



## Cardinal Health Strengthens Commodity Price Forecasting to Reduce Operating Risks, Increase Cost-Effectiveness

High-quality and affordable healthcare is essential to the quality of life for billions of people around the world, and Cardinal Health is committed to helping providers deliver better, safer care while keeping prices in line.

As a manufacturer of medical supplies, Cardinal Health needs to accurately forecast the often volatile prices of commodities, such as cotton, polyethylene and polypropylene. These forecasts are critical for negotiating commodity prices, mitigating the risks of price volatility, and setting the optimal prices for finished goods. Developing these forecasts required solid price data and analysis of the reasons for price movements as well as the meaning of those trends for the company.

Sean Fitzpatrick, Manager of Global Commodities and Supplier Risk, is enabling Cardinal Health to successfully meet this challenge through innovative use of forward-looking commodity pricing information and insights.

### Recognizing the Need for a New Approach

Previously, Cardinal Health relied on data that was limited in scope, covering only the large companies in the United States market. And it was primarily backward-looking information about where commodity prices had been in the past.

#### Challenge

- ▶ Reduce or control operating costs by better understanding commodity prices
- ▶ Mitigate risks due to commodity price volatility
- ▶ Drive operational excellence with improved workflows that enhance efficiency and service

#### Solution

- IHS Supply Management Solution™
- Pricing & Purchasing

#### Results

- ▶ Reduced company's commodity costs by millions of dollars within 18-20 months
- ▶ Provided enhanced commodity price data and analysis to 30+ Sourcing Managers worldwide for better negotiated prices – e.g. saved 8% on cotton prices
- ▶ Created tighter forecasts/budgets that lead to better margins while improving workflows to serve consumers more effectively
- ▶ Pushed back on 6 commodity cost increases in 8 months with more accurate pricing data – e.g. saved 4% on purchase of polyethylene
- ▶ Enabled stricter contract governance through more accurate index-based contracts
- ▶ Reduced exposure/risk with hedging strategies and negotiating “guard rails” on price increases

“Other resources did not provide recommendations to help us understand where prices were going,” said Fitzpatrick. “When managers have more accurate forecasts, they can build ‘savings’ into their cost structure to maximize margins. We also wanted to provide each Sourcing Manager with help analyzing the latest pricing trends and making the best decisions.”

#### A Single Source of Forward-Looking Data

Today, Fitzpatrick is the main point of contact for the company's Global Sourcing department in summarizing the salient points of market data into “top sheets,” and distributing them to more than 30 Sourcing Managers working across the United States, Asia and Thailand. Whether the topic is paper, packaging, cotton, labor, plastics and polymers, light olefins, ethylene or polypropylene, Fitzpatrick said, “We're all singing off of the same song sheet.”

Cardinal Health now takes advantage of data that is forward-looking and provides context. “We now have information that tells us where the marketplace is going from a macro and a micro economic perspective,” said Fitzpatrick. “We also get the story behind the price for a holistic understanding — it's not just a price on a piece of paper. For example, many people are wondering what impact ISIS in Iraq will have on the price of oil. That's a valid question. And the reports we receive now provide the kind of context to help us understand topics like that.”

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# Cardinal Health Reduces Operating Risks and Costs

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## Better Information Drives Better Decisions

To further enhance decision-making, the Sourcing organization employs a Volatility Matrix Tool that Fitzpatrick developed.

“The tool that I built takes into account all the drivers on pricing we now have access to,” Fitzpatrick said. “As a matter of fact, we can now prove to our auditors that we can better understand our portfolio landscape and can now safely limit our exposures. When we do our planning, we can plug in different scenarios and do ‘what if’ analysis to determine how they might impact pricing.”

## Achieving Millions in Savings

Within 18 to 20 months, Cardinal Health had already saved millions of dollars through the efforts of Fitzpatrick’s team. The Sourcing team’s ability to create more accurate forecasts and better negotiate prices for cotton alone accounts for 8 percent of the total savings that were achieved.

“When we build a budget, we need to set a baseline in December and build our margins off of that line,” explained Fitzpatrick. “We can budget more robustly leveraging what I have built and now understand and can tie back to the IHS price indexes and analyst insights. We now can better explain why we budget a particular number so we can more tightly control margins.”

The Global Sourcing Organization now works more collaboratively with suppliers and is also more effective in their negotiations. Said Fitzpatrick, “In the past eight months, we’ve been able to push back on six different price increases from different suppliers. In one case, the vendor said the price of high-density polyethylene had gone up 7 percent. We were able to respond that the price actually only increased 3 percent based on IHS data while the rest of the increase was due to business costs that were the suppliers’ responsibility – saving 4 percent. In another instance, we were looking at potential increases in the cost of stainless steel, but our data told us that the price had actually gone down. We were able to negotiate aggressively to completely mitigate that increase.”

Gaining a more holistic understanding of the factors that impact pricing enables Cardinal Health’s managers to make better sourcing decisions. The ability to dive deeper into the story behind the price

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Sean Fitzpatrick,  
Manager of Global  
Commodities & Supplier Risk  
Cardinal Health

creates opportunities that the company needs in order to continue on its current successful path.

## Stronger Governance Promotes Sustainability

Governance of the company’s contracting has also improved. Cardinal Health has boosted the accuracy of index-based contracts by tying them to more comprehensive data.

The group is also mitigating the risk of commodity price increases by leveraging the information. One way it does this is by setting up hedges. “Cardinal Health currently hedges diesel fuel and is looking to expand into the resins and plastics space,” said Fitzpatrick.

In addition, the company puts “guard rails” derived from forecasts into contracts that dictate acceptable increases tied to commodity volatility.

“We’ve integrated more comprehensive information and analysis into our strategic and tactical processes. It’s increasingly becoming part of our corporate DNA,” concluded Fitzpatrick. And this integration is helping Cardinal Health achieve its goal of helping providers deliver outstanding and affordable healthcare to people around the world.