

Transforming Healthcare Supply Chain Management

Singapore Health Supply Chain Management Congress

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Presented by

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Providence Health & Services

SCM Transformation

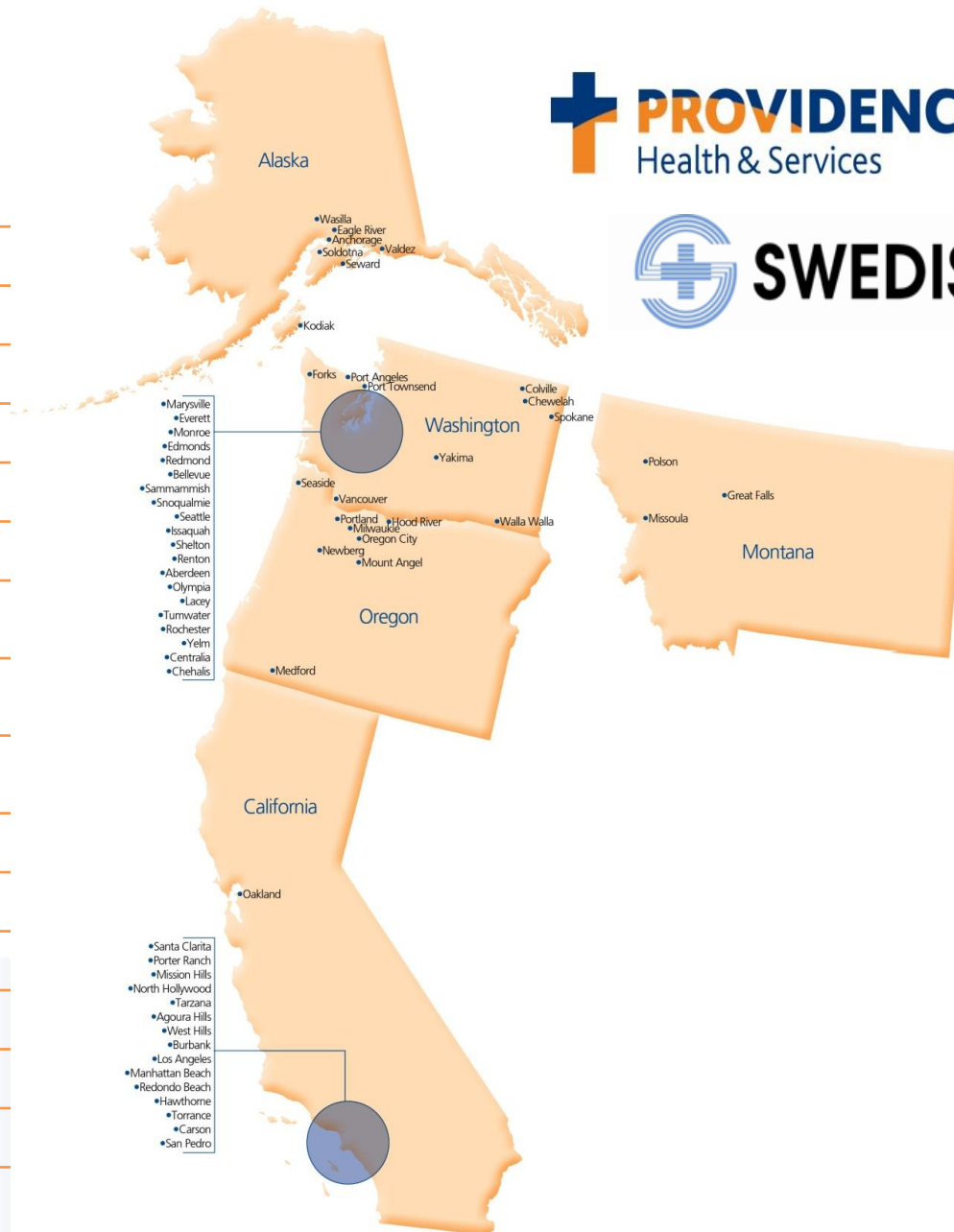
- History
- Expectations
- Planning
- Journey to Transform
- Unplanned activities
- Outcomes – 2012 & 2013
- Future of SCM Department
- Operational Success Story
- SCM Statistics

Consolidated Statistics

Key Data

YE 12/31/2012

Employees	56,667
Employed physicians	2,981
Physician clinics	400
Acute care hospitals	32
Acute care beds (licensed)	7,288
Hospice days	656,155
Assisted living and long term care facilities (free standing and co-located)	22
Supportive housing	Facilities: 14 Units: 693
Community benefit and charity care costs	\$823 million
Total net operating revenue	\$10.6 billion
Total net operating income	\$204 million
Total net income	\$1.2 billion
Total net assets	\$6.7 billion
Total Supply Spend	\$1.5 billion
Purchased Services Spend	\$800 million
PH&S 2012 Bond ratings	Moody's Aa2 S&P AA Fitch AA



History-Why Now

- Healthcare Reform
 - U.S. Healthcare consumes 17% of GDP
 - Reimbursement is event based
 - Declining margins
 - Move to outpatient environment
 - Need to reduce operating expense by 20%
 - Decentralized, Matrix organization is too slow
- Anticipated & past growth of organization
 - Increased from 18 to 27 facilities from '06-'11.
 - Need to move to operating company model in many shared services areas

