



# BUDGET FORECAST INDEX

## Healthcare Spend Management Budgeting Tool

### One Year Outlook

Published September 2011





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## A Budgeting Tool for MedAssets Clients

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The MedAssets Budget Forecast Index helps our clients to forecast future price changes. MedAssets collects and consolidates the forecasted price changes and explanations from our contract suppliers to help you plan and budget for the upcoming year.

### TABLE OF CONTENTS

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#### **CHAPTER 1: BROAD INDUSTRY TRENDS**

CONSUMER PRICE INDEX .....	4
PRODUCER PRICE INDEX .....	5
FOREIGN EXCHANGE RATES .....	6
EMPLOYER COSTS FOR EMPLOYEE COMPENSATION (ECEC) .....	7

#### **CHAPTER 2: MANUFACTURER TRENDS**

CAPITAL EQUIPMENT .....	9
INFORMATION TECHNOLOGY .....	9
LABORATORY .....	9
MEDICAL .....	9
NON-MEDICAL .....	10
PURCHASED SERVICES .....	10
RESPIRATORY .....	10
SURGICAL .....	11
IMPLANTABLE DEVICES .....	11
RHYTHM MANAGEMENT .....	12
CORONARY STENTS .....	13
HEART VALVES .....	13
PHARMACY .....	15
ABOUT MEDASSETS .....	15

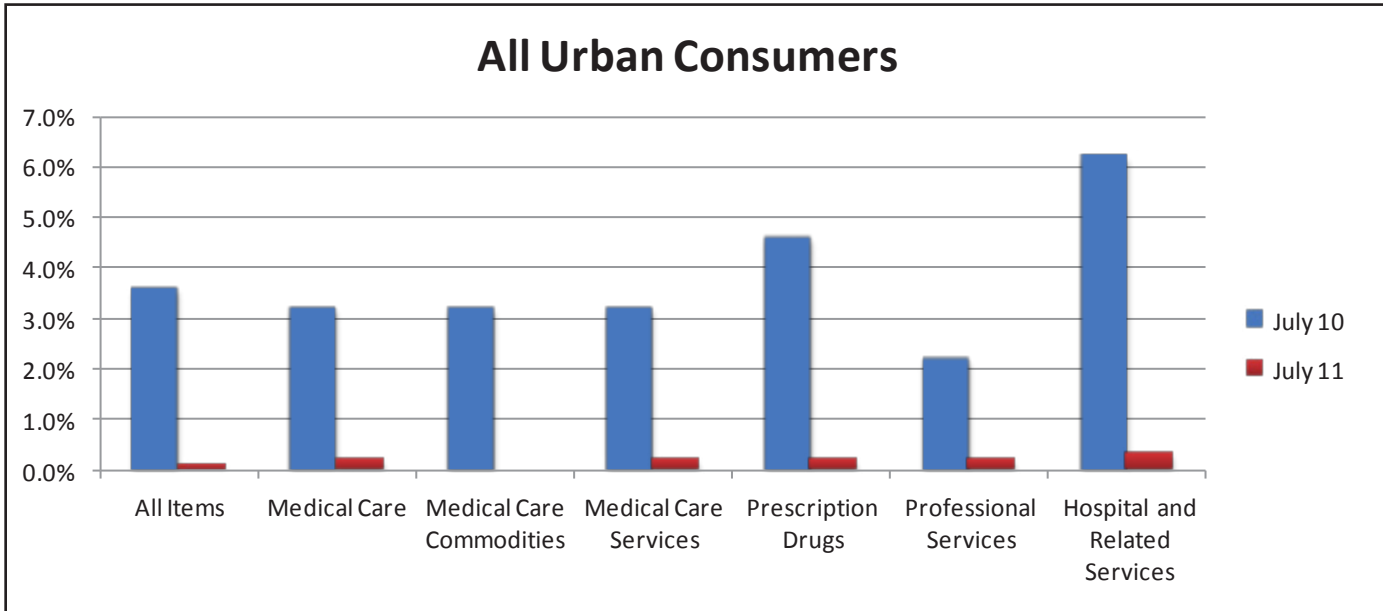
## CHAPTER 1

# BROAD INDUSTRY TRENDS

In this chapter are the national and worldwide trends which will impact supplier costs over the next year. This information should be used as a basis for your budget forecasting and provides you with an overview of national product and service cost trends for our industry.

Projected change percentages represent the best possible estimate from all input sources. The actual inflationary increases will be subject to social, economic and political pressures which are impossible to accurately predict. The inflationary indices described herein have been provided to MedAssets by a broad spectrum of industry sources.

# CONSUMER PRICE INDEX



Source: Bureau of Labor Statistics; <http://www.bls.gov/>; September 2011

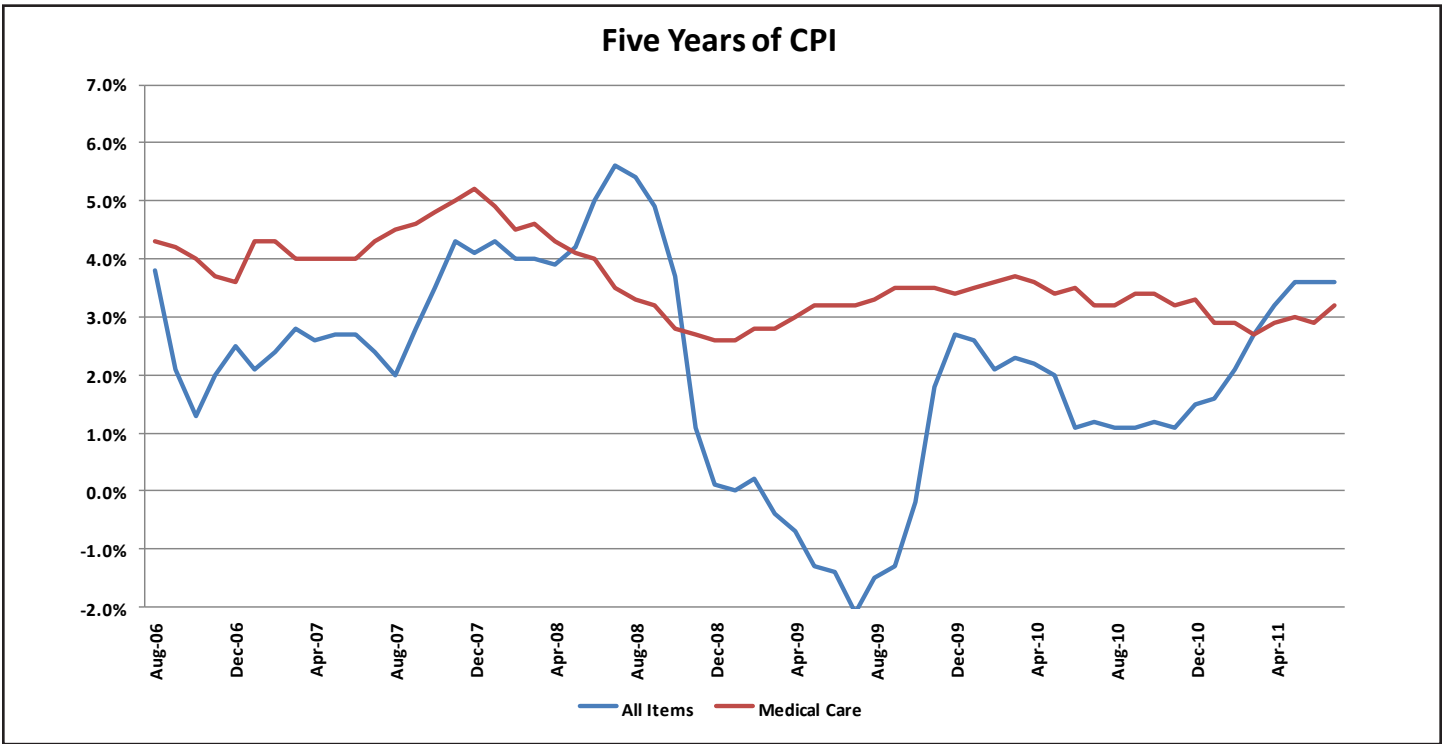
## Facts about the CPI from the Bureau of Labor Statistics

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. It is the most widely used measure of inflation. The CPI is generally the best measure for adjusting payments to consumers when the intent is to allow consumers to purchase at today's prices, a market basket of goods and services equivalent to one that they could purchase in an earlier period.

