

Singapore Healthcare Supply Chain Management Congress

Supply Chain Best Practices in Healthcare

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VP Supply Chain – Intermountain Healthcare

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Discussion Summary

1. Introduction – Intermountain Healthcare
2. **Supply Chain Story – at Intermountain Healthcare**
3. Best Practices – intro
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

Intermountain Healthcare
1975



SelectHealth
1983



Medical Group
1994

Founders' Charge: Be a model health system

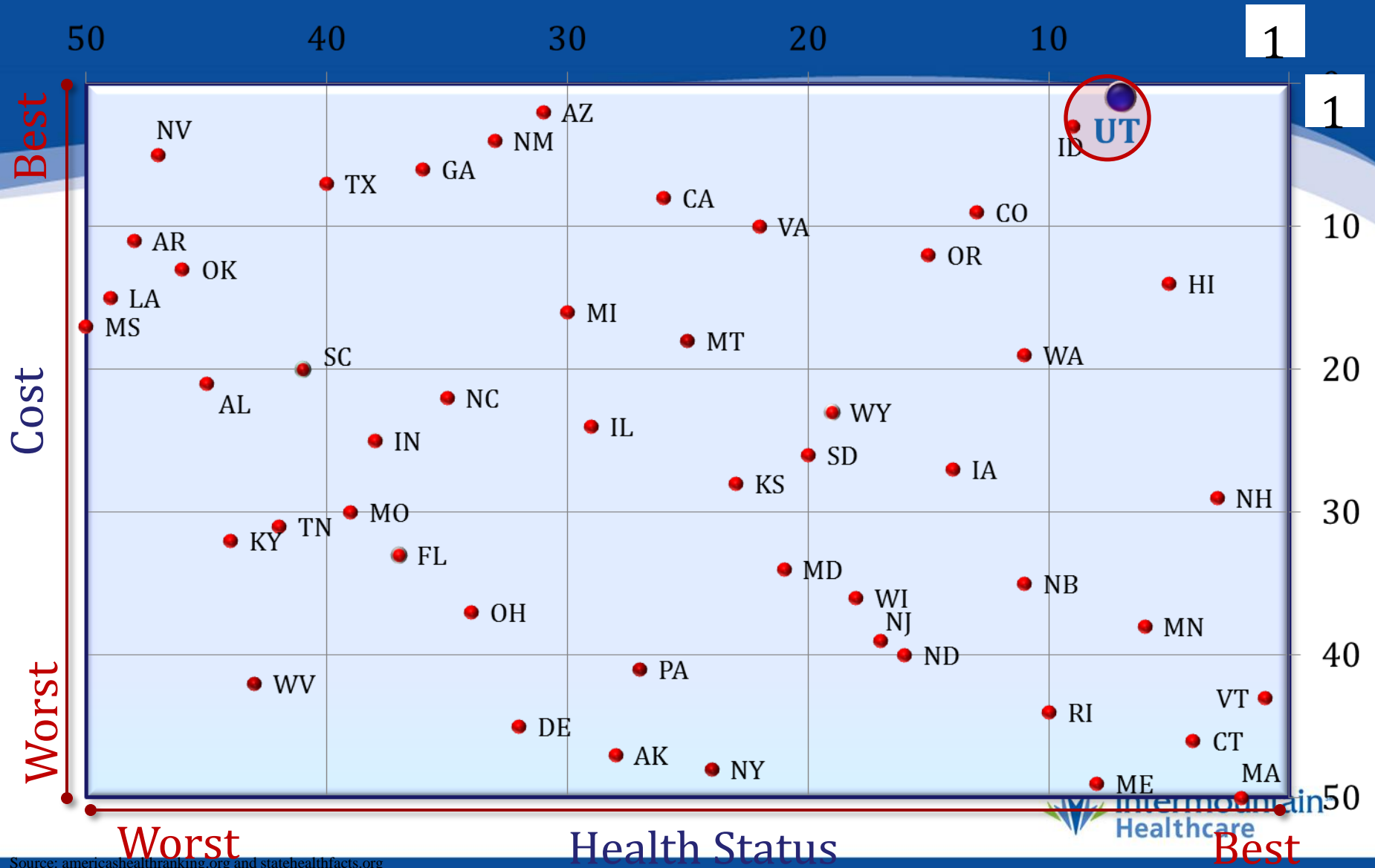
Intermountain Healthcare Facts



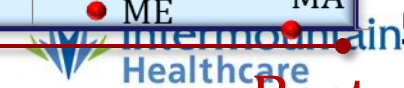
- **Largest company in the state of Utah – 34,000 employees**
- **Created in 1975 as LDS Church “gifts” it’s hospitals to the community**
- **Rated the #1 or #2 hospital organizations in the nation each year during the past decade**
- **\$4.5 billion in Net Patient Services Revenue**
- **\$5.5 billion 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

