Rocky Mountain AHRMM
March 17, 2016

Healthcare Industry
Supply Chain Best Practice Assessment

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Discussion Items

1. Healthcare Industry
2. Healthcare Supply Chain
3. Changes are coming to Healthcare
4. Supply Chain Management
5. Supply Chain Management Best Practices
6. What can we do as supply chain management professionals
The Johnson Family
Supply Chain
Healthcare Industry
The Fiscal Gap

Unfunded federal obligations, 2014 (all NPV -- net present value)

- Social Security: $7.7 trillion
- National Debt: $17.4 trillion
- Medicare: $38.7 trillion

Total = $63.8 trillion+

CMS Office of Actuary (Foster): ~$120 trillion, $211 trillion
“It is estimated that unnecessary care or ‘overtreatment’ kills 30,000 Americans a year – the equivalent of a 747 airliner crashing and killing everyone aboard once a week.”

Waste opportunity is **MUCH** larger

>50% of all hospital resource expenditures are **quality-associated waste**:

- recovering from preventable foul-ups
- building unusable products
- providing unnecessary treatments
- simple inefficiency

Andersen, C. 1991
James BC, et al., 2006
Healthcare Supply Chain
Healthcare Supply Chain
Unique…But not Necessarily in a Good Way

1. Logistics costs in healthcare are more than 10X the costs of the retail industry
2. The most expensive and high risk items often have the least control
3. Personal preference drives many product decisions
4. Healthcare outsources less than most other industries
5. Purchasing and Accounts Payable are often disconnected
6. Healthcare industry has the lowest level of trust between buyers and suppliers (of any industry surveyed)
7. Supply chain is still in the basement of many hospitals (literally) – even though non-labor expenses are approaching 50% of total cost structure
8. Data standards, transparency, traceability…oh my!
Healthcare supply chain is Very Costly

National GPO Contracting

Manufacturer

Distributor

Provider

Tracing Fees (3-4%)
Channel Fees (4-6%)
Payment Term Discount (2%)

Admin Fee (1-4%)

Volume Rebates (1-2%)

Distribution (4-12%)

Additional Markup (4-8%)

Administrative Fees (2-4%)
Patronage Rebates (9-12%)

Complex Costly Data Chaos

40,000 SKUs 10,000 Suppliers

(0-2%) Rebate
Membership Dues
Supply chain distribution is inefficient
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 - EHCR STUDY*
Supply Chain Logistics and Value Optimization Strategies must be integrated across the entire continuum of care.
Non-Clinical Spend is Very Big and Often Untouched

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

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<th>Hardware</th>
<th>Travel</th>
<th>Office Supplies</th>
<th>Insurance</th>
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The healthcare supply chain is complex and extends beyond the four walls of a hospital. We look at the supply chain as everything from pills to patients and everything in between.
THE GPO INDUSTRY IS VERY INTERESTING CURRENTLY
INTALERE™
ELEVATING THE HEALTH OF HEALTHCARE
New Amerinet will be a professional Supply Chain organization that has a GPO as one of its product offerings.
You’ve known us as a GPO.

Now you’ll know us as so much more.

Yes, we’ve changed our name. But that’s not all that’s different. At Intalere, formerly Amerinet, our services go beyond a GPO to your entire non-labor spend. From supply chain management to consulting, we listen to you and work with your organization to tailor solutions specifically to your needs. Visit us at intalere.com to learn about our vast array of offerings.
Sometimes two things that look alike are actually very different.
Changes are coming to Healthcare
Our Changing Healthcare Landscape

Core Concepts

- Increased access
- Clinical integration
- Pay for performance
- Reduced payment

Do more with less!
A train wreck is coming – America can’t afford healthcare costs
Let’s not forget the positive part of the future of healthcare

There will be a growing demand & need

- Larger and older population
- More long-term and lifestyle diseases
- More people with insurance
Supply Chain Management
Managing all Supply Chain is bigger than we view it in healthcare

