Discussion Summary

1. Introduction – Intermountain Healthcare
2. Supply Chain Story – at Intermountain Healthcare
4. Best Practices in Supply Chain – all industries
5. Uniqueness of Healthcare Supply Chain
6. Supply Chain Best Practices in Healthcare – *the same medicine as all industries*
7. Summary
8. Questions
The Johnson Family Supply Chain
Intermountain Healthcare
Intermountain Healthcare – An Integrated Health System

- 33,000+ employees
- 22 hospitals
- 185 clinics
- 1,300 employed physicians

Founders’ Charge: Be a model health system
Intermountain Healthcare Facts

- Largest company in the state of Utah – 34,000 employees
- Created in 1975 as LDS Church “gifts” its hospitals to the community
- Rated the #1 or #2 hospital organizations in the nation each year during the past decade
- $4.5 billion in Net Patient Services Revenue
- $5.5 billion in Assets
- 23 hospitals, 180 clinics, 1,200 phys’s
- Health plans (Select Health) 550,000 Members
- AA+ Standard & Poor’s Aa1 Moody’s
State Rankings: Health Status vs. Cost

Source: americashealthranking.org and statehealthfacts.org
Supply Chain Organization
at Intermountain Healthcare
Intermountain Healthcare
Supply Chain Organization

- Ranked #4 by Gartner in 2013 for all of healthcare
- New Intermountain Supply Chain Center
  - Opened in mid-2012
- Actively involved in the best industry organizations – SMI, HTG, AHRMM
- Passionately finds and adopts best practices
- Investing into Supplier Relationship Management
- Integrating Supply Chain with Clinical
Intermountain Supply Chain Organization (SCO)
Our Evolution Continues to Mature

Tactical
Pre-2005

- **Focus**: Transaction Mgmt

- **Milestones**:
  - Amerinet relationship
  - Hired McKinsey to conduct assessment

Build Credibility
2005 - 2008

- **Focus**: Customer-Service

- **Milestones**:
  - Hired CPO
  - Resourced SCO
  - Purchasing Consolidation
  - Warehouses report to SCO

Deliver Results
2009 - 2011

- **Focus**: Savings

- **Milestones**:
  - Sourcing Consolidation
  - Sourcing Process and Governance
  - I-Card Rollout
  - Web Requisitioning
  - Standardization
  - LEAN

Create Value
2012 and Beyond

- **Focus**: Value

- **Milestones (planned)**:
  - Self-Distribution
  - Managing all Non-labor
  - Category Management
  - Suppliers as Partners
  - Clinical Integration
  - Solutions-Driven (outcomes, prevention, wellness, etc.)
  - Business Development (Cost Neutral in 5 yrs)

Design for Accountable Care!

Time

Effectiveness & Impact
SCO Savings 2006 - 2013

Total 8 Year Savings: $406,069,385
2013 Gartner Top-Ten Healthcare Supply Chains

1. Cardinal Health
2. Mayo Clinic
3. Owens & Minor
4. Intermountain Healthcare
5. McKesson
6. BD
7. Johnson & Johnson
8. Walgreens
9. CVS Caremark
10. Sisters of Mercy

Critical Success Factors

• Supply chain became a strategic focus by senior leadership
• $3 Million initially investment and 25 new FTEs – skilled & talented
• Centralized buyers and reporting relationships of the warehouse
• Added couriers, travel services, publishing and central laundry
• Ongoing investments in our people
• Earned trust of stakeholders – management, clinicians & physicians
• Implemented effective strategies
• Deliver on commitments - $400 million savings in last eight years

Intermountain Supply Chain will certify over 30 CSPMs in 2013
We Set Out To Save $80 Million! Along The Way, We Changed A Culture.
Everything Supply Chain

Sourcing, Contracting, Analytics, Systems, Purchasing, Accounts Payable,
Couriers, Logistics, Warehousing, Distribution plus 12-15 programs

Opened June, 2012

327,000 sq ft - Distribution Center & MUCH MORE
Intermountain’s SCO is supported with a Robust Cost Management Infrastructure

- **Scope** - Supply Chain is empowered to manage all non-labor expenses, plus MM responsibilities for Homecare and all non-acute (clinics)

- **World Class Sourcing Process** – Methodically selecting the right suppliers and the right products/services, plus a commitment to Supplier Relationship Management

- **World Class Logistics Center** – No unnecessary “touches” of products from manufacturers to caregivers

- **Talent** – Over 30 MBAs, investment in development, certification

- **Robust Technology** – Reporting, Analytics, eSourcing, Contract Mgt

- **Governance** – Executive support, Procurement Steering Committee, Category Councils
Best Practices
What’s a best practice?

The Greeks gave up frontal assaults on the Trojans and built the wooden horse by being smarter, not working harder, and got better results.

- Best method of operating a common process
- A process that produces the best benchmark or metric compared to others
- A technique, method, process, activity, incentive or reward that is more effective at delivering a particular desired outcome
Best Practices are applicable in all parts of our lives

• Raising kids
• Marriage
• Driving
• Buying
• Golf
• Cooking

• And...work too!
• Plus many others....
Is this a best practice?
Best Practices in Supply Chain

(All Industries)
Supply Chain Management Can Be a Powerful Resource for any Company

No, I can’t be bothered to see any crazy salesmen “We’ve got a battle to fight!”
12 Fundamental Best Practices of Supply Chain Management

1. Develop the strategy
2. Align the supply chain organization
3. Recruit supply chain professionals
4. Be dedicated to performance management
5. Establish strategic sourcing strategy
6. Manage total cost of ownership (TCO)
7. Establish key supplier alliances
8. Develop supplier management processes
9. Streamline the order-to-payment process
10. Manage inventory
11. Manage distribution & logistics
12. Establish & monitor controls
1. Develop the strategy

- How to develop a strategy without a “burning platform”
- Senior management support is first and most critical
- Scope – Total non-labor spend (at least 70-80%)
- Total process, organization, strategy and culture evaluation is needed
- This is about culture change - Change management principles will be required to succeed
- Communication and branding is critical
2. Align the Supply Chain Organization

- SCM must be properly organized in order to execute the plan

- In a perfect world, the supply chain organization will have the functions of:
  - Purchasing
  - Sourcing
  - Contract Management
  - Materials Management
  - Logistics

- Centralized or de-centralized? Answer depends and varies by company
  - Common Theme: Centralized with some decentralized execution
3. Recruit Supply Chain Professionals

- Keep and develop the best of the existing employees
  - Keep A’s and potential B’s. Redirect C’s.

- Recruit SCM professionals with the right mentality
  - More focus on strategic thinking
  - Less focus on measuring transactional activity

- Different skill sets needed today vs. historically
  - Interpersonal communication
  - Strategic thinking
  - Technical Skills (analytical, subject matter expertise)
  - Project Management Skills
  - Relationship management skills
4. Be Dedicated to Performance Management

- Spend analysis is the foundation
  - You must know what you are buying – corporate wide
- Must be able to validate outcomes
  - Open, transparent validation of savings process
  - Savings reports – validated vs. realized savings
  - Utilization information is critical
- Big barrier is inability to retrieve precise spend data
  - Clean item master data info
  - Best of class companies navigate the challenges of getting data from multiple systems to retrieve meaningful data
5. Establish Strategic Sourcing Strategy

- What is Strategic Sourcing?
  - It is a disciplined, systematic process of analyzing corporate expenditures and developing strategies to reduce the total costs of externally purchased materials and services.

- Strategic Sourcing is the Cornerstone of Supply Chain Management
  - It’s unified decision making processes with Supply Chain Organization guidance and leadership. *This must become a standard practice.*

- Proper sourcing evaluation of every category helps determine if best outcome is strategic alliance, long-term non-strategic partner, high transactional non-strategic supplier, or purchase order – Sourcing Square.
The 7 Phase Strategic Sourcing Process

I. SAVINGS OPPORTUNITY IDENTIFICATION
   A. Data Collection
   B. Stakeholder Buy-in
   C. Champion Identification
   D. Team Formation
   E. Team Training
   F. Stakeholder Communication Plan

II. AS-IS ASSESSMENT
   A. Total Cost of Ownership
   B. Supplier Identification
   C. External Assessment
   D. SCE Internal Assessment

III. SOURCING OPTION DEVELOPMENT
   A. Vision & Assumptions
   B. Sourcing Savings Options
   C. Executive Approval
      • Vision
      • Assumptions
      • Options
   D. First Supplier Screening
   E. Request For Information (second supplier screening)

IV. SOURCING STRATEGY SELECTION
   A. Sourcing Strategy Verification
   B. Third Supplier Screening
   C. Develop Implementation & Performance Plans
   D. Management Participation & Approval
   E. Negotiation & Supplier(s) Selection
   F. Commitment to Long Term Total Cost Savings

V. COMMUNICATE & CELEBRATE
   A. Executive Communication
   B. Internal & External Communication
   C. Celebration

VI. IMPLEMENTATION
   A. Manage & Monitor Performance to Predefined Strategy
   B. Incorporate New Continuous Improvement Opportunities
   C. Track & Report Performance
   D. Manage Deviations
   E. Sourcing Strategy Review

VII. PERFORMANCE MANAGEMENT
   A. Reassess Team Composition
   B. Conduct Kickoff
   C. Manage Stakeholder Communication
   D. Initiate Implementation
6. Manage Total Cost of Ownership

THIS IS ABOUT:

*Instill Total Cost of Ownership / Total System Cost Mindset*

- Your suppliers costs end up being your costs
- Move away from looking at just lowest price
- More focus on best value
- Evaluation of all factors that make up the cost of goods and services
Total Cost of Ownership = A + (O+T+M+W+E) Less S

A = Acquisition Cost (25-40%)
O = Operating Costs
T = Training Costs
M = Maintenance Costs
W = Warehousing Costs
E = Environmental Costs
S = Salvage Value

Source: *The Executive Guide to Supply Chain Management*, David Riggs/Sharon Robbins
7. Establish Key Supplier Alliances

- Long-term relationships based upon trust, cooperation, commitment and open communication
- Objective is to work together to reduce costs and share in the benefits
- Reduction of suppliers is a natural outcome of supply chain management
  - Leverage your buying power by consolidating purchases with fewer suppliers
  - Cut administrative costs by managing fewer suppliers
- Find your best suppliers and grow them
Imagine the Potential If...

- Supplier teams become extensions of hospital teams
  - Innovation: R&D, Marketing
  - Productivity: Management Engineering, LEAN teams
  - Financial: Supply Chain Management, Reimbursement
  - Quality: Clinical, Customer Care

- Participants receive preferential treatment
  - Access to talent and leadership
  - Shared long term strategic planning
  - Aligned incentives, productive behaviors and shared
  - Highest priority for your requirements/needs

- Everyone is enabled to do their best every day!
  - You spent your time focused on finding solutions to meaningful problems
  - You didn’t have to worry about price or commitment or market share or volume
  - You operated at the top of your “license” and achieved maximum potential
8. Develop Supplier Management Processes

- **Supplier Management:** the forgotten or ignored step in Strategic Sourcing Process

- Outstanding suppliers are rarely discovered ready to be good partners, but rather are developed by their customers into what they need to be

- We must view and manage our suppliers as extensions of our own business

- If you don’t manage our suppliers, they will manage us!

- Establish supplier teams that actively manage the largest suppliers
  - Joint goals
    - Quarterly business reviews
    - Joint goals
    - Establish & monitor key supplier metrics and measurements

- Make sure you manage the supplier according the evaluation criteria that you chose them
  - Why was the supplier chosen in the first place…price, quality, service, other?
  - How will we know when the supplier is failing to perform?
9. Streamline Order-to-Payment Processes

- Transaction efficiency should be a passion
- All order-to-payment processes are added costs to the system
- Streamline and simplify everywhere possible
- Paperless, low-cost, user friendly
- Maximize use of technology
10. Manage Inventory

- Inventory is money. Ask any CFO!!

- Utilize proactive strategies to minimize inventory maintained
  - JIT
  - VMI
  - Reducing lead times
  - Taking more risk

- Leverage tools and technology
  - Effective demand and forecasting methodology
  - Intrinsic forecasting techniques
  - Supplier integration
The best companies make the following a high priority:

- Facility layout & design – flexible, cross-docking
- Use of equipment & technology – automated, integrated
- Warehouse procedures – documented, integrated
- Material transportation & routing
- Material handling & flow
- Use of 3rd party providers
- Supplier integration & value added services
12. Establish & Monitor Controls

- Make policies and procedures simple and easy to understand
- Controls should be adequate to deter fraud or ensure that improper decisions are not being made and doing so without adding unnecessary process steps
- Simplify process and controls – then select correct technologies to complement
- Contract Management is a focal point for best of class companies
  - How can you manage your company’s contracts if you can’t even find them?
  - Contract compliance for compliance monitoring – maverick spend
  - Standardizing terms & conditions mitigates risk
  - Automate – due dates, expiration dates, etc.
  - Analyze contract performance
10-20% savings are common in managing non-labor spend with rigorous supply chain strategies
Uniqueness of Healthcare Supply Chain
Evidence based waste in supply chain in healthcare

<table>
<thead>
<tr>
<th>Costly</th>
<th>Inconsistent Best Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inefficient</td>
<td>No Bar Codes</td>
</tr>
<tr>
<td>Preference Based Decisions</td>
<td>Non Standardization</td>
</tr>
</tbody>
</table>

**Why?**

1. Not-for-profit presence
2. Focus on clinical quality at all costs
3. Industry dependence upon GPOs
4. Lack of supply chain talent – pay & strategy
5. Hospital executives haven’t viewed traditional Materials Management as strategic – left in basement
The healthcare industry supply chain was already Complex & Costly
Healthcare supply chain is Very Costly

National GPO Contracting

Manufacturer

Distributor

Provider

Tracing Fees (3-4%)

Channel Fees (4-6%)

Payment Term Discount (2%)

Administrative Fees (0-4%)

Patronage Rebates (9-12%)

Membership Dues

(0-2%) Rebate

Complex Costly Data Chaos

Admin Fee (1-4%)

40,000 SKUs

10,000 Suppliers

Distribution (4-12%)

Additional Markup (4-8%)

Volume Rebates (1-2%)

40,000 SKUs

10,000 Suppliers

Complex Costly Data Chaos

Admin Fee (1-4%)

Distribution (4-12%)
Supply chain distribution is inefficient
Transparency Through the Entire Supply Chain is Critical
Logistic Cost’s are very high in Healthcare!

Per Industry Segment

You pay for every truck that backs up to your hospital’s dock.

SOURCE - FHCRC STUDY
- Lack of standardization
- Preference based decisions
- Inefficient processes
- Lot's of waste
How did we get here?
Best Practices in Supply Chain in Healthcare

the same medicine as all industries
8 areas of recommended improvement for Healthcare Supply Chain
Supply chain is perfectly positioned at the *intersection of cost, quality, and outcomes* to take the lead on responding to the demands of healthcare reform.

Supply chain must adjust and change the way it has traditionally approached its work (primarily focused on costs) to accommodate this broader focus.
Supply Chain must be recognized as strategic to senior leadership

One

- Often in healthcare supply chain means materials management and only med-surg
- Basement-dwelling people who deliver products to clinicians then return to their rightful place
Why We Are Here Today!

Purchasing is a staff function providing a necessary service...

For those people who are really running the company
An investment into supply chain talent is a must

At Intermountain for every talented MBA-type we add to our staff (aprox. $100k) we will guarantee another $1 million savings!
Develop a Supply Chain Strategy

Three

- Connect the strategy to corporate strategy
- GPOs are an important part of that strategy – but not the whole strategy
- Eight dimensions of supply chain excellence
Eight Dimensions of Supply Chain Effectiveness

- Work Processes
  - Strategic Sourcing
  - Logistics Management
  - Supplier Development
  - Transactional Procurement

- Management Processes
  - Performance Management

- Direction Setting
  - Strategy
  - Organization
  - Culture
The scope of supply chain must include ALL of the non-labor spend

Four

Stakeholders

- Hospitals
- Select Health
- Home Care
- Med Group
- Support Services
- Clinical Services
- Clinical Programs
- Equip
- Software/Services
- Products
## Our Scope of Influence

**Non-Clinical Spend is Also Very Big – 50% of Financial Contribution**

Often the “forgotten” categories (in healthcare) but with just as much opportunity for financial, quality and service benefits

<table>
<thead>
<tr>
<th>Hardware</th>
<th>Travel</th>
<th>Office Supplies</th>
<th>Insurance</th>
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<tbody>
<tr>
<td>Software</td>
<td>Vehicles</td>
<td>Office Equipment</td>
<td>HR Benefits</td>
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<td>Vehicle Maintenance</td>
<td>Equipment Maintenance</td>
<td>Payroll Services</td>
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<tr>
<td>Outsourced Services</td>
<td>SaaS Solutions</td>
<td>Furniture</td>
<td>Chemicals</td>
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<td>Consulting Services</td>
<td>Design Services</td>
<td>Flooring</td>
<td>Distribution Services</td>
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<td>Contract Labor</td>
<td>General Contractors</td>
<td>Forms/Labels</td>
<td>Records Storage</td>
</tr>
<tr>
<td>Temp Labor</td>
<td>Architect Services</td>
<td>Third Party Printers</td>
<td>Telecom</td>
</tr>
<tr>
<td>Grounds Maintenance Services</td>
<td>Building Supplies</td>
<td>Duplication Services</td>
<td>MRO</td>
</tr>
<tr>
<td>Auditing Services</td>
<td>Marketing Materials</td>
<td>Banking Relationships</td>
<td>Etc Etc Etc</td>
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*Image: Intermountain Healthcare*
Supply Chain in healthcare needs to understand Total Cost of Ownership

Five

• It’s more than just price
Why “Price Savings” Alone are NOT Sufficient

Price

Total Cost of Ownership

- Process Cost
  - Sourcing Cost
  - Order Mgmt
  - Returns Mgmt
  - Logistics Mgmt
  - DPO / DSO
  - Supplier Mgmt
  - Recall Mgmt
  - Compliance Mgmt
  - Training
  - Payment Mgmt
  - Inspection
  - Etc.

- Utilization Cost
  - Standardization
  - Demand Mgmt
  - Conversion
  - Labor Productivity
  - Maintenance
  - Shrinkage
  - Damages
  - Waste
  - Disposition
  - Recall Mgmt
  - Revision Procedures
  - Infection Rates
  - Etc.
Supply Chain Strategies in Healthcare Reform…
Will Require Much More Working Together Between Us…

Three-Phase Roadmap

<table>
<thead>
<tr>
<th>Phase I</th>
<th>Phase II</th>
<th>Phase III</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Our Focus</strong></td>
<td><strong>Price Management</strong></td>
<td><strong>Utilization Management</strong></td>
</tr>
<tr>
<td><strong>What We Need from Our Physicians/ Clinicians</strong></td>
<td><strong>Buy Preferred Items from a Contracted Supplier</strong></td>
<td><strong>Use Fewer Suppliers and Fewer Products</strong></td>
</tr>
<tr>
<td><strong>What it Means to Suppliers</strong></td>
<td><strong>Improved Contract Compliance</strong></td>
<td><strong>Utilize Right Product for Right Purpose in Right Quantity</strong></td>
</tr>
<tr>
<td><strong>Benefit Potential</strong></td>
<td><strong>5 - 10%</strong></td>
<td><strong>10 – 20%</strong></td>
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<td></td>
<td></td>
<td><strong>70 – 85%</strong></td>
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</table>
An investment into supply chain talent is a must.

At Intermountain for every talented MBA-type we add to our staff (aprox. $100k) we will guarantee another $1 million savings!
Logistics & Distribution Costs must not be forgotten as a big opportunity.

Too many touches in healthcare

- Retail: 5%
- Electronics: 2%
- Logistics: 38%
Intermountain built a distribution center to be an "ENABLER" to remove logistics costs.
Healthcare supply chain must be prepared to manage across the entire continuum of care.

Eight Community-Based Care

- Freestanding ED
- Ambulatory Procedure Center
- Physician Practice Sites
- Retail Pharmacy
- Wellness and Fitness Center
- Diagnostic/Imaging Center
- Urgent Care Center
- Urgent Care Center
- Hospital
- Acute Care
- IP Rehab
- SNF
- OP Rehab
- Home Care
- Home Care
In response to cost pressures in healthcare, there is less **PAIN** to remove supply chain costs than there is in reducing clinical care.
There is Power and Huge Benefit in Supply Chain Management in Healthcare

• A penny saved is a penny invested somewhere else in healthcare
• Non-profit should not mean not-as-efficient
• When we don’t leverage our company we pay more
• When we don’t have standards we pay more
• When we allow personal preference guide decisions we pay more
• Product variation is not clinical excellence
• Personal preference shouldn’t be confused with clinical excellence
• Quality does not mean “spare no expense”
Summary
Supply Chain Management best practice can be summarized in eight easy steps:

1. Know where you spend money
2. Understand total cost
3. Organize yourselves – act as one
4. Know who makes supplier decisions
5. Do a better job of negotiations
6. Take time to manage the biggest suppliers
7. Simplify your processes
8. Look at your warehouse and distribution costs

Practice Supply Chain Management
How to Pick and Apply
Best Practices

- Go study everyone else and steal the best from everyone and apply it to your company
- Some people can’t even define a best practice, much less adopt one
- The trick might be to “when you find a best practice, adopt and adapt”
- Moving quickly on what you have learned is a “best practice”
- Maybe we should be more focused on not “best practices” but eliminating “bad practices”
“Every morning in Africa, a gazelle wakes up. It knows it must run faster than the fastest lion, or it will be killed. Every morning a lion wakes up. It knows it must outrun the slowest gazelle or it will starve to death. It does not matter if you are a lion or a gazelle. When the sun comes up, you’d better be running.”

Juergen Bartels, President & CEO
Carlson Hospitality Group, Inc.
Thanks

Q & A