

# Reforming the health supply chain “down under”

**Supply Chain Congress  
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# Health Purchasing Victoria (HPV)

1. HPV overview
2. Becoming more strategic
3. Global trends – where are we at?
4. Reform opportunities

# Why do we need to improve our supply chain?



# 1. HPV overview

## What is HPV?

HPV was established in 2001 as an independent statutory authority

## Purpose

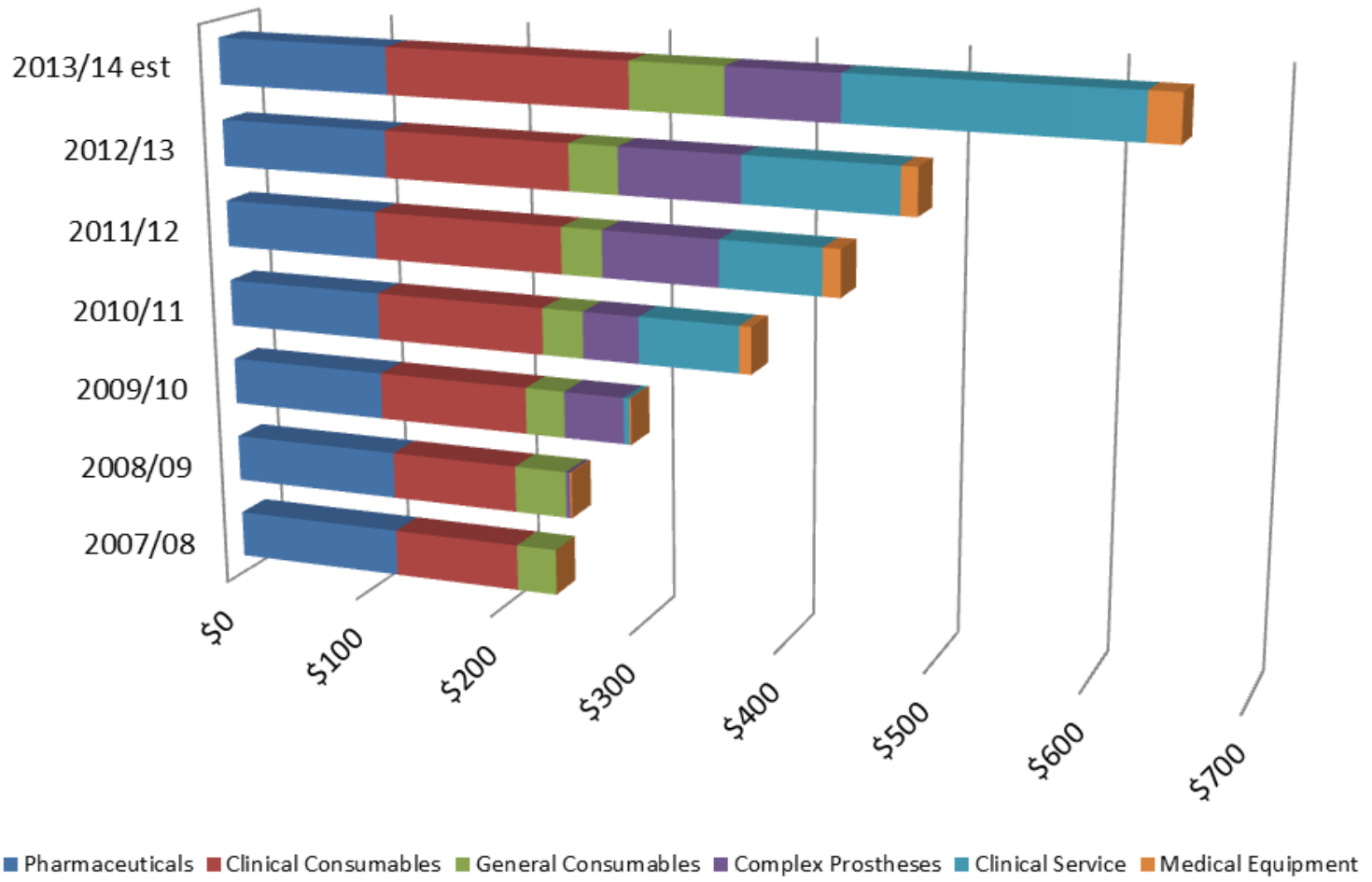
HPV achieves best value supply chain outcomes for Victoria's health sector

## HPV – Core Functions

- To supply or facilitate supply of goods and services
- To provide advice and support
- To monitor compliance
- To foster improvements in use of systems and e-commerce
- To maintain useful data and share that with health services
- To ensure probity is maintained in the purchasing, tendering and contracting *of public hospitals*

