



New England Society For Healthcare Materials Management

34th Annual Dinner Meeting

An Examination of the 2008 Healthcare Executive Survey On Supply Chain Management

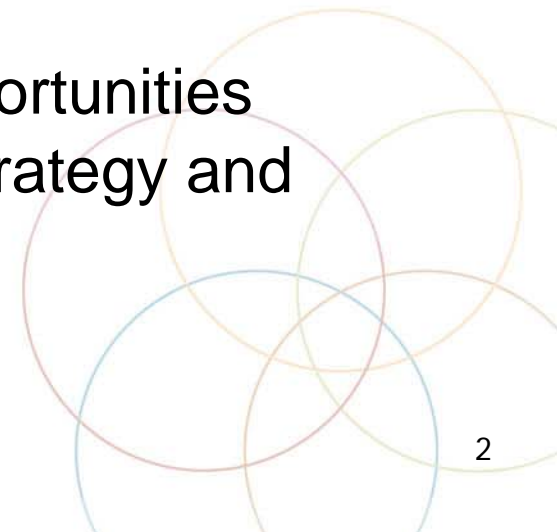
October 22, 2008
Randolph, MA

Presented by
Jamie C. Kowalski MBA, FACHE, FAHRMM
Vice President, Business Development
Owens & Minor, Inc.



Survey Objectives

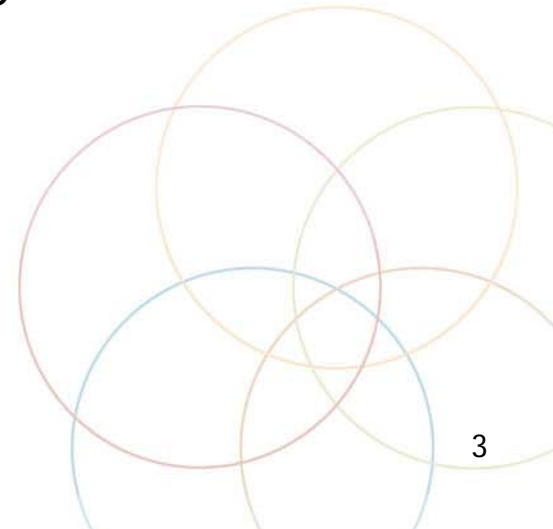
- Build upon findings of 2007 Survey of C's
- Understand and compare perspectives of C-suite, Supply Chain Execs.
- Facilitate dialogue between both groups; optimizing supply chain performance.
- Identify baseline status and opportunities that lead to successful supply chain strategy and action.
- Share insights





Survey Team

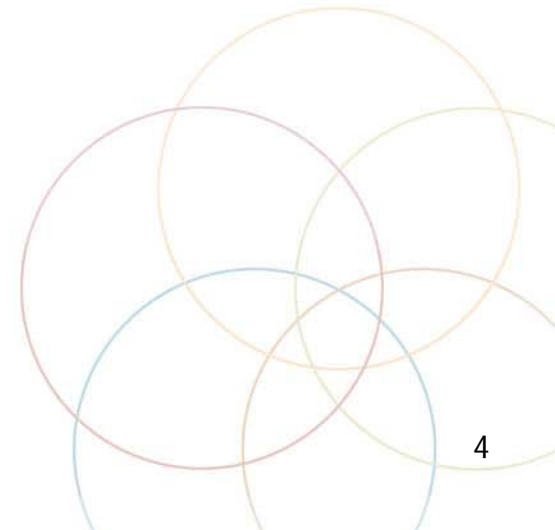
- Owens & Minor
Sponsor, Author
- AHRMM
Co-Author, Contributor,
Provider of Membership List & Presentation Venue
- AHA
Provider of Membership List & Presentation Venue
- Marquette University
Center for Supply Chain Management
Survey Development & Production





Respondent Profile

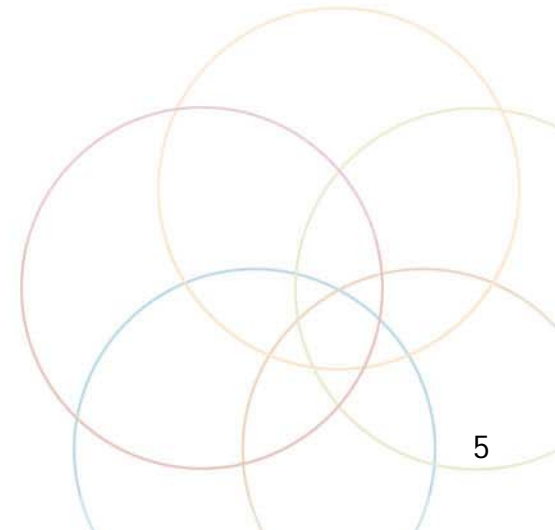
- 250 Total Respondents
- 30% C-Suite Execs
70% Supply Chain Execs
- **Diverse Demographics**
 - Large, Medium, Small Organizations
 - Urban, Rural, Suburban
 - Not-for-Profit, For-Profit
 - Single Hospital, Multi-Hospital, IDN





Inspiration for '07 & '08 Surveys

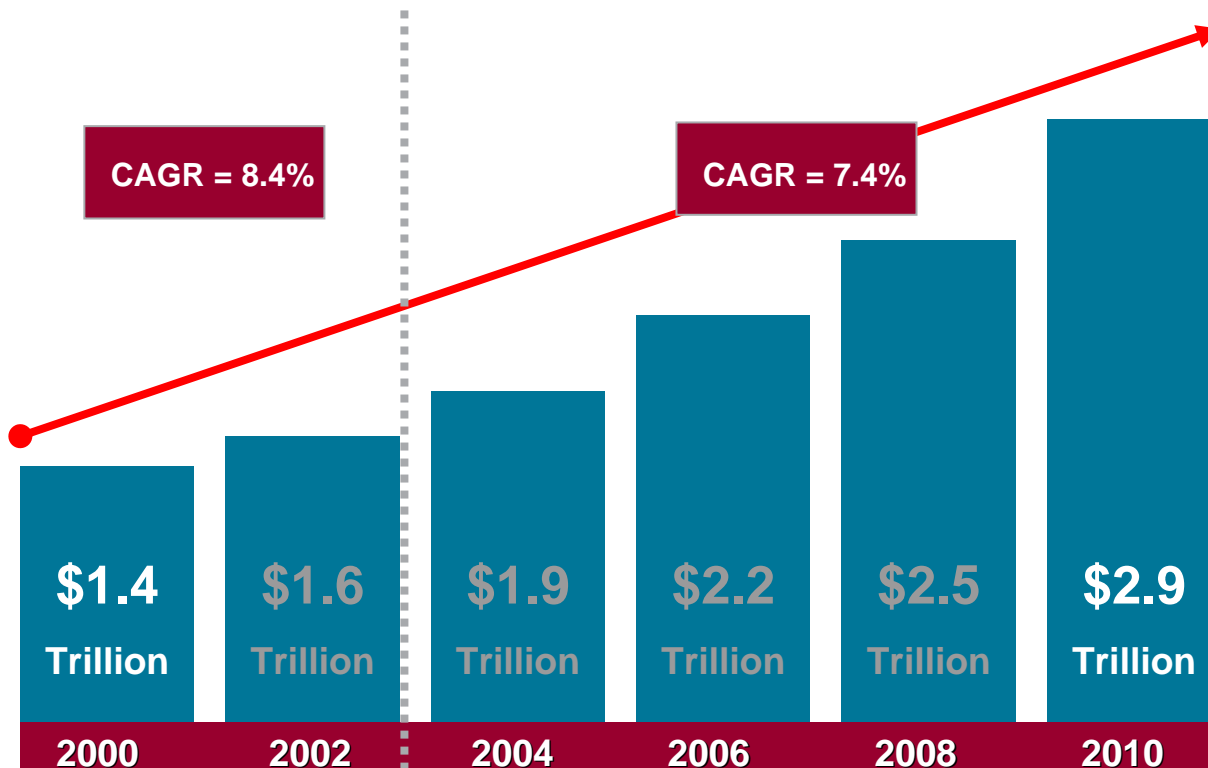
- Compelling healthcare trend analysis by industry sources (e.g., “FutureScan 2006 –11”)
- Observed Challenges and Threats to healthcare providers, engaging executives
- Business Issues with solutions linked to Strategic Supply Chain Management





Severe Upward Growth Trend

U.S. National Healthcare Expenditures



By 2010:

\$2.9 Trillion =
Overall Healthcare
Expenditures

18% of GDP =
Healthcare Expense

24% U.S.
Population:
Age 60 & Above

Source: Center for Medicare & Medicaid Services; industry reporting; Pipal Research

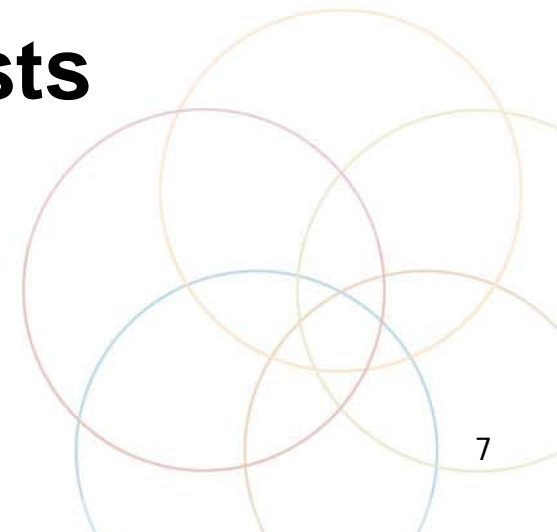


Consumables Expenses Growing Fastest

Consumable Products Expense
Increasing 64% faster
than ...

- **Salary Expense**
- **Benefits Expense**
- **Total Operating Costs**

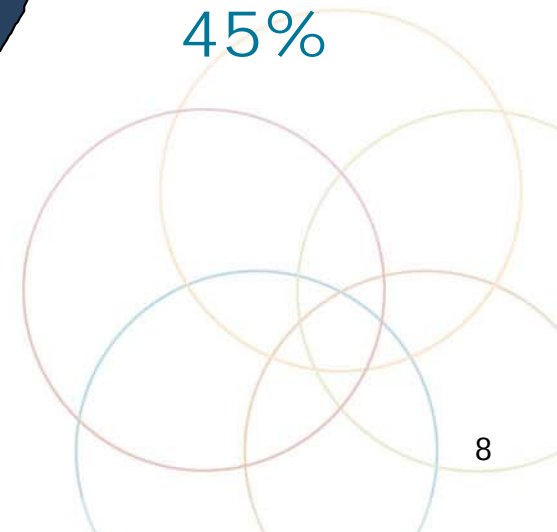
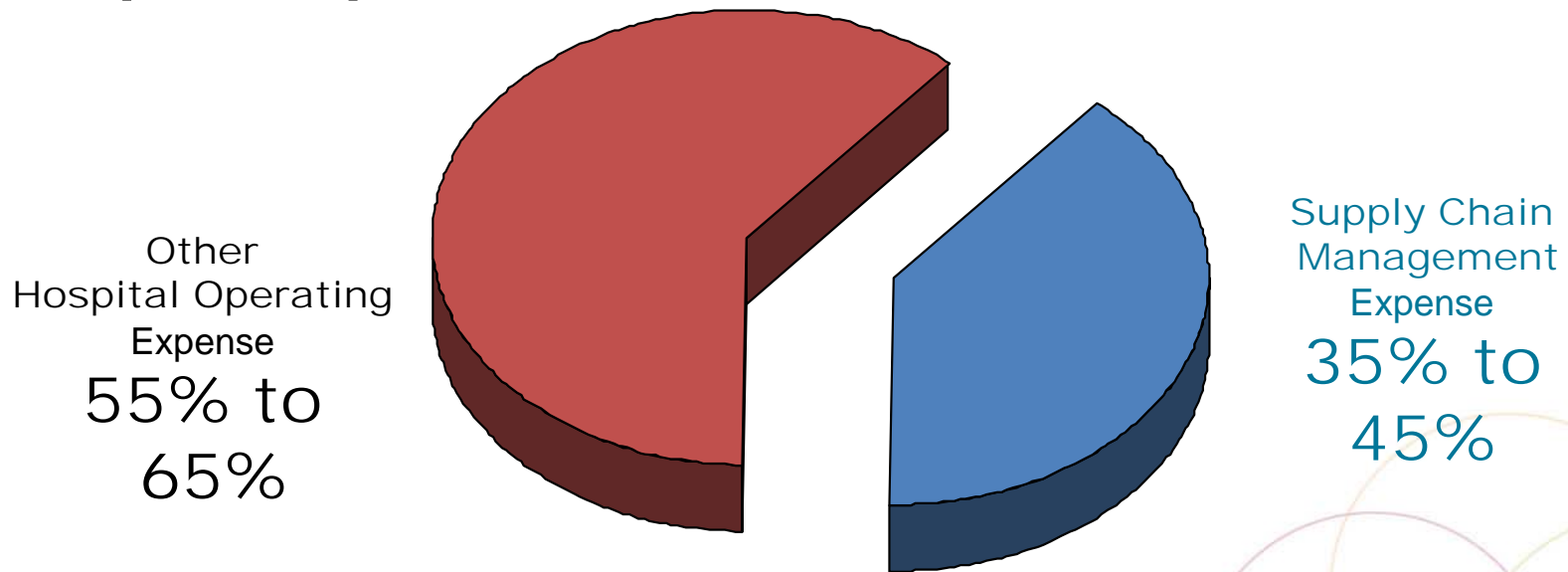
Source: The Advisory Board Company, 2005 – Expense Growth Rates 2002-04





Supply Chain Expense; From A Large Slice of the Pie...