Effectiveness & Impact

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!*

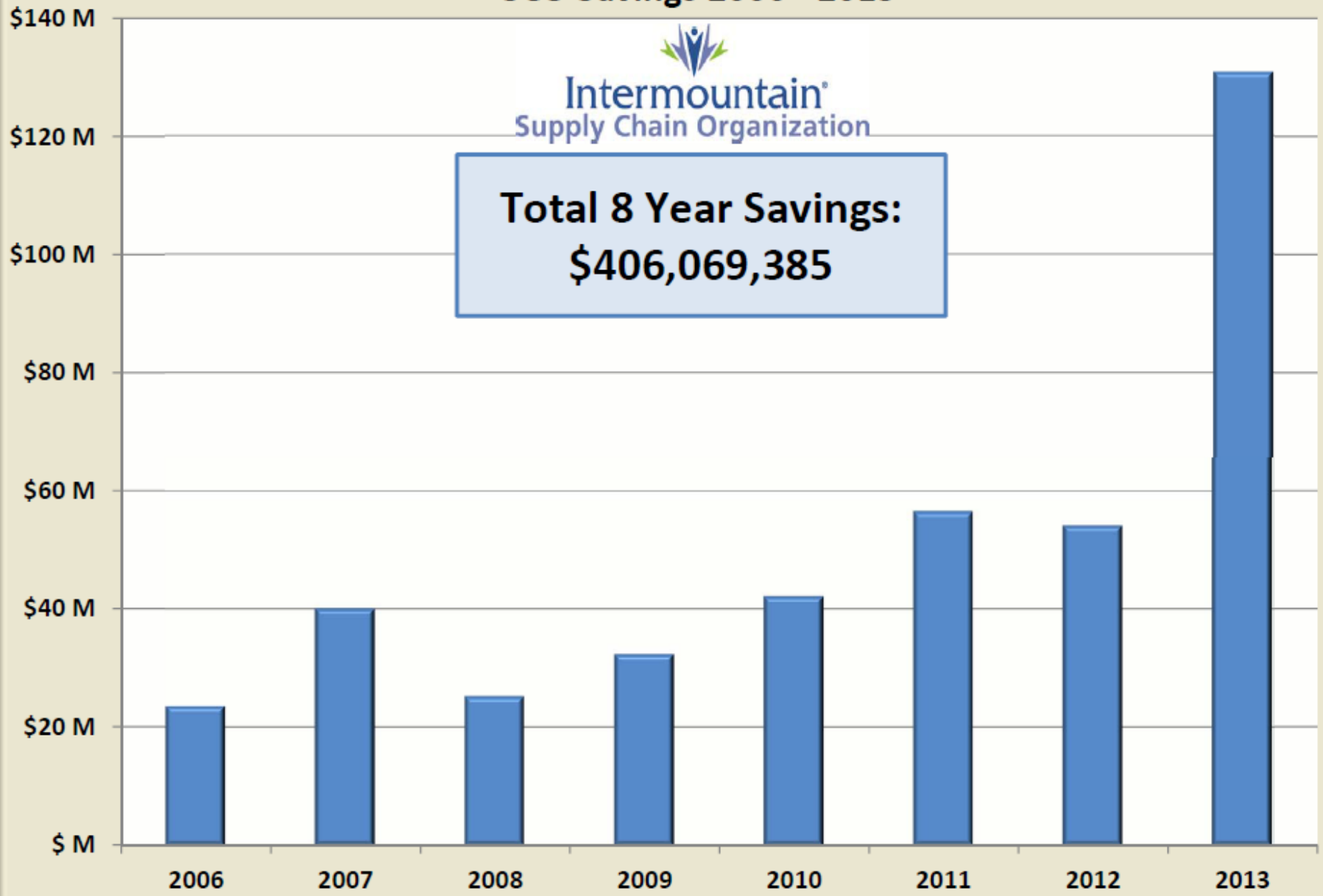
Time

SCO Savings 2006 - 2013



Intermountain[®]
Supply Chain Organization

**Total 8 Year Savings:
\$406,069,385**



Intermountain Supply Chain

Gartner rankings provide validation that we are focused on the right things

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

How?

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.

327,000 sq ft - Distribution Center & MUCH MORE



Opened June, 2012

Everything Supply Chain

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

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....**

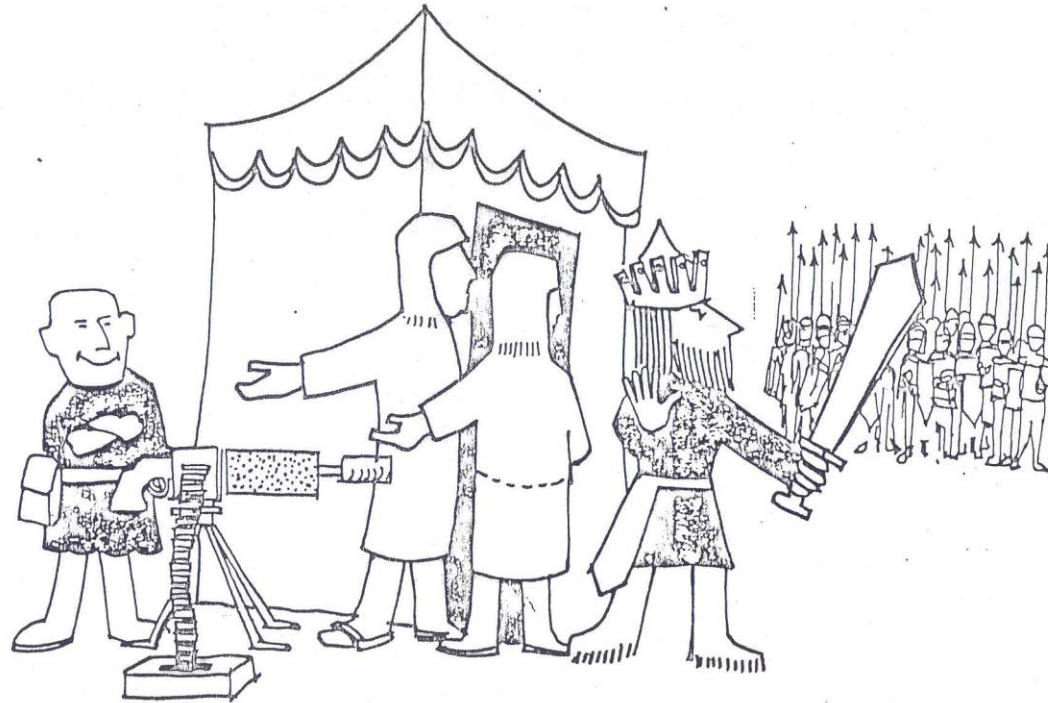
Is this a best practice?



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**

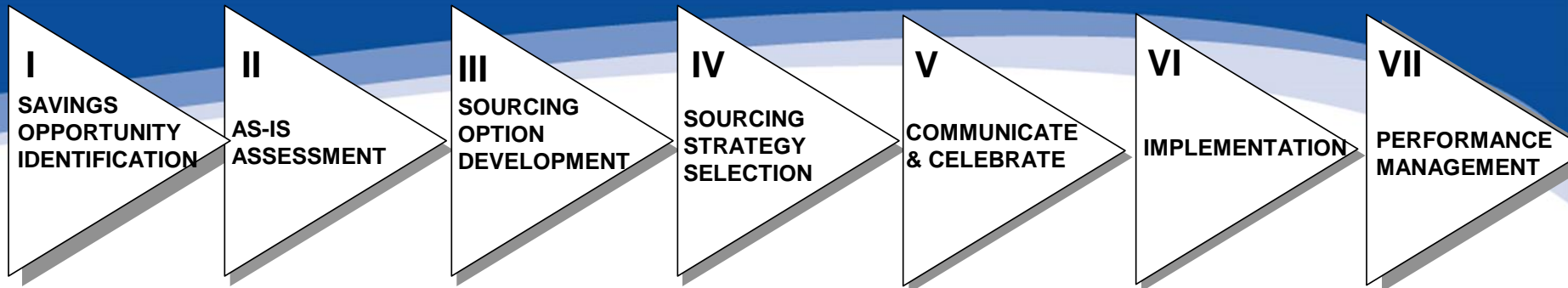
❑ Big barrier is inability to retrieve precise spend data