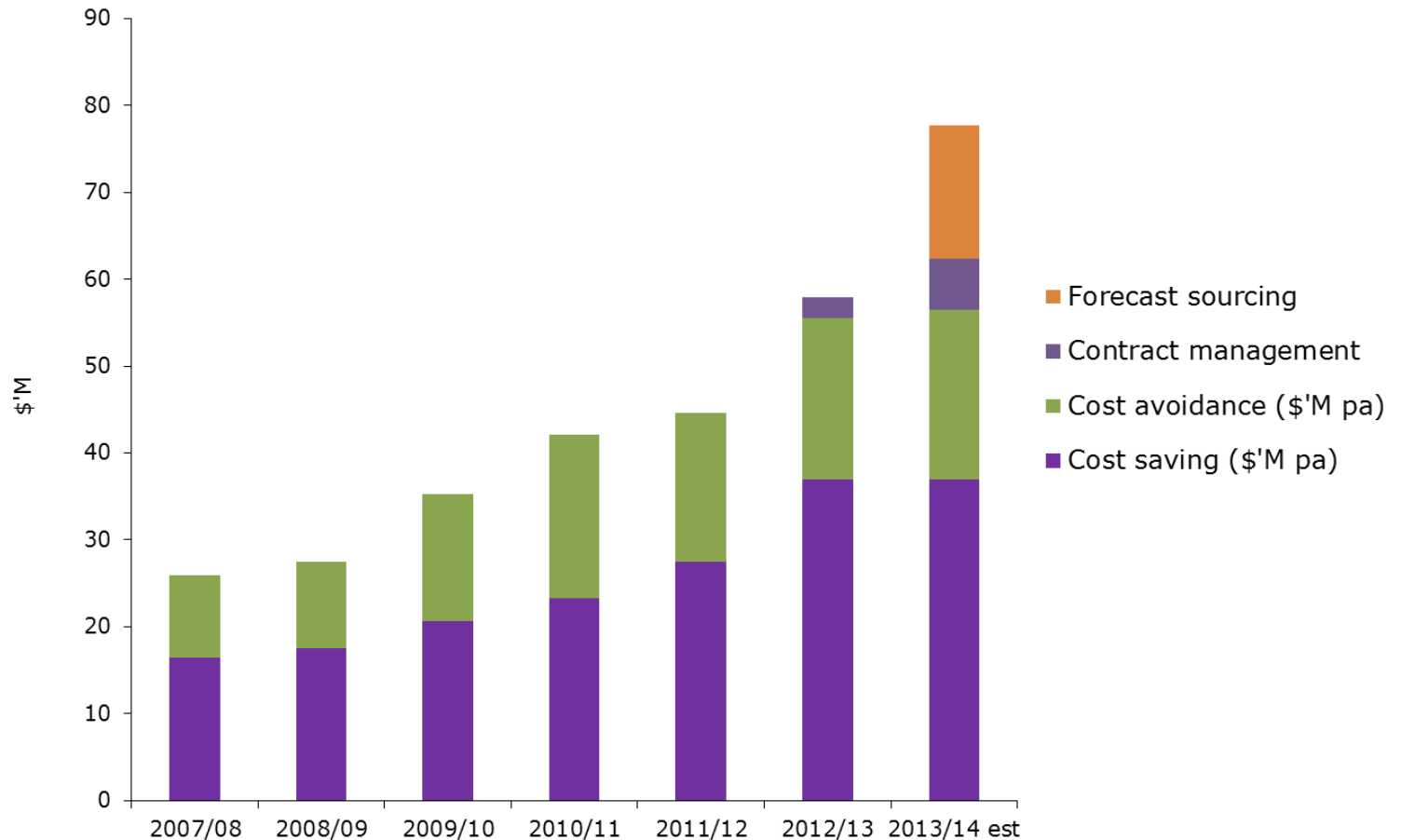
# Sourcing program

Value under HPV contract has more than doubled since 2007-08



# Sourcing program

Annual benefit of HPV sourcing has more than doubled since 2007-08



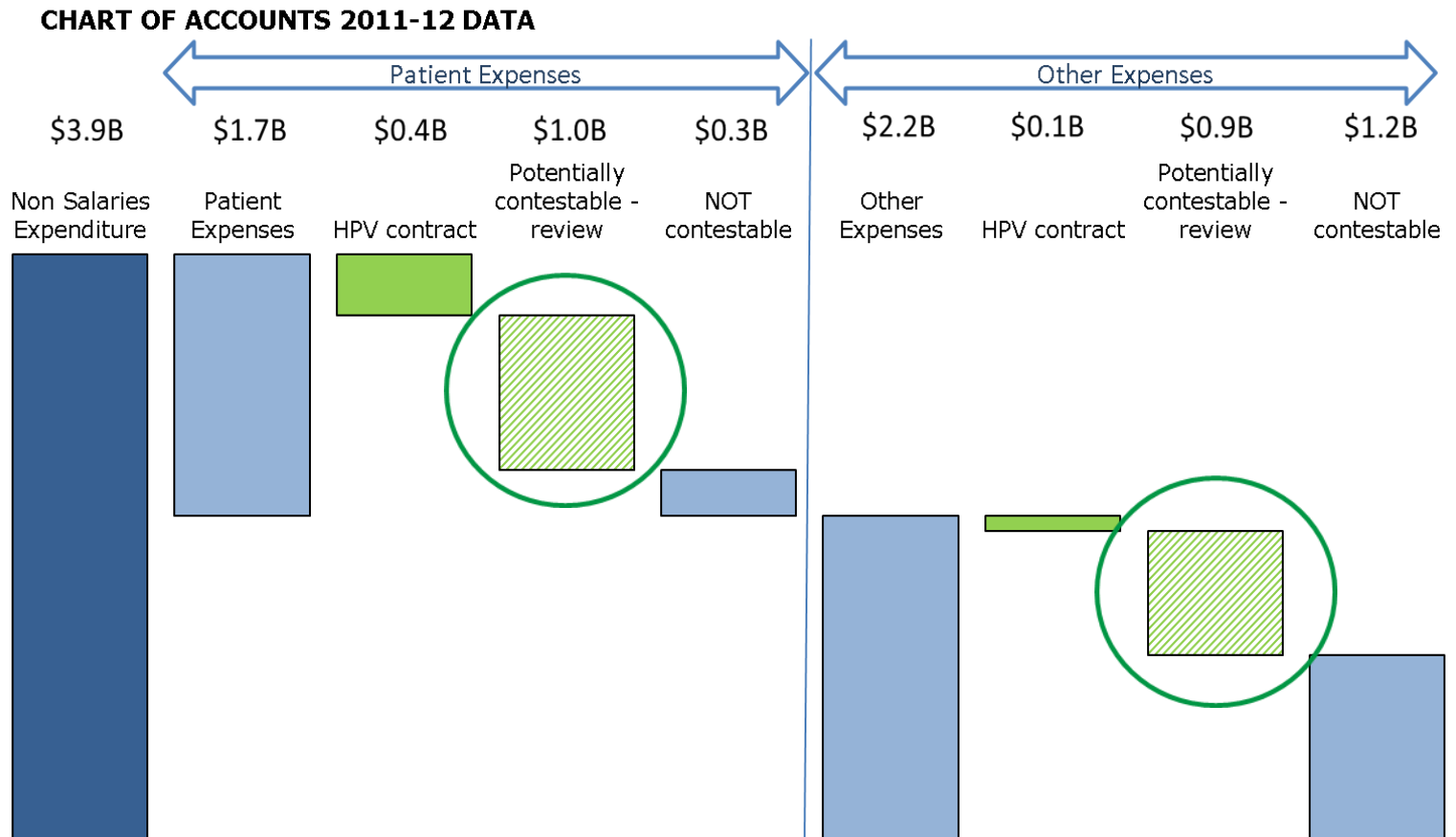


# HPV categories

<b><u>Clinical tenders</u></b>	<b><u>Prostheses tenders</u></b>
Clinical Protective Apparel & Drapes	Interventional Cardiology Prostheses
Continence Management Products	Orthopaedic Prostheses
Contrast Media & Radiopharmaceuticals	Trauma Implants
Enteral Feeds	<b>Interventional Radiology Prostheses</b>
Examination and Surgical Gloves	<b><u>Equipment tenders</u></b>
Hand Hygiene & Domestic Paper Products	<b>Beds and Accessories</b>
Hypodermic Needles, Syringes & Oral Dispensers	<b>X-ray machines</b>
Peritoneal Dialysis Fluids	<b>Ultrasound machines</b>
IV Administration Sets	<b>Physiological Monitoring</b>
Medical and Industrial Gases	<b><u>Restricted access tenders</u></b>
Monitoring Products	Infusion Pumps
Operating Room & Wound Drainage Consumables	Nurse Agency Services
Pathology Products	Pathology Service (Gippsland Group Bs)
Peritoneal Dialysis Products	<b><u>Non-clinical tenders</u></b>
Pharmaceutical Products & IV Fluids	Catering Supplies
Respiratory Products	Office Requisites
Sterilisation Consumables	<b>Natural Gas &gt; 5TJ</b>
Surgical Dressings, Tapes & Bandages	<b>Electricity</b>
Surgical Instruments Open & Laparoscopic	<b>Cleaning Chemicals and Dispensers</b>
Sutures, Skin Staples and Tissue Adhesives	<b>Non-Emergency Patient Transport</b>
Wound Care	<b><u>In progress/under investigation</u></b>
<b>Haemodialysis Equipment &amp; Consumables</b>	<i>Interpreting Service</i>
	<i>Telecommunications</i>
<b>Green</b> - Greenfield commenced in 2013-14	<i>Neurosurgery Prostheses</i>