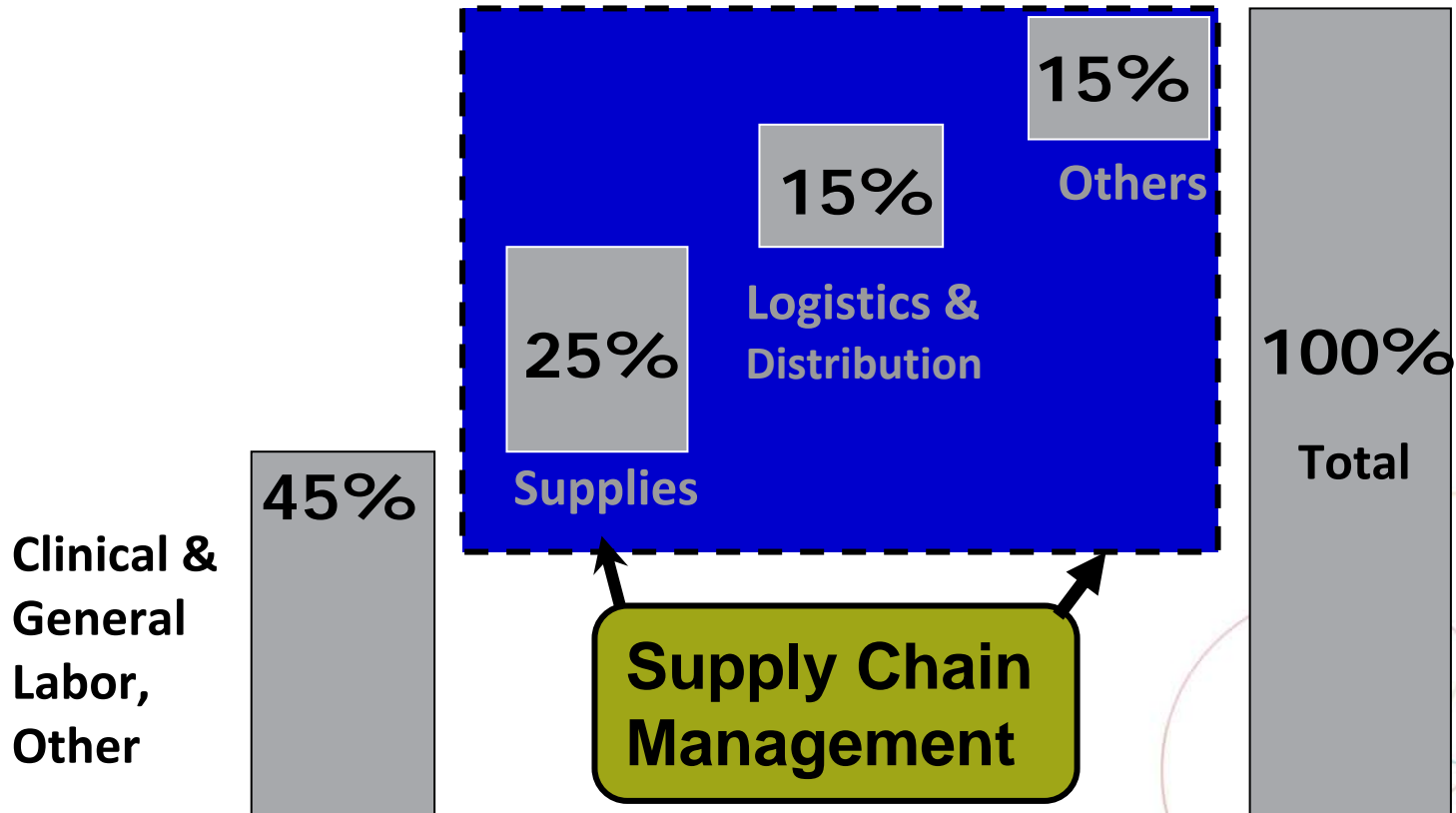
Total Supply Chain Expense as a Percentage of Total Hospital Expense





...To a *Tipping Point* Slice; > 50%

Total Cost Incurred by Hospitals

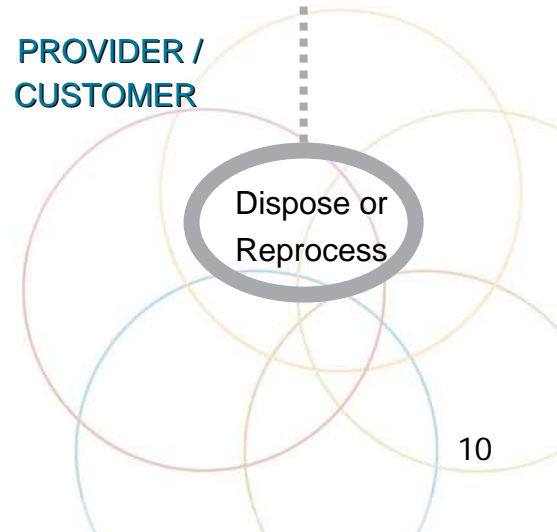
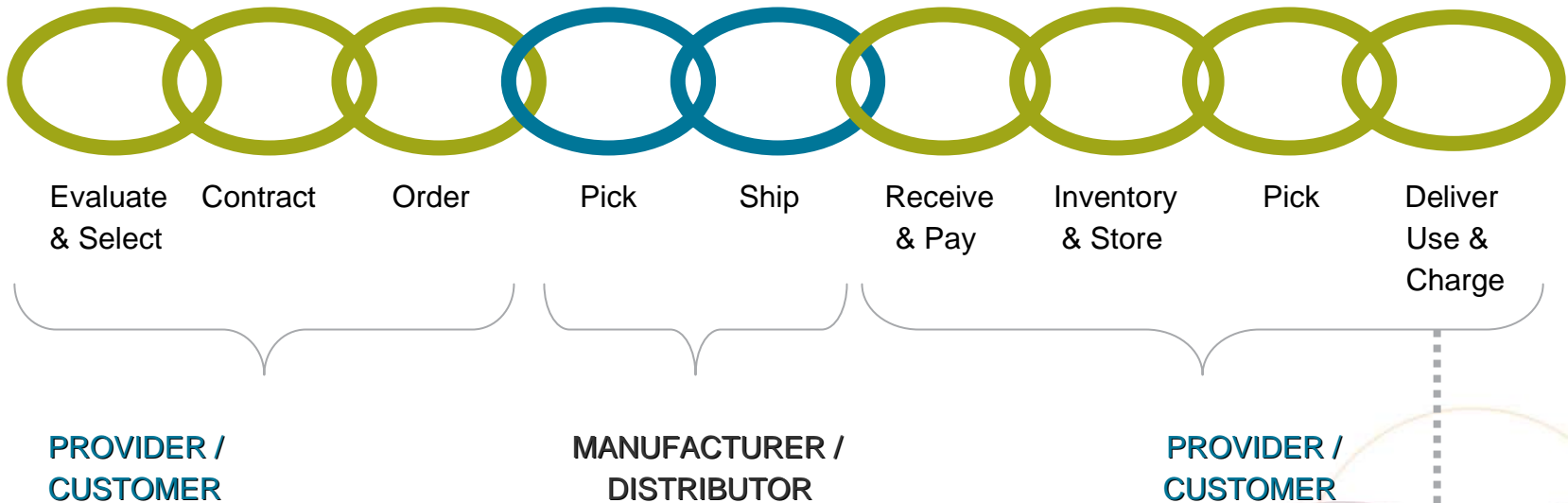


* Figures based on HFMA estimates. Labor cost includes salaries, wages and benefits based on average of leading hospitals in the U.S. and Others is inclusive of profits to the hospitals. Source: S&P Industry Surveys: Healthcare Facilities; HFMA; industry reporting; Pipal Research analysis.



Breadth, Impact of Total Supply Chain Not Universally Recognized

Comprehensive, Interdependent, Complex





'08: Provider Challenges

MAJOR CHALLENGES

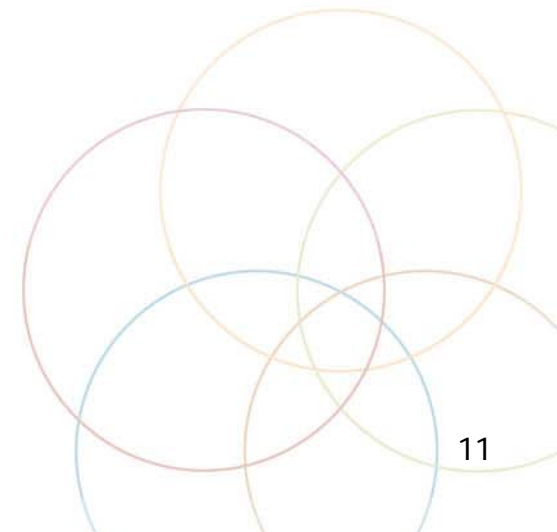
- Clinical performance and outcomes/patient safety
- **O**verall operating costs
- **Q**ualified staff – particularly nurses
- Increasing margins

C-Suite

SC Execs

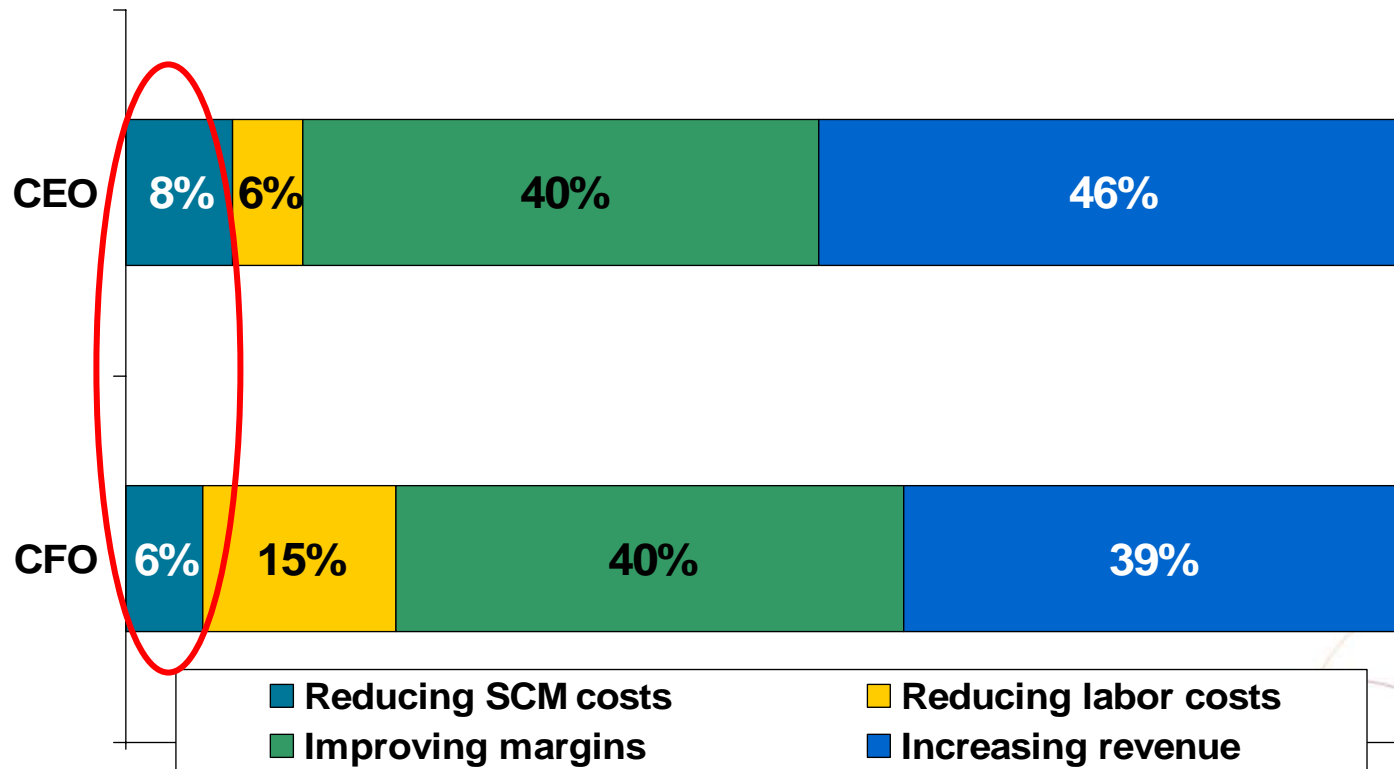
1	1
2	2
3	4
4	3

OTHER CHALLENGES





'07: Improving Profitability – Revenue, Margin Top Choices



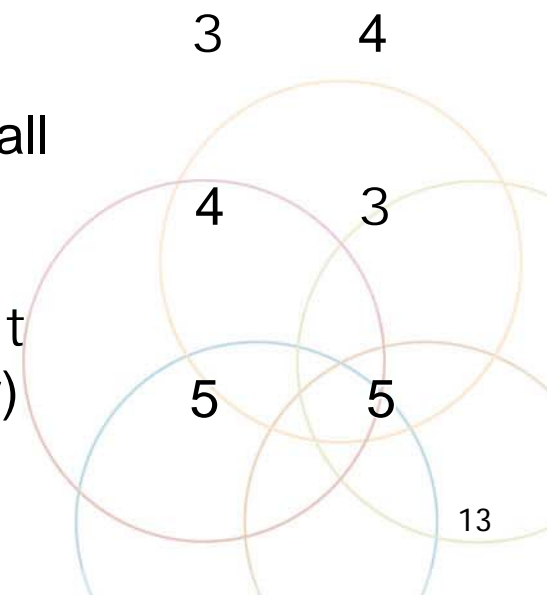
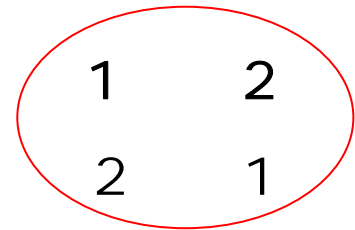


'08: Improving Profitability – Top Strategies; Not SC

WAYS to IMPROVE FINANCIAL PERFORMANCE

C-Suite
SC Execs

- Increasing revenue
- Improving margins via expense reduction
- Reducing labor costs
- Reducing total spending on supplies and all consumables
- Reducing total supply chain management expenses (e.g., infrastructure, inventory, labor)





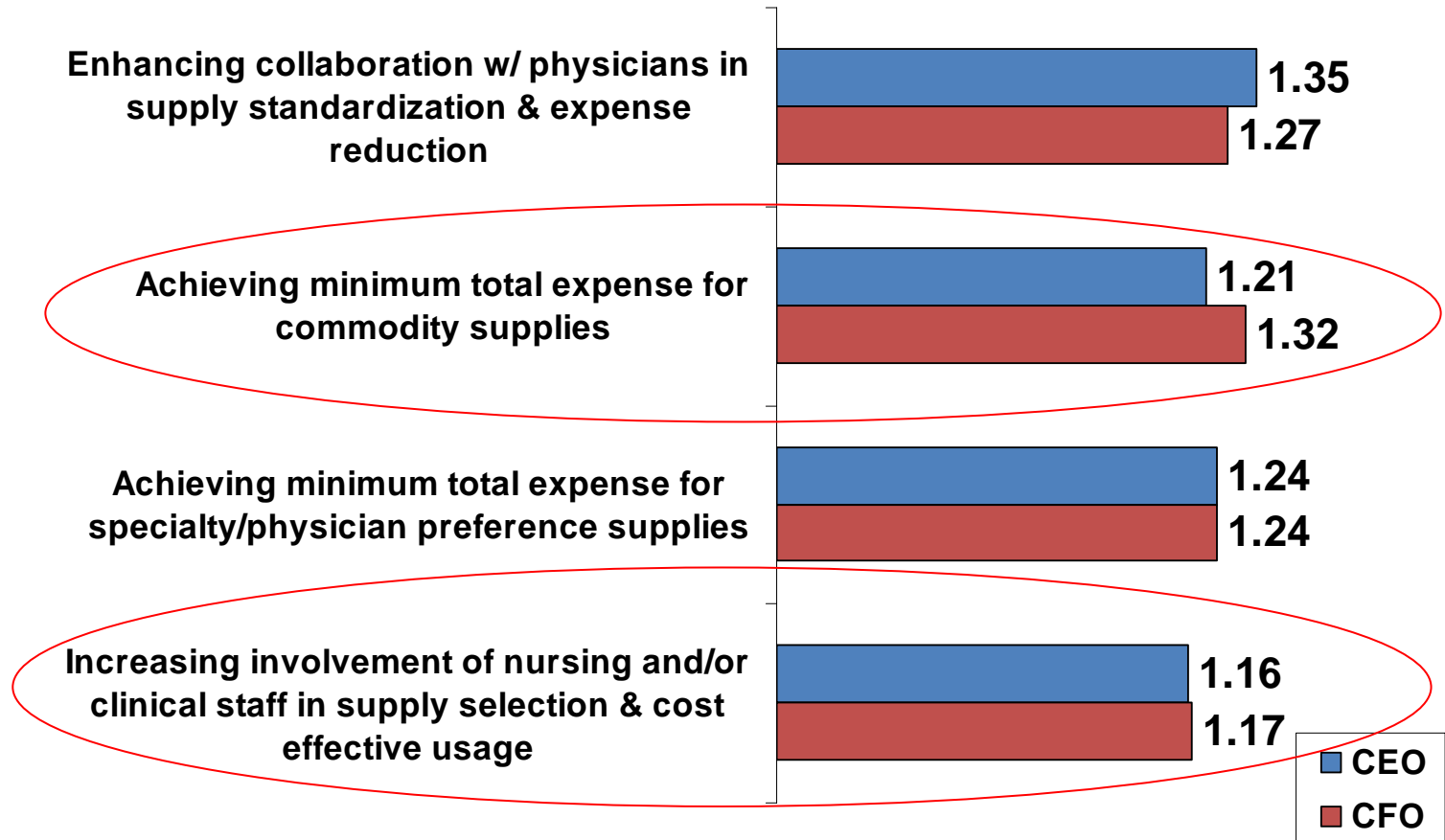
Total Supply Chain Improves Bottom Line...Best Choice?

- **Example:** Average, private sector, not-for-profit hospital with **margins <1%**
- **Objective:** Improve bottom line by **\$500K**
- **Pick Most Feasible Option:**
 - Reduce supply chain expense by **\$500K**
 - Increase revenue by **\$50 million**

Source: HFM Magazine, 2008



07: Profitability Via SC; Collaboration, Expense Management





'08: Improving Profitability Via Supply Chain – Collaboration

SUPPLY CHAIN APPROACHES CONSIDERED or TAKEN to IMPROVE PROFITABILITY

C-Suite
SC Execs

- Enhancing collaboration with physicians in supply standardization and expense reduction
- Identifying appropriate metrics to benchmark the organization's supply chain performance
- Decreasing direct/off-contract ordering
- Initiating a value analysis process
- Achieving minimum total expense for specialty/physician preference supplies (e.g., stents)

1 1

2

5

3

6

7

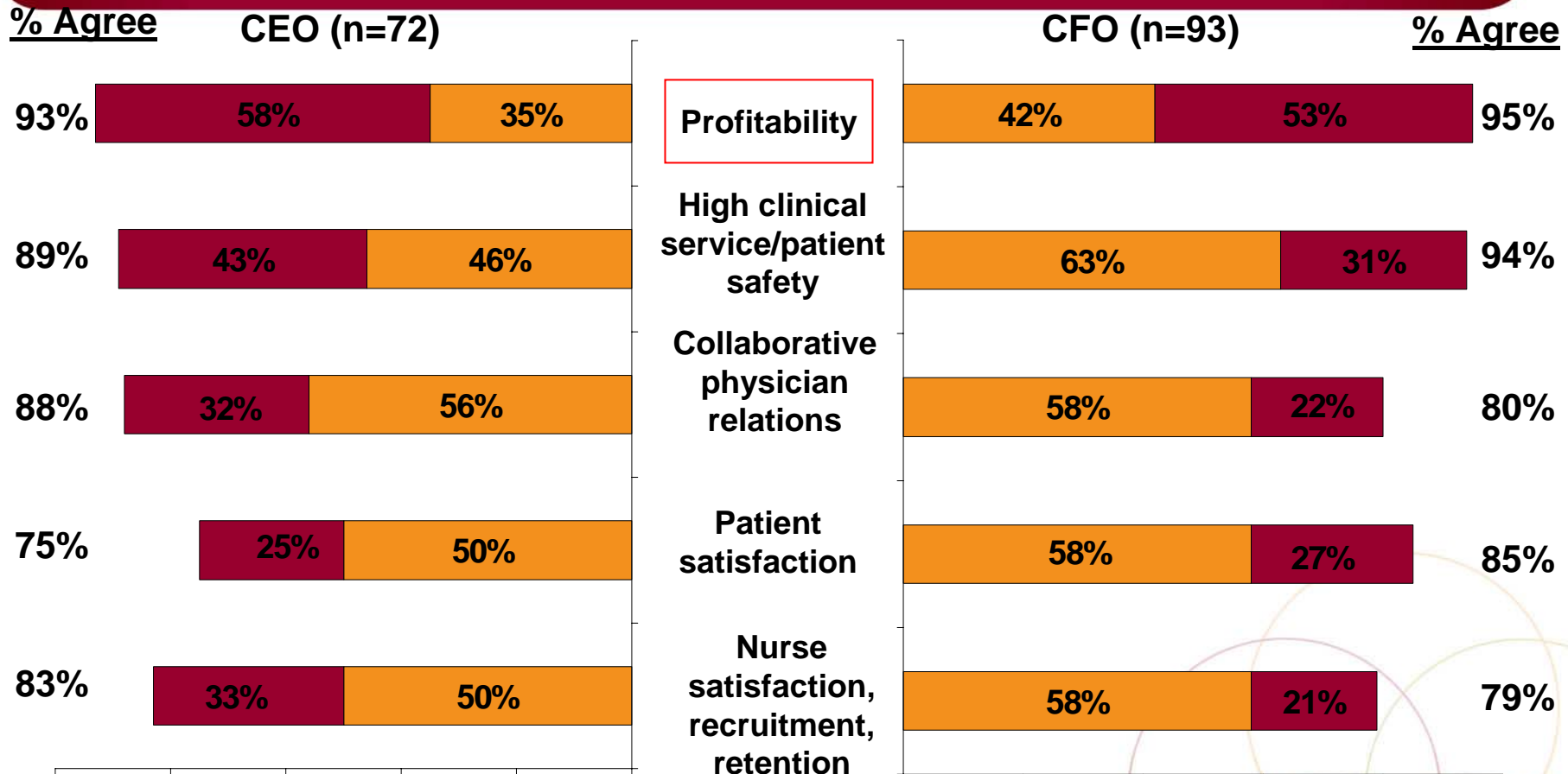
2

6

3



'07: Supply Chain Performance Impact on Key Provider Issues



Somewhat agree
 Strongly agree

→ Indicates a significant difference at the 95% confidence level.



