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Leading Practice in the Healthcare Supply Chain

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Purpose

Gain insight into core research and pain points causing inefficiency in healthcare's capital equipment market, and how provider's implementation of a better governance structure mitigates pain points and waste for both sides of any supply chain transaction.

Agenda

- Factors contributing to a high SG&A in the healthcare equipment market
- Optimal governance structure for health systems
- How and why optimal governance structures result in great efficiency for health systems and suppliers, with lower costs for all

How many surgical tables will you
buy next year?

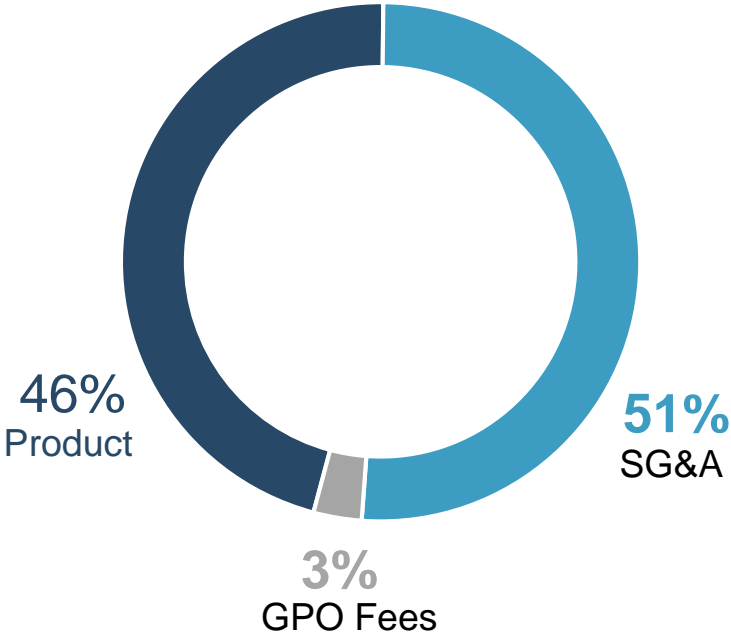
What suppliers will you consider?

What will it cost your suppliers to sell these surgical tables to you?

How much will you pay for your
surgical tables?

The \$30 BN Capital Equipment Market is Inefficient

Equipment Supplier Costs



SG&A: Sales, general & administrative costs.

In the auto industry, SG&A is only 7.5%

Source: NYU Stern/Bloomberg

Provider Pain Points



Internal inefficiency – too many stakeholders



Need for greater insights



Little tracking and reporting



Need for greater aggregation

Source: L.E.K. Consulting



Supplier Pain Points



Opaque sales process



Inefficient use of resources



Need for greater access



Lack of market data and insight

Source: L.E.K. Consulting



Lowering the price of equipment usually requires fixing pain points on both sides of an equipment transaction.

For providers, optimal governance structures enable a long-term fix to major pain points.

Key Tenants of the Governance Process



Key Tenants of the Governance Process

Measurement

Compensation is aligned to Supply Chain performance at system, rather than local level. All initiatives have clear performance metrics.

***Example:** Supply Chain savings goals only measured at system level to ensure all facilities are in alignment. Adjustments will be made if initiatives adversely affect one facility's financial performance (e.g., facility lab test revenue reductions from increased core lab utilization will be recognized and adjusted).*



Key Tenants of the Governance Process

Efficiency

Accelerates decision-making with simple and effective decision model, empowers Value Analysis Teams to make less-contentious decisions and allocates appropriate resources. Criteria will be defined for “fast track” of decisions.

Example: *Supply Chain Governing Committee meetings held monthly with clear escalation process from VATs to Governing Committee and Governing Committee to System C-Suite.*



Key Tenants of the Governance Process

Commitment

Drives organizational commitment and sponsorship from the top down to adhere to decisions and process.

***Example:** Decisions will be consensus-driven but when necessary Governing Committee Chair will formulate final decision. Adherence and compliance to contracts or utilization protocols will be monitored and non-compliance presented to Committee to determine appropriate corrective action.*



Key Tenants of the Governance Process

Engagement

Ensures key stakeholders across facilities and will be fairly represented in the process. They will have their voices heard before decisions are made.

***Example:** Supply Chain Governing Committee will have equal clinical and non-clinical membership and representation across all facilities. Expectations of team members will be clearly defined in team charters and membership will evolve as necessary.*



Key Tenants of the Governance Process

Values

Empowers Value Analysis Teams and Initiative Champions and emphasizes accountability for teams to complete initiatives on defined schedules.

***Example:** There will be a clear expectation of adherence to Supply Chain Governing Committee decisions, and a process for and consequence of not implementing decisions fully in a timely manner.*



Key Tenants of the Governance Process

Accountability

Maintains focus on what is best for a health system and patients, rather than what is best for an individual hospital/facility.

***Example:** Product preference without clinical evidence supporting superior outcomes will not be a valid reason for lack of support for an initiative. Recruitment teams to consider formulary in cost/benefit analysis*



Key Tenants of the Governance Process

Standardization

Champions efforts to standardize both products and care protocols to deliver safe and effective care at the right cost. This can be accomplished through High Reliability Medicine or Clinical Effectiveness program involvement

Example: *Committee agrees to limit product categories to the minimum needed number of suppliers whenever possible to achieve more significant savings opportunities.*



What will be different tomorrow?

Leading Practices in Governance

A new Supply Chain model led by a Supply Chain Governance Committee establishes accountable leadership and enables strategies for sustaining savings.

Leading Practices in Governance


Lagging Practice

Culture



- Organization lack a **system-oriented** approach
- Facilities act in own financial interest at **expense of system**
- Physicians are recruited based on the culture of **“choice”** at some local hospitals


Leading Practices in Governance

	Leading Practice
Culture 	<ul style="list-style-type: none">▪ A system-oriented approach to sourcing and contracting and enforcement of product and service formularies and protocols will reduce cost and improve quality of care▪ Incentives need to be aligned primarily at system level, then to local facilities to strengthen commitment, values, and accountability▪ Aggressive savings goals can ONLY be achieved with active participation by physicians and steadfast support by local administrators


Leading Practices in Governance

	Examples
<p>Culture</p> 	<ul style="list-style-type: none">▪ Spinal vendors refuse to offer market competitive price across health system. Value Analysis Team recommends to Supply Chain Governing Committee to only use vendors that adhere to system-wide pricing.▪ System Supply Chain department will be responsible for negotiating on behalf of all facilities.▪ Value Analysis and Governing Committee leaders will be tasked with engaging key surgeons and eliciting support for initiative.


Leading Practices in Governance

	Lagging Practice
Structure 	<ul style="list-style-type: none">▪ No or limited existing governance structure▪ Communication of decisions at various levels not timely nor standardized▪ Inconsistent reporting hierarchy within facility procedural areas (e.g., some areas report to supply chain, others report site leadership)


Leading Practices in Governance

	Leading Practice
Structure 	<ul style="list-style-type: none">▪ Supply Chain Executive Council members meet regularly (monthly) to enable quick decisions when warranted and to better address standardization and utilization opportunities▪ Realignment of reporting structure for facility Supply Chain Management functions for continuity in implementing contracts▪ Expectations will be defined for timely communication of product, service, and technology decisions▪ Robust transparency between stakeholders enforced by system-generated transparency


Leading Practices in Governance

	Examples
Structure 	<ul style="list-style-type: none">▪ “Fast track” accelerated (<90 days) implementation timeline (basic commodity and other criteria). Small number of initiatives (PPI, purchased services) will take longer than 90 days and will adhere to strict project plan endorsed by Governing Committee▪ Several specific expectations of each key committee will be defined and tracked to ensure timely implementation and communication


Leading Practices in Governance

	Lagging Practice
Decision Rights 	<ul style="list-style-type: none">▪ Decisions and contract adherence are not strictly enforced or monitored▪ Decisions are not made based on clinical evidence but rather on local preferences▪ No clear decision escalation procedures

Leading Practices in Governance

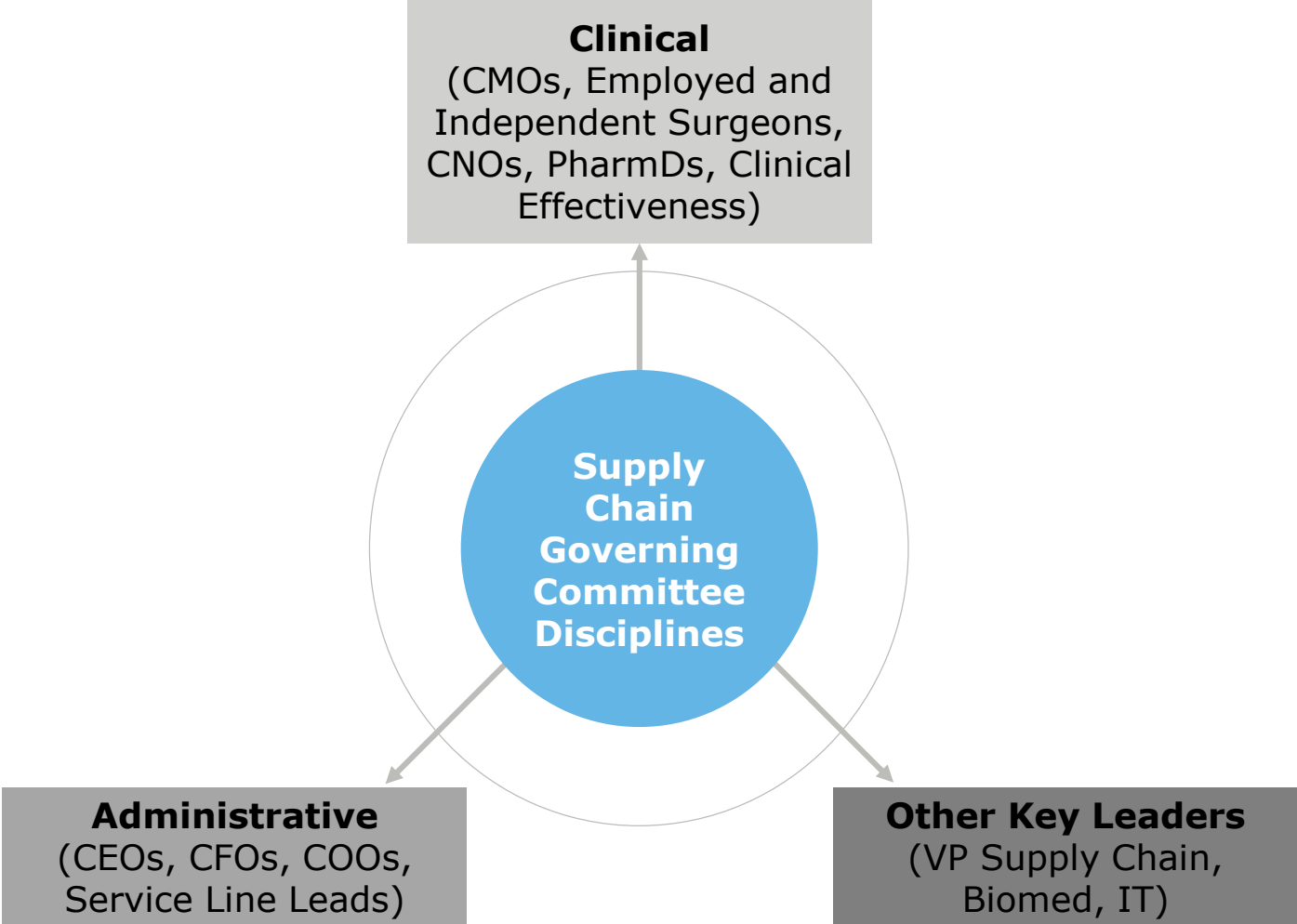
	Leading Practice
Decision Rights 	<ul style="list-style-type: none">▪ Value Analysis Teams will base all decisions on clinical evidence rather than local preferences▪ Value Analysis Teams will include appropriate representation from all facilities and be empowered to make decisions▪ Clear decision escalation procedures will be followed▪ Spend will be monitored after decision for adherence to Supply Chain Governing Committee decisions and each facility will have designated accountable parties

Leading Practices in Governance

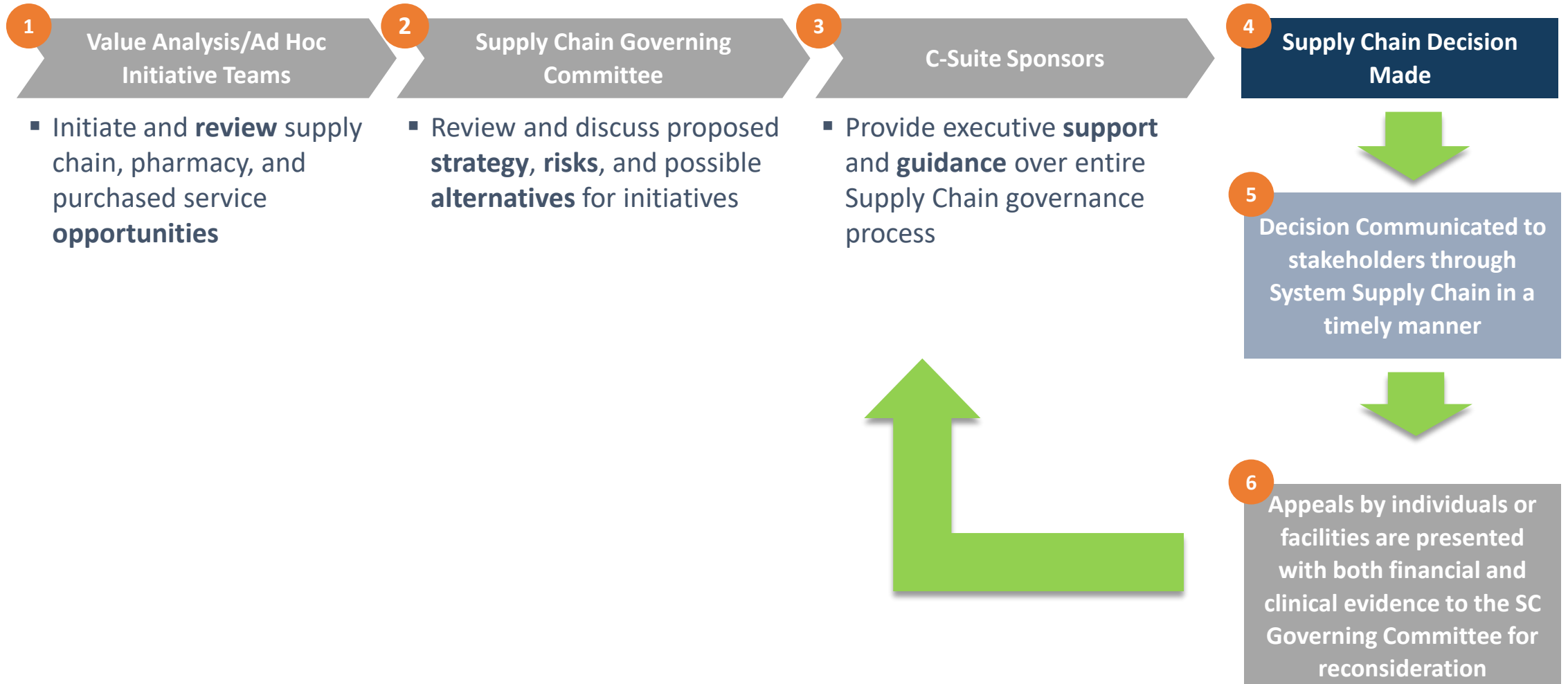
	Examples
Decision Rights 	<ul style="list-style-type: none">▪ The Radiology/Cardiology Value Analysis Team recommends a 90% committed contract to Bracco for contrast media and the Council agrees. Two outspoken doctors at one facility strongly prefer GE and refuse to comply. This is escalated to the Supply Chain Governing Committee.▪ Contract compliance will be reported out on a regular basis to the Governing Committee to identify opportunities to strengthen commitment to Committee-driven product decisions across the system.

Sample Supply Chain Governing Committee

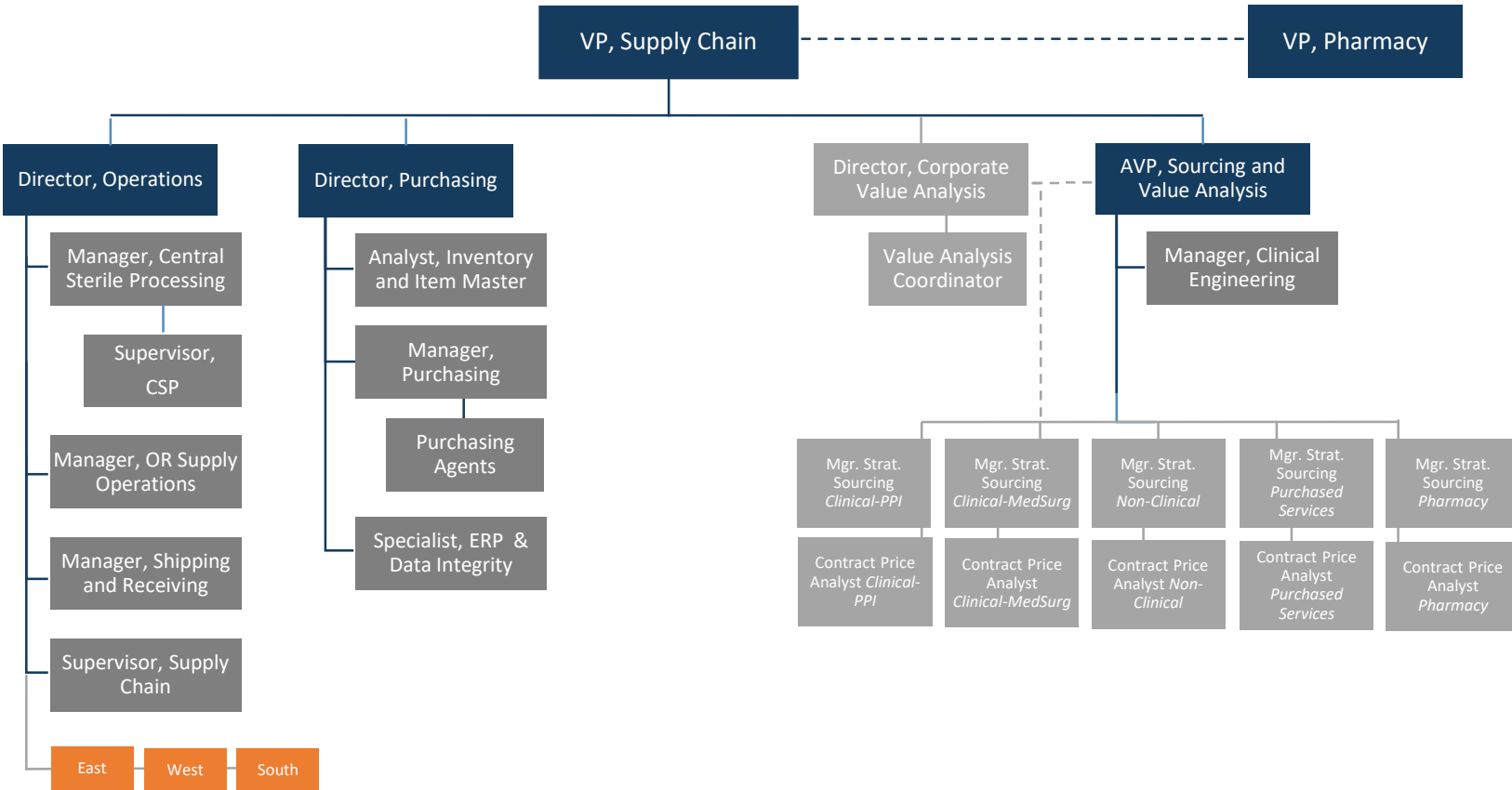
Determining the composition of the Supply Chain Governing Committee is critical to providing oversight and direction to achieve savings goals



Process Overview for SC Governing Committee



Sample Supply Chain Organizational Structure



— New/realigned reporting line
 ■ New/realigned position
 ■ Site-specific supply chain lead/manager

Leading practices not often employed

- Elevate value analysis to a Director position
- Shift resources to Value Analysis (often from the contracting team)
- Hire Strategic Sourcing managers instead of Contract Administrators

Future State Role Transition

Strategic Sourcing Managers Replace Contract Administrators

Contract Administrator <i>(Current)</i>	Strategic Sourcing Manager <i>(Future)</i>
<i>Largely Transactional</i>	<i>Strategically Focused</i>

Strategic Sourcing Manager: New Skills Required

- Advanced analytical and negotiation skills
- Communication, presentation, and project management skills
- Ability to frame compelling business cases for product selection and standardization in a broader context of clinical outcomes, service line profitability, and deeper partnerships with suppliers and manufacturers
- Ability to influence peers and stakeholders
- Ability to work effectively with senior management, build and maintain strategic alliances and other high-level contractual relationships

Improving your governance structure can create efficiencies for all stakeholders, including supplier partners. Communicate strategy, changes and timelines often and clearly.

Shared Pain Points Addressed by Better Governance

Provider Pain Points

- Internal Inefficiency*
- Need for Greater Insights*
- Little Tracking and Reporting*
- Need for Greater Aggregation*

Shared insights

Shared Data

Shared time and monetary savings

Supplier Pain Points

- Need for Greater Access*
- Opaque Provider Budgeting Process*
- Inefficient Use of Resources*

Summary & Key Take Away

Providers need to continue to strive to better organize their own processes and governance