# What is in scope for HPV?

Up to \$1.8B of non-labour expenditure may be contestable by HPV



## 2. Becoming more strategic

# PROCUREMENT MODEL – THE PAST

## Strengths

- ❖ Process Integrity
- ❖ Compliance to old government “rules”
- ❖ Built our brand on consistency
- ❖ Delivered benefits to the Health Services
- ❖ Respected by suppliers

## Opportunities

- ❖ Agility to go to market
- ❖ Ability to meet market dynamics
- ❖ Additional value through category management
- ❖ Stronger stakeholder and supplier engagement
- ❖ Innovation driven/Whole of life contract value delivery

# Strategic procurement



*Can't you see I'm busy?*

# Strategic procurement

- Clear line of accountability and responsibility
- Greater visibility, oversight and strategic alignment of expenditure
- Better leveraging of expenditure to increase buying power
- Consistent approach to contract management
- Professional approach
- Better value for money, achieves savings and efficiencies

# The proverbial iceberg...

**Purchase Price**



**Drivers of price**



Clinical variation  
Demand variation  
Quality - cost  
Inventory  
Logistics  
Manufacturing processes and rework  
Duplication  
Supply Chain Reform  
Procurement Reform  
and  
date  
frequent deliveries

# 3. Global trends



# Old hospital *Materials Management* model

## Purchasing

- “place and chase”

## Stores

- receive and deliver



Health

# Dimensions of world-class Procurement



## Strategic alignment

- Align Procurement with broader strategy
- Ensure business compliance
- Influence of Procurement more broadly?

## Capability and culture

- Talent management
- Mindset
- Ability to change

## Category management

- Category value creation strategies
- Processes
- Value chain analysis

## Structure and systems

- Organisational structure
- Collaboration
- Performance management
- Knowledge & information management

# Emerging health trends - infrastructure

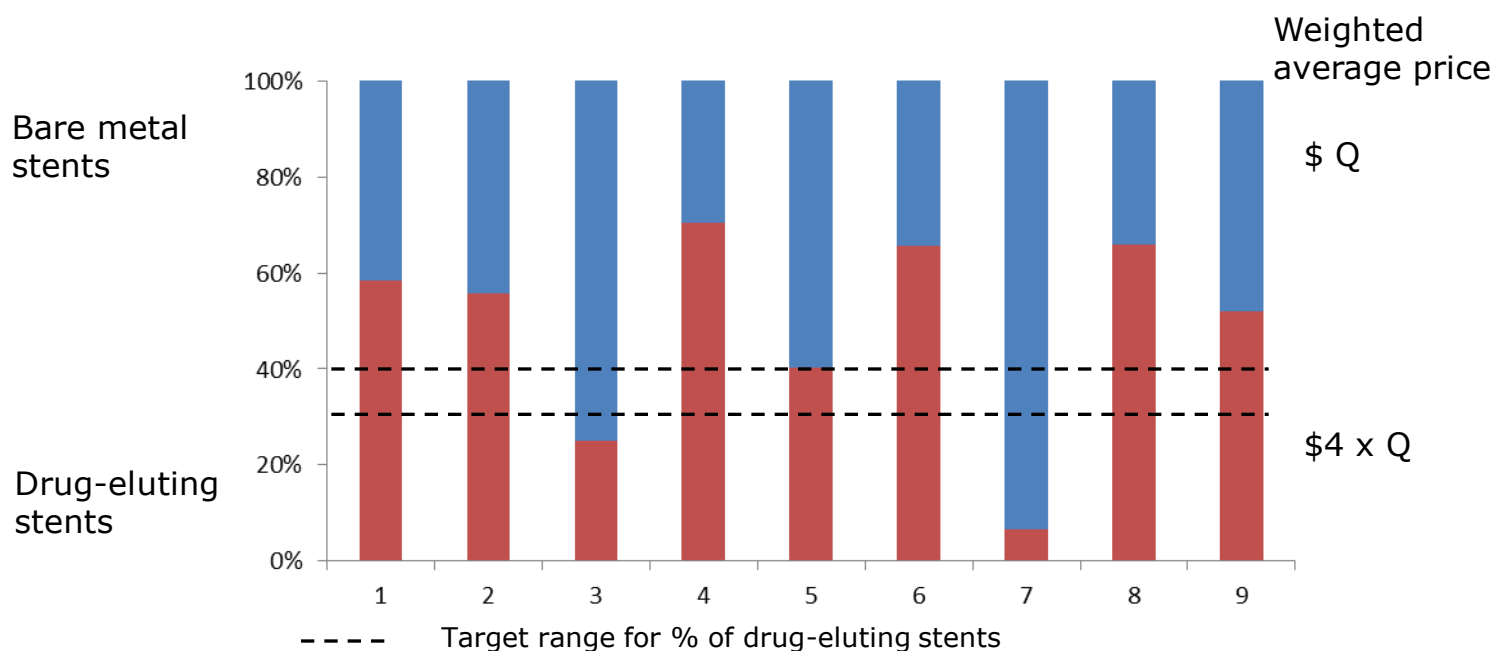
Emerging trend		Key elements	Are we there yet?
1	Talent / People	<ul style="list-style-type: none"><li>• Realign resources to generate extra value</li><li>• Strengthen quality of team<ul style="list-style-type: none"><li>• Bring in clinical resources</li><li>• Bring in experts from other industries</li></ul></li></ul>	On the way
2	Data/ Information systems	<ul style="list-style-type: none"><li>• Consolidate for single view of data across system</li><li>• Implement standard product coding system</li><li>• Give front lines user friendly tools</li></ul>	On the way
3	Product distribution strategy	<ul style="list-style-type: none"><li>• Build vs buy for distribution</li><li>• Optimise inventory</li><li>• Additional revenue generation opportunities</li></ul>	Not yet But other Australian states are well on the way