'08: Supply Chain – Impact on Expense; Varied Views

MOST IMPACT on SUPPLY CHAIN EXPENSE

C-Suite
SC Execs

- Degree of product standardization
- Quality of purchasing contracts (pricing & terms)
- Product pricing
- Efficiency of supply chain processes
- Physician engagement and cooperation with product selection and management
- Supply utilization and cost per procedure

1 2

2 7

3 4

4 5

5 1

6 3

18

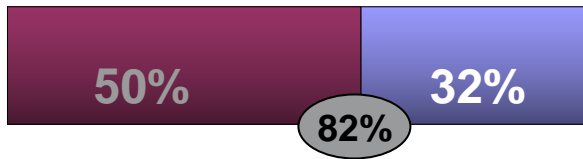
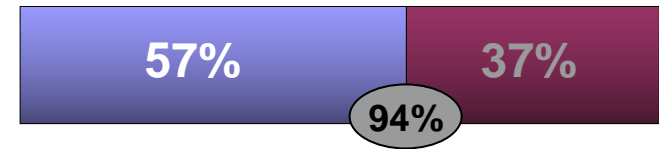
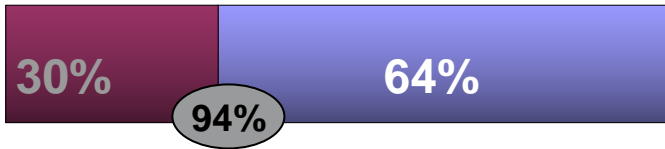


'08: Supply Chain Impact On Providers Top Issues

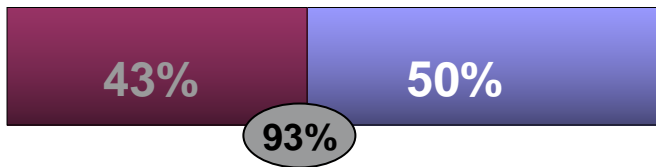
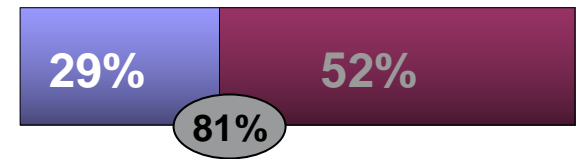
SC Leaders

Executives

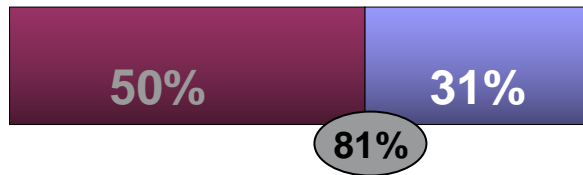
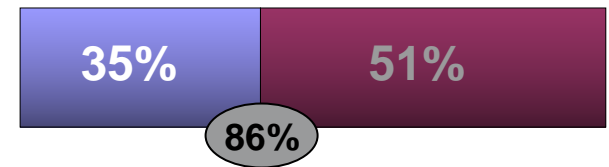
Higher margins



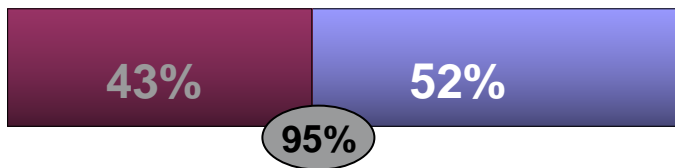
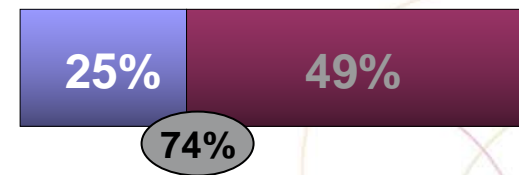
Nurse Satisfaction



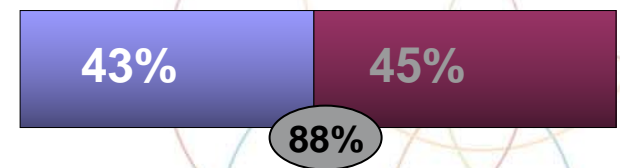
Collaborative physician relations



Patient Satisfaction



Quality Care



Strongly Agree



Agree



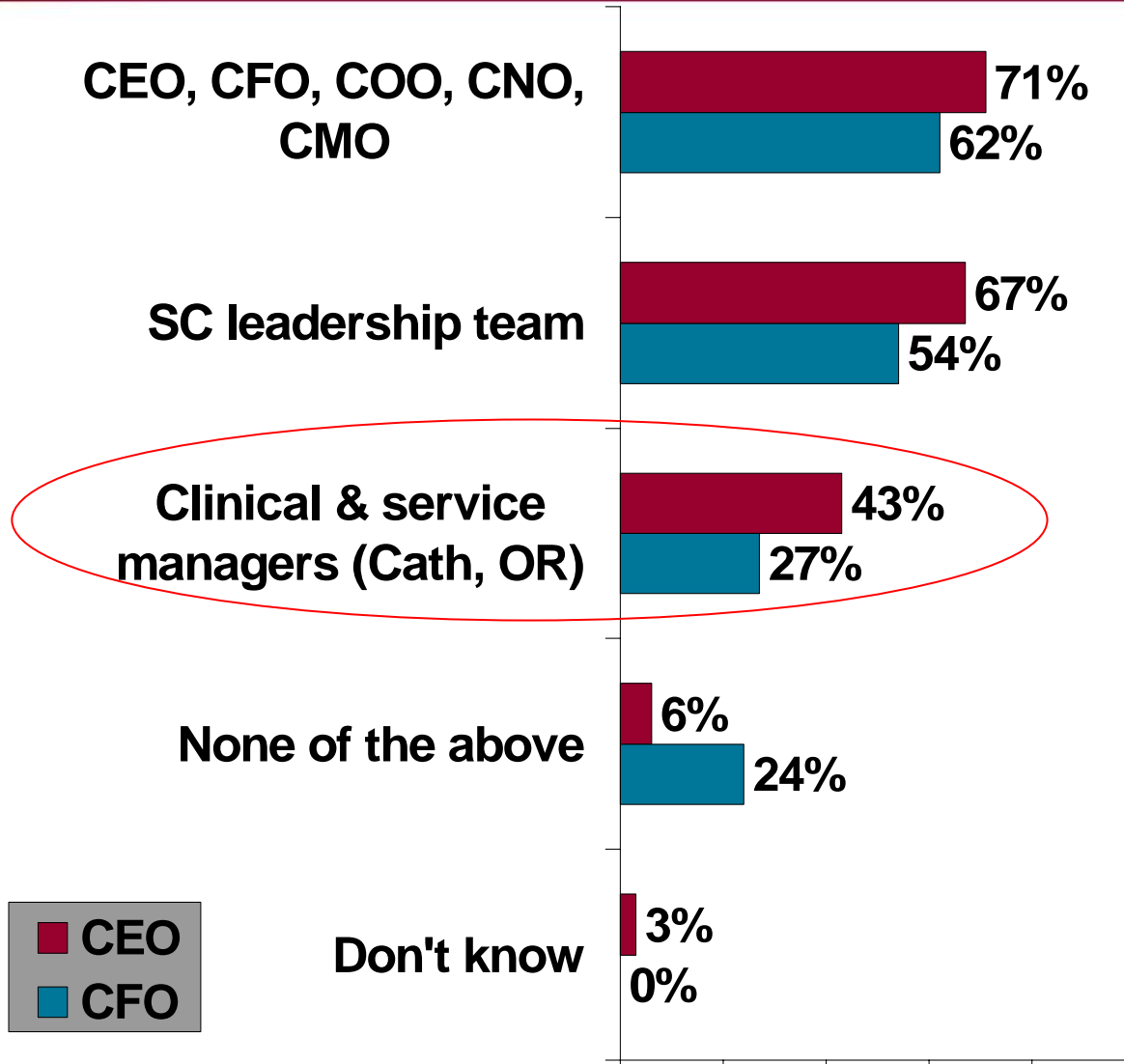
'08: Accountability Not Aligned

- **Supply Spending/Expense**
 - C's say: Clinical Leaders **57%**; SCLs 25%
 - SCLs say: Clinical Leaders **28%**; SCLs 57%

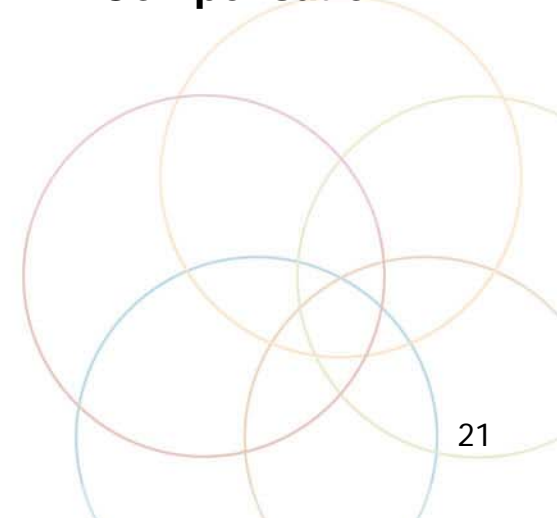
- **Total Supply Chain Expense**
 - C's say: Clinical Leaders 22%; SCLs 48%
 - SCLs say: Clinical Leaders 23%; SCLs 63%



'07: Clinical Departments Lack Incentive Compensation

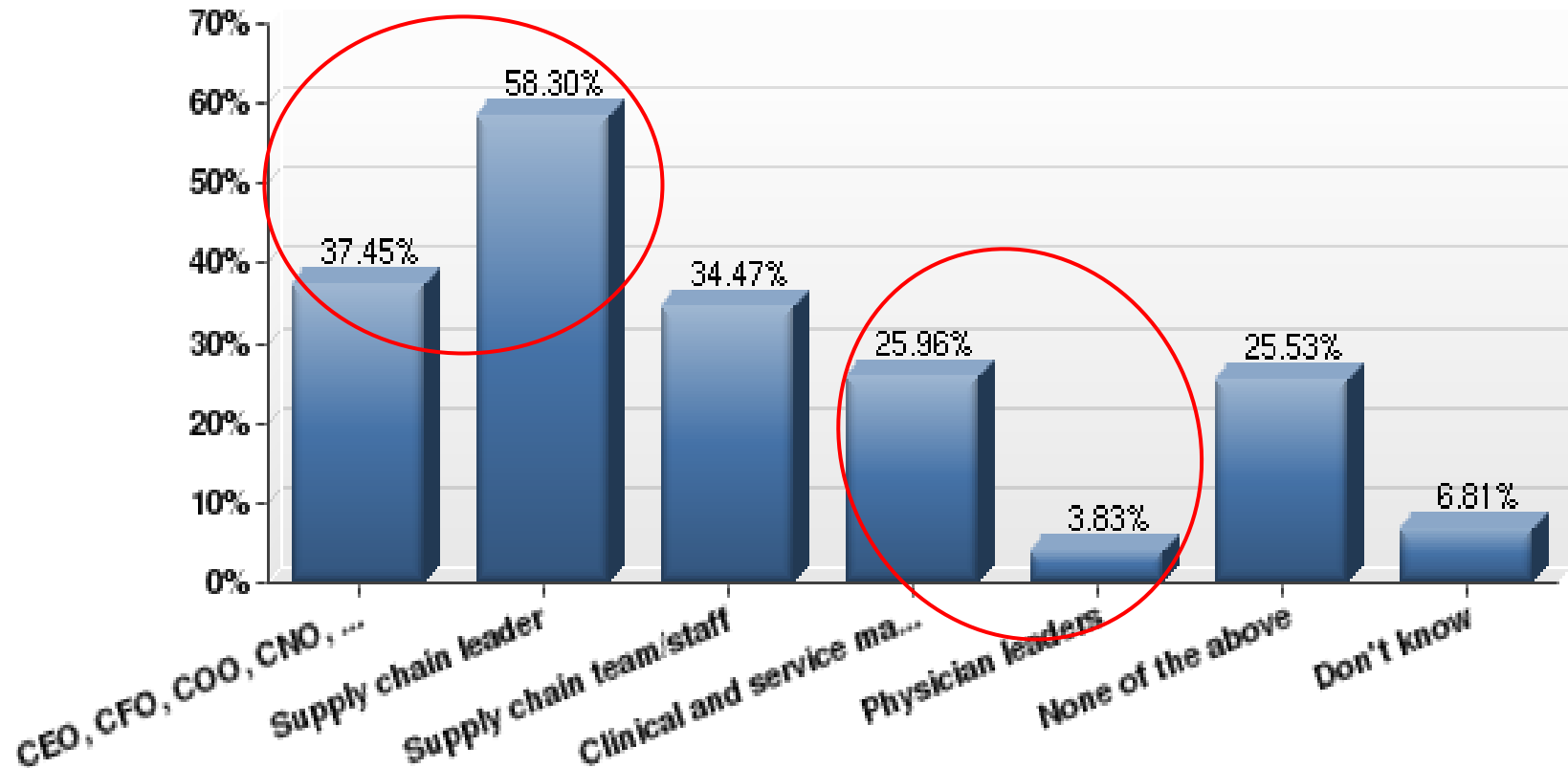


% Where Supply Cost Reduction is a Significant Part of Performance Metrics and Annual Incentive Compensation