Medical care is one of the major item groups within the CPI. This major group consists of medical care commodities and medical care services. Medical care services, the dominant component of medical care, is organized into two expenditure categories: professional medical services and hospital and related services. Medical care commodities, comprised of prescription drugs and non-prescription medical equipment and supplies, is the other major component of medical care.

## Definitions of published medical care indexes

<b>Medical care</b>	Medical care services and medical care commodities
<b>Medical care services</b>	Professional medical services, hospital services, nursing home services, and health insurance imputation
<b>Professional services</b>	Physicians, dentists, eye care providers and other medical professionals
<b>Hospital and related services</b>	Includes services provided to inpatients, outpatients, emergency room visits, nursing home care and adult day care; Includes transaction and chargemaster prices
<b>Medical care commodities</b>	Prescription drugs, nonprescription over-the-counter-drugs and other medical equipment and supplies

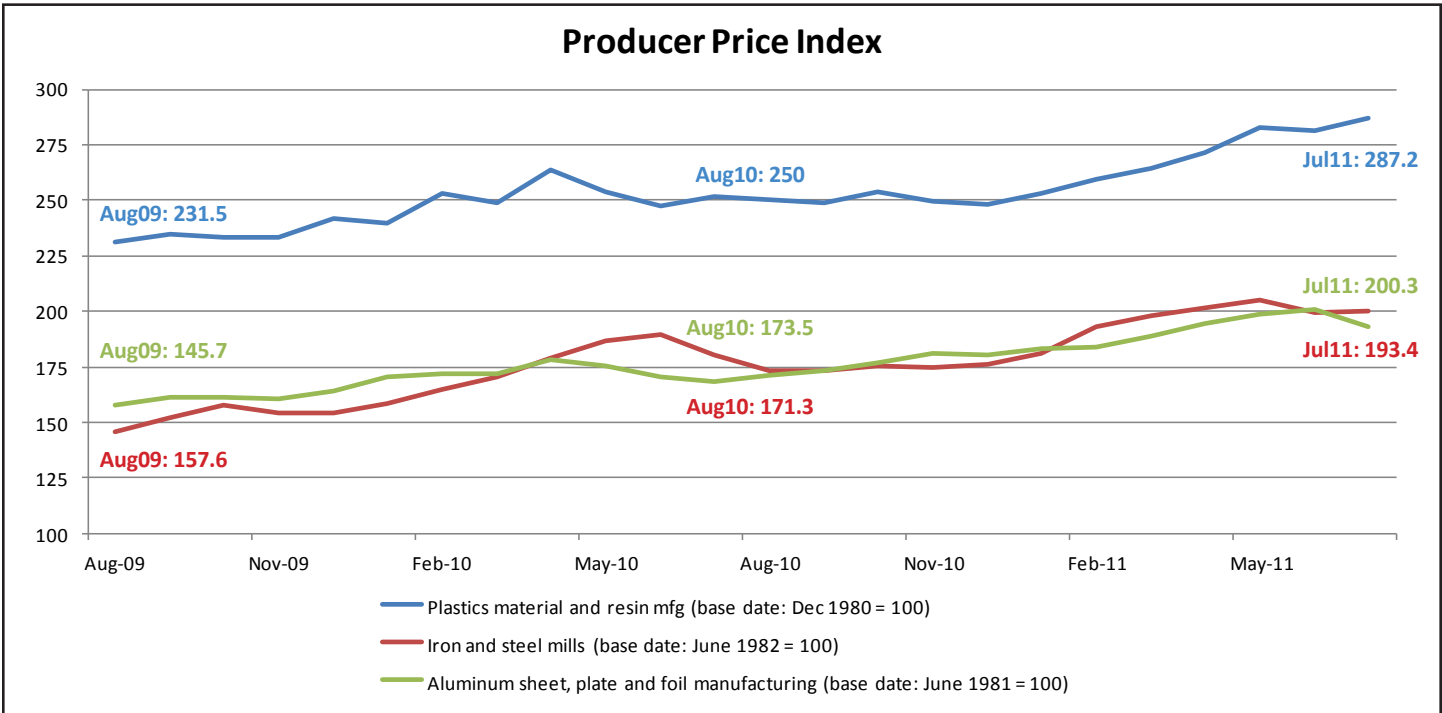


Source: Bureau of Labor Statistics; <http://www.bls.gov/>; September 2011

## PRODUCER PRICE INDEX

### Facts about the PPI from the Bureau of Labor Statistics

The Producer Price Index is a family of indexes that measures the average change over time in the selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the Consumer Price Index (CPI), that measure price change from the purchaser's perspective. Sellers' and purchasers' prices may differ due to government subsidies, sales and excise taxes, and distribution costs.



Source: Bureau of Labor Statistics; <http://www.bls.gov/>; September 2011

## Other Key Financial Drivers

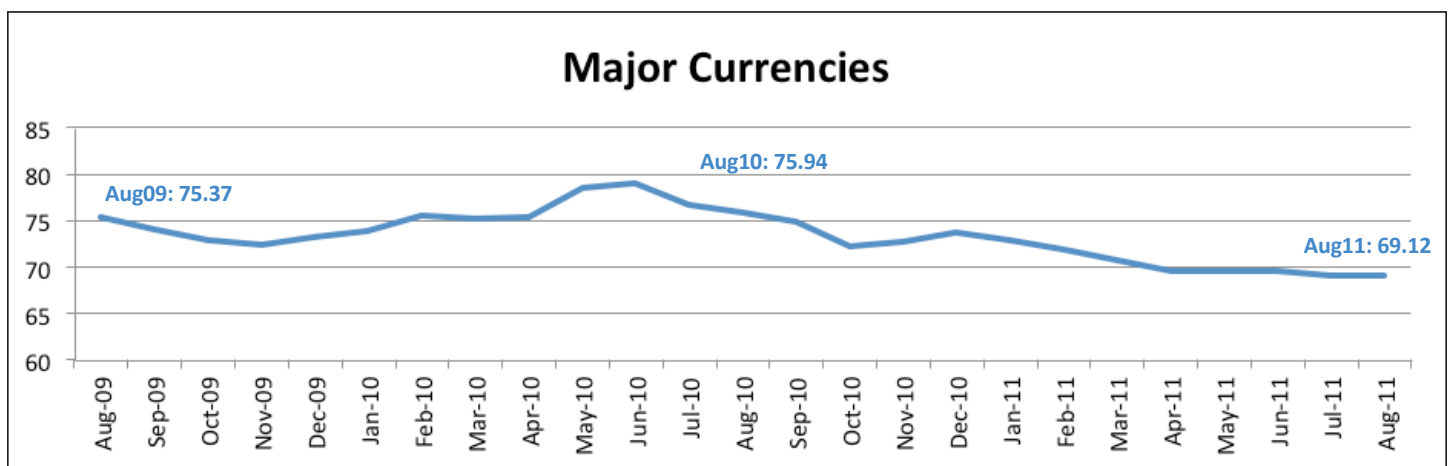
Many things beyond simple inflation can have a significant impact on your product pricing. Foreign exchange rates can have material impact on manufacturing costs or the price of goods due to global demand. Employee wages, salaries, and benefits will also weigh on the price of goods from suppliers.

The following charts show how these key drivers are changing, and should be taken into consideration when budget forecasting.

