Rattling the Supply Chain: The Opportunity for Supply Chain Management in Healthcare

University of Waterloo
Smarter Health Seminar Series
March 23, 2005
Agenda

- Environmental Scan
- Supply Chain Management Framework
- Current Initiatives
- Hospital Business Services
Supply Chain Management: Environmental Scan
Joint initiative of Ontario Hospital Association and (former) Efficient Healthcare Consumer Response

Broad based task force represented most major stakeholders

Demonstrated how best practices could reduce medical error and deliver cost savings

Estimated systemic cost savings and benefits to healthcare supply chain
• Provide service at the local level
• Physicians don’t report to CEO’s
• Healthcare does not lend itself to traditional optimization strategies
• Inconsistent levels of efficiency, technology & resources
OHA/EHCR 2001 Task Force Report: Key Findings: Suppliers

- Top 50 medical supply and pharmaceutical suppliers deliver 60% of purchases
- Private sector (including healthcare suppliers) have used process improvement to generate $ billions in savings from the supply chain
  - Inventory: automotive (JIT)
  - Bar coding: retail
  - Quality: aeronautics (Performance measures)
- Suppliers see hospitals focus on lowest price, not overall supply chain efficiency
  - critical mass = 75% of hospitals using best practices
Ontario hospitals are not taking advantage of supply chain opportunities

An efficient supply chain could reduce cost through implementation of best practices and strategic purchasing

- $350 million across Canada

Use of best practices and technology could reduce medical error

- 80% reduction in 2 different US studies
- Estimated $200 million reduction for shorter stays in Ontario

Most savings in healthcare are at the hospital/patient end

Implementation of supply chain best practices would improve patient outcomes
Impact on the Delivery of Patient Care

Supply Chain is a key enabler for delivery of quality patient care:
15% of patient care time spent on supply chain activities
(D&T study at Sunnybrook & Women’s: 1999)

- Eliminate need for patient care staff to perform non-value added activity
  - ensure the right inventory in the right place
  - implement point of use technology
- Impact on patient care delivery
  - reduce risk and errors (est.$200 million in Ontario)
  - eliminate OR waits/cancellations due to supply issues
  - reduce length of stay
Critical Success Factors

- Secure buy in of hospital senior management
  - raise awareness of strategic impact of supply chain
- Set common goals and standards among hospitals
  - 75% critical mass required to impact suppliers’ efficiencies
- Train and develop supply chain professionals
  - leadership
  - competencies to negotiate complex deals
- Secure Government support
  - universal standards
  - funding initiatives
Getting Clinicians on Board

- Engage clinicians in the process
  - Work collaboratively with clinicians and suppliers
  - Ensure broad representation on committees
- Free up time for patient care
  - Simplify processes
  - Generate complete and accurate catalogue
- Support research and program development
  - Incorporate R&D and program development opportunities in contract negotiations
- Generate operating funds through savings
Supply Chain Management Framework
Supply Chain Management Framework

**Plan**
- Identify Replenishment Need

**Source**
- Select Supplier
- Process Order
- Expedite
- Pay Supplier

**Manage**
- Receive Goods & Services
- Put Away/Pick
- Sterile Process
- Disposition of Goods

**Deliver**
- Distribute to Designated Areas

**Legend**
- Operations
- Management
What is Strategic Sourcing?

Strategic Sourcing maximizes value to the organization by leveraging people, process and technology best practices

- E-Sourcing
  - Integration with suppliers
  - Collaboration with customers
  - Continuous improvement
  - Reorg. including integration of A/P
  - Shared Services

- Order Takers
  - Telephone
  - Fax

- Leverage

- Contract Specialists
  - EDI
  - On-line requisitioning
  - Strategic Alliances
  - Standardization
  - Centralization
  - Policies and Procedures

- Past
- Present
- Future

Past Present Future

Strategic Managers
Impact of Being Strategic

- Improve efficiencies and streamline operations to generate significant cost savings
  - Leverage total spend
  - Use vendor managed and consignment inventory strategically
  - Standardize and simplify processes and RFP’s
  - Leverage technology

- Create end to end supply chain from customer to supplier
  - Enable patient care staff to focus on patient care
  - Maximize supplier relationships
  - Align structure with business strategies
Current Initiatives
HSCN

