



What Is So Unique About The Healthcare Supply Chain?

An  Webinar



Today's Presenters

Rosalind Parkinson
Administrative Director, Material Systems
Ohio State University Medical Center

Keith Johnson, CMRP
Zone Vice President
Coloplast Corporation

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Senior Director
Strategic Marketplace Initiative- SMI

**Have you ever heard or
said something like...**

“Healthcare is different!”

“We are not Wal-Mart!”

Session Objectives

For attendees to understand:

- where healthcare supply chain is similar to other industries
- where healthcare supply chain is different from other industries.

For attendees to learn about:

- Practices that they might utilize in their healthcare supply chain programs

Session Outline

- SMI Initiative Background/Organization
- Observations from Other Industries
- Similarities, Differences, and Key Drivers
- Follow-up with Questions and Answers

SMI Overview

- Improved HCSC practices
- Proven results
- Customizable
- Industry wide sharing
- Market adoption

- Seasoned executives
- Balance between IDN's and Partners
- Shared vision for a more efficient HCSC



- Self selected/directed initiatives
- Focused teamwork efforts
- Look outside of healthcare

- Issues based leadership of HCSC
- Neutral venue
- Collaboration
- Making a difference (transformational)



SMI Initiative Team

Ohio State University MC	Rosalind	Parkinson*
Coloplast Corp.	Keith	Johnson*
Care Line Industries	David	Love
Cardinal Health	Cindy	Roser
Cook Medical	David	Reed
Denver Health	Stewart	Layhe
Orlando Health	Roz	Parsons
Coloplast Corp.	Jerry	Curl
Intermountain Healthcare	Brent	Johnson
CIHL **	Manuel	Rossetti
CIHL **	Vijith	Varghese
OSF Healthcare	Ruth	Gruett

* Team Leaders

** SMI Collaborator

SMI Initiative Team

BD	Steve	Gundersen
UPMC	Tim	Nedley
Novant Health	Tim	Sutton
J&J Healthcare	Mike	Bulone
W.L. Gore	Gene	Tierney
Seneca Medical	Lisa	Hohman
Kimberly Clark	Keith	Kuchta
AHRMM/RWJUH	Bill	Stitt
HCA	Jay	Kirkpatrick
Novant Health	Tony	Johnson
Bracco Diagnostics	George	Ehrlinger
BJC Healthcare	Nancy	LeMaster
AHRMM **	Deb	Sprindzunas

** SMI Collaborator

Collaboration w/ CIHL

- Invited the CIHL “Gap Analysis” Project to join the SMI Initiative.
- To-date, four “gaps” identified by CIHL:
 1. Supply Chain Reorganization
 2. Collaborative Planning, Forecasting, and Replenishment (CPFR)
 3. Actual Usage Inventory Management
 4. Enhanced Training for Materials Management Staff

SMI Initiative Team's Problem Statement

- Many health care supply professionals have assumed, but never validated, that our industry's supply chain is unique when compared to other industries and that wastefulness may be a by-product of this uniqueness.

SMI Team: Refined scope to ten specific supply chain topics

- 1. Data standards**
- 2. Product selection methods**
- 3. Collaboration**
- 4. Distribution strategies**
- 5. Performance penalties**
- 6. Technology**
- 7. Metrics**
- 8. Regulatory environment**
- 9. Supplier management**
- 10. Inventory control & visibility**

SMI Team: Utilized a semi-structured interview process



- Created an *Interview Guide*: “Grouping of topics and questions that the interviewer can ask in different ways for different participants.”¹

¹ Lindoff and Taylor, 2002 Qualitative Communication Research Methods (2nd edition) Sage Publications, Thousand Oaks, CA

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Industry Topic: Data standards
Defined as: The use of common, shared, standardized data to ID products and legal entities.
Interview Questions:
1. How common are supply data standards in your industry and why do you think that is the case?
2. Is there a common, single system of standards in place?
3. Can you estimate the % of the industry that uses the standards?
4. How long has your industry been using data standards and what do you think prompted their use?
5. Can you describe the process of industry adoption?
6. What benefits, if any, has your industry experienced from adopting data standards and have these benefits been validated?
7. What prospects would a company have in your industry if they did not use the data standards?

Product Selection Methods and Responsibilities
Defined as: The process to determine which products are used, and the person/entity that drives that process.
Interview Questions:
1. In your industry, who commonly is responsible to decide which products are used or carried in inventory?
2. What do you think are the most common drivers of those decisions?
3. If the consumer ultimately determines the products used/carried, is there a common process that is used to determine which “brand new” products are used/carried?