## FOREIGN EXCHANGE RATES

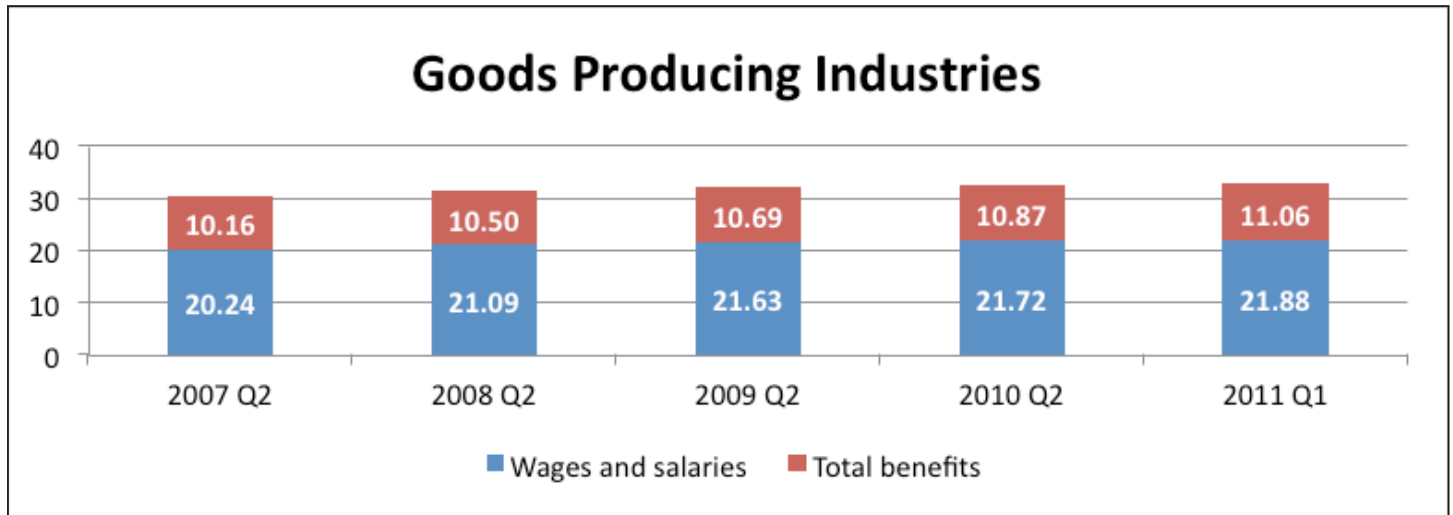
Country	Monetary Unit	July 1, 2011	July 1, 2010	Change
AUSTRALIA	DOLLAR/USD	0.9276	1.1382	-18.5%
BRAZIL	REAL/USD	1.5625	1.7689	-11.7%
CANADA	DOLLAR/USD	0.9553	1.0422	-8.3%
CHINA, P.R.	YUAN/USD	6.4575	6.7762	-4.7%
DENMARK	KRONE/USD	5.223	5.8179	-10.2%
EMU MEMBERS	EURO/USD	0.7005	0.7806	-10.3%
HONG KONG	DOLLAR/USD	7.7892	7.7753	0.2%
INDIA	RUPEE/USD	44.396	46.7617	-5.1%
JAPAN	YEN/USD	79.2425	87.5005	-9.4%
MALAYSIA	RINGGIT/USD	2.9924	3.2035	-6.6%
MEXICO	PESO/USD	11.6741	12.8038	-8.8%
NEW ZEALAND	DOLLAR/USD	1.1792	1.3996	-15.7%
NORWAY	KRONE/USD	5.4502	6.2633	-13.0%
SINGAPORE	DOLLAR/USD	1.2158	1.3756	-11.6%
SOUTH AFRICA	RAND/USD	6.7871	7.5212	-9.8%
SOUTH KOREA	WON/USD	1057.425	1203.8095	-12.2%
SRI LANKA	RUPEE/USD	109.457	112.9571	-3.1%
SWEDEN	KRONA/USD	6.3957	7.4066	-13.6%
SWITZERLAND	FRANC/USD	0.8214	1.053	-22.0%
TAIWAN	DOLLAR/USD	28.835	32.0935	-10.2%
THAILAND	BAHT/USD	30.0475	32.2895	-6.9%
UNITED KINGDOM	POUND/USD	0.6189	0.6534	-5.3%
VENEZUELA	BOLIVAR/USD	4.2893	4.2896	0.0%