History-Why Now

- Single MMIS – installed 2000-09
 - Single item file
 - Four separate installations with different variations
 - Matrix reporting did not provide resolution to eliminating variation
- System contracting done when consensus could be reached
- Four regions performing contracting when not done corporately. (75% of time)
- Operating CSC (DOC) as JV with four other systems including Swedish Health. PH&S managing partner

Expectations of Transformation

- Need for more SCM services in contracting & logistical support
 - Current model acute care centric
 - Purchased Services with minimal central sourcing
 - Need to increase system contracting penetration
- Normal expectations-cut staffing, save operating costs
 - Believe that reducing supply variation will bring greater efficiency
 - Reallocate staff to perform other needed services in contracting & purchased services

Planning

- Visits to see other organizations – understand the possibilities
 - Sisters of Mercy – ROI
 - Mayo
- March 2011 – Existing supply chain leadership team charged with developing new single structure business plan
- Extensive regional site visits by SCM leadership team to understand current operations
 - Determine best practices and how to mold into plan

Planning

- Needs for success
 - Single MMIS
 - Strong human resource & corporate finance support
 - Administrative support to affect change and local facility leadership to accept new organization
- New structure plan completed August 2011
- Business plan submitted to leadership and accepted early October 2011

One SCM Organizational Chart

One Supply Chain Management (OSCM) Dave H. Hunter, VP

One SCM Strategic Management

SCM Strategy & Policy Development, Operational Excellence, Performance Analytics, Special Projects



*Cross functional group process
** Shared with One IS

Customer Relations Enhanced by Local System Director Liaison

Journey to Transform

- Plan called for Level 1 positions determined by December '11 – with structure completed by July 1, 2012
- Plan allowed Supply Chain to operate at the same staffing and cost level but achieve a 60% increase in annual contract savings
 - Annual savings pre-transformation - \$50 million per year
 - Increased savings determined to be \$80 million annually
 - Contingency costs during initial two years would be \$1.4 million
 - 2012 savings to be \$67 million
 - 2013 savings - \$80 million

Journey to Transform

- System wide EPIC install began summer 2011
- Revenue cycle needed to centralize to support EPIC install
- IT needed to centralize from four separate organizations because of EPIC support
- One SCM plan approved in early October 2011 but announcement held until early November 2011 to combine with IT

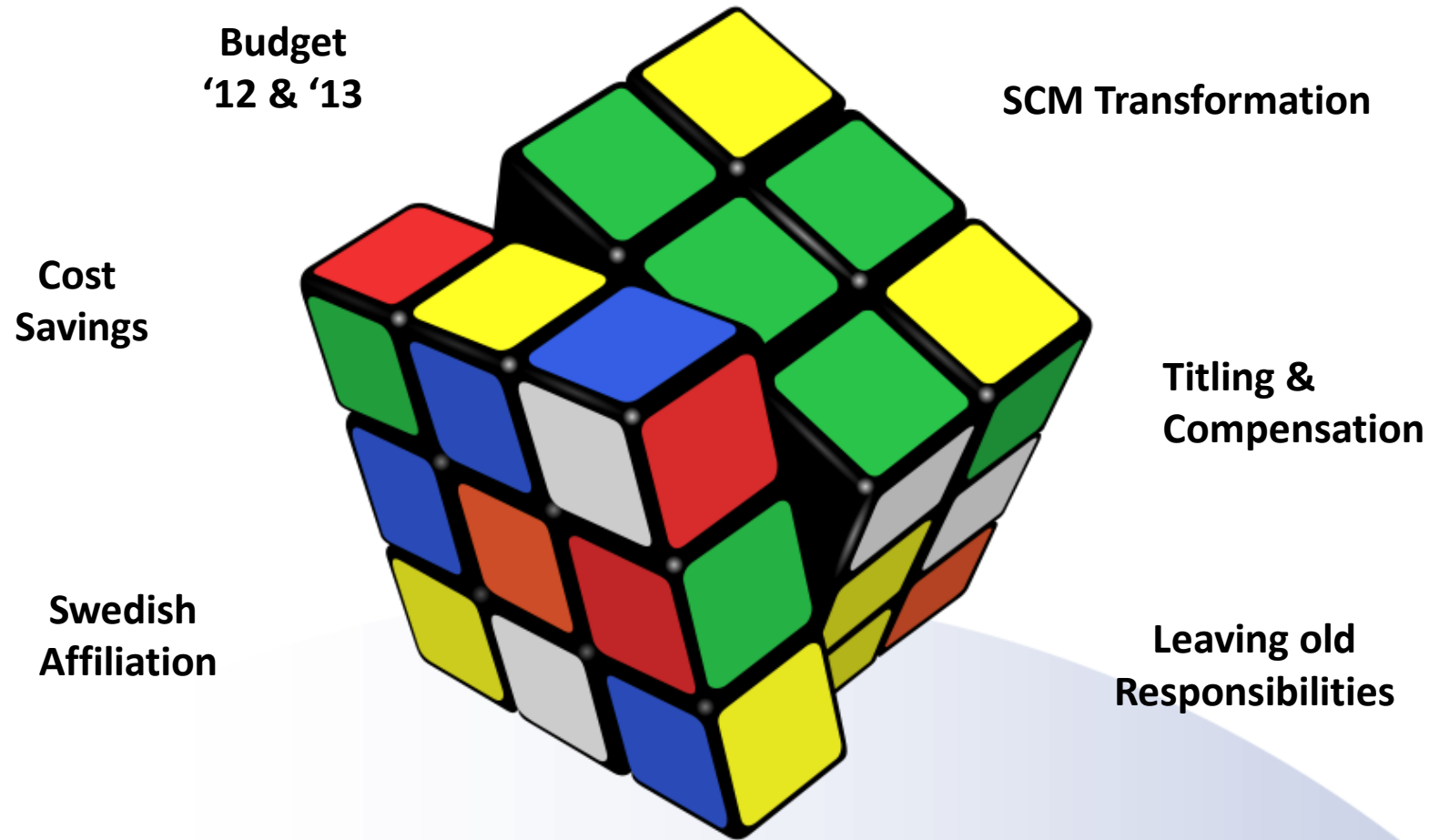
Journey to Transform

- Summer/Fall 2011 Human Resource impact
 - Ramp up of EPIC team delayed by decentralized HR functions
- Human Resource transformation added to SCM, IT, & Revenue Cycle in Fall 2011
- Discussion begins Fall 2011 of centralizing construction/real estate services
- Need for HR & Finance support diluted by their transformation work

Unplanned Activities

- Senior Regional SCM leader retires
- Announcement of affiliation with Swedish Health Services effective 2/12
- Increases hospital count from 27-32
 - Move from \$8 billion to \$11 billion net revenue organization
- Senior Swedish SCM Leadership left in fall 2011.
- Swedish SCM under temporary consultant leadership
- Swedish losing \$250,000 per day
- Effective February 1, 2012 - Financial turnaround of Swedish Health System deemed #1 priority!

Outcomes



Outcomes

- Assumed temporary mgmt of Swedish SCM
- Multiple operational transformations delay job postings and hiring waves. Final completion 12/12.
- Volume of savings opportunities at Swedish place extreme pressure on DOC LLC to perform. Swedish/PH&S volume within DOC deemed 85% of volume.
 - Swedish has greater potential for DOC utilization then ever realized.
- Supply chain turn-around at Swedish begins to show results in June '12.

Outcomes

- Leadership determines DOC can operate more efficiently as single owned entity
 - Offer made in August '12 to buy out other 3 owners. Completed December '12.
- Staffing Reorganization complete December '12
- 2012 savings exceed \$67 million including Swedish.
- SCM transformation 6 months behind but meets 2012 financial goals.

SCM 2013

- 2013 SCM savings goal increased to \$102 million including pharmacy
- Delay of Lawson conversion at Swedish until September 2013.
 - Delays implementation of key processing changes in procurement services and contracting
- Many of SCM transformation activities planned for second half of '12 delayed until fall '13
- SCM internal transformation efforts one year behind schedule

Future of SCM Department

- Fly wheel beginning to turn
- Functional leaders can't believe we operated in the old environment
- Working closely with Clinical Program Services (CPS) to engage physician leaders on standard clinical practices and products throughout the system.
- Further integrate into non-acute service areas.
 - Currently operate 450 clinics
 - Hiring a new physician every business day in early 2013

Future of SCM Department

- Stress need for pillars to work closely together – don't trade four regional pillars for five functional pillars
- Strengthen succession planning within department
- Hiring a physician to lead single Value Analysis effort
- Can we provide experienced SCM leadership to smaller stand alone facilities on a fee for service basis?
- Future growth of Providence & Swedish
- Multiple requests to align or be acquired by other organizations.
- Continue to return value each year to the organization.
- *Only shared service which returns more value than service costs.*