# Emerging health trends – activity focus

Emerging trend		Key elements	Are we there yet?
4	Utilisation / demand management	<ul style="list-style-type: none"> <li>Evidence-based standardised specifications</li> <li>Close collaboration with clinicians</li> <li>Evidence based use policies</li> </ul>	No
5	Generic products	<ul style="list-style-type: none"> <li>Front line expertise</li> <li>Protocols for substitution</li> <li>Global sourcing</li> </ul>	Some drugs
6	Capital expenditure	<ul style="list-style-type: none"> <li>Sourcing practices applied to capital expenditure</li> </ul>	On the way
7	Supply chain partnerships	<ul style="list-style-type: none"> <li>Win-win arrangements that create value                             <ul style="list-style-type: none"> <li>Reduce combined costs</li> <li>Grow markets</li> </ul> </li> <li>Zero-sum models that capture value</li> </ul>	No

# HPV example: demand management

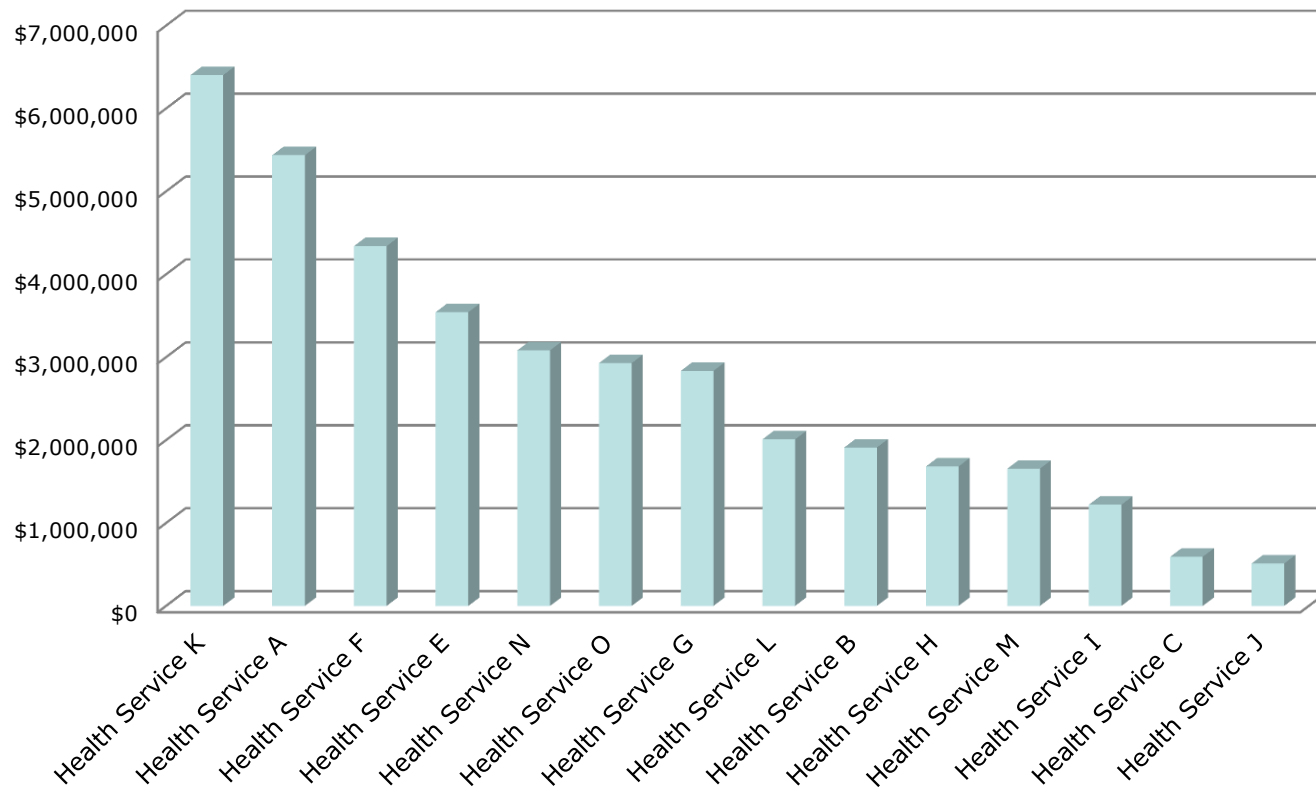
Saving opportunity by reducing clinical variation and adhering to clinical guidelines



# Using data - *usefully*

Sometimes the raw data doesn't tell us much...

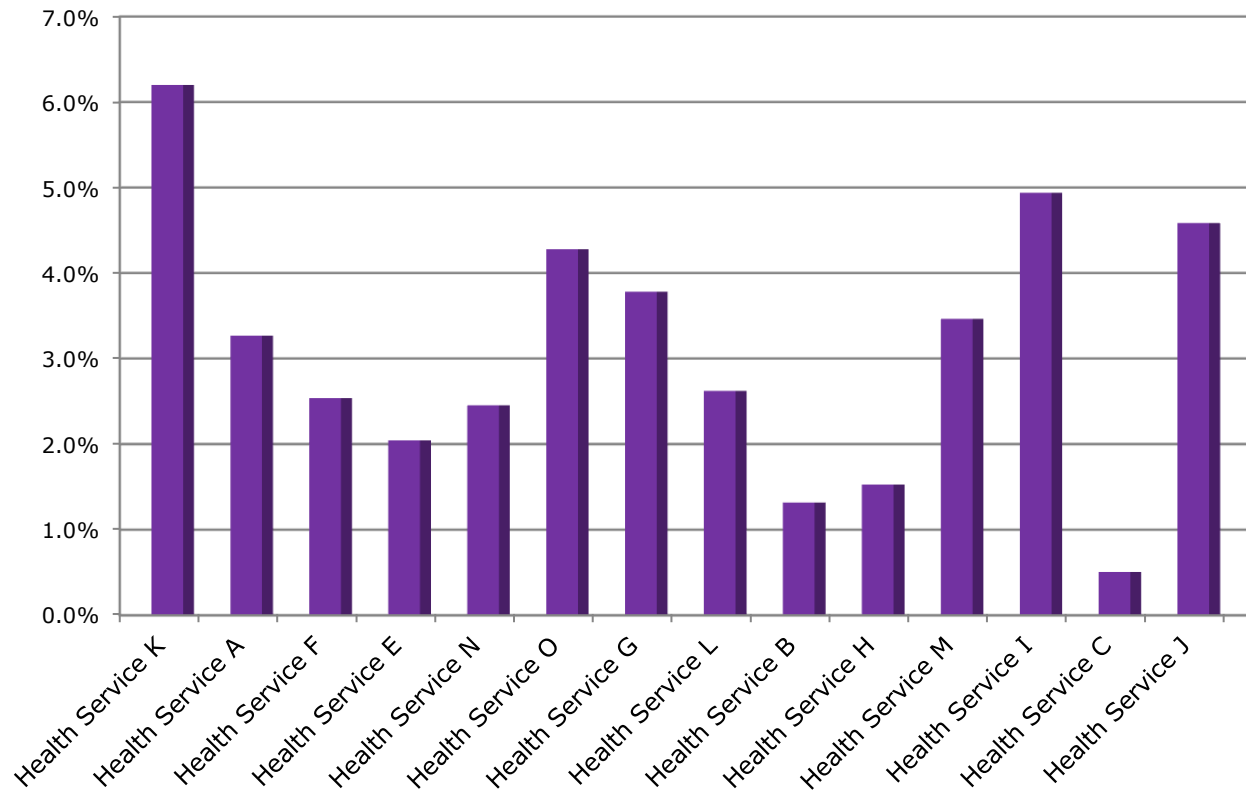
### Graph of spend on nurse agency services, 12 months



