



ARTICLE



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ELEVATING THE HEALTH OF HEALTHCARE

THE 12 FUNDAMENTAL BEST PRACTICES OF SUPPLY CHAIN MANAGEMENT





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As part of our mission, we are dedicated to elevating the profile of the strategic importance of the supply chain in the efficient operation of healthcare facilities. In this article we will highlight the fundamental best practices of healthcare supply chain management, in the hopes that these tips can help you mold your supply chain operation into a strategic resource for your organization.



1. DEVELOP THE STRATEGY

This begins with defining needs and opportunities and then coming up with a game plan that allows for the ability to optimize the people, processes and technology within the organization to deliver greatest value. The supply chain mission and vision should align with the corporate mission and vision. When senior leadership recognizes supply chain as critical to their mission and success, then supply chain becomes very important to them. Often the first steps of a good supply chain strategy starts with educating senior leadership on the benefits of implementing good supply chain strategies and practices in their company. If you don't have that, it's an uphill battle. One of the most important things that healthcare facilities can do to become more efficient and cost effective is to stop thinking like a healthcare facility. Look beyond traditional industry solutions and study proven business strategies used outside of healthcare.

2. ALIGN THE SUPPLY CHAIN ORGANIZATION

Optimizing the healthcare supply chain may mean very different things, depending on the size and scope of your organization, but at the very least, it mandates a change in thinking as well as practice. It means that supply chain management needs to define its strategic role and begin to execute value-added activities across all aspects of the supply chain. Advantages of optimizing your supply chain include:

- *Enhanced operational costs with a total cost of ownership focus.*
- *Improved quality through increased compliance with contracts and reduced organizational risk.*
- *Improved patient outcomes and safety through integrated systems to reduce errors and streamline procurement via automation.*

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Completing this should include C-Suite buy-in and support, setting clear leadership in terms of responsibility and authority, building supporting infrastructure and investing in technology.



3. RECRUIT AND DEVELOP SUPPLY CHAIN PROFESSIONALS

In healthcare we generally lack supply chain talent because of our focus on patient care and not best business practices. As possible, senior leadership must commit resources to bring in skilled and talented people as part of the supply chain function or partner with someone who can bring that expertise — people who are strategic thinkers, analytical and have good interpersonal relationship skills. It helps if they understand supply chain best practices, but you can always give them the exposure or training to apply their talent to supply chain. Developing well-rounded and multi-skilled supply chain personnel and fostering a commitment to innovation, excellence and growth is a high priority.

4. BE DEDICATED TO PERFORMANCE MANAGEMENT

The organization should view supply chain as a high-value generator that responds to market changes and local requirements while keeping a focus on corporate needs. They should then provide incentives for procurement process excellence, linking procurement metrics to strategic objectives and to corporate results and proactively controlling procurement processes.

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5. ESTABLISH THE STRATEGIC SOURCING STRATEGY

This step applies advanced sourcing techniques and drives simplification and standardization of sourced products and services. This strategy should focus on elimination of redundancies, refinement of business processes, ideas for continuous improvement and formalized savings tracking systems. A strong strategic sourcing function offers numerous benefits around lower costs, higher quality and greater

customer service, while also leading to more predictable and positive patient outcomes. In healthcare, both group purchasing organizations (GPOs) and hospital systems do strategic sourcing. Often hospital systems don't have the resources to do strategic sourcing for all of the needed categories, products and services, hence they rely on a GPO. Strategic sourcing for commodities and basic med-surg products are best done by GPOs because they are less complex and can be aggregated for the benefit of many customers.

To help realize the total cost of ownership, it's important to uncover the unseen costs by asking questions like:

“How much do my usage patterns and processes add to cost?”

“How much does the way I work with my vendor affect my cost?”

6. MANAGE TOTAL COST OF OWNERSHIP

More than just the purchase costs and what you actually pay at the time of transaction, supply chain professionals must develop a keen understanding and control of some of the more unseen costs involved in purchasing. For example, they must know, “How much do my usage patterns and processes add to cost?” Also, “How much does the way I work with my vendor affect my cost?” Understanding aspects like inventory carrying costs, expired products, physician preference costs, logistics and distribution, expediting and special delivery, and payment, can bring further clarity and cost savings to your operation.