SCM Operational Success

SUPPLY CHAIN MANAGEMENT

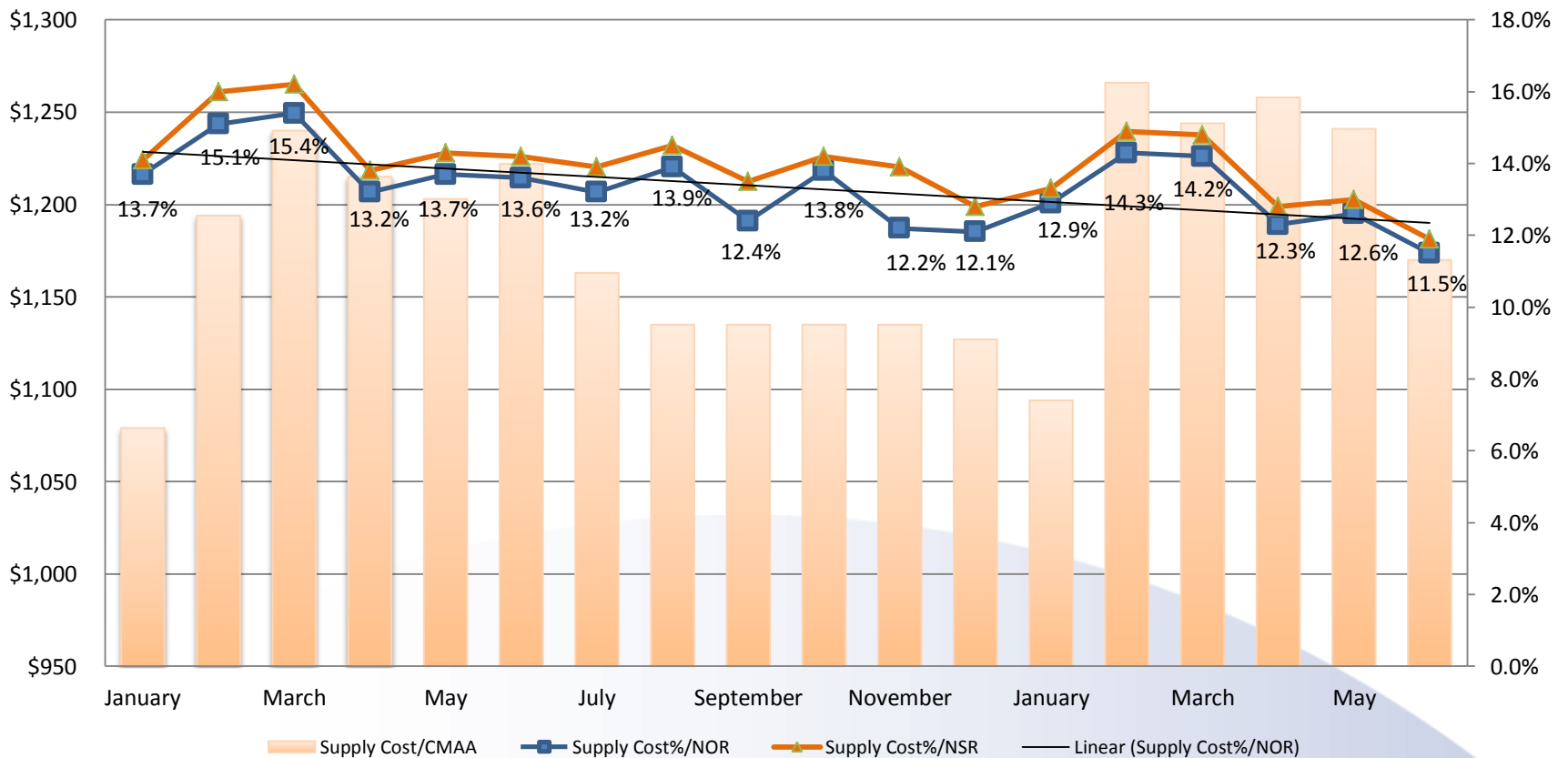
Point-of-Use Distribution

Patient Supply Carts

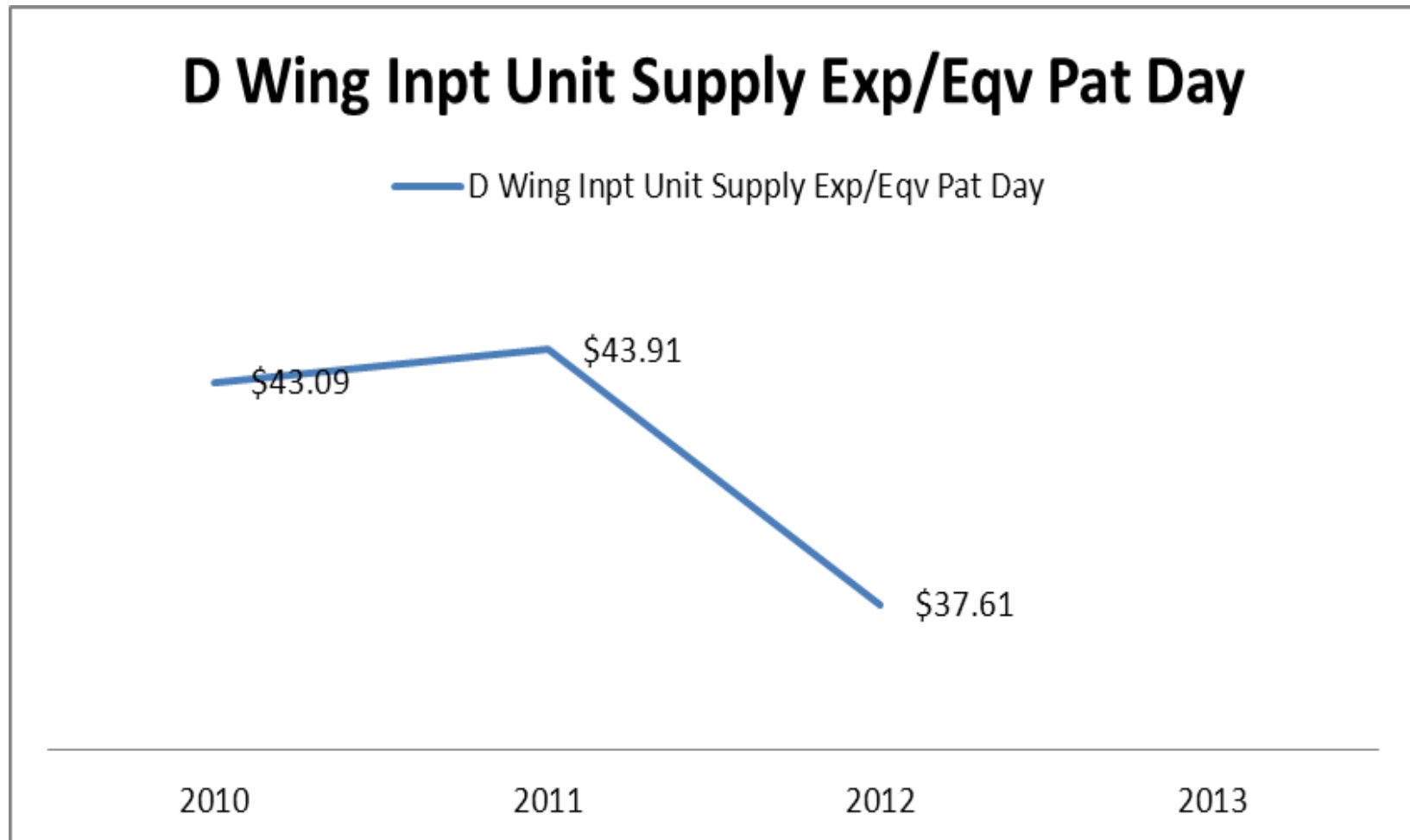
Providence Regional Medical Center

Everett ROI

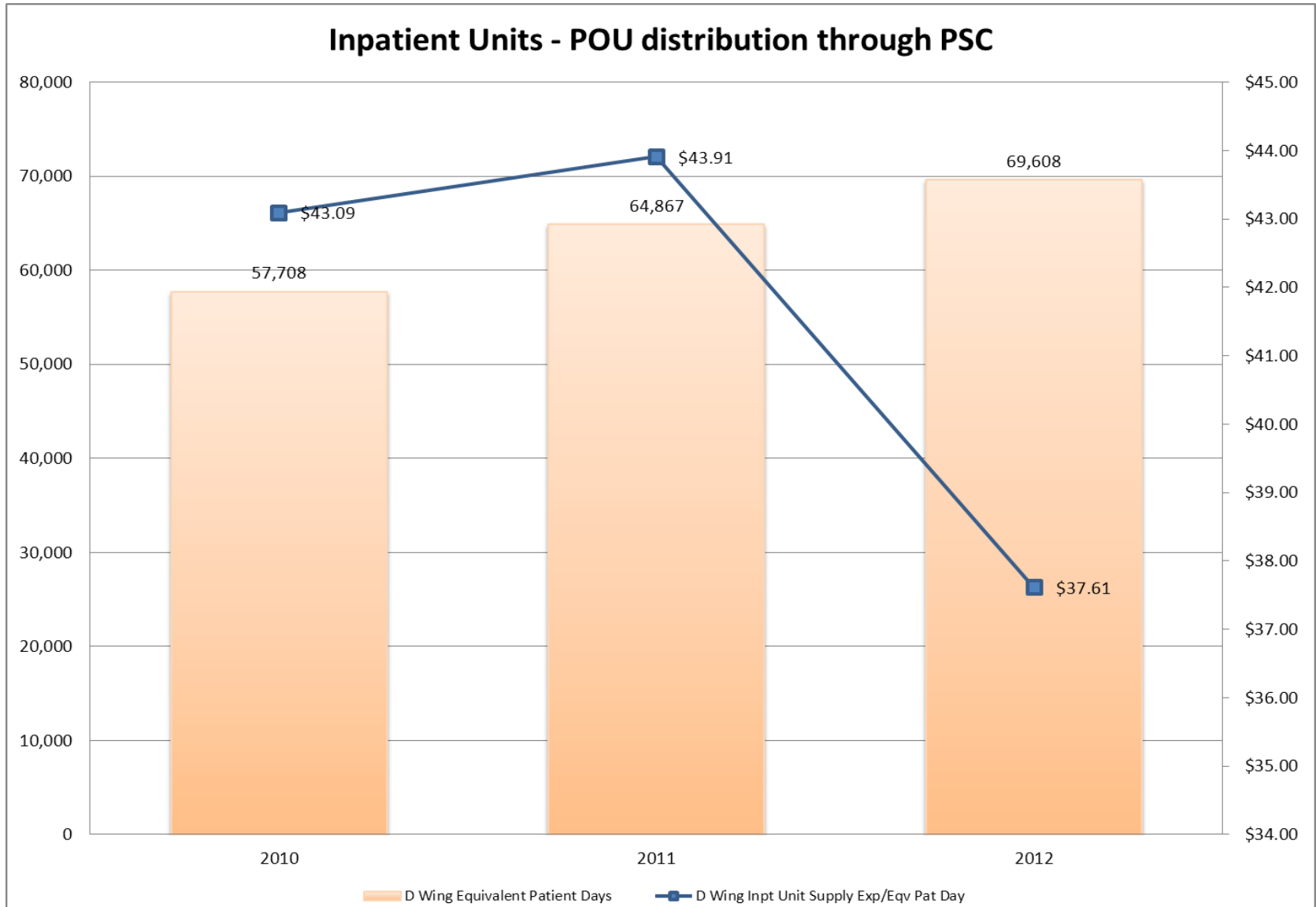
NWW Consolidated Supplies/CMAA and as a % of NOR and % of NSR (2012-2013 YTD)