# Using data - *usefully*

... but when we normalise the data it tells a different story

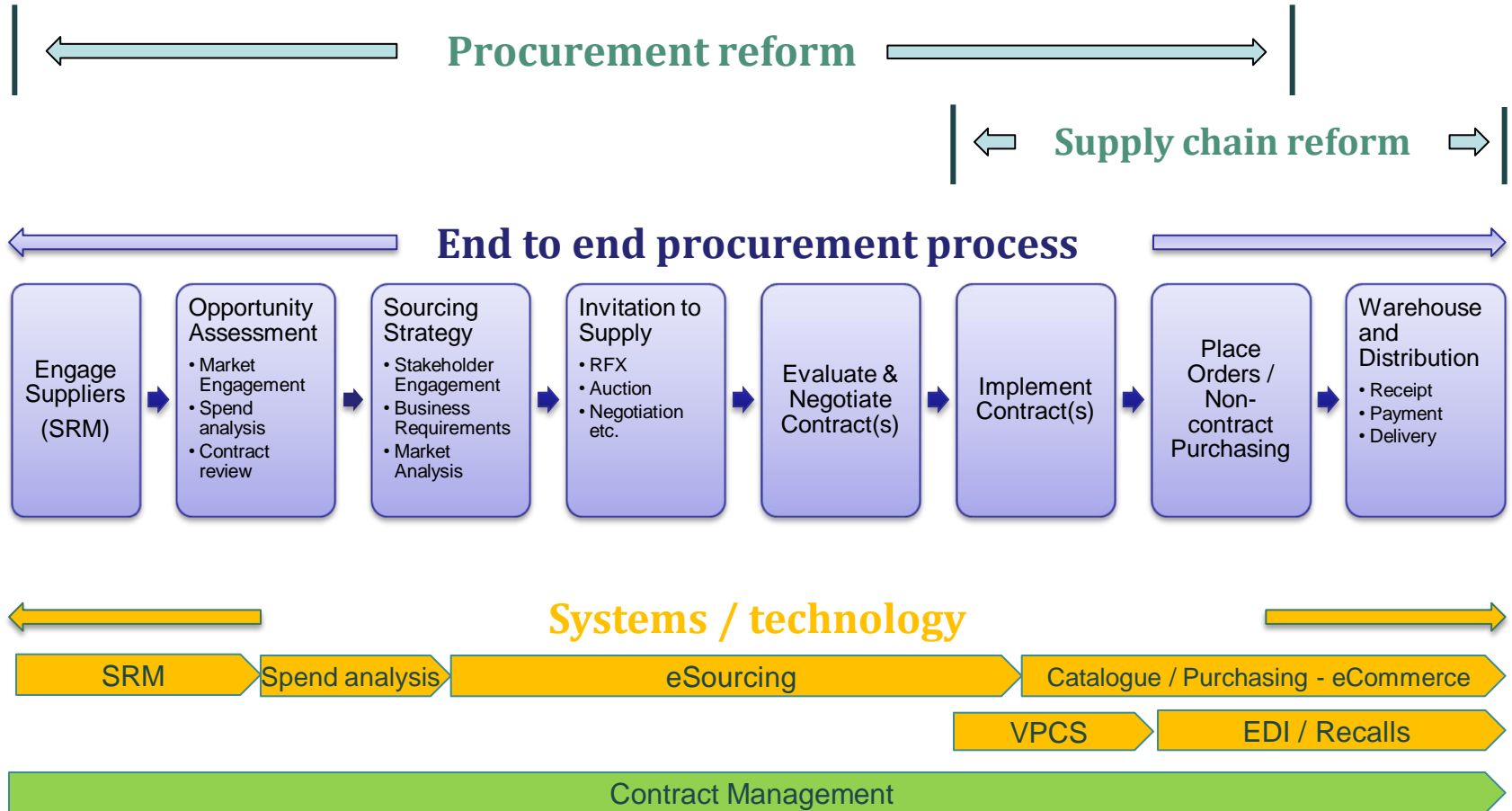
**Nurse agency spend as % of total nursing salaries**



## 4. Reform opportunities



# HPV reform scope - definitions



# The bigger reform picture

There are many inter-related elements which together deliver a modern, efficient supply chain

Initiative		What is it? Why do it?
Key enablers	Victorian Product Catalogue (VPC)	<ul style="list-style-type: none"> <li>• Critical enabler of reform – single source of truth</li> <li>• Accurate, up to date data accessible by all</li> </ul>
	Procurement System	<ul style="list-style-type: none"> <li>• Ability to order centrally for demand consolidation</li> </ul>
	Clinical demand / Standardisation	<ul style="list-style-type: none"> <li>• Critical enabler of efficiencies</li> <li>• Reduce clinical variation</li> <li>• Better buying power through supplier consolidation / competition instead of all being on a panel</li> </ul>
Key reforms	Supply chain reform	<ul style="list-style-type: none"> <li>• Coordinated, efficient purchasing, warehousing and distribution around the state</li> <li>• Technology enabled, e.g. end-to-end e-procurement</li> <li>• Better buying power through larger consolidated volumes.</li> </ul>
	Procurement reform	<ul style="list-style-type: none"> <li>• More strategic approach to contestable non-labour spend</li> <li>• Understand where money is being spent and prioritise effort for biggest return</li> </ul>

# Procurement Reform

An incremental approach will deliver some benefits

## THE PRESENT

- *38 policies, One size fits all*
- *Prescribes sourcing processes based on dollar thresholds*
- *No requirement to undertake forward planning of procurement activity*
- *Minimal focus on market investigation and engagement*
- *Procurement positioned as an operational process rather than a critical function*

## THE FUTURE

*“Aligning procurement activities to level of complexity.”*

- *Five new policies encompass the entire procurement cycle*
  - ✓ *Governance*
  - ✓ *Complexity and capability*
  - ✓ *Market analysis*
  - ✓ *Market approach*
  - ✓ *Contract management*
- *Forward strategic planning*
- *‘Market Approach’ based on category complexity*
- *Equity for local businesses*
- *Demonstrating value for money*
- *Aligning capability with complexity*