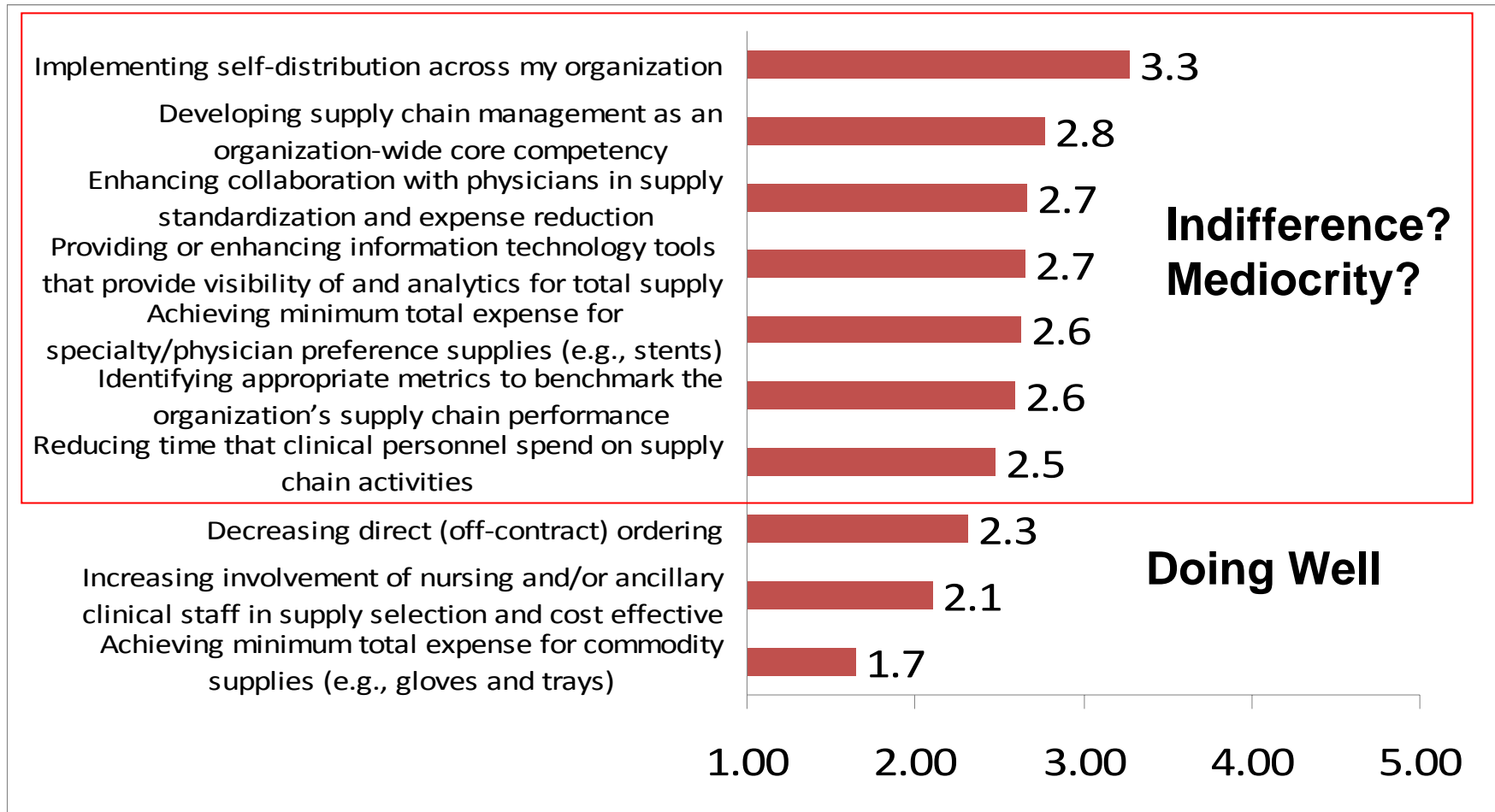


'08: Clinical Service Managers Still Lack Incentive Comp





'08: Rating Effectiveness – Executing SC Initiatives



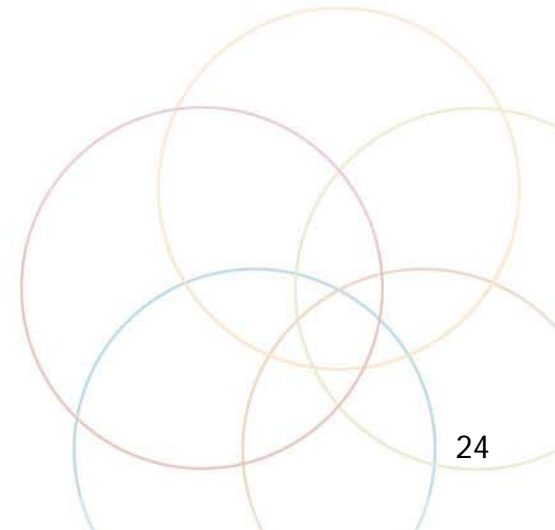
1 = Very Effective, 3 = Neither Effective/Ineffective, 5 = Very Ineffective



'08: What's Working Best? Purchasing

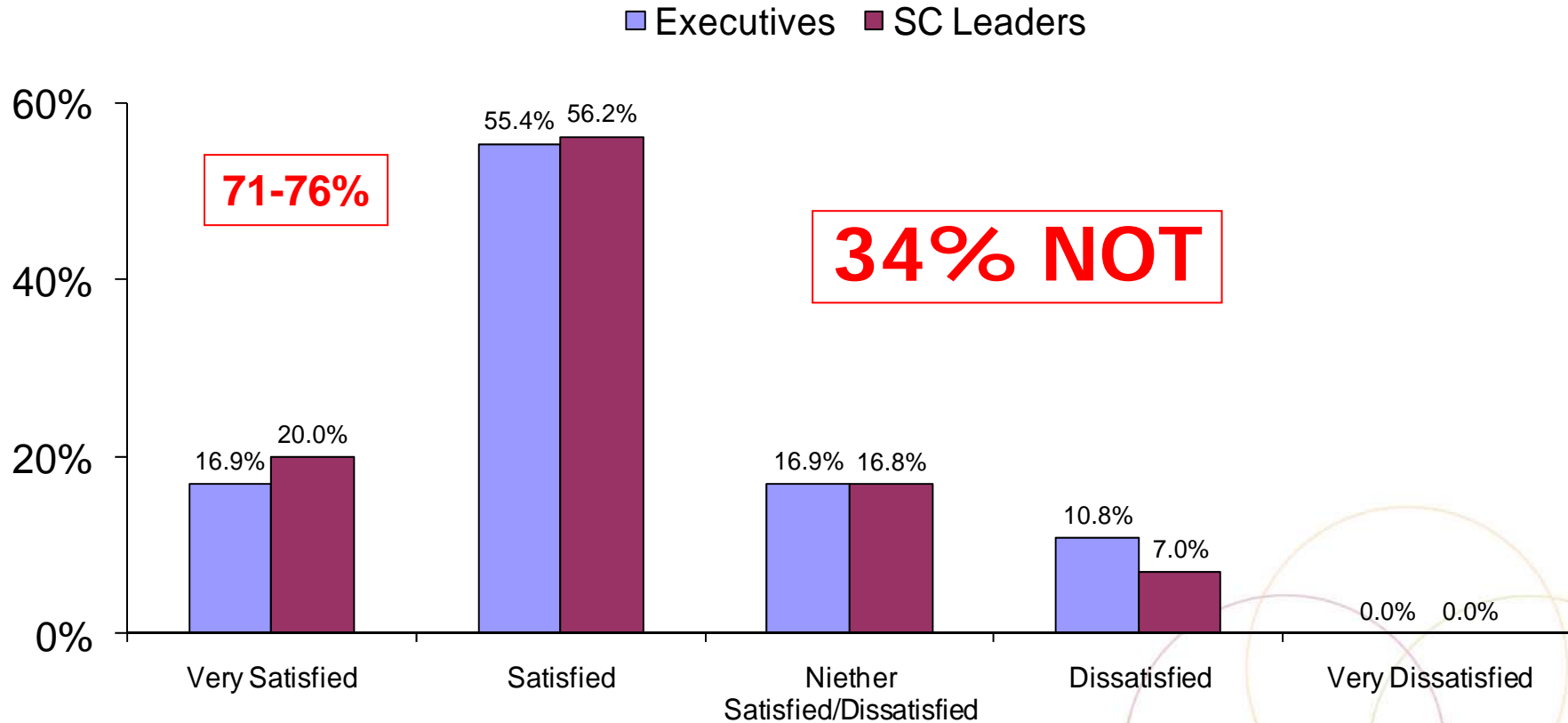
RANKED PERFORMANCE of SUPPLY CHAIN COMPONENTS

1. Contracting / Competitive Pricing
2. Purchasing / Buying
3. GPO Relationship
4. Managing Supply Evaluation & Analysis (Value Analysis)
5. Managing Annual Consumption & Total Expense
6. Managing Storeroom Inventory
7. Managing Clinical Specialty Department Inventory
8. Internal Supply Distribution
9. Distribution Partner Relationship
10. Revenue Capture
11. Reprocessing
12. Internal Transporting of Supplies



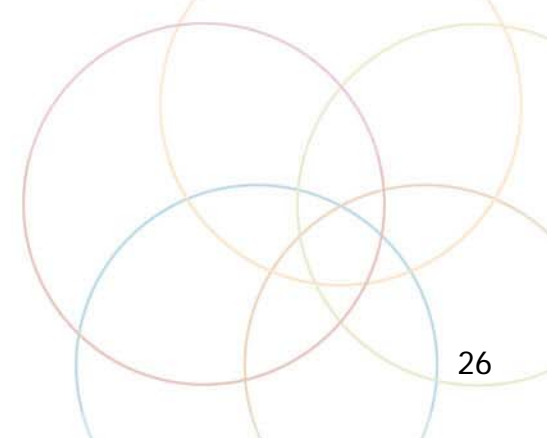
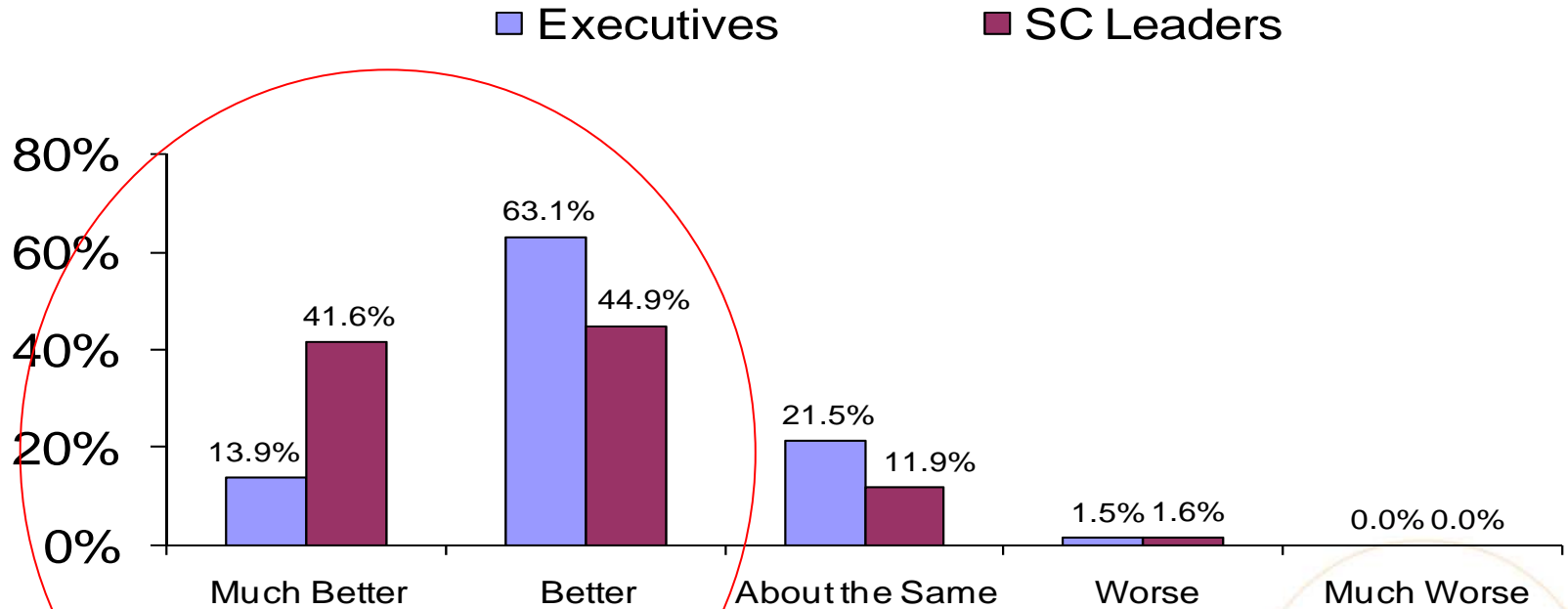


"08: Operations Performance; "Satisfactory" – Agreement





'08: SC Leaders See More Ops Improvement Last 2 yrs Than Execs





'07: Agree Overall Satisfaction with Performance is High

PERFORMANCE & LEADERSHIP RATINGS

CEOs

CFOs

- Performance better

98% 90%
"Performing Better"

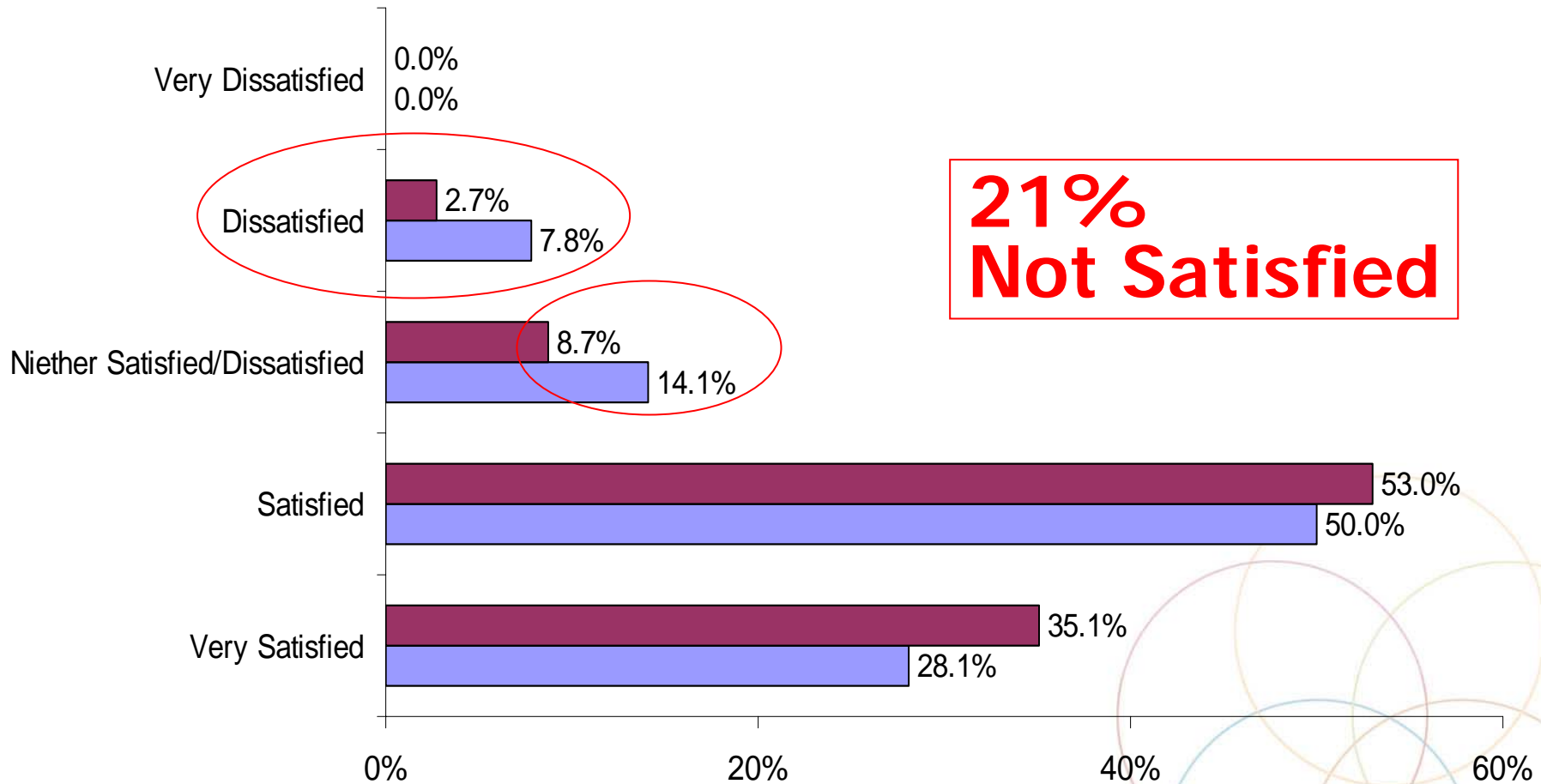
- Overall leadership performance improving

96% 95%
"Seeing Improvement"