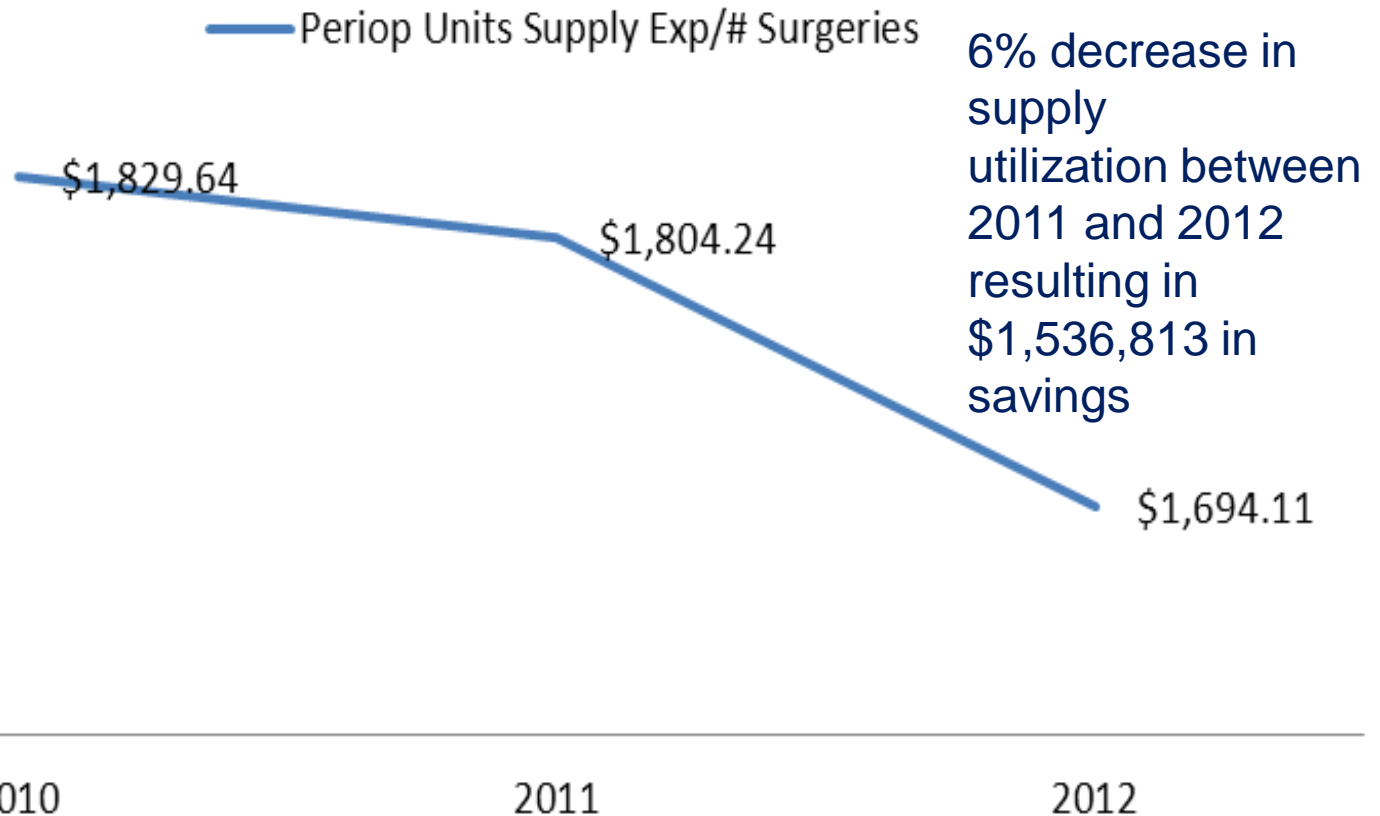
Inpatient Units – POU Carts



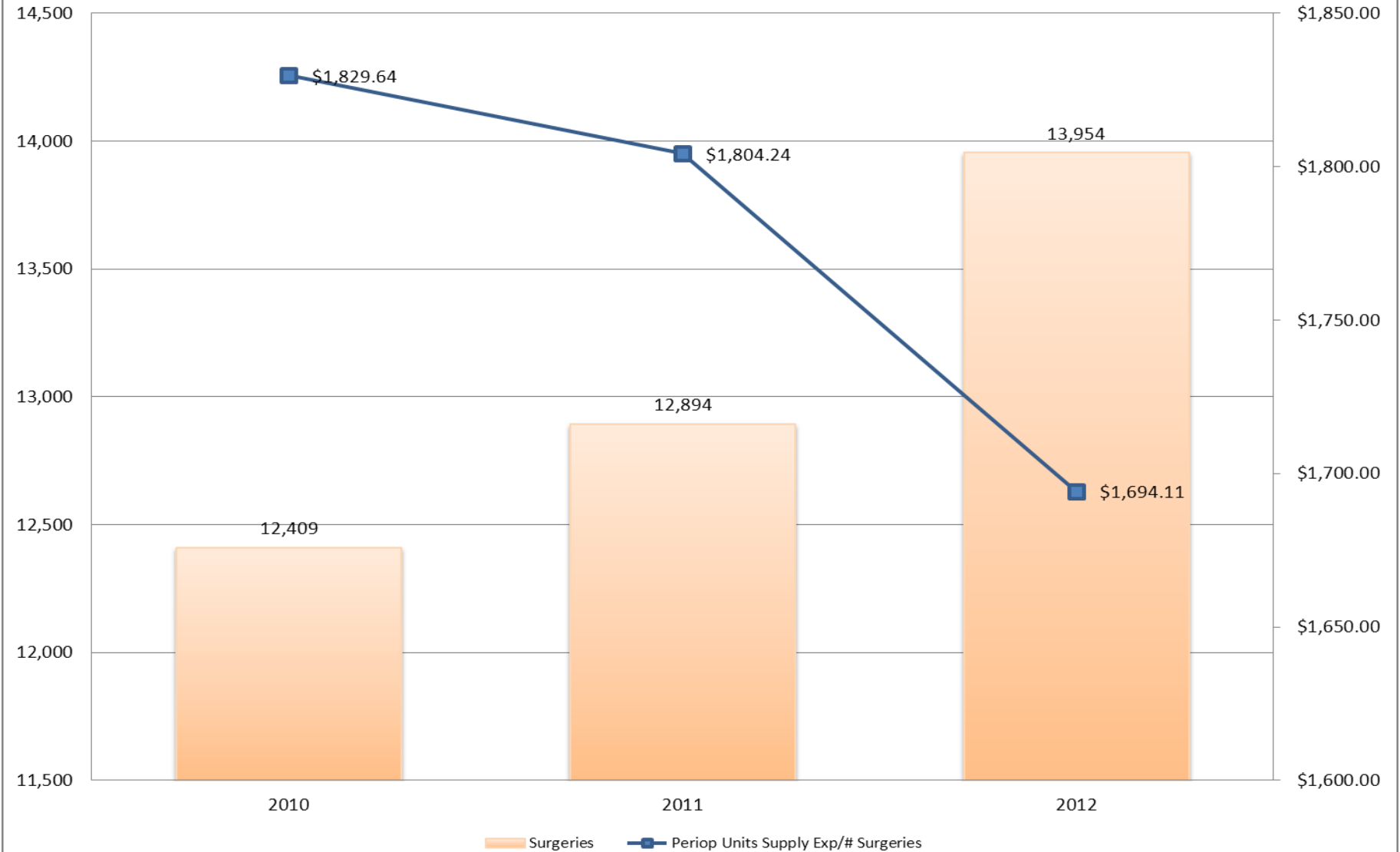
Inpatient Units - POU distribution through PSC



