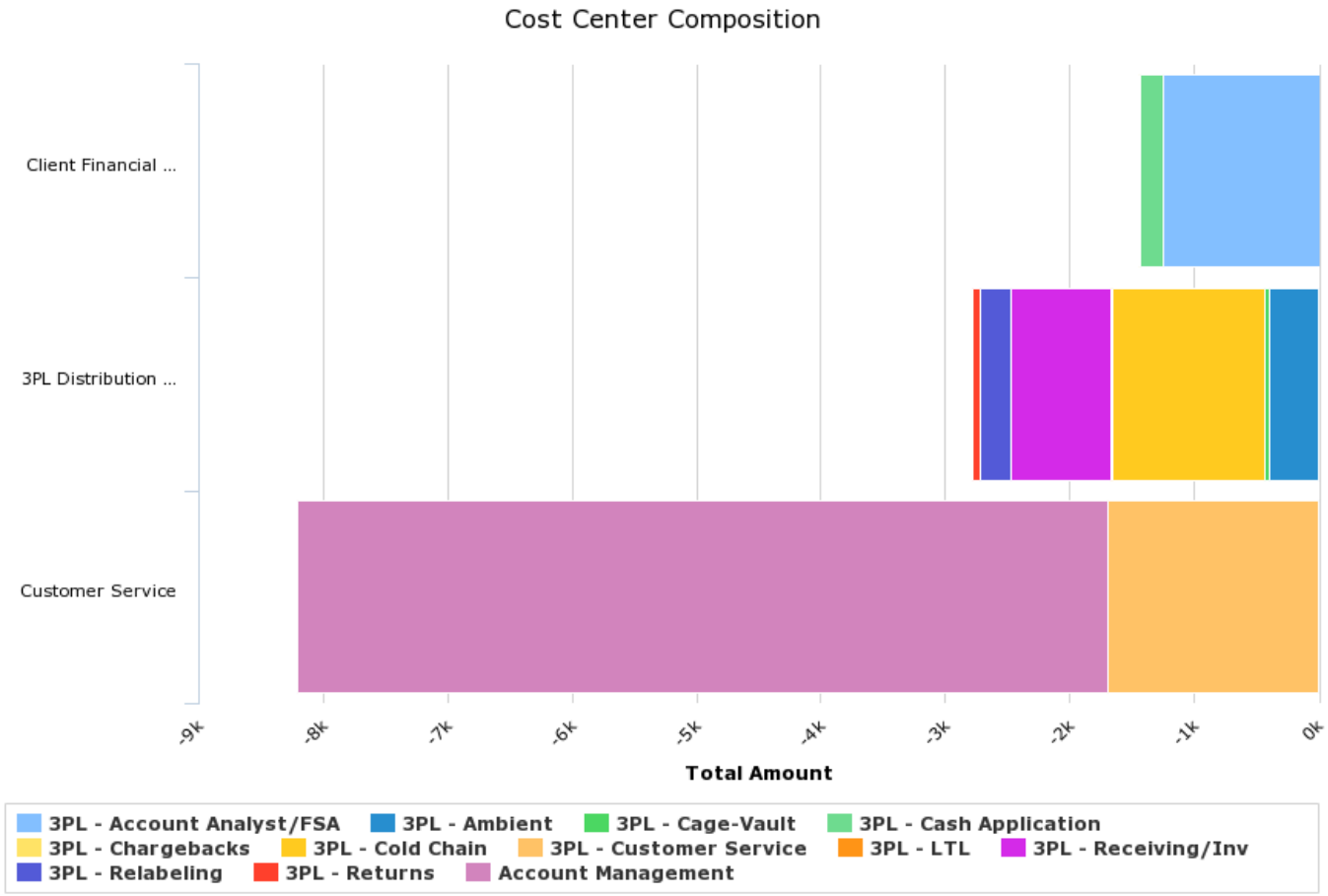
- View: consumption of a specific business service
- What cost centers consume more of that service?
- Are there any areas for process improvement?



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Solution – Reporting Insights

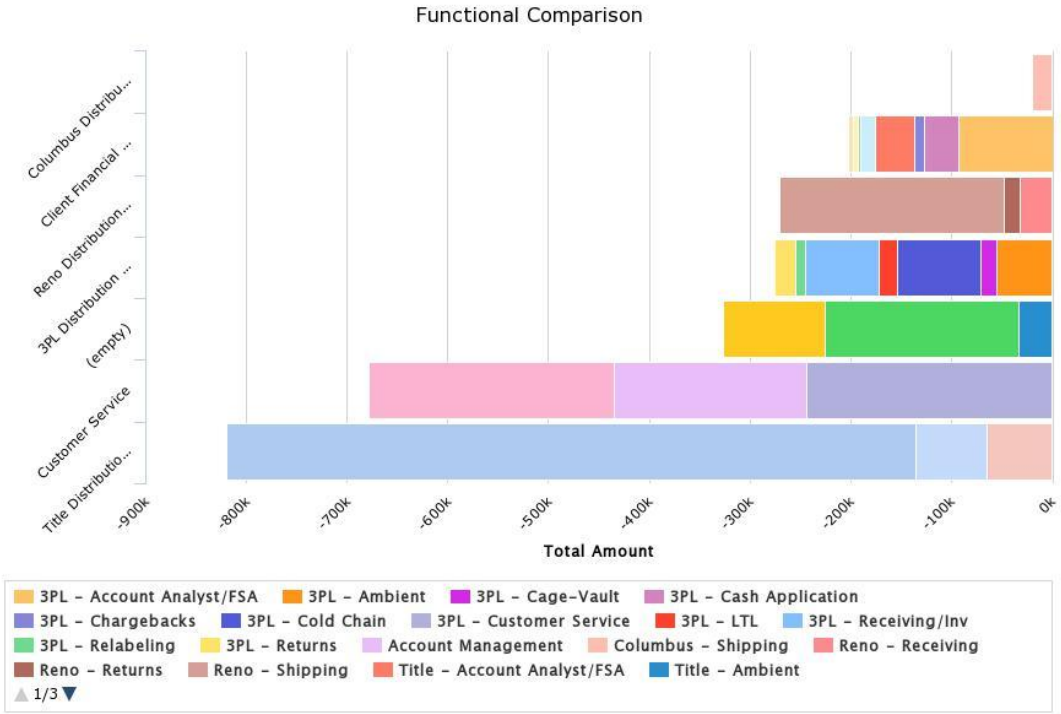
- View a specific cost center's consumption composition
- Review make-up of the services used
- Is one business service being over-consumed?
- Is there a business service not being utilized that could be?
- Highlight potential areas for improvement or further research

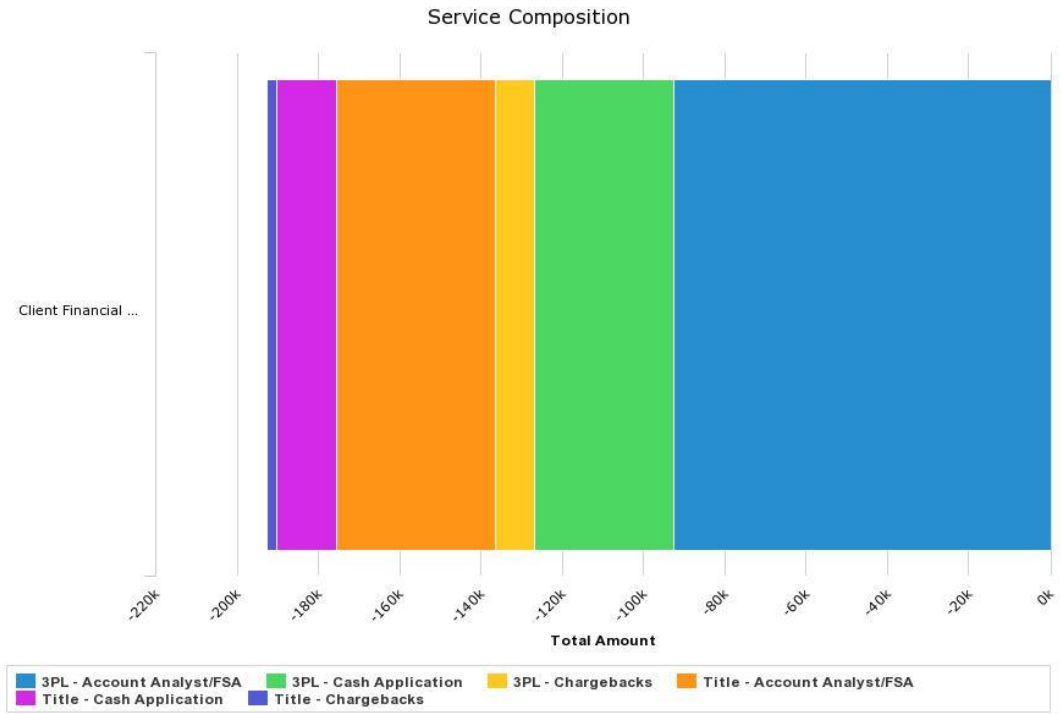


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Solution – Reporting Insights

- View: functions or business services in relation to one another
- Where are resources being consumed?
- Which function or service can be targeted for process improvement?





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Value Outcomes

Identified

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Targets

Continuous Improvement



Modeling Time Reduction

ROI % exceeded Internal Hurdle Rate

Return on Investment

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Lessons Learned

1. Fiji → Geneva upgraded mid-launch

2. Using signifiers already in the data to streamline modeling

3. Importance of technical & finance partnership throughout the process

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Our Next Steps

- Continuous improvement in modeling
- Scenario analysis & planning
- Dashboard enhancements
- Demand forecast modeling

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Top Takeaways

1

Is Cost to Serve alone giving your organization the whole picture?

2

What can you learn from detailed modeling that your “high level” view is missing?

3

What opportunities for growth are hiding in your client portfolio?

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Thank You

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Q & A

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