Source: Federal reserve; <http://www.federalreserve.gov/>; August 2011

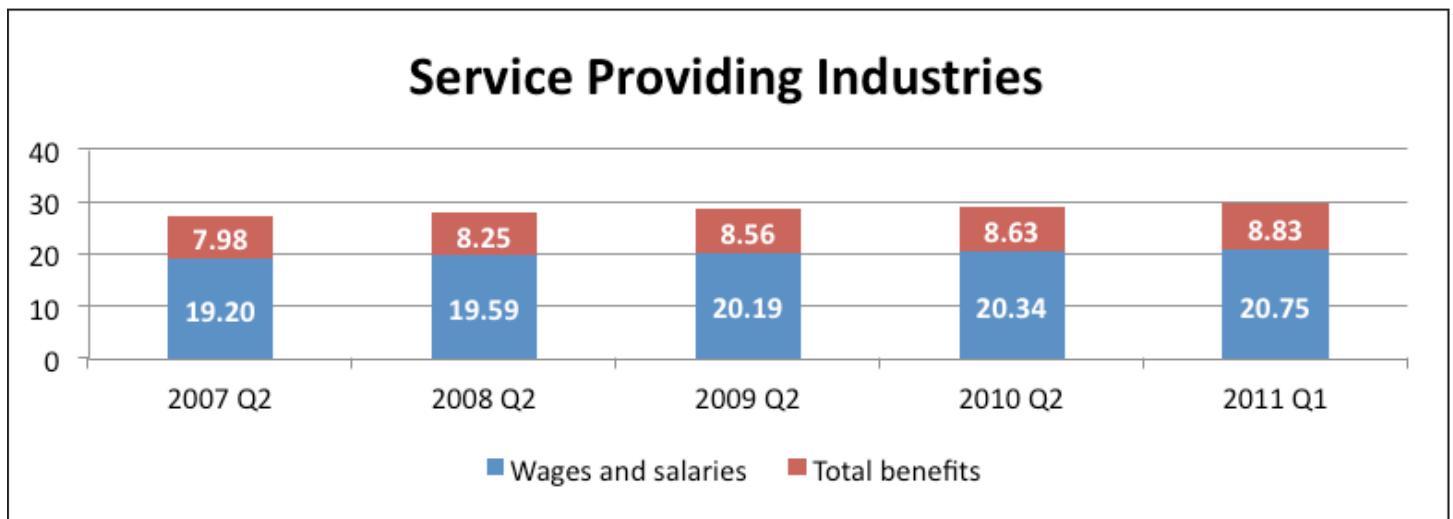


Source: Bureau of Labor Statistics; <http://www.bls.gov/>; September 2011

## EMPLOYER COSTS FOR EMPLOYEE COMPENSATION (ECEC)



Source: Bureau of Labor Statistics; <http://www.bls.gov/>; September 2011



Source: Bureau of Labor Statistics; <http://www.bls.gov/>; September 2011

## CHAPTER 2

# MANUFACTURER TRENDS

MedAssets requests contracted suppliers to provide their input about cost changes for the upcoming year. The following suppliers have provided their expectations for 2012 with the key drivers that will influence the change.

Projections in this index submitted by manufacturers are a general guideline to their overall inflationary expectations in the marketplace. These projections do not apply to MedAssets contracts which are generally price-protected and typically structured to offer savings opportunities based on customer commitment level.

<b>Modality/Category</b>	<b>Projected Change</b>	<b>Key Drivers Contributing to Change</b>	<b>Resource</b>
<b>CAPITAL EQUIPMENT</b>			
Radiation Therapy Equipment	2 - 4%	R&D, inflation, software upgrades, new technology	Varian
Rigid Endoscopy	3 - 8%	Machining costs, raw materials, transportation, labor	Smith and Nephew
<b>IT</b>			
Copiers	0 - 10%	New technology, supplies and service costs	Xerox
Wireless	No change	Downward price pressures being offset by increased data usage	Sprint
<b>LABORATORY</b>			
Blood Bank Instruments, Reagents and Consumables	0 - 5%	Decreased costs through customer compliance offset by inflation	Immucor
Blood Collection	2 - 3%	Inflation, raw material costs	Becton Dickinson
Coagulation Instruments and Reagents	3 - 5%	Inflation, petroleum, transportation, chemicals and new technology	Beckman Coulter
Hematology Instruments and Reagents	No change	Pricing is expected to remain flat in 2012	Sysmex
Immunochemistry and Chemistry with Automation	3 - 11%	Raw materials, regulatory compliance	Siemens Healthcare Diagnostics
Laboratory Distribution	3%	Resins, energy costs	Fisher Healthcare
Reference Lab	No change	Pricing is expected to remain flat in 2012	LabCorp
<b>MEDICAL</b>			
Advanced Wound Care	8 - 10%	New products, labor, focus on improved outcomes	3M
Critical Care Catheters	No change	Pricing is expected to remain flat in 2012	Edwards Lifesciences
Safety Needles and Syringes	No change	Pricing is expected to remain flat in 2012	Becton Dickinson
Urological Catheters	1 - 5%	Raw material costs, higher regulatory costs, transportation costs, pending medical device tax	CR Bard