Periop Units Supply Exp/# Surgeries

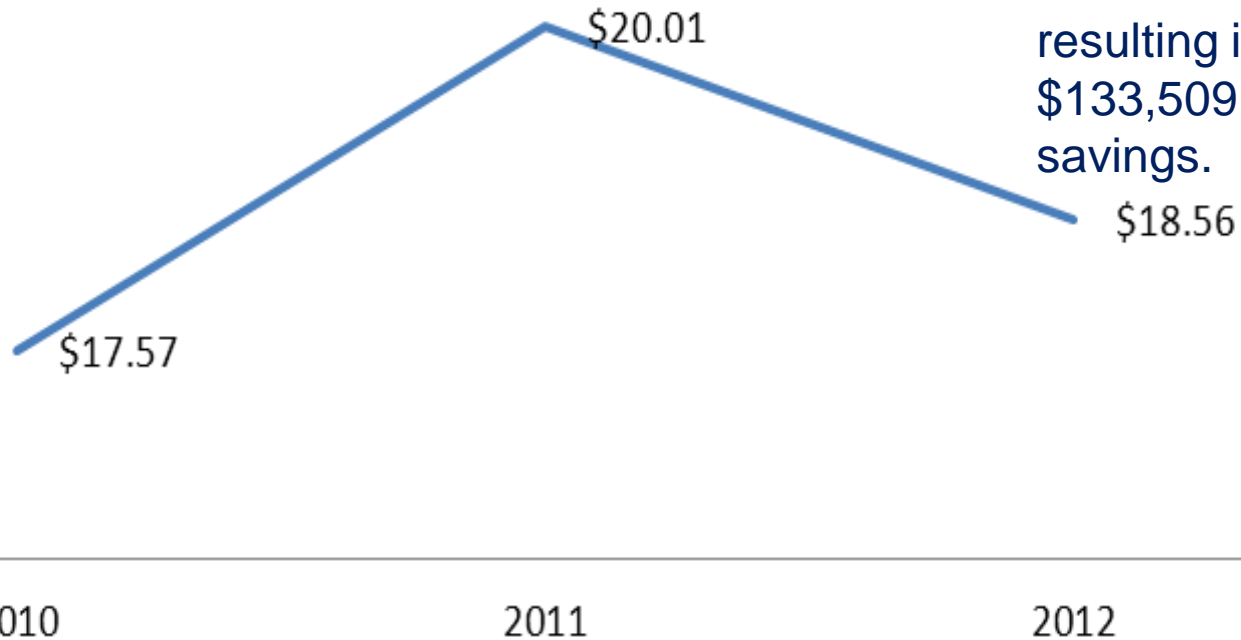


Perioperative Units - POU through Carefusion Pyxis



ED Unit Supply Exp/ED Visit

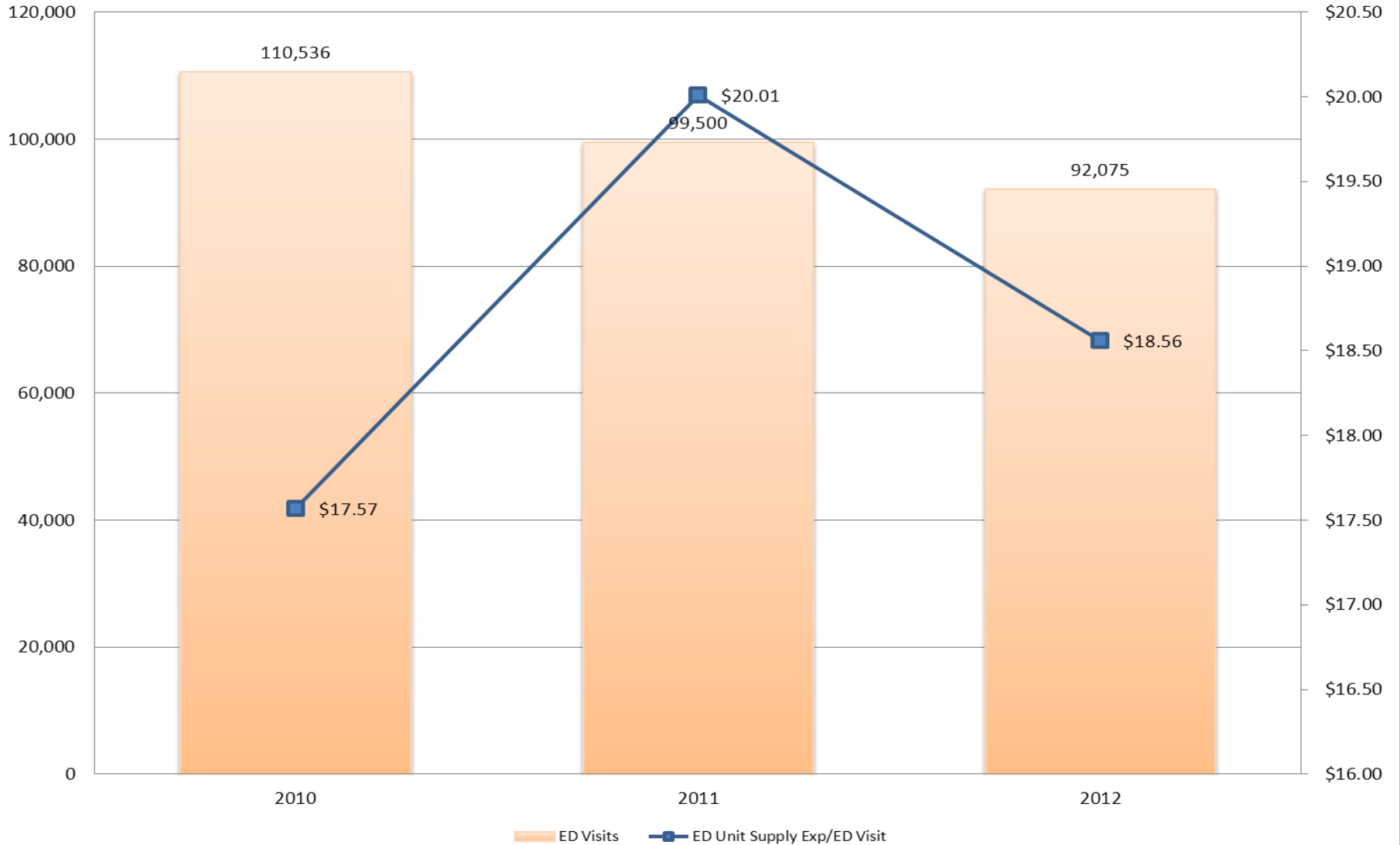
— ED Unit Supply Exp/ED Visit



7% decrease in supply utilization between 2011 and 2012 resulting in \$133,509 in savings.

However, there was a 5% increase over 2010. A primary driver is due to increase in ED capacity and a corresponding decrease in visits. Savings over two years is \$15,329

Emergency Dept. - POU



SCM Statistics

- SCM Operations Budget \$52 million
- DOC Operating Budget \$10 million
- Total Staffing 750 FTE's

PH&S SCM Services annual costs (excluding DOC), equal 1.4% of system purchased services and supply expense. Includes deducting rebates and administrative fees.