- 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



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

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

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

- 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

- A. Executive Communication
- B. Internal & External Communication
- C. Celebration

- A. Reassess Team Composition
- B. Conduct Kickoff
- C. Manage Stakeholder Communication
- D. Initiate 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

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**

$$\text{Total Cost of Ownership} = A + (O+T+M+W+E) \text{ Less } S$$

A = Acquisition Cost

(25-40%)

O = Operating Costs

T = Training Costs

M = Maintenance Costs

W = Warehousing Costs

E = Environmental Costs

S = Salvage Value

60-75%

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 vision**
 - **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

11. Manage Distribution & Logistics

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

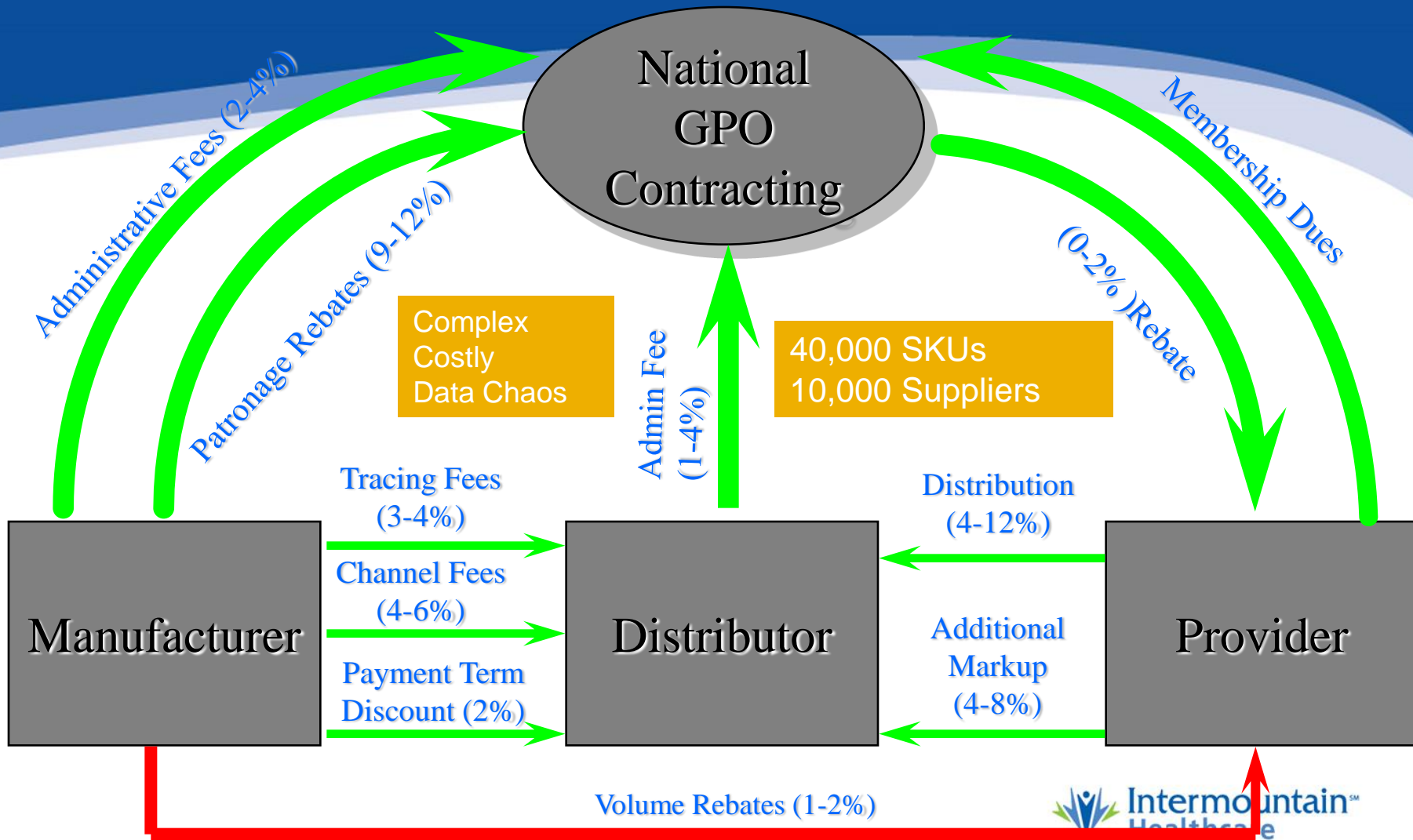
Why?

Costly	Inconsistent Best Practices
Inefficient	No Bar Codes
Preference Based Decisions	Non Standardization

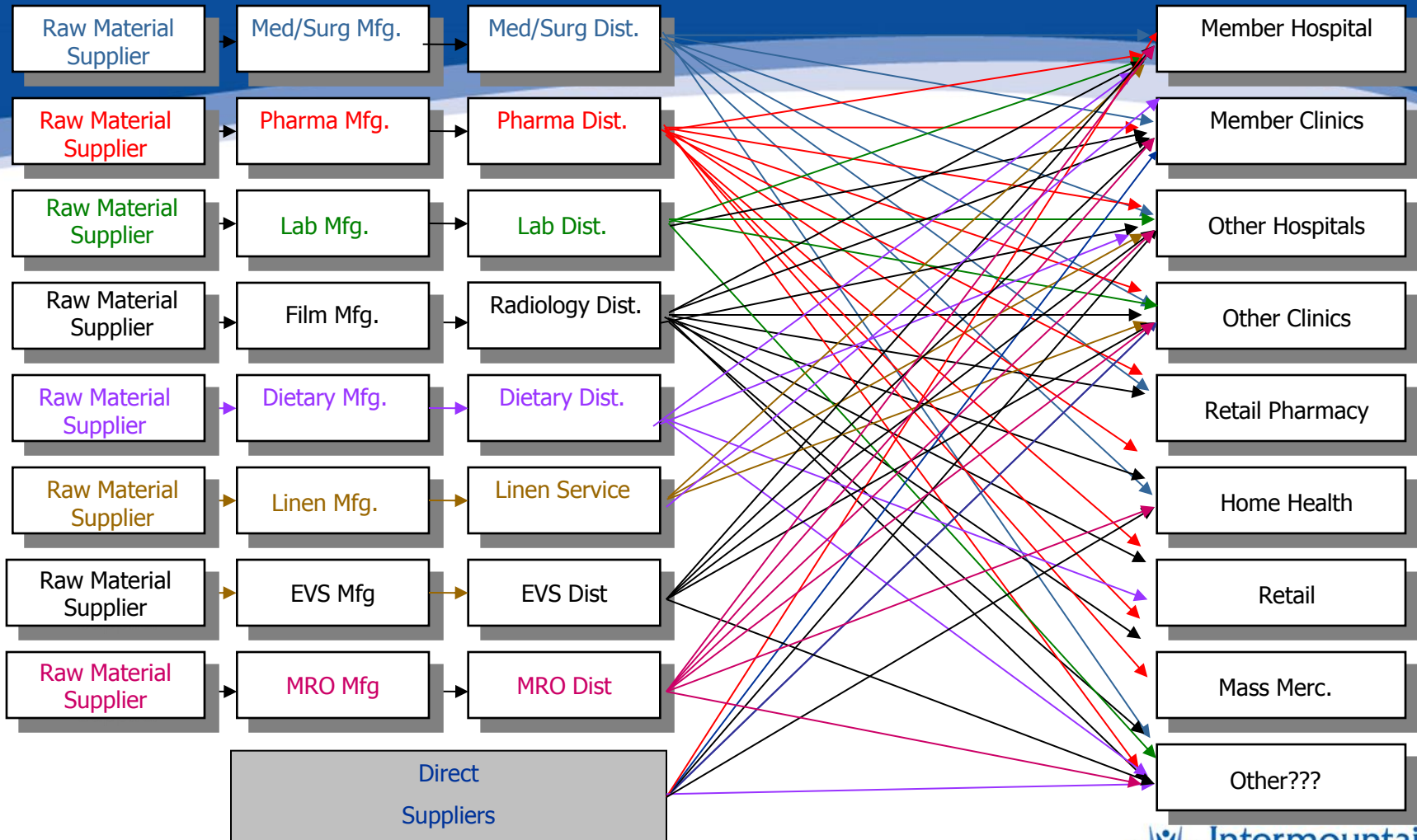
1. Not-for-profit presence
2. Focus on clinical quality at all costs
3. Industry dependence upon GPOs
4. Lack of supply chain talent – pay & strategy
5. Hospital executives haven't viewed traditional Materials Management as strategic – left in basement

The healthcare industry
supply chain was already
Complex & Costly

Healthcare supply chain is Very Costly



Supply chain distribution is inefficient

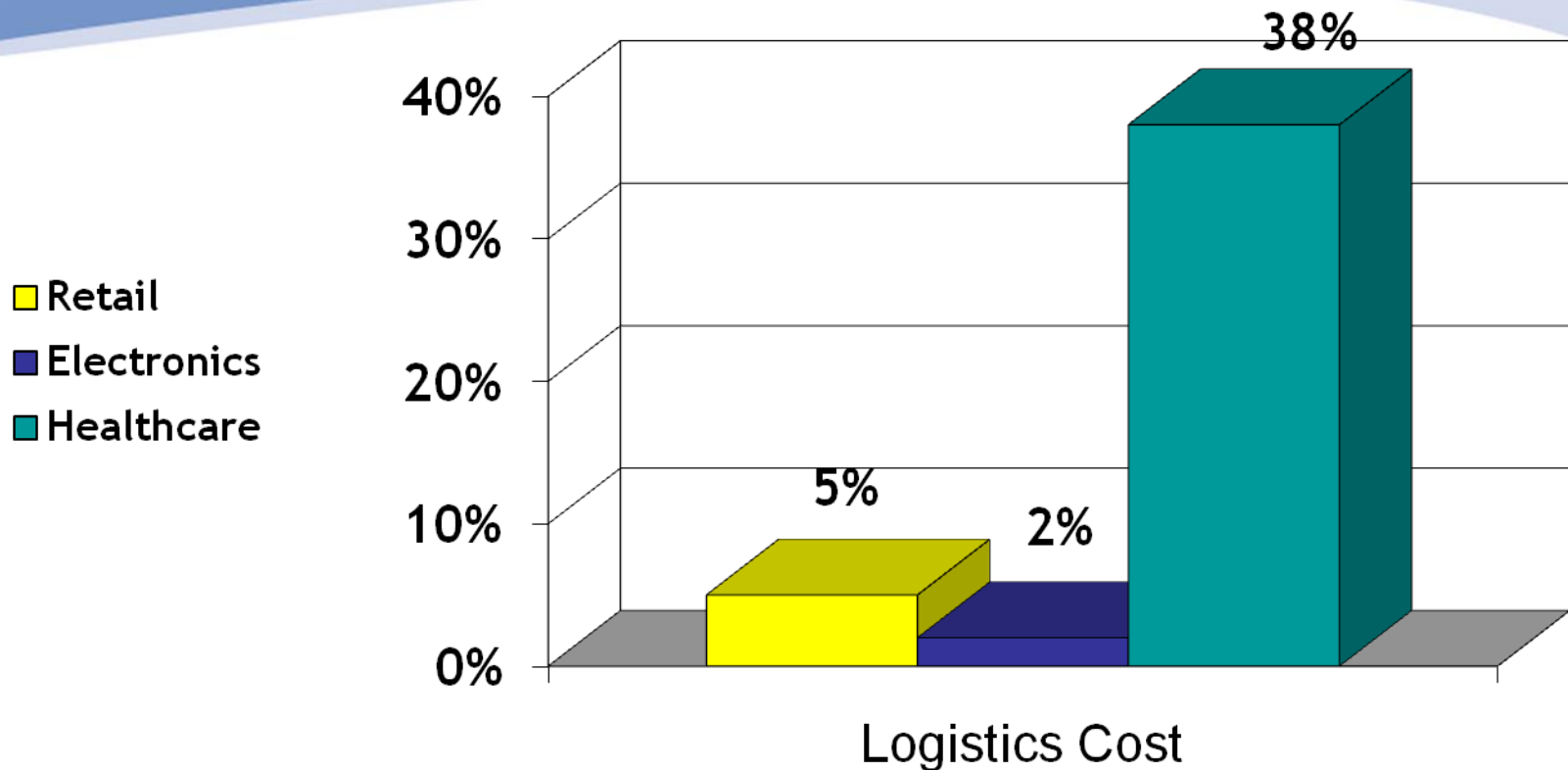


Transparency Through the Entire Supply Chain is Critical



Logistic Cost's are very high in Healthcare!

Per Industry Segment

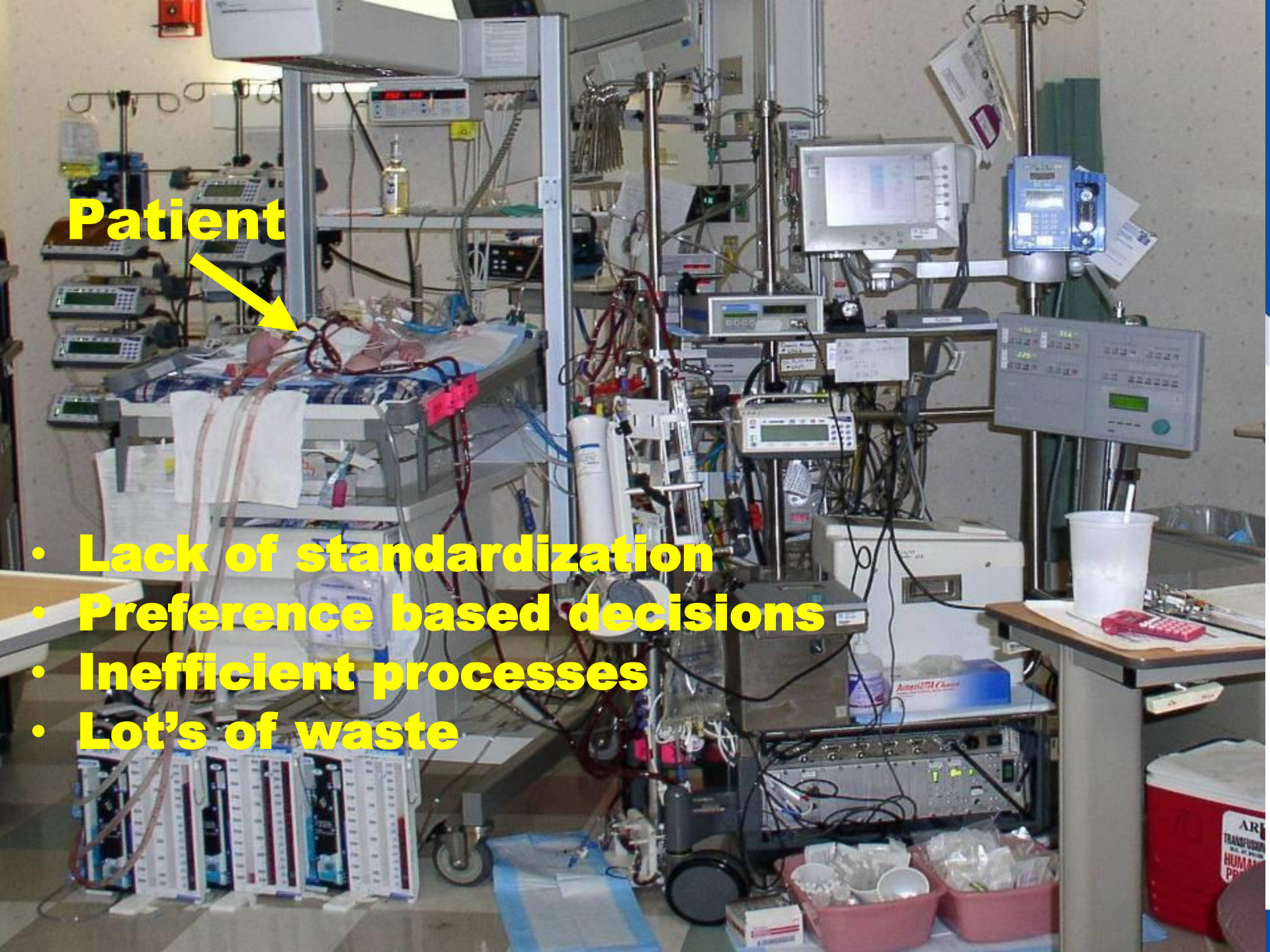


You pay for every truck that backs up to your hospital's dock.

Patient



- **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

Two

**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

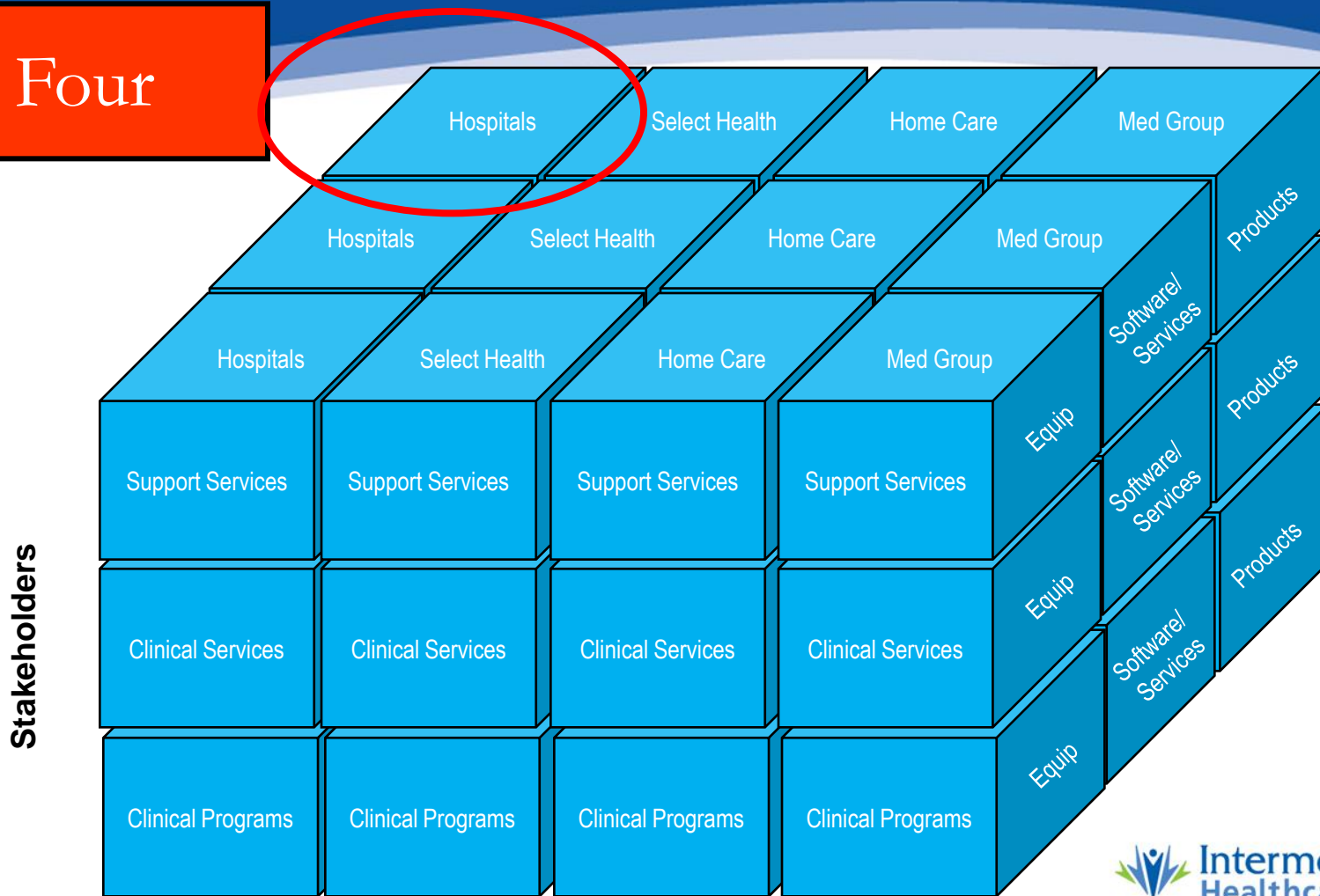
Strategy

Organization

Culture

The scope of supply chain must include ALL of the non-labor spend

Four



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

Hardware	Travel	Office Supplies	Insurance
Software	Vehicles	Office Equipment	HR Benefits
Support	Vehicle Maintenance	Equipment Maintenance	Payroll Services
Outsourced Services	SaaS Solutions	Furniture	Chemicals
Consulting Services	Design Services	Flooring	Distribution Services
Contract Labor	General Contractors	Forms/Labels	Records Storage
Temp Labor	Architect Services	Third Party Printers	Telecom
Grounds Maintenance Services	Building Supplies	Duplication Services	MRO
Auditing Services	Marketing Materials	Banking Relationships	Etc Etc Etc

Supply Chain in healthcare needs to understand Total Cost of Ownership

Five

- **It's more than just price**

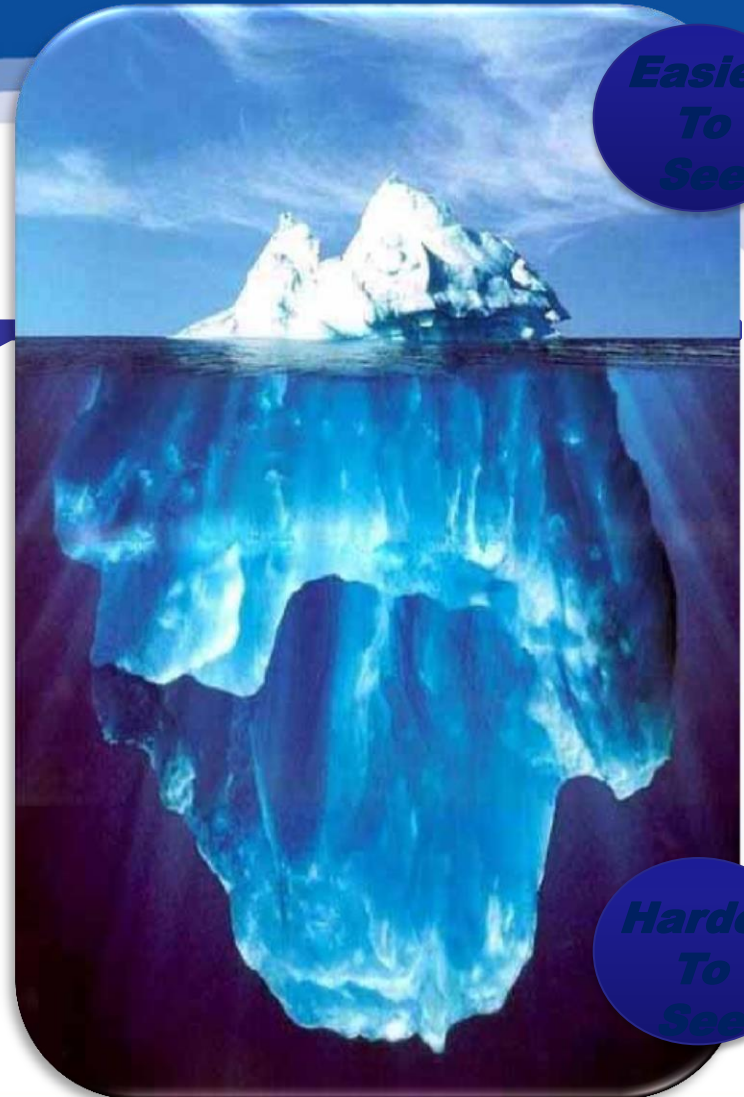
Why “Price Savings” Alone are NOT Sufficient

Total Cost of Ownership

Price

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.



*Easier
To
See*

*Harder
To
See*

Supply Chain Strategies in Healthcare Reform...

Will Require Much More Working Together Between Us...

Three-Phase Roadmap



An investment into supply chain talent is a must

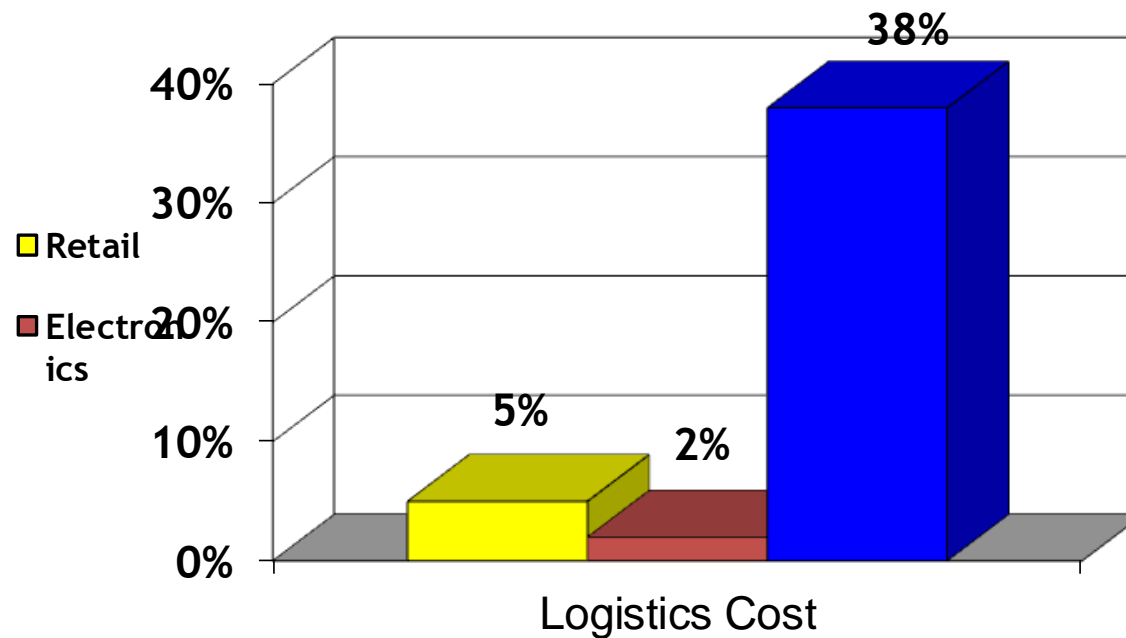
Six

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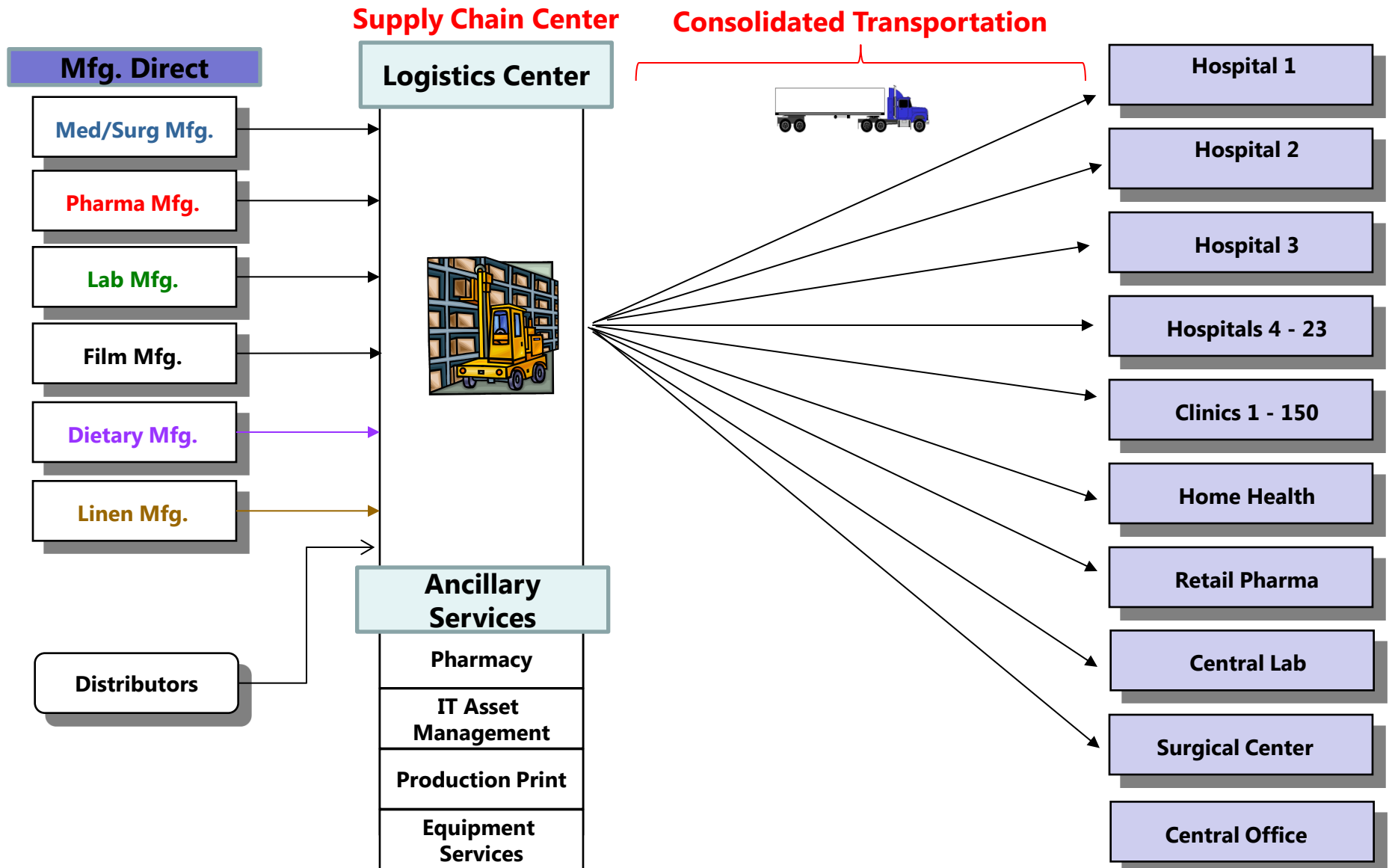
Logistics & Distribution Costs must not be forgotten as a big opportunity