# VGPB Procurement Reform

THE PRESENT



THE FUTURE



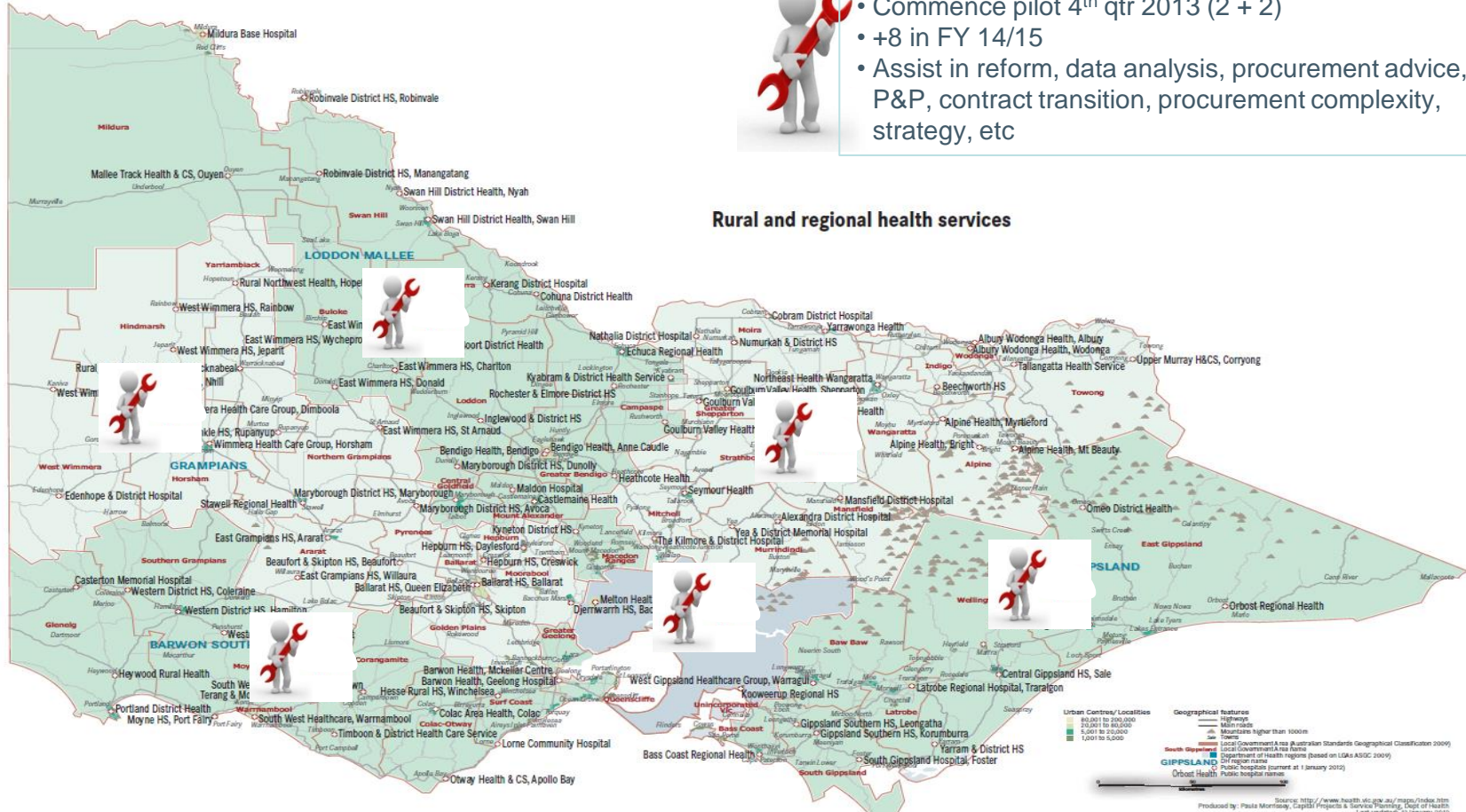
# Procurement reform approach

It is proposed to progressively roll out field based HPV people in each region to support procurement reform and to optimise procurement outcomes

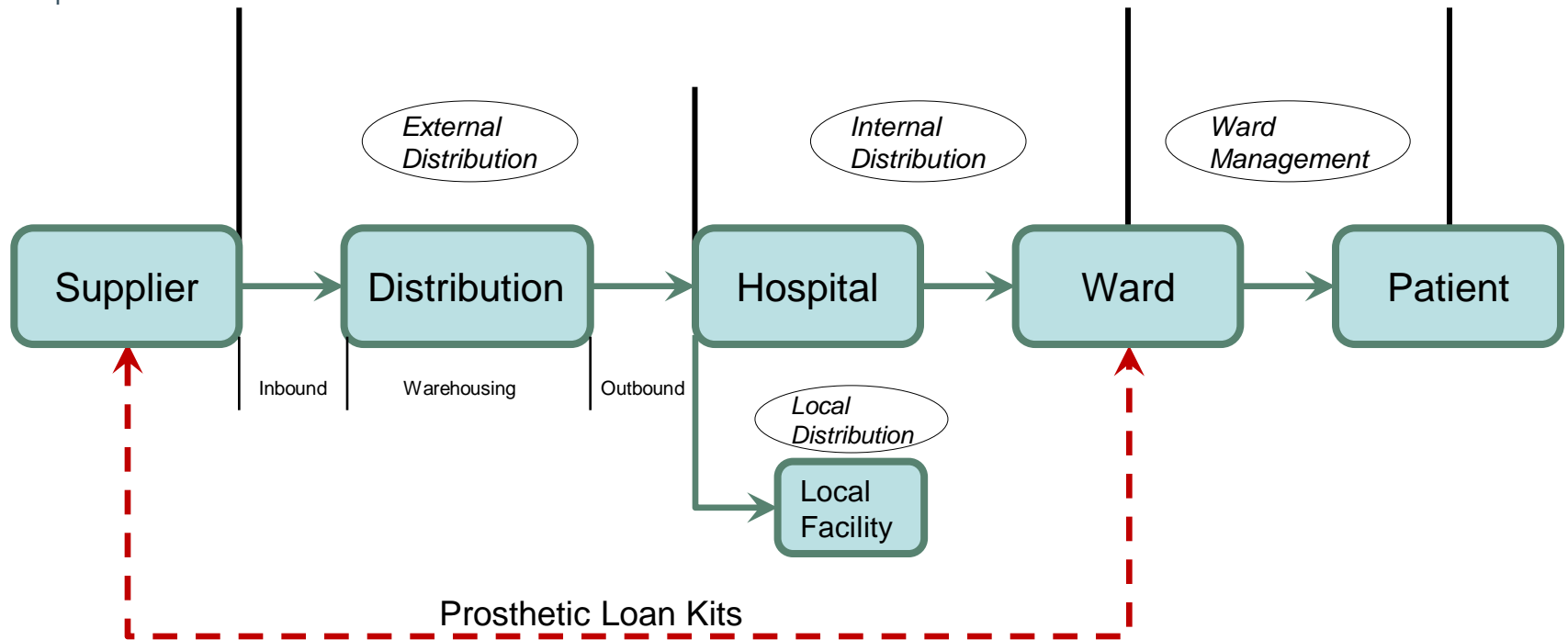


- Commence pilot 4<sup>th</sup> qtr 2013 (2 + 2)
- +8 in FY 14/15
- Assist in reform, data analysis, procurement advice, P&P, contract transition, procurement complexity, strategy, etc

