

***Lessons from LEGO:
How Supply Chain
Management Can
Lower Your
Healthcare Costs***



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The costs of healthcare plans steadily increase each year, while the quality of those benefits plan decline. Employers are paying more while their employees are getting less of the coverage they want and need. CFO Solution founder Gary Bender points out in *Breaking Through the Status Quo* that the C-suite treats benefits differently from other key parts of a business because the healthcare industry operates under a unique standard in which it is acceptable for customers to pay more for a service while actually receiving less in return.

This would be unacceptable in virtually any other aspect of business—picture your marketing director shrugging her shoulders at a 15% increase in budget and saying, “There’s just nothing we can do differently!”—yet few business owners challenge their benefits brokers to find more creative solutions.

Brokers are typically focused on one thing: Convincing you to renew your plan for another year, even in the face of increasing costs. They may offer some fanfare about how they negotiated-down your rate increase (so the rate increase isn’t “that bad” in their eyes), but their plan is the same as last year except that it costs more money and likely provides even less coverage for

your employees. As long as they can convince you that they got you a better deal on your annual price hike than you would’ve gotten without their help, their job is done until it’s time to do the same thing all over again the following year.

Most businesses are content to work with a status-quo broker because they don’t know there is another way: Working with a next generation benefits adviser. An adviser views your benefits plan as a strategic opportunity for your business, a path that begins with controlling costs and ends with leveraging the plan to drive key aspects of your business ranging from pure profitability to employee retention.

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A next generation adviser understands that your benefits plan can have a massive impact on your business. To maximize that impact in a positive way, one of their primary focuses will be managing the healthcare supply chain **to help your employees get the best care at the lowest cost**, protecting your budget as well as your people.

LEGO Saves Itself with a Supply Chain Overhaul

Supply chain management is not a new idea to most business leaders, but few see how lessons we learn in the traditional supply chain can apply to benefits. If we look at how big of an impact supply chain management can have in more traditional aspects of business, we can start to see how those same lessons can apply to how your organization chooses a benefits plan. First, consider the success story of the LEGO company. In 2004, the toy building block business was experiencing financial struggles that led then-CEO Jorgen Vig Knudstorp to examine how they were spending their resources and how they could improve the way they spent them.



Production

The LEGO leadership team realized that instead of spreading their manufacturing and distribution centers throughout multiple countries in Europe, they could cut costs through consolidation. They decided to focus their distribution in the Czech Republic to take advantage of the

nation's low labor costs and plentiful skilled workers. LEGO then reduced the number of transportation providers but retained efficiency by using international providers that traveled throughout most of Europe and Asia.

Next Generation Benefits Outlook: You can save on healthcare costs by pursuing other service providers without sacrificing quality or experience.



Design

The company also zeroed in on the costs that came from the creative department. For example, many of the 100 colors that the toy company used in their bricks were redundant, and by cutting the number of available colors in half, they were able to save money on production. They also decreased the variety of human figurines. These unnecessary costs were a natural product of a company that prioritized innovation, and while LEGO didn't want to keep designers on a creative leash, it did find a middle ground by implementing rules and a cost matrix to apply to new and changed toy designs.

Next Generation Benefits Outlook:
Streamline your benefits plan by eliminating inefficiencies that sap budget for no positive return.

Sourcing

Before their supply chain overhaul, LEGO was working with around 11,000 suppliers, and much of the specialized materials they purchased to create new products went to waste. This, too, was the result of prioritizing innovation over cost efficiency — as toy engineers came up with new designs, they reached out to new suppliers who could provide them with the specific materials they needed, albeit in much larger quantities than were needed. The sourcing team worked with Chief Financial Officer Jesper Ovesen to cut down the list of suppliers and analyze the costs of the raw materials that were needed to make their products. When they'd finished, they'd cut down on the number of suppliers and were able to stabilize the pricing of their materials.

Next Generation Benefits Outlook:
As your benefits plan become more efficient, pursue innovative ways to provide better care with less cost.

In the first year alone after enacting these changes to the company, LEGO experienced a 240 percent increase in profits and over \$67 million in savings. And the rewards went beyond price tags: The business was once again able to focus on innovation and development instead of drowning in growing costs.

Your Benefits Building Blocks

Your adviser should work to ensure that the patient gets the right care at the right place at the right time at the right price, and that requires them to be innovative and look at the healthcare process from the moment the patient decides they need treatment. This means not only finding the best specialist at the lowest cost, but also applying that same diligence to every other stage of the care process, from x-rays to bloodwork to prescriptions to physical therapy.

For this reason, it's important to work with an adviser who stays up to date on healthcare technology, which often provides treatment options for employees that are just as effec-

tive as their traditional equivalents but less expensive for the employer and more convenient for the patient. For example, a digital consultation can yield the same results for routine medical needs (like a cold) without making the patient waste time and gas driving to the doctor's office, but the patient may not have that option if your plan was negotiated by a status-quo broker.



Exploring Alternative Funding

Just as creating a LEGO masterpiece requires choosing the right bricks, it's also important to use the bricks that fit your sculpture instead of throwing them all into a haphazard pile. Similarly, working with an adviser who can determine the right type of funding and the right building blocks for your benefits plan is necessary for controlling the healthcare supply chain.

A status-quo broker working on commission is likely to push you to accept a fully-funded plan, which assumes that all of your employees will use every available service their plan has to offer. This may not be a bad option if your entire staff is likely to require major surgery within the next few years, but more realistically, this type of funding is going to force you to pay for a lot of expensive procedures your employees won't need.

A next generation adviser offers you a more personalized approach via level-funded plan. By assessing your company's unique needs, your adviser can determine the benefits plan for the business and for employees. This can mean implementing new healthcare delivery solu-

tions, assessing what employee needs are likely to be, and exploring provider options that meet a high standard of care at lower costs. Under a fully-funded plan, you overpay for a generic plan comprised of components that may or may not fit your business and that have certainly not been evaluated for their quality or cost-effectiveness.

A level-funded plan offers a more personalized alternative that keeps costs low while ensuring that your employees get the care they need.

A status-quo broker lacks the vision and experience to understand your business goals and to build a plan that prioritizes your business's unique needs. That's simply not how they operate. A next generation adviser, however, understands that breaking down your employees' individual needs is crucial to minimizing unnecessary spending and maximizing employee experience. If your adviser isn't discussing alternative funding with you, they're not doing everything they can to turn your plan into a strategic advantage for your business.

Assembling Your Next Generation Benefits Plan

To obtain this kind of control over the supply chain and to explore every way that your healthcare savings can impact your business, your adviser should work with a leadership team that involves more than just the HR department. The entire C-suite should participate in the process to create an effective strategy that not only reduces the costs of your benefits plan but leverages it for strategic goals like retaining key employees, enhancing the activity of the company's 401(k) plan, or diverting the additional budget into growth opportunities. The adviser's benefits expertise can help each team member use their respective area of expertise to grow the business, effectively turning your healthcare plan from another annual expense you can't control into a tool that you can leverage to your benefit.

Some of the rewards that come with working with a next generation adviser are obvious, but you'll start to see the benefits trickle down into other areas of the business as well. For example, employee retention may rise as morale increases, which will result in lower costs associated with hiring and training new employees and greater efficiency among workers. A status-quo broker won't bother to consider all the ways your healthcare plan could help your business, but a next generation adviser will see effective supply chain management as a way to help improve every possible aspect of the company.

Rejecting the lackluster service of status-quo brokers is the perfect opportunity bring a next generation adviser on board, taking a strategy-based approach and being innovative where your competitors aren't. Rather than treating your healthcare plan as just another necessary expense, engage a next generation adviser to realize all the strategic benefits your plan can provide for your business.

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The adviser's benefits expertise can help each team member use their respective area of expertise to grow the business, effectively turning your healthcare plan from another annual expense you can't control into a tool that you can leverage to your benefit. **Contact us to see how a next generation benefits adviser can help uncover savings opportunities in your benefits plan.**