'08: Perceptions of SC Leaders; C's More Critical But Satisfied

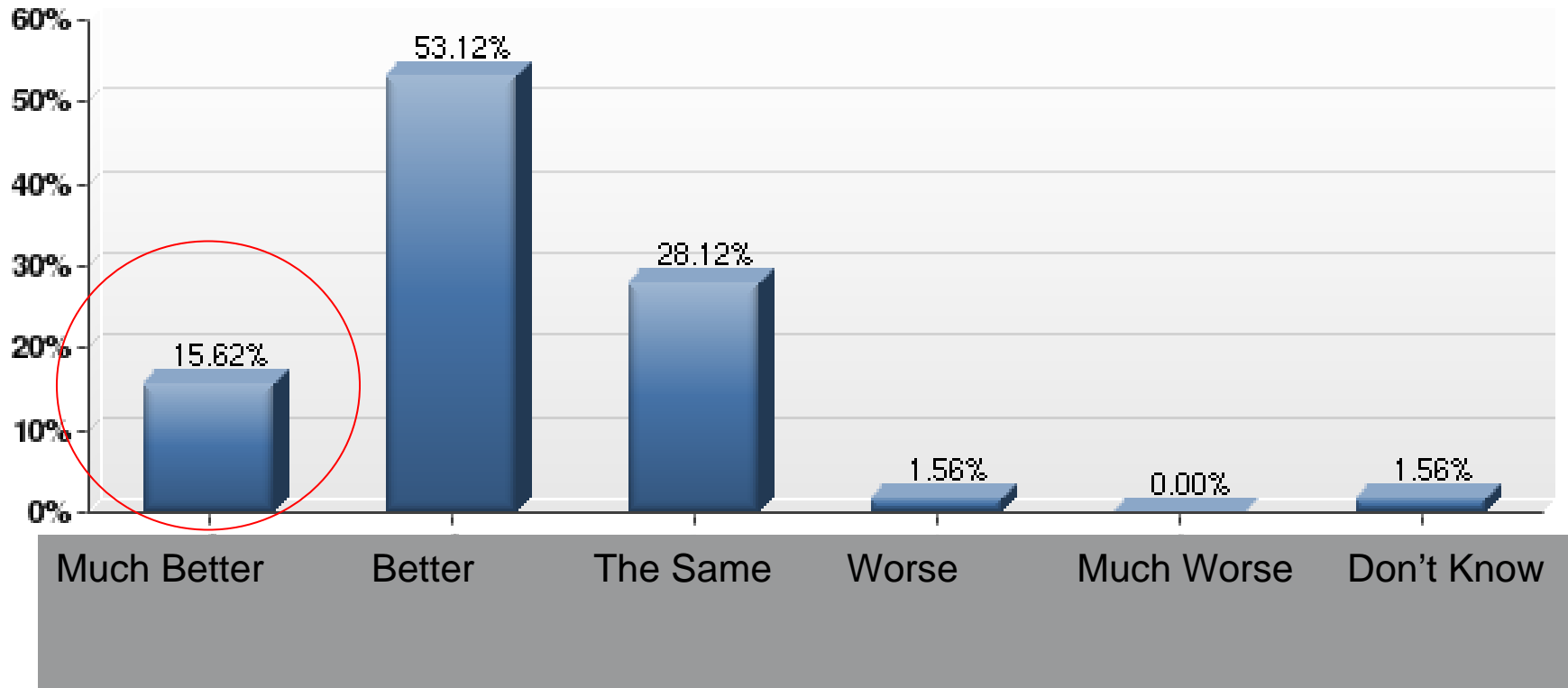
Executive Rating SC Leader Perception



21%
Not Satisfied



'08: Executives - Improvement with SC Leader vs. 2 Years Ago

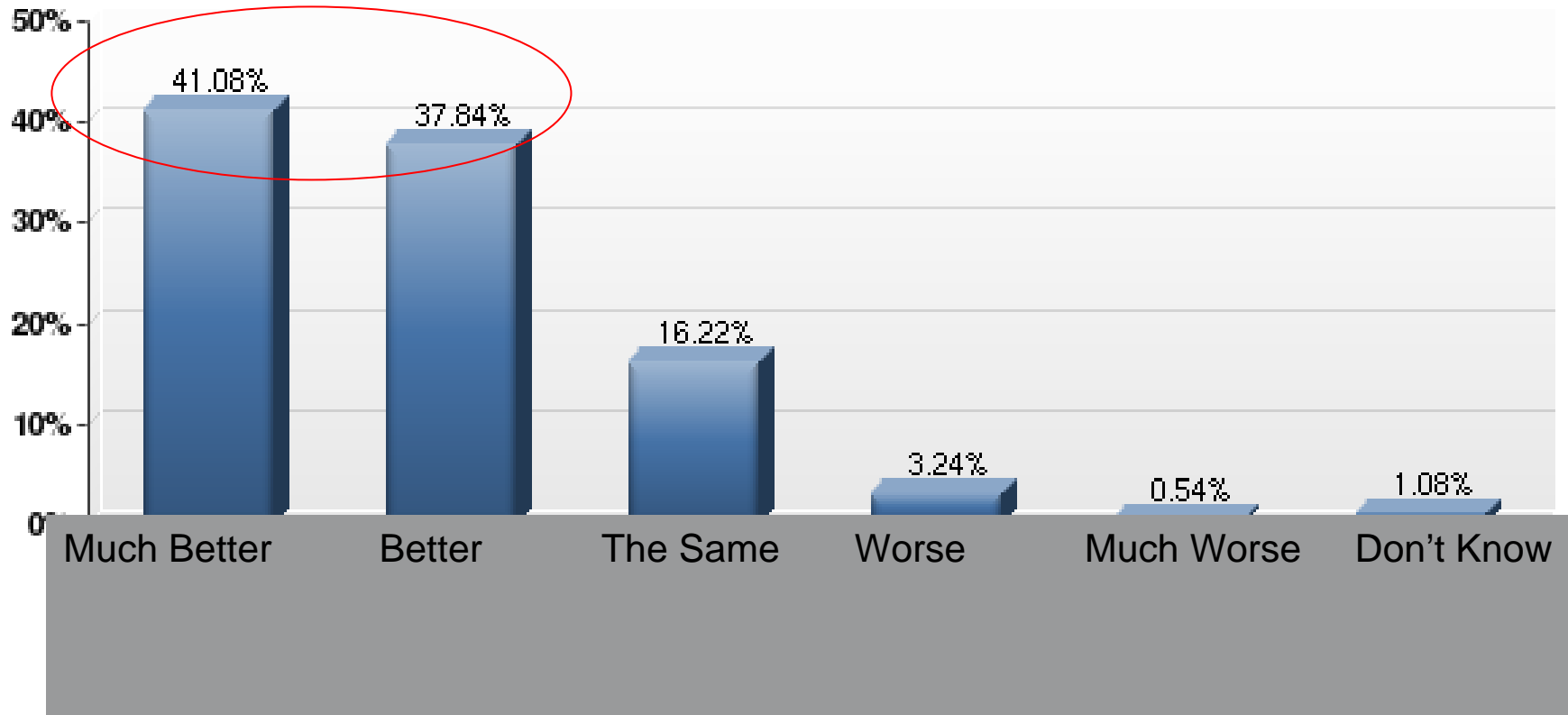


Executives

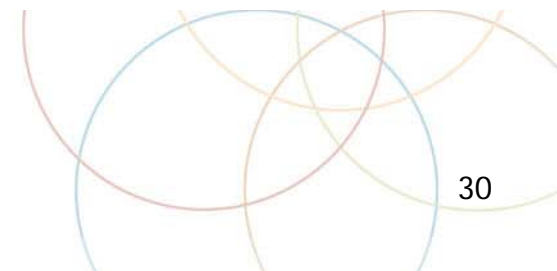




'08: SC Leaders See More Leadership Improvement Last 2 yrs than Execs

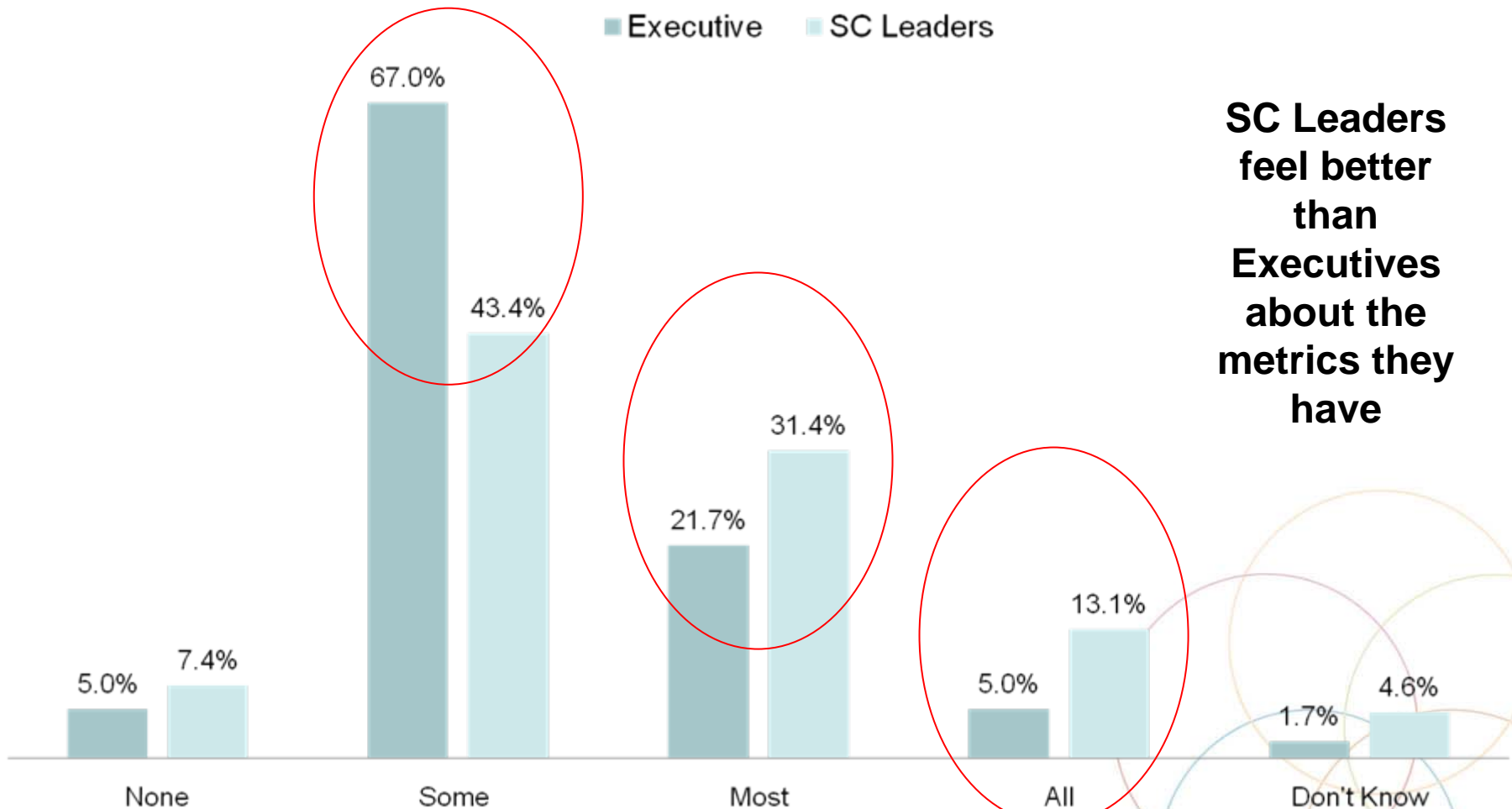


SC Leaders





'08: *Executive Level* Metrics; Lacking

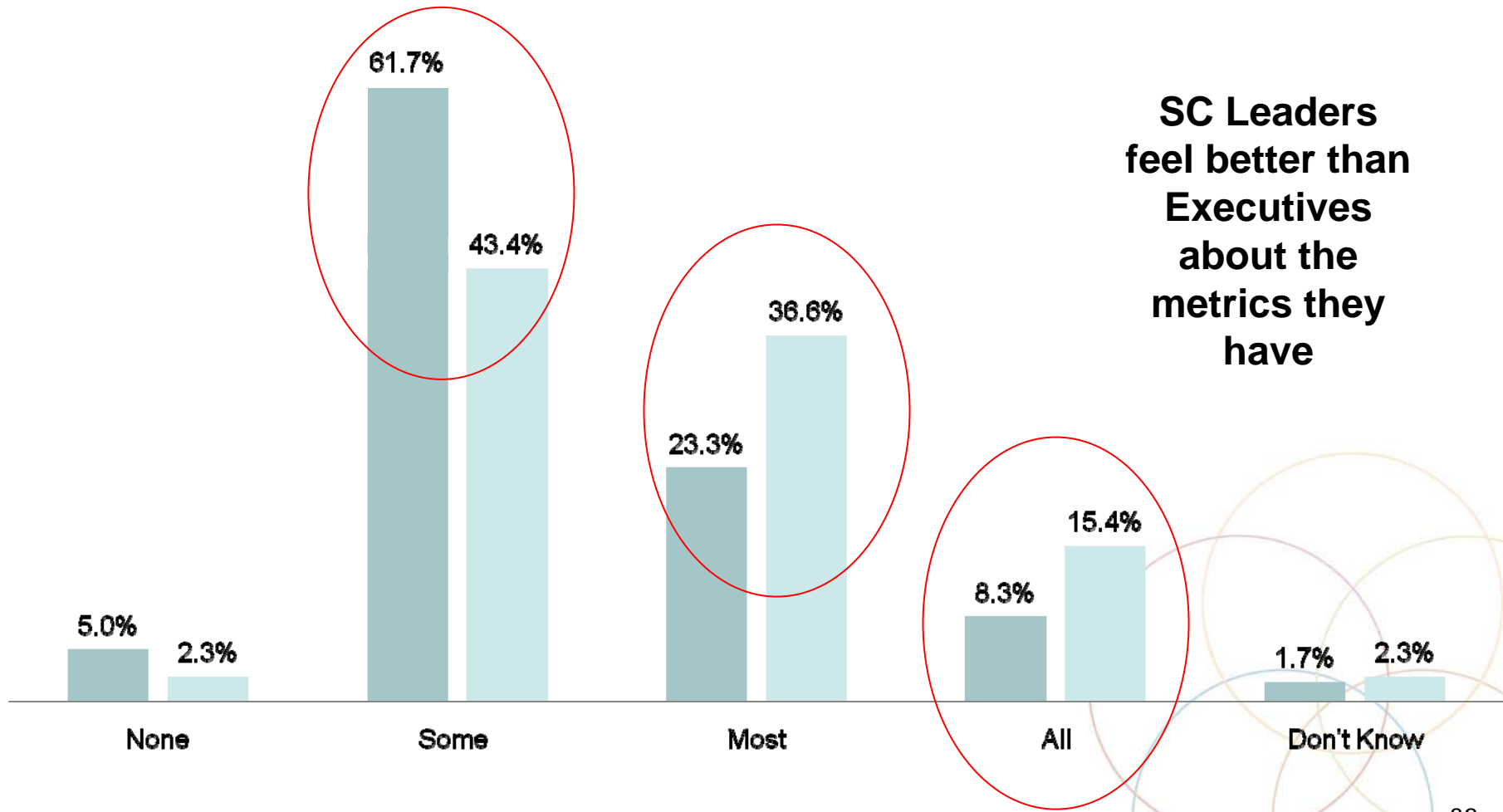


**SC Leaders
feel better
than
Executives
about the
metrics they
have**



08: *Operations Level* Metrics; Inadequate

■ Executive ■ SC Leaders





'08: Best Supply Chain Metrics – Similar and Surprising

SC Leader		Executive
1	Annual rate of increase in supply spend increase compared to medical consumer price index	1
2	Annual rate of increase in hospital supply expense/spend	4
3	Supply expense per adjusted discharge	3
4	Supply expense as % of net revenue	5
5	Total supply chain expense as % of total operating expense	2
6	Supply expense per adjusted patient day	6
7	Supply expense as % of total operating expense	7



'08: Reducing SC Expenses; GPO, IT, Education

RECENT ACTIONS to REDUCE SC EXPENSES

Total Respondents

- Expanded use of GPO contracts and/or other assistance
- Implemented new IT systems and tools
- Educated internal staff
- Applied supply chain metrics and benchmarks
- Hired outside consultants
- Initiated value analysis
- Appointed physician executive to engage peers
- Selected new distributor
- Chose outsourcing to improve performance
- Hired supply chain management leader and/or staff outside of healthcare industry

77%

62%

52%

42%

42%

38%

25%

22%

17%

10%



'08: SC Issues; Agree or Disagree? Missing Big Ones

Supply chain integrity is a concern relative to patient safety and risk management.

1.87

Supply chain management performance directly contributes to the efficiency and retention of nurses.

2.34

Internal hospital processes and information systems are set up to satisfactorily deal with the supply chain integrity challenges.

2.70

Supply chain management is a core competency for our organization.

2.75

Business partners (manufacturers and distributors) are fully prepared to help providers address the supply chain integrity challenge.

2.88

My organization's commodity supply chain has achieved the desired level of efficiency.

2.88

Within four years, total supply chain expenses will grow to be the largest operating expense category, surpassing labor expense.

3.16

My organization's clinical (physician preference item) supply chain has achieved the desired level of efficiency.

3.44

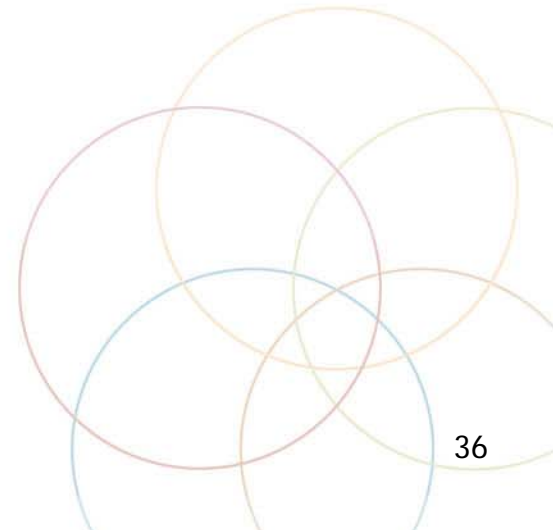
1 = Strongly Agree, 3 = Neither Agree/Disagree, 5 = Strongly Disagree



'08: Physician Relationships

- **About 50% of Hospitals Employ Primary Care and Specialty MD's**
- **17% Rated Relationship as Adversarial**
- **56% Rated Relationship as Collaborative**

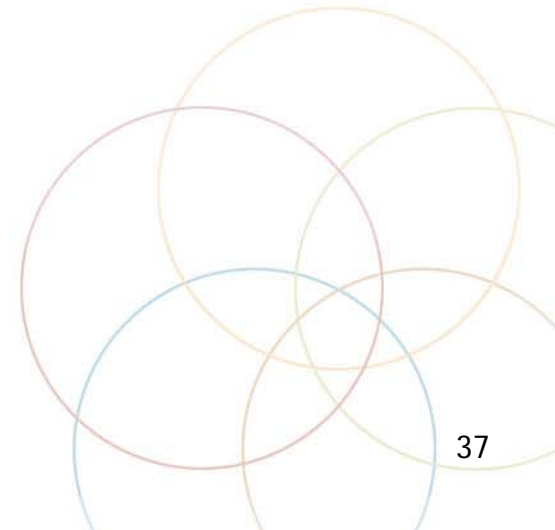
[Combined Responses]





'08: How Physicians Impact SC

1. Demands for specific clinical preference items
2. **Acceptance** of standardization and utilization policies
3. Relationships with manufacturers
4. Lack of data/information
5. **I**ndifference to the costs

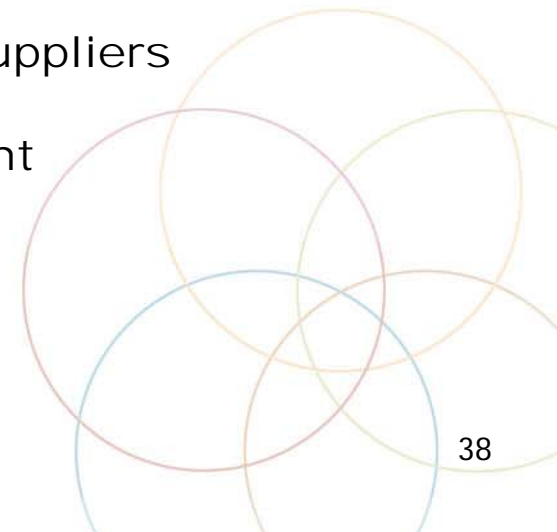




'08: Reducing PPI Expenses; Priorities

RANKED IMPORTANCE of WAYS to REDUCE PPI EXPENSES

1. Manage physician preference item (PPI) usage
2. Manage new product technology introductions
3. Improve product evaluation and selection
4. Provide product choice to physicians
5. Modify and manage physician relationships with suppliers
6. Improve charge capture and revenue enhancement