Seven

Too many touches in healthcare

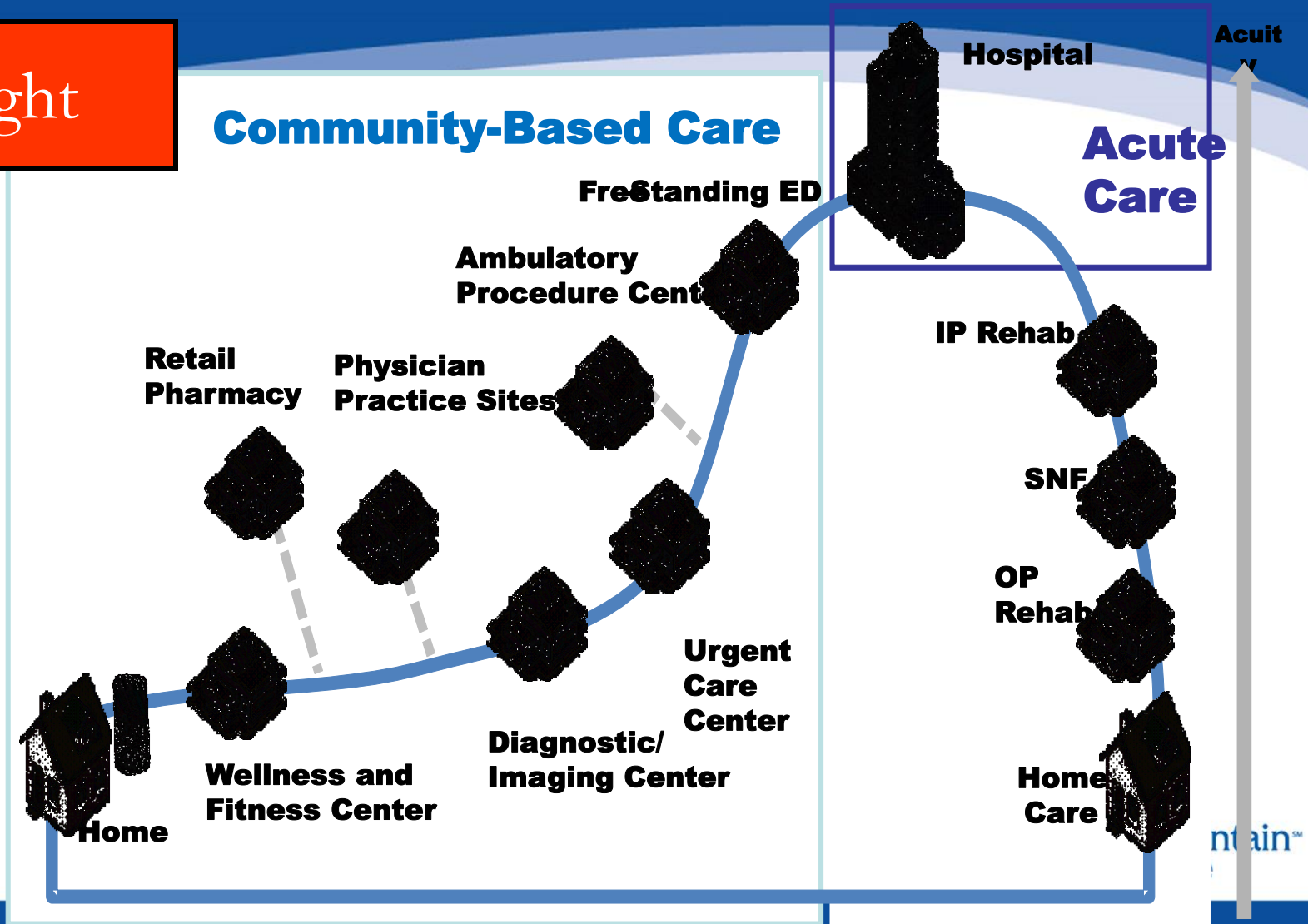


Intermountain built a distribution center to be an “ENABLER” to remove logistics costs

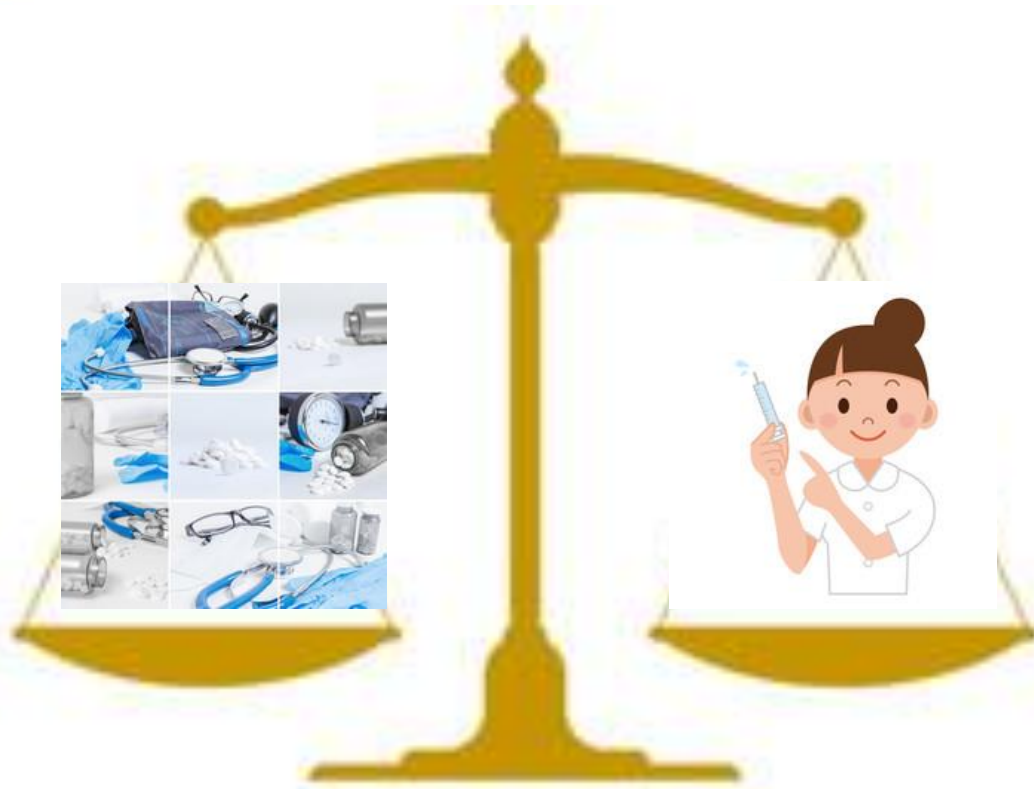


Healthcare supply chain must be prepared to manage across the entire continuum of care

Eight



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”

Competition



“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