Collaboration
Defined as: The practice of working with others, including trading partners, to seek improvements.
Interview Questions:
1. Do suppliers and customers work directly with each other to contract for goods and services or is there a third party contracting entity involved?
2. Are suppliers routinely engaged by customers to seek greater efficiencies and lower costs, or are suppliers more likely kept away from such efforts by customers? Why do you think that is the case?
3. If and when trading partners do collaborate, are there certain focus areas that are most common, such as cost reduction, new product development, or logistical efficiencies?
4. What else would you like to share with us that we haven't specifically asked about on the specific

Interviews Conducted

- Healthcare executive, previously worked @ **Black & Decker** and **Honeywell**
- Supply Chain VP for **Keurig**, coffee and brewer manufacturer
- Healthcare supply chain VP previously with **Honda, John Deere**, other manufacturers
- Supply Chain VP for **Coca-Cola**
- Supply chain VP for **Party-Lite**, a manufacturer and direct seller of home goods
- Materials VP for producer of engineered packaging solutions to automotive industry and other manufacturers
- Retail supply chain specialist for **Kimberly-Clark** paper products
- Purchasing Director for **Perry Ellis**, fashion designer/manufacturer
- VP of supply for **Sarcom**, reseller of technology products
- Supply chain consultant to US industrial manufacturers



Interview Observations

Data Standards

The use of common shared standardized data to ID products & legal entities.

- **Makers of retail products seem more likely to use data standards that are required by their end customers.**
- Large retailers require data standards .
- Value of standards to track and analyze is recognized.
- **Industries outside retail, like suppliers to manufacturers, do not utilize supply data standards.**
- In-house systems for numbering are recognized for their contribution to spend analytics.
- Industry associations cited for their role in standards development and adoption.

Product Selection



The process to determine which products are used, and the person or entity that drives that process.

- **Consumers drive product selection in retail.**
- ***“Engineers spec, procurement buys”***
- **Collaborative, multi-disciplinary teams were cited as a primary gatekeeper in new product selection, with marketing, designers, sales, R&D, and others working together.**
- **Quality/meeting specifications cited often as driver of decisions to make/carry/sell.**
- **Even large beverage companies can make product mistakes (Diet Coke Lime!)**



Interview Observations

Collaboration

Practice of working with others, including trading partners, to seek improvements.

- No reports of any 3rd party contracting (GPOs)
- **Collaboration with suppliers is a recurring theme.**
- Minor mention of “arms length” relationships.
- Suppliers and customers focus on quality issues, product development, process improvements, and cost reduction.
- Collaboration often on visibility of total cost.
- **The level of trust between trading partners is higher.**
- ***“They are definitely a partner.”***



Interview Observations

Distribution Strategy

High level strategy to determine the planned channels of product disbursement from sources to warehouses and ultimately, the customer.

- **Trading directly between customer and manufacturer was most often reported.**
- Distributors seen by some as additional cost.
- **Use of distributors was situational** – sometimes low volume or small parts dependant.
- Use of **foreign manufacturing sources** results in variety of distribution challenges for timing, importation, customs, etc.



Interview Observations

Performance Penalties

The consequences of not meeting customer expectations consistently.

- Inability to supply puts business relationships in jeopardy.
- ***“Just does not happen”*** was common refrain.
- **Financial penalties in automotive and other manufacturing relationships are severe, as production and jobs were on the line.**
- Measurement systems for supplier performance were frequently cited in support of a proactive approach, not reactive approach or after the fact.



Interview Observations

Technology

Combination of hardware and software and systems used to support business functions.

- **Supply chain's technological needs seen as "strategic"**
- SC technology platform was usually integrated .
- **Interviewees sometimes puzzled -**
"Of course our tech needs are seen as important".
- Need to prove the value (ROI) was typically cited.
- Use of technology to capture data in the supply chain was only cited occasionally.
- RFID not used much. Bar code scanning capabilities in retail - facing organizations.



Interview Observations

Metrics

Quantitative and qualitative assessment of performance against expectations, standards, or benchmarks to continuously improve.

- Typical metrics of fill rates, inventory turns used.
- **Supplier performance scorecards reported in most industries.**
- Perfect Order mentioned several times.
- Revenue per unit cited as common metric.
- **Comparative benchmarking with industries was not really common as competitive situations prevented sharing of information**
- Industry associations play a role in comparisons.



Interview Observations

Regulatory Environment

Regulatory and quality assurance involvement in supply chain functions

- Minimal influence of regulators cited.
- Influencers were OSHA, Underwriters Lab
- **Meeting of “industry standards” seemed to be a greater influence on behaviors than regulators.**
- Some traceability comments made.
- Importing goods through customs was cited as frequent concern.



Interview Observations

Supplier Management

The process of identifying, developing, measuring, & managing suppliers to build greater synergies/efficiencies around uninterrupted flow of products and services.

- **Some manufacturers reported supplier quality teams that work directly with suppliers to manage and improve quality.**
- Use of VMI programs, supplier scorecards, improvement opportunities, and product development cited often.
- Quality improvement, lean/six sigma type efforts were cited as common.



Interview Observations

Inventory Control, Visibility, and Demand

Systematic planning, control, and management of the ordering cycle to meet customer demand, including the effective physical management of on-hand inventory.