<b>Modality/Category</b>	<b>Projected Change</b>	<b>Key Drivers Contributing to Change</b>	<b>Resource</b>
<b>NON-MEDICAL</b>			
Bulk and Cylinder Gas	15 - 18% +	Product shortages and allocations, energy, transportation, labor	Airgas Inc.
Custom Forms	No change	Pricing is expected to remain flat in 2012 but may be impacted by paper mill closures	RR Donnelley
Disposable Towels and Tissues	3 - 5%	Inflation, pulp	Kimberly-Clark
Maintenance, Repair and Operations Supplies	2 - 6%	Inflation	Grainger Industrial Supply
Office Supplies	5%	Cost of goods, distribution, marketing, labor	Office Depot
Purchased Linens and Reusable Apparel	No change	Pricing is expected to remain flat in 2012	Medline
<b>PURCHASED SERVICES</b>			
Dietary Services	2.5 - 3.5%	Inflation, raw material, labor	Sodexo
Environmental Services	2 - 3%	Labor	Crothall
Environmental Services	2 - 3%	Labor, pulp, resin	Sodexo
Food Purchasing	2.5 - 3.5%	Increased food commodity and energy prices, global demand	Foodbuy
<b>RESPIRATORY</b>			
Pulse Oximetry	4%	Raw materials, transportation	Massimo
Respiratory Therapy	2 - 4%	Labor, raw materials, transportation	Teleflex
Tracheostomy/Endotracheal Tubes	3 - 5%	Labor, raw materials, new technology	Covidien

<b>Modality/Category</b>	<b>Projected Change</b>	<b>Key Drivers Contributing to Change</b>	<b>Resource</b>
<b>SURGICAL</b>			
Electrosurgical Equipment	2-3% market growth in basic ES disposables (units), 15-20% growth (units) in advanced vessel sealing products	New technology	ValleyLab (Covidien)
Ophthalmics	No change	Pricing is expected to remain flat in 2012	Alcon Labs
PICCs and Ports	1 - 5%	Raw material costs, higher regulatory costs, transportation costs, pending medical device tax	Bard
Sterile Reprocessing	2%	Labor	SterilMed
Surgeons Gloves	No change	Decreased costs offset by shift to non-latex gloves	Molnlycke
Surgical and Procedure Masks	No change	Pricing is expected to remain flat in 2012	Kimberly-Clark
<b>IMPLANTABLE DEVICES</b>			
Hips	3 - 9%; avg 5%	Increases to list price	Aspen Healthcare Metrics
Knees	2 - 7%; avg 5%	Increases to list price	Aspen Healthcare Metrics
Trauma	3 - 7%; avg 4%	Increases to list price	Aspen Healthcare Metrics
Spine Implants (Metal)	0 - 5%; avg 1%	Increases to list price	Aspen Healthcare Metrics
Bone Products	0 - 7%; avg 3%	Increases to list price	Aspen Healthcare Metrics

Modality/Category	Projected Change	Key Drivers Contributing to Change	Resource
<b>RHYTHM MANAGEMENT</b>			
Pacemakers	7 - 10%; avg 8.5%	Most vendors have active pipelines with new products headed to the U.S. markets, pacemaker technology has reached parity among the major vendors, however, the introduction of MRI conditional devices will fuel an upcharge in this product category.	Aspen Healthcare Metrics
Defibrillators	4 - 8%; avg 6%	Most vendors have active pipelines with new products headed to the U.S. markets, technology has reached parity among the major vendors. Physiologic remote monitoring and algorithms that reduce the frequency of unnecessary shocks are recent features that are being marketed heavily.	Aspen Healthcare Metrics
CRT-D	4 - 8%; avg 6%	Most vendors have active pipelines with new products headed to the U.S. markets, technology has reached parity among the major vendors. Physiologic remote monitoring and algorithms that reduce the frequency of unnecessary shocks are recent features that are being marketed heavily.	Aspen Healthcare Metrics