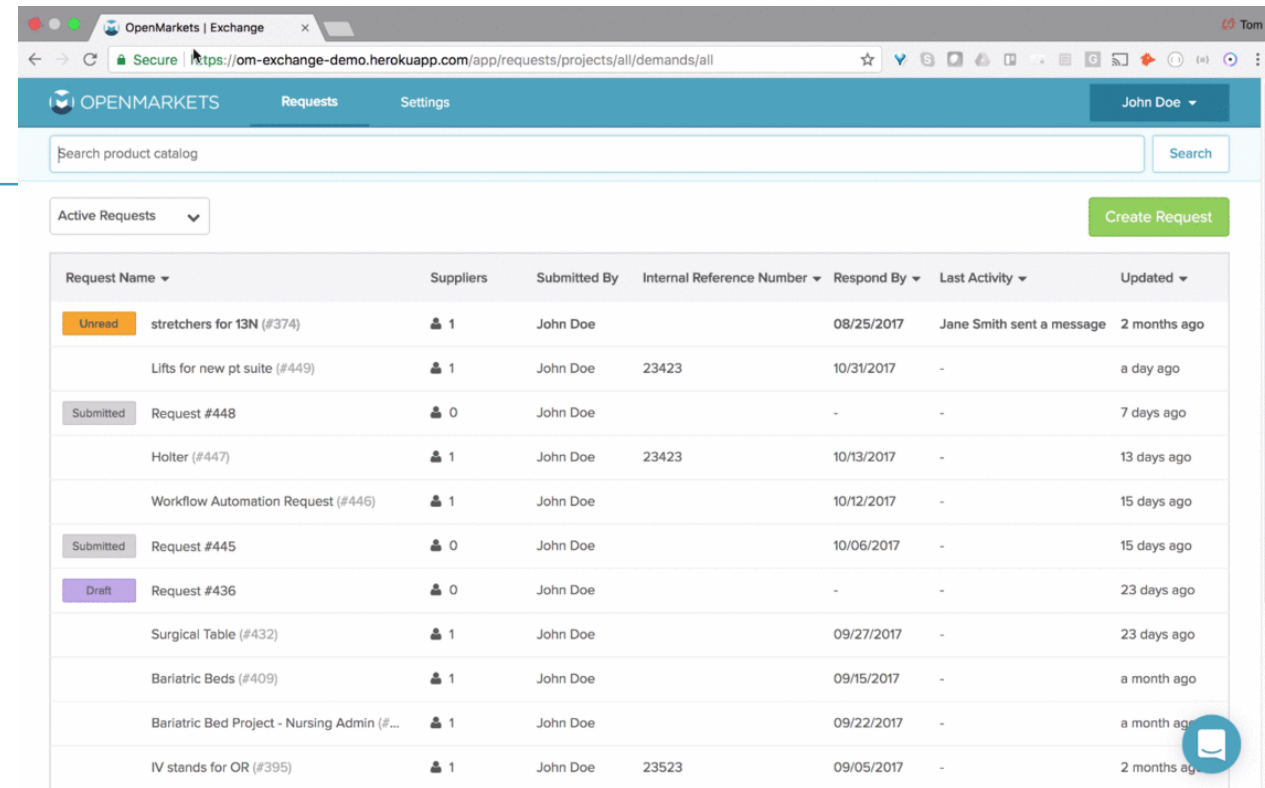
Demonstrate and demand transparency

A better organizational structure and capital process can help you buy surgical tables faster and for less

Thank You

Deloitte.

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The screenshot shows a web browser window with the URL <https://om-exchange-demo.herokuapp.com/app/requests/projects/all/demands/all>. The page header includes the OpenMarkets logo, navigation tabs for 'Requests' and 'Settings', and a user profile for 'John Doe'. A search bar for the product catalog is visible. Below the search bar, there is a dropdown menu for 'Active Requests' and a green 'Create Request' button. The main content is a table of requests with the following columns: Request Name, Suppliers, Submitted By, Internal Reference Number, Respond By, Last Activity, and Updated. The table contains 12 rows of data, with the first row highlighted as 'Unread'.

Request Name	Suppliers	Submitted By	Internal Reference Number	Respond By	Last Activity	Updated
Unread stretchers for 13N (#374)	1	John Doe		08/25/2017	Jane Smith sent a message	2 months ago
Lifts for new pt suite (#449)	1	John Doe	23423	10/31/2017	-	a day ago
Submitted Request #448	0	John Doe		-	-	7 days ago
Holter (#447)	1	John Doe	23423	10/13/2017	-	13 days ago
Workflow Automation Request (#446)	1	John Doe		10/12/2017	-	15 days ago
Submitted Request #445	0	John Doe		10/06/2017	-	15 days ago
Draft Request #436	0	John Doe		-	-	23 days ago
Surgical Table (#432)	1	John Doe		09/27/2017	-	23 days ago
Bariatric Beds (#409)	1	John Doe		09/15/2017	-	a month ago
Bariatric Bed Project - Nursing Admin (#...	1	John Doe		09/22/2017	-	a month ago
IV stands for OR (#395)	1	John Doe	23523	09/05/2017	-	2 months ago



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