- Just about every product purchased is tracked . No concept of “stock and non-stock”.
- Demand management/forecasting often cited as a collaborative effort between trading partners.
- Retail forecasting difficult due to consumer demand fluctuations.
- Inventory visibility up and down the supply chain was not as prominent as expected.
- Visibility into trading partner inventories better in retail industries.

Similarities and Differences Discovered



Data Standards

Healthcare:

- does not yet utilize data standards.
- is in early stages of GS1 adoption.

Non-Healthcare:

- Retail uses data standards/barcodes.
- Little evidence of use in other sectors.

Inconclusive

Similarities and Differences Discovered



Product Selection Methods

Healthcare:

- Common use of multi-disciplinary team
- Frequently driven by M.D. preference

Non-Healthcare:

- Common use of multi-disciplinary teams
- Engineering-driven in manufacturing
- Consumer-driven in retail

Inconclusive

Similarities and Differences Discovered



Collaboration

Healthcare:

- Dependence on group purchasing
- Concept of partnership is not common

Non-Healthcare:

- No utilization of group purchasing
- Partnership concept common

Different



Similarities and Differences Discovered

Distribution Strategies

Healthcare:

- Frequent use of prime distribution
- Distributor access to warehouse for provider
- Many PPIs purchased direct

Outside of Healthcare:

- High degree of direct buying.
- Distribution use is situational.
- Foreign sourcing can be a barrier.

Different

Similarities and Differences Discovered



Performance Penalties

Healthcare:

- Labor intensive reactive process
- Substitute source or product available
- High inventories serve as back-up

Non-Healthcare:

- “Just does not happen”.
- Major financial penalties cited.
- More proactive approach taken

Different

Similarities and Differences Discovered



Technology

Healthcare:

- does not usually view SCIT as strategic, viewed more as back office
- Use of barcodes/data capture technology is increasing.

Non-Healthcare:

- Supply chain technology is “strategic”
- Use of RFID or barcodes is situational.

Different



Similarities and Differences Discovered

Metrics

Healthcare:

- Common metrics used
- Comparative benchmarking with peer organizations is common.

Non-Healthcare:

- Common metrics used
- Frequent use of supplier scorecards reported
- Comparative benchmarking with peer organizations is not common.

Similar

Similarities and Differences Discovered



Regulatory Environment

Healthcare:

- Much regulation from FDA on manufacturers
- Providers regulated by JCAHO, CMS, and public health agencies.

Non-Healthcare:

- OSHA, UL, and customs cited as most influential.
- Meeting of established “industry standards” a common driver.

Similar



Similarities and Differences Discovered

Supplier Management

Healthcare:

- Application of supplier management techniques is often limited to a few suppliers.
- Collaborative efforts to improve supplier operations are not common.
- Price remains the dominant topic.

Non-Healthcare:

- Common use of supplier quality teams, scorecards, and new product development projects cited often.
- Proactive use of quality improvement/lean six sigma processes by trading partners is cited.

Inconclusive



Similarities and Differences Discovered

Inventory Control, Visibility, and Demand

Healthcare:

- Provider visibility to supply chain reported as poor.
- Data driven demand management and forecasting between trading partners is not common or formal.

Non-Healthcare:

- All stock items – no non-stock items
- Collaborative demand management/forecasting
- Retail forecasting difficult due to consumer demand fluctuations.

Different

Summary

Supply Chain Component	Status
Data Standards	Inconclusive
Product Selection Methods	Inconclusive
Collaboration	Different
Distribution Strategy	Different
Performance Penalties	Different
Technology	Different
Metrics	Similar
Regulatory	Similar
Supplier Management	Inconclusive
Inventory, Visibility, Demand	Different

Key Takeaways: Demand

- **High cost product selection is often done by “contractors” (physicians) in hospital**
- **Unclear demand path for products:**
 - ***Consumed*** by patient
 - ***Selected*** by clinician
 - ***Paid for*** by hospital

Key Takeaways: Diffusion

- **Hazy demand path drives SKU proliferation**
- **GPO Role in healthcare:**
 - Rationalizes SKUs for high volume buys
 - Adds a layer of complexity in supply chain
- **Distributor role in healthcare:**
 - Consolidates SKUs holding
 - Adds a layer of complexity in supply chain

Key Takeaways: Margins

Retail:

- Thin margins drive collaboration
- Margin visibility demands close monitoring
- Margin monitoring demands high tech support.



Healthcare:

- Margins loosely tied to products
- Focused on revenue enhancement.
- Technology is clinically focused

Key Takeaways: Profit/Loss

Retail:




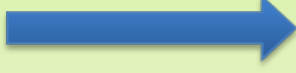
- SKUs equal new revenue
- Retail pulls from suppliers.
- Metrics automated and routine.



Healthcare:

- SKUs equal new cost
- Suppliers push to hospitals.
- Metrics on an exception basis.

Imminent Impacts

- Unique Device Identifier 
- 2010 Health care reform law 
- Electronic Health Record 
- Leadership Initiatives 
- FDA standards requirement
- Tight margins in hospitals
- Automation from PO to patient
- SC leaders articulate direction

Questions

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