Supply Chain Strategy includes much more than just contracting

Results of non-integrated supply chain
- Supplier redundancy: 30% - 40%
- Multiple contracts, poor deals
- High pricing
- High processing costs
Supply Chain focuses on total cost of ownership (TCO)

**Purchase costs**
How much do I pay at time of transaction?

**Internal business costs**
How much do my usage patterns and processes add to cost?

**Joint supplier/customer costs**
How much does the way I work with my vendor affect my cost?

The total cost of ownership includes all these costs.
practiced by most large companies with significant financial success

A disciplined, systematic process of analyzing corporate expenditures and developing strategies to reduce the total costs of externally purchased materials and services

It involves:

◦ What we buy
◦ Who we buy from
◦ How we buy
◦ What we inventory
◦ How we use the products and services we buy
◦ How we can make those products and services better
Management is Strategic Sourcing…which yields many benefits

- Reduced number of suppliers
  - And maybe some new ones
- Lower prices
  - Consolidated buying
  - Rigorous negotiation
- Standardized product specifications
- Stronger relationships with suppliers
  - Better service levels
  - Longer term contracts
- Elimination of redundancies
- Elimination of business processes
- Ideas for continuous improvement
- Formalized savings tracking system

...lower costs, higher quality and greater customer service
Supply Chain Management
Best Practices
What’s a best practice?

- 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

The Greeks gave up frontal assaults on the Trojans and built the wooden horse by being smarter, not working harder, and got better results.
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
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
Leading companies are also taking a strategic view of the logistics process to drive additional value from the supply chain.

Ten Dimensions of Logistics Effectiveness

- Facility Layout & Design
- Use of Equipment & Technology
- Warehousing Processes
- Material Storage & Preservation
- Material Transportation & Routing
- Material Handling & Flow
- Use of 3rd Party Logistics Providers
- Supplier Integration & Value Add Services
- Performance Management
- Organization & Culture

Qualitative Assessment
- Logistic processes and practices

Quantitative Assessment
- Key logistic costs
- Metrics
- Benchmarks
What Can We Do As Supply Chain Professionals in Healthcare
“Tradition is an enjoyable thing, and it helps us to reflect back to the “way things used to be”, but when allowed to become a business philosophy, it’s disastrous. Managing in the shadow of tradition is not to grow, and anything not growing is dying.”
There is less **PAIN** to remove supply chain costs than there is in reducing clinical care

And it’s not just pricing on the backs of the suppliers!
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.”
MISTAKES
It Could Be that the Purpose of Your Life Is Only to Serve as a Warning to Others.
Things you can be doing on your own

1. Know your spend – total non-labor spend (Spend Management)
2. Understand and practice Total Cost of Ownership (Beyond Price)
3. Streamline procure-to-pay processes
4. Increase standardization across your hospital
5. Reduce utilization
6. Manage inventory – all inventories including OR, Cath Lab & Lab
7. Drive more efficient distribution/logistics
8. Do strategic sourcing on all non-traditional non-labor spend
Supply Chain Value to Organizations

- No GPO
- GPO Only
- Self-contracting
- Committed Contracts
- Joint-contracting
- Clinical Integration
- SRM

Talent & C-suite recognition is required
How much supply chain should you manage vs. rely on a GPO?

Use GPO all you can to leave higher reward areas for self-implementation

Obtain resources to do all you can from list below

- Sourcing beyond med/surg
- Manage all inventories
- Know spend categories
- Manage standardization
- Improve utilization
- Improve procure-to-pay
- Increase logistics efficiency
- Support non-acute

Resource investment

Benefits
There is Power and Huge Benefit in Supply Chain Management in Healthcare

A penny saved is a penny invested somewhere else in healthcare

When we allow personal preference guide decisions we pay more
When we don’t have standards we pay more
When we don’t leverage our company we pay more
Personal preference shouldn’t be confused with clinical excellence
Non-profit should not mean not-as-efficient
Quality does not mean “spare no expense”
Product variation is not clinical excellence
Thanks

Q & A