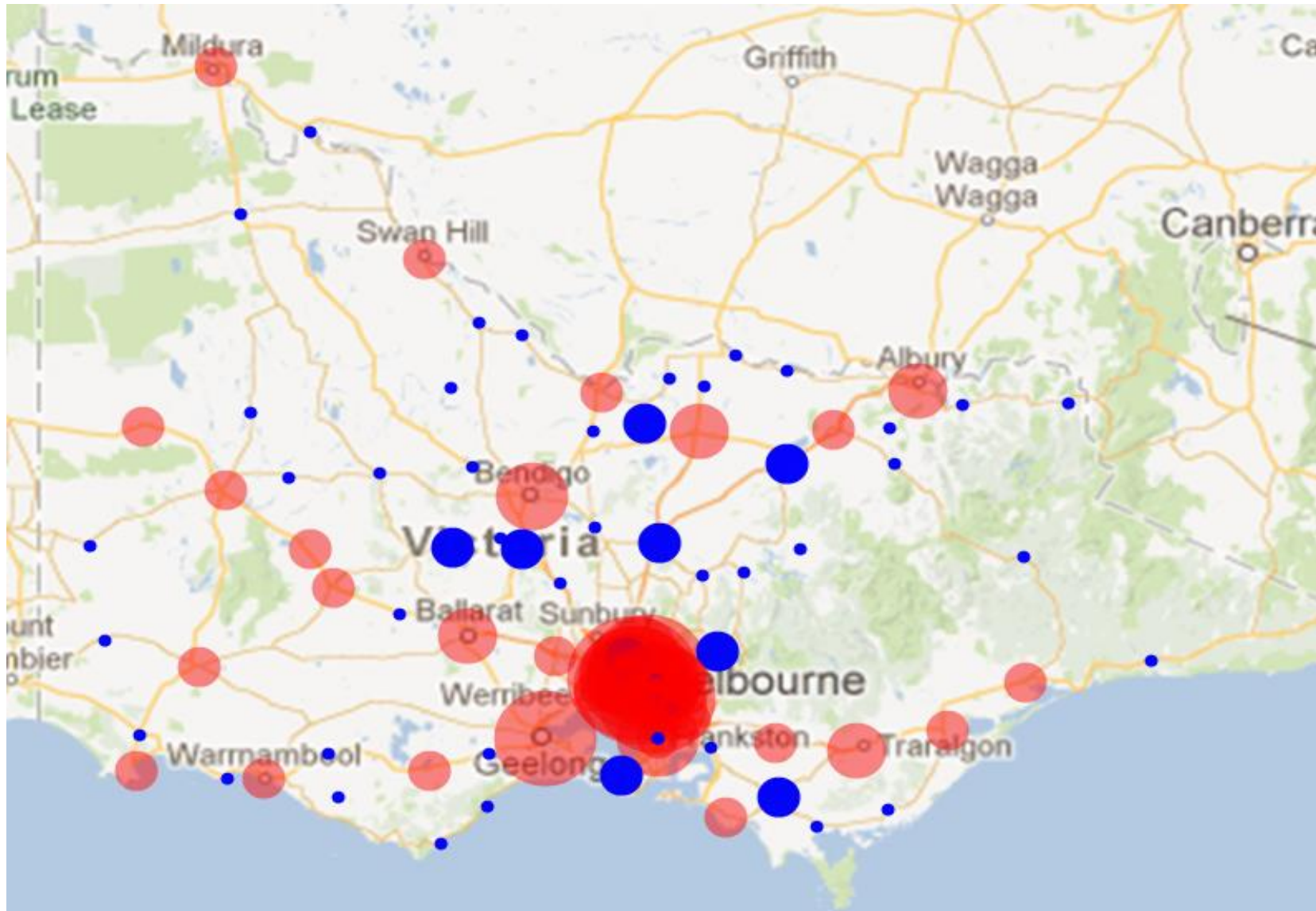
Rural and regional health services



# A (simple) hospital supply chain

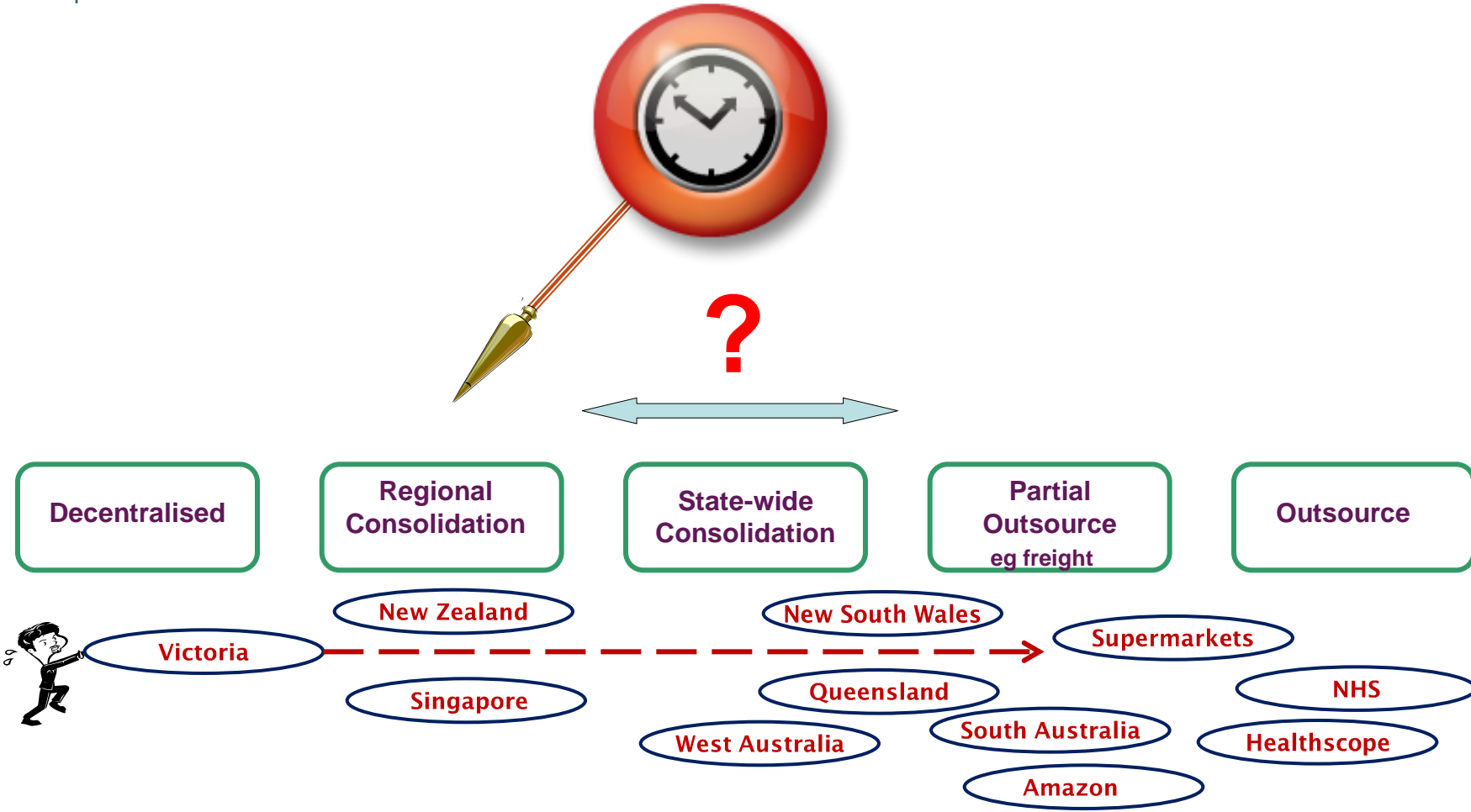


# Victorian supply chain



# Supply chain: environment scan

Victoria sits to the far left of the pendulum



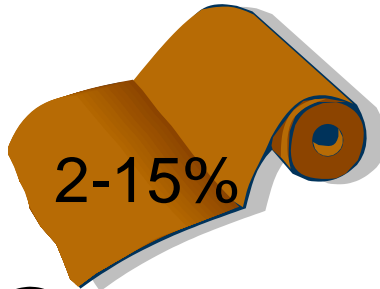


# Examples of economies of scale

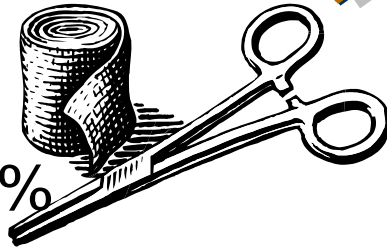
All 86 Victorian hospitals should be able to benefit from economies of scale



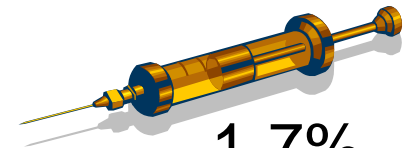
18%



2-15%



1-23%



1-7%

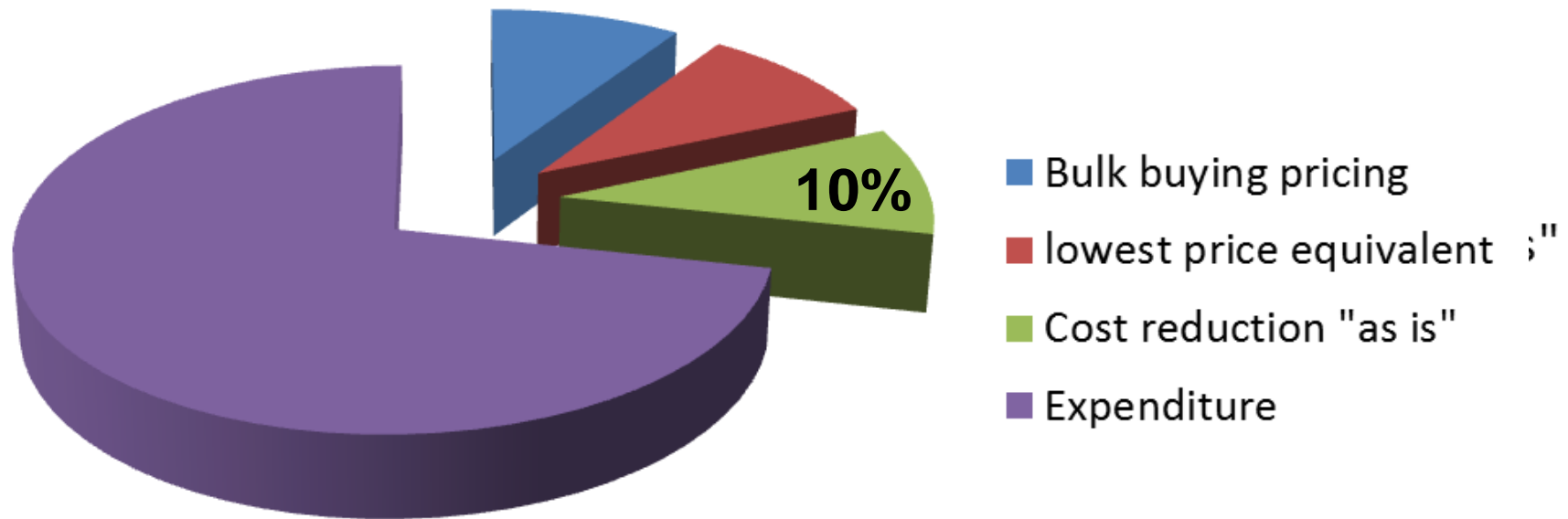


2-31%

# An example – our gloves opportunity

Victoria spends \$9.7 million per year on exam and surgical gloves

**18% (or \$1.8m)**



# Supply chain approach

Three streams of work to develop a detailed business case for a preferred State-wide supply chain model

What: Supply Chain vision statement

When: Project framework and plan

How: three streams

## Governance and Ownership

- Working group members
- Terms of Reference
  
- Principles
- Evaluation criteria
- Constraints

## Information and Technology

- Working group members
- Terms of Reference
  
- Principles
- Evaluation criteria
- Constraints

## Operations

- Working group members
- Terms of Reference
  
- Principles
- Evaluation criteria
- Constraints

Communications

Business case development

# The vision for public health supply chain

That buyers have at least as much information as suppliers

**Information**



**Healthcare  
providers**

**Suppliers**

***“And let it be noted that there is no more delicate matter to take in hand, nor more dangerous to conduct, nor more doubtful in its success, than to set up as the leader in the introduction of changes. For he who innovates will have for his enemies all those who are well off under the existing order of things, and only lukewarm supporters in those who might be better off under the new.”***

Niccolò Machiavelli *The Prince*