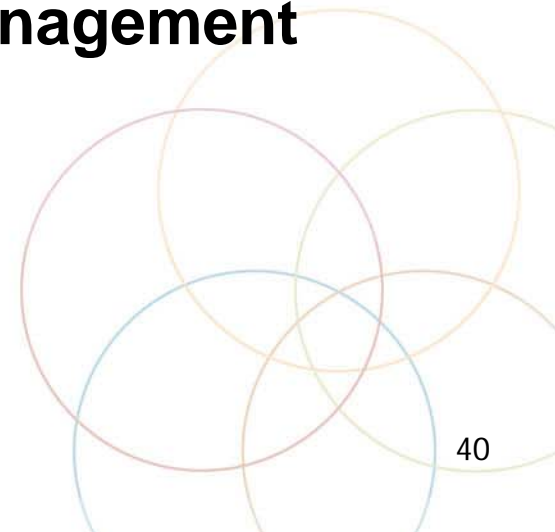
'08: Clinical Supply Chain Still a Need and Focus

- **Clinical Supply Chain Complies with Regs (2.09 = “Somewhat Agree”)**
- **PPI’s Fastest Growing Expense Category (2.21 = “Somewhat Agree”)**
- **Infrastructure Needed to Manage CSC Needs Improvement (2.63 = “Somewhat Agree”)**



'08: Effectiveness of SC Technology Tools

- **Basics Are Acceptable**
- **Clinical Supply Chain Management Needs Improvement**
- **Physician Procedures Profitability Management Inadequate**



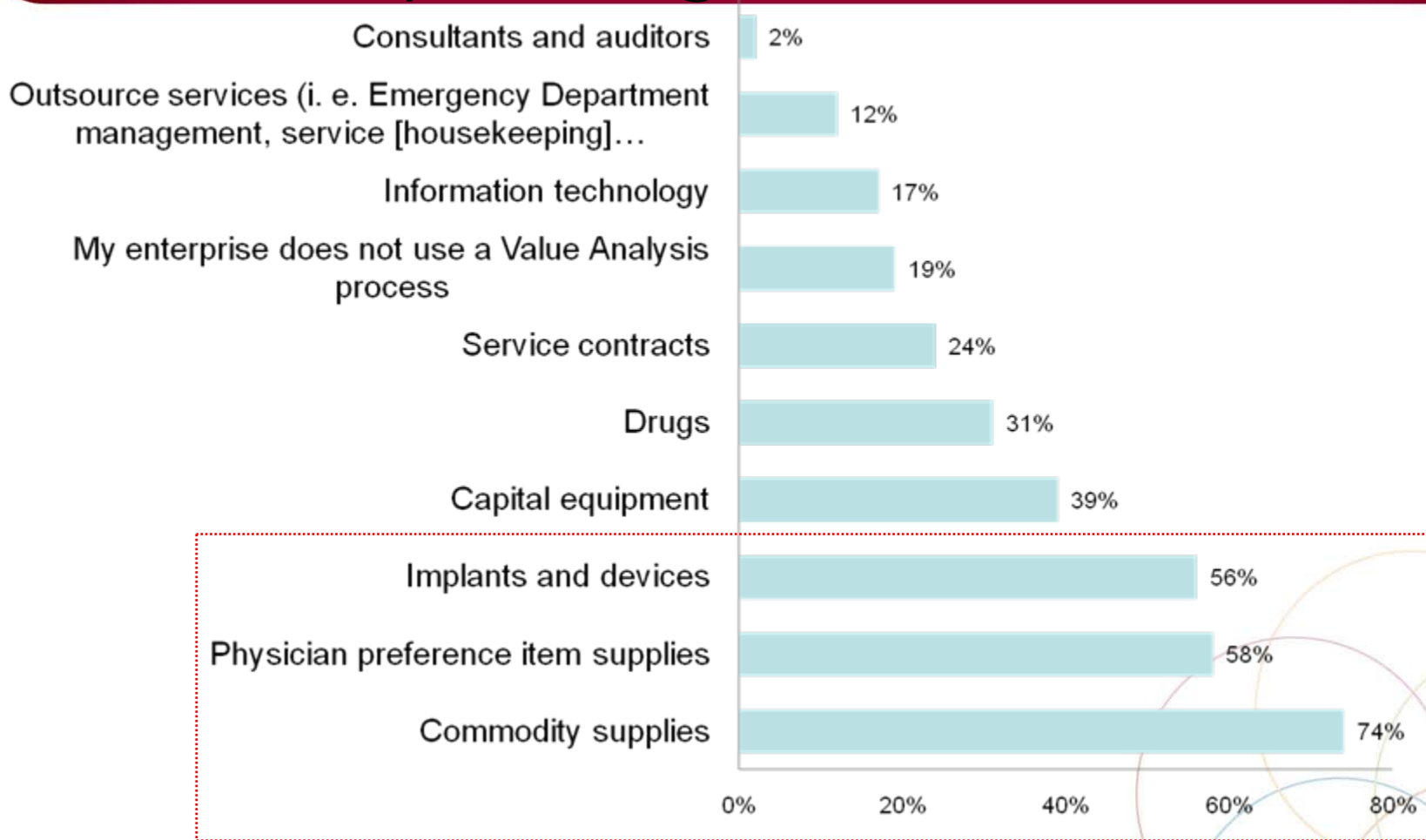


'08: Top Tactics Used

- Evaluated the relationship with the current **GPO** in the last 2 years
- Developed and are implementing an enterprise-wide supply chain ***strategic plan***
- Changed to a **different GPO** in the past 2 years



'08: Value Analysis Focus Expanding

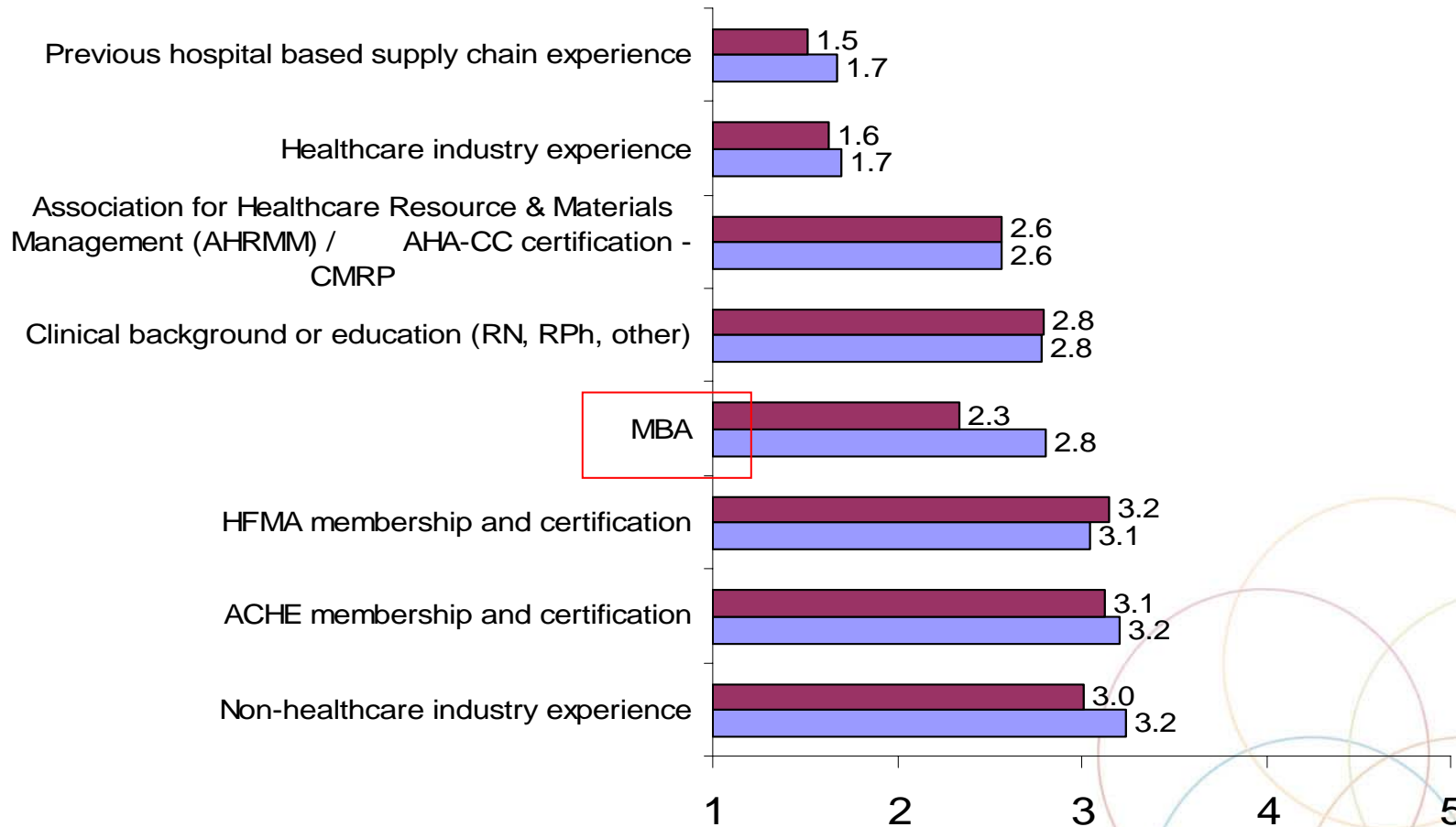




'08: SC Leader Attributes; Execs & SC Leaders Agree

Executive Rating

SC Leader Perception

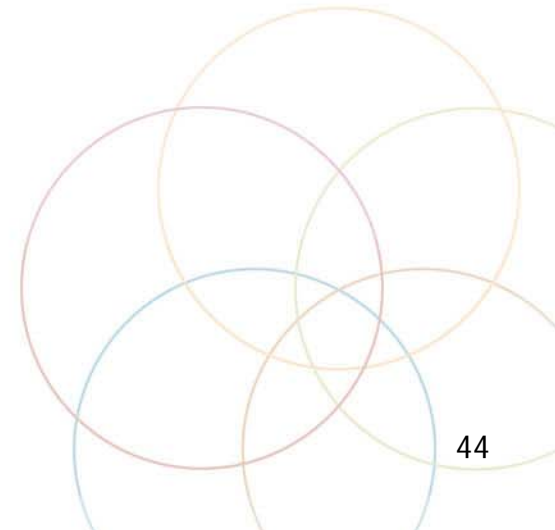


1 = Very Important, 3 = Neither Important/Unimportant, 5 = Very Unimportant



Summary of Themes

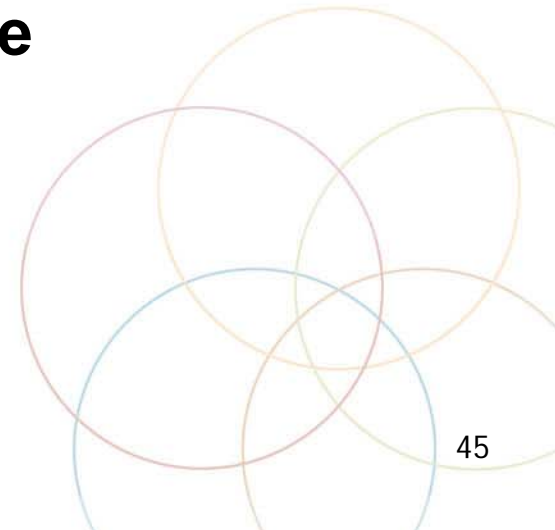
- **Inconsistent Views of SC; Definition, Impact, Performance, Accountability**
- **Accountability, Performance Comp Need Review**
- **Metrics Inadequate for C's**
- **PPI Management Still Biggest Challenge**
- **Technology Gaps Continue**





Call to Action

- **Supply Chain A Strategic Aspect of Providers' Business, Success**
- **Supply Chain Optimization Imperative**
- **SC Leader Must Facilitate Future Vision, Strategic Plan, Education, Communication, Metrics, Achievement**
- **Executives Must Recognize, Understand, Promote Supply Chain Opportunity, Impact, Role**





Questions, Discussion

THANK YOU!