7. ESTABLISH KEY SUPPLIER ALLIANCES

Those in the healthcare supply chain must realize first of all, that “beating up” suppliers on price is a profoundly limiting strategy. The tug-of-war between facilities wanting to “buy fewer for less,” and the suppliers wanting to “sell more for more,” creates a zero sum game in which someone will ultimately feel that they have lost. Success depends



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increasingly on creative, collaborative partnerships, and setting up a win-win strategy that aligns incentives and enhances business, financial and process objectives. For example, Intalere member Northern Arizona Healthcare and Cardinal Health collaborated to form a cross-functional team to formulate a best practice process focused on improving price match and days sales outstanding (DSO) rates in order to facilitate price accuracy and prompt payments. The effort paid great dividends for all stakeholders. After the collaboration, the contract price match rate between Northern Arizona Healthcare and Cardinal Health increased from 78.9 percent to 99.25 percent and the DSO improved from 27-29 days to 15 days, with some months as low as 6-8 days.

8. DEVELOP A SUPPLIER MANAGEMENT PROCESS

The objective here is an increased level of emphasis placed on proactively managing supplier relationships and developing a framework for measuring the ongoing performance of key suppliers, including performance metrics and analytical tools including supplier scorecards shared process improvements. It can also include a segmentation strategy where suppliers are generally categorized among managed business relationships, alliances, general procurement or bulk product sourcing based on complexity (in design, logistics or specifications) and value (in dollars spent, criticality to the business and market risk).

9. STREAMLINE THE ORDER TO PAYMENT PROCESS

It is also extremely important to implement a common and automated requisition-to-pay process that guides requesters through the steps of procurement, in order to automate approvals and reduce buyer involvement when purchasing through preferred suppliers. Key activities should include converting requisitions to purchase order, managing goods and services, and orders and processing invoices. The key outputs of the system would include an automated process, defined purchasing channels, approved requisitions, purchase order and approved invoice.



10. MANAGE INVENTORY

The key to maximizing your strategy should include aspects of inventory control (access), management (establishing par levels, etc.) and integrity (expiration), and can take some trials and errors in your approach until you find the best fit. One particular example includes a very large hospital system that recognized their need to manage inventory and the basic steps that needed to be put in place which included establishing par levels. The challenge came with trying to apply a particular behavior across all areas. Not all general strategies apply to each department within the hospital. Specifically in high expense areas like Surgical Services, Radiology or Cardiac Cath Labs, the needs are specific to the patient load being serviced. What works in the general supply areas in relation to delivery frequency, numbers of locations of those products, and the number of users having access to the ordering process can vary across these highly specific areas. Make sure to account for that.

Inventory Control
(Access)

Management
(Establishing par levels...)

Integrity
(Expiration)



11. MANAGE DISTRIBUTION AND LOGISTICS

Healthcare logistics costs are much higher than other industries and we are stuck in traditional practices with traditional models where there is a lack of best practices. Distribution and logistics can comprise up to 38 percent of supply costs in healthcare. For this reason alone, it is imperative that every touch be quantified and managed.

To get a true picture of your logistics effectiveness, you must make sure to include and evaluate these ten dimensions:

- *Facility layout and design.*
- *Use of equipment and design.*
- *Warehousing processes.*
- *Material storage and preservation.*
- *Material transportation and routing.*
- *Material handling and flow.*
- *Use of 3rd party logistics providers.*
- *Supplier integration and value-added services.*
- *Performance management.*
- *Organization and culture.*

In healthcare some systems pursue self-distribution as an avenue to inventory and logistics best practices and improved outcomes. Not everyone should pursue self-distribution, but everyone should have a passion to standardize products, reduce inventories and reduce the touches for each product before it reaches the patient. This can be done by working closely with your distributor. You should manage your distributor as an extension of your own business. But many of the touches are inside our hospitals and clinics, hence we need to do some good self-assessment.

12. ESTABLISH AND MONITOR CONTROLS

As part of the entire supply chain management operation, key performance indicators must be established and regularly monitored. The bottom line is that when you don't have standards you pay more. You pay for every salesperson and every delivery truck. You pay for the cost of a backorder, late delivery, invoice problem, over-shipment, damaged product and recall. You should seek to be continuously improving in terms of qualitative assessment (logistic processes and practices) and quantitative assessment (key logistic costs, metrics and benchmarks).

Working from this strong base, you can adopt a best practice for your facility. Also, remember that being able to move quickly on what you have learned is a best practice, and last, but not least, remember that in any situation, maybe the best "best practice" is eliminating "bad practices."

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ABOUT INTALERE

Intalere's mission focuses on improving the operational health of America's healthcare providers by designing tailored, smart solutions that deliver optimal cost, quality and clinical outcomes. We strive to be the essential partner for operational excellence in healthcare through customized solutions that address customers' individual needs. We assist our customers in managing their entire non-labor spend, providing innovative technologies, products and services, and leveraging the best practices of a provider-led model. As Intalere draws on the power of our owner Intermountain Healthcare's nationally-recognized supply chain expertise and leadership in technology, process improvement, and evidence-based clinical and business best practices, we are uniquely positioned to be the innovation leader in the healthcare industry.

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