Modality/Category	Projected Change	Key Drivers Contributing to Change	Resource
<b>CORONARY STENTS</b>			
Bare Metal/Cobalt Chromium	5 - 9% decrease; avg 7.5% decrease	Downward price pressure continues into 2011 in this category of cardiac stent caused by pressure from DES cost reductions due to multiple vendors selling into this space, smaller diameter drug eluting stents and longer lengths now available; and the recognition that there must be a cost gap to incent their use.	Aspen Healthcare Metrics
DES	6 - 10% decrease; avg 8% decrease	Competition among multiple vendors in a competitive market environment continue to impact this category of stents. New metals and strut design will temper the previous year's steep declines, however, overall the trend will continue until the absorbable platform reaches the U.S. market in 2013.	Aspen Healthcare Metrics
<b>HEART VALVES</b>			
Mechanical	Flat; avg 0%	The percentage of mechanical valve implants continues to decline. Many hospitals and some IDNs will find it possible to commit market share to one vendor to capitalize on aggressive pricing.	Aspen Healthcare Metrics
Percutaneous	Market pricing not yet determined. Expectations are 3 to 5 times the cost of a standard mechanical valve	Edwards Life Sciences will launch Sapien in the U.S. before the end of 2011, for patients who are deemed to be non-surgical candidates. Medtronic projects a U.S. launch of its first transcatheter aortic valves – the CoreValve – in 2013.	Aspen Healthcare Metrics

<b>Modality/Category</b>	<b>Projected Change</b>	<b>Key Drivers Contributing to Change</b>	<b>Resource</b>
Tissue	3 - 8%; avg 6%	There are now four manufacturers of tissue valves approved for sale by the FDA. This should cause downward pressure on ASP. Upward price pressure continues to affect the market created by new and established vendors bringing special coating to their valves with solutions intended to increase durability and useful life. Although there is little hard clinical data to indicate that these coatings perform as claimed, many physicians are switching to these valves for younger patients.	Aspen Healthcare Metrics
Special Procedure Devices	8 - 12%; avg 10%	Advancements to technology and the introduction of new devices continue at a rapid pace for interventional radiology creating an upward pressure on cost; multiple vendors expanding their presence in the market will have some leveling impact. Significant growth in neuro-vascular interventions involving stents and embolizing products will continue to result in increased total spend, the growth rate should moderate in maturing markets to an 8 to 12% growth in cost. Hospitals in emerging markets should expect accelerated growth beyond these rates.	Aspen Healthcare Metrics
Perfusion Supplies	No change	Pricing is expected to remain flat in 2012	Aspen Healthcare Metrics
Balloons and Wires	5 - 9% decrease; avg 7% decrease	Competition among multiple vendors in a static market environment	Aspen Healthcare Metrics
Off Pump Products	No change	Pricing is expected to remain flat in 2012	Aspen Healthcare Metrics

<b>Modality/Category</b>	<b>Projected Change</b>	<b>Key Drivers Contributing to Change</b>	<b>Resource</b>
<b>PHARMACY</b>			
Overall Estimate	5 - 7%	Healthcare reform impact may continue to significantly influence this projection	
Branded Drugs On Contract	4 - 6%	Recent industry trends, CPI-U, impact of healthcare reform costs	Market basket indices
Non-contract Branded Drugs	8 - 12%	Recent industry trends, CPI-U, impact of healthcare reform costs	Market basket indices
Branded Drugs Going Off Patent	20 - 90% decrease	Recent trends, competition, market forces	MedAssets data

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## **ABOUT MEDASSETS**

MedAssets (NASDAQ: MDAS) partners with healthcare providers to improve financial strength by implementing spend management and revenue cycle management solutions that help control cost, improve margins and cash flow, increase regulatory compliance and optimize operational efficiency. MedAssets serves more than 180 health systems, 4,000 hospitals and 90,000 non-acute healthcare providers. For more information, go to [www.medassets.com](http://www.medassets.com).