- National, grass roots organization founded in 2002 following OHA/EHCR Task Force Report
- Represents broad spectrum of stakeholders in the healthcare supply chain
- Vision: promote safe and quality health care through the implementation of optimal supply chain management practices
- Strategic Goals
  - establish and promote Canadian healthcare supply chain standards and leading practices
  - develop and deliver educational support to members

www.hscn.org
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HSCN Current Activities

* Healthcare Supply Chain Summit
  - September 2004

* Leading Practice Information
  - Collaborating with OntarioBuys in identification and development of leading practices
  - Posting templated practices to website

* Discussion paper on the evolution of eCommerce in the health industry
  - To understand the status of eCommerce in the healthcare environment
  - Sponsored by Industry Canada, and executed in collaboration with Deloitte

* Education
  - Healthcare Supply Chain Management course through the Schulich Executive Development Program
Vision, Mission, Values

* Sector driven initiative announced in 2004 Ontario Budget
  - Multi-year funding for supply chain in the Broader Public Sector
  - In concert with MoHLTC and OHA

* Vision
  - Integrated Supply Chain Management in Ontario’s Broader Public Sector

* Mission
  - To facilitate and accelerate the widespread implementation of iSCM Best Practices in Ontario's Broader Public Sector

* Values
  - Public service
  - Integrity, trust and collaboration
  - Efficiency, effectiveness and responsiveness
Goals Year 1

- Create inventory of existing Ontario BPS practices
- Form Working Group of sector leaders and expert-practitioners
- Prepare 2 key documents
  - Compendium of Supply Chain Best Practices
  - Supply Chain Best Practice Handbook
- Financially support specific iSCM projects
- Provide advice to the Ontario government on the creation of a permanent central iSCM entity with a mandate to
  - champion BPS iSCM
  - benchmark the BPS against best practices
  - be a portal for sharable supply chain information
OntarioBuys Healthcare Projects

- Hospital Business Services
  - Funding Support
- E-Supply Chain Project
  - Widespread implementation of e-commerce across all hospitals
    - E-req
    - E-catalogues
    - Bar coding
    - edi
- Single Use Medical Devices
  - Establishment of local reprocessing facility
TAHSC and TEN hospitals *working together* through a shared services organization providing high quality business office and supply chain services to member hospitals at competitive rates.

The mission of the project is to develop the detailed business and service level requirements for three groups of hospital business office and supply chain activities:

1. Purchasing, Accounts Payable & Logistics
2. Human Resources and Payroll
3. General Ledger Accounting and Financial Reporting (and related functions)
How we got here…

- **2002**
  - TEN Group explores opportunities to work as a virtual region

- **2003**
  - TEN Group launches Business Office feasibility study
  - TAHSC conducts materials pricing survey
  - TAHSC group joins TEN project

- **2004**
  - St. Josephs Health Centre joins the project.
  - Business Office & Supply Chain projects integrated
  - Detailed Planning begins
  - RFI launched to engage vendors in the project

- **2005**
  - Governance finalized
  - CEOs of 16 hospitals confirm participation.
  - HBS incorporated
  - HBS incorporated
HBS Benefits

- Achieve economies of scale
  - standardization and integration of processes
  - group purchasing
- Reduce operating costs of administrative services
  - invest in direct patient care
  - improve access to services
- Drive continuous process improvements
  - standardization
  - development of performance indicators
HBS Benefits, cont.

- Deliver timely and relevant information to the desktops of hospital managers
  - integrated systems
  - better decision-making
- Integrate common systems to pool savings and make affordable the investments required in IT infrastructure
- Take advantage of leading practices
  - pay on receipt
  - web-engaged employee
  - manager self-serve HR
The synergies of proceeding with all three streams are evident:

- Scale possible with transactions from all streams will reduce cost/transaction
- Planning and implementing new information technology is greatly facilitated by taking a three-stream perspective to create a common IT infrastructure
- Integration across streams through payroll and accounts payable
Business Case

- Refined the definition of the activities in scope and gathered activity-based costing information for these activities

- Developed business and service level requirements for activities in scope

- Developed “To-Be” Model for a new Shared Services Supply Chain operation

- Surveyed industry capabilities and experience in business process transformation outsourcing

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Conceptual Future Integrated Supply Chain Model

- Hospital
  - Manager
  - Purchaser
- Suppliers & Distributors
- Banks
  - Supplier Bank
  - SSC Bank
- Shared Services
  - Strategic Procurement
  - Customer Service
  - Information Management & Analysis