Strategic Insights Track: Revolutionizing the Supply Chain
Identifying and Building Sustainable Strategic Partnerships in the Healthcare Supply Chain
April 23, 2012
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The “Burning Platform” for SRM
Intermountain Healthcare

High Level Overview

Headquarters in Salt Lake City, Utah

Modern Healthcare #1 or #2 for the last seven years

Hospital Network

- 24 Hospitals
- 2,500 + Licensed Beds

Medical Group

- 800 Employed Physicians
- 130 Clinics

SelectHealth – Insurance Plan

- Direct Enrollees – 550,000

$4.5 billion in Revenues
$5.0 billion in Assets

AA+ Standard & Poor’s Aa1 Moody’s

- Only System to receive highest ratings from both S&P and Moody’s
Intermountain Healthcare Supply Chain

Gartner rankings provide validation that we are focused on the right things

2011 Gartner Top-Ten Healthcare Supply Chains

1. Cardinal Health
2. Sisters of Mercy
3. Becton Dickinson
4. Mayo Clinic
5. Owens & Minor
6. Johnson & Johnson
7. **Intermountain Healthcare**
8. Abbott
9. Novartis
10. Geisinger

Critical Success Factors

- Supply chain became a strategic focus by senior leadership
- $3 Million initially investment and 25 new FTEs – skilled & talented
- Centralized buyers and reporting relationships of the warehouse
- Added couriers, travel services, publishing and central laundry
- Now over 600 FTEs in the SCO
- Earned trust of stakeholders – management & clinicians
- Implemented effective strategies
- Deliver on commitments
- “Skate to the puck”

We have an obligation to ensure that Intermountain’s Supply Chain is prepared to support the current & future needs of the organization.
“Everyone has a plan until they get punched in the mouth.”

- Mike Tyson
Platform for Change
Our Landscape is Changing: Past Success does **NOT** Guarantee Future Success

**External Drivers**
- Model Healthcare Organization
- Thought Leadership
  - "How the Mighty Fall"
  - "Doing Both"
- Value Based Purchasing
- Healthcare Reform

**Internal Drivers**
- Shared Accountability
  - Value replaces Volume
  - Care at Alternative Sites
  - Wellness Focus
- CPI + 1%
  - $100M cost reduction commitment
- Evidence-Based Medicine & Variation Reduction
- Commercialization of Best Practices

We have an obligation to ensure that Intermountain’s Supply Chain is prepared to support the current & future needs of the organization
Intermountain’s Commitment to Shared Accountability

*Utilization Management focus will dramatically change the purpose of hospitals*

\[
\begin{align*}
\text{Cost} & \quad = \quad \text{Population Utilization} \times \text{Intracase Utilization} \times \text{Efficiency} \\
\text{Cost} & \quad = \quad \text{Episodes} \times \text{Processes} \times \text{Cost} \\
\end{align*}
\]

HOWEVER…Variation is Significant

<table>
<thead>
<tr>
<th>Population Utilization</th>
<th>Intracase Utilization</th>
<th>Efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>140%</td>
<td>40%</td>
<td>25%</td>
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Variation
25th vs. 75th Percentile
(US, Medicare Enrollees)
Supply Chain...By the Numbers

If partnerships matter, why do IDN’s keep talking about price?

<table>
<thead>
<tr>
<th>Illustrative</th>
<th>Current Situation</th>
<th>Cost Reduction Initiative</th>
<th>Revenue Initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$4,500</td>
<td>$4,500</td>
<td>$12,500</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td>$4,275 95%</td>
<td>$3,875 86%</td>
<td>$9,500 95%</td>
</tr>
<tr>
<td><strong>Net Results</strong></td>
<td>$225 5%</td>
<td>$625 14%</td>
<td>$625 5%</td>
</tr>
</tbody>
</table>

CPI+1 requires $400M change to our bottom line. To generate $400M in bottom line impact:

- OR -

Reduce costs structure by 9 points

Increase revenue 177%, which is 20X the cost reduction!
Price and Cost are NOT the Same Thing

Total Cost of Ownership

- Process Cost
  - Sourcing Cost
  - Order Mgmt
  - Returns Mgmt
  - Logistics Mgmt
  - DPO / DSO
  - Supplier Mgmt
  - Recall Mgmt
  - Compliance Mgmt
  - Training
  - Payment Mgmt
  - Inspection
  - Etc.

- Utilization Cost
  - Standardization
  - Demand Mgmt
  - Conversion
  - Labor Productivity
  - Maintenance
  - Shrinkage
  - Damages
  - Waste
  - Disposition
  - Recall Mgmt
  - Revision Procedures
  - Infection Rates
  - Etc.

Easier To See

Harder To See
Cost is NOT the Only Source of Value
There is untapped potential between IDNs and suppliers

“I want to sell more for more”

“I want to buy fewer for less”

Our Zero-Sum Environment

Positive Sum Environment
Do Supplier Relationships Matter?

Rising price environment means that conducting bids and expecting savings will become much more difficult for IDNs.

Supplier relationships are becoming more important.

Source: 2010 AT Kearney AEP Survey
Supplier Relationship Management
Objective is to Generate Post-Contract Value

“75% of sourcing savings can be lost within 18 months without SRM” - Geller & Company Survey
Why Bother?

Degree of untapped potential customers and suppliers believe there is to drive additional innovation from/with suppliers.

Additional value generated through collaborative relationships:
- 6% report realizing an average of 40% more value from their most collaborative key suppliers.
- 35% report delivering an average of 49% more value.

Strategic sourcing efforts on average achieve only 55% of expected value. Similarly, customers report realizing only about 54% of supplier contract value during implementation.

Source: Vantage Partners, The Business Case for SRM
# SRM Characteristics

<table>
<thead>
<tr>
<th>Traditional Procurement</th>
<th>New Procurement Paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source Goods and Services</td>
<td>Solve Business Problems</td>
</tr>
<tr>
<td>Leverage Over Suppliers</td>
<td>Engagement with Suppliers</td>
</tr>
<tr>
<td>Focus on Internal Stakeholder Compliance</td>
<td>Trusted Advisor to Internal Business Partners</td>
</tr>
<tr>
<td>Analytical Skills</td>
<td></td>
</tr>
<tr>
<td>Primary Value is Cost Reduction/Management</td>
<td></td>
</tr>
<tr>
<td>Manage Transactions</td>
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**Not This**

- We Play Golf Together
- We Avoid Disagreement or Conflict
- We Shield Suppliers from Competitive Pressure
- We Don’t Hold Suppliers Accountable for Commitments and Performance
- We Sacrifice Our Obligations to Our Stakeholders
- We Are Naively Trusting

**But Rather This**

- We Treat Suppliers with the Courtesy and Respect Due to All People—in All Our Interactions
- We are Candid, and Able to Disagree (Even Forcefully), Without Being Disagreeable
- We Hold Ourselves to the Same Standards as Our Suppliers
- We Actively Search Out Opportunities for Mutual Benefit
- We Actively Seek to Cultivate Mutual Trust

*Source: Getting the Most out of SRM, Supply Chain Management Review, Feb 2012*
A partnership is a tailored business relationship based on mutual trust, openness, shared risk and shared rewards that results in business performance greater than would be achieved by two firms working together in the absence of partnership.
“Collaboration with Suppliers is not an option it’s an Imperative”

Michael Hammer

“Partnering is giving suppliers and customers a long-term competitive advantage in their respective markets. They are creating sustainable advantage that’s virtually impossible to compete against with a transactional approach.”

Rackham, Friedman, & Ruff

“Getting Partnerships Right”
Harley-Davidson’s Definition

“Our suppliers are an **extension of our design and manufacturing capabilities**. These relationships allow us to deliver higher quality, cost-competitive products to the marketplace. Our **collaborative approach unites our supply base** and allows both Harley-Davidson and our suppliers to plan and **invest confidently in the future**.”

“**Preservation of existing supplier relationships is a first priority of** not only the Materials Management Strategy but the **entire H-D enterprise**. Incumbency is earned and based on demonstrated performance in the areas of quality, cost, timing and technology and the commitment to the future continuous improvement of the same.”
SRM at Intermountain Healthcare
Using SCOR Model to Illustrate Collaboration Opportunities

**Upstream and Downstream Sources of Value are Not Always the Same**

**Suppliers’ Supplier**

**Supplier**

**Internal Customer**

**Patient**

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**Primary Value (Upstream):**
- Logistics Optimization
- Order Management Optimization
- Demand Planning and CPFR

**Involves:**
- Supply Chain Management

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**Primary Value (Downstream):**
- Breakthrough Innovations
- Utilization Management
- Clinical Quality Improvement

**Involves:**
- Supply Chain Management **AND**
- R&D, IT, Clinicians, Quality Management
SRM is an Integral Part of **Category Management**

*Category Management is non-linear as it is not transactional in nature*

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**Find the Value!**
Spend Analysis & Business Planning

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**Grow the Value!**
Supplier Management

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**Capture the Value!**
Program Management

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**Negotiate the Value!**
Strategic Sourcing

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**Document the Value!**
Contract Management

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SRM Framework

Framework for Creating SRM Value

Value

Tangible
- Reduced Costs
- Increased Revenue
- Improved Cash Flow
- Increased Share Price

Intangible
- Enhanced Brand Reputation

Operational and Strategic Benefits

- Process Efficiencies
- Inventory Level Reductions
- Specification Simplification
- Demand Reduction
- Most-Favored Customer Pricing
- Reduced Capital Expenditures
- Quality Improvements
- New Innovative Products
- Increased Speed to Market
- New Market Access
- Increased Customer End-User Satisfaction and Productivity
- Increased Supply Chain Visibility
- Few Supply Chain Disruptions
- Fewer Quality/Service Issues
- Balance of Dependency (Reduced Risk of Supplier Opportunism)

Value Levers

- Spend Consolidation
- Joint Demand Management
- Joint Should-Cost Modeling
- Joint Relationship Governance
- Joint Strategic Planning
- Joint Specification Redesign
- Preferred Access to Best Supplier Talent
- Two-Way Performance Scorecards
- Risk-Reward Sharing
- Shared Investments
- Joint New Product Design
- Preferred Access to New Supplier Technology
- Shared Marketplace Insights
- Joint Forecasting
- Preferred Access to Supplier Capacity
- Joint Risk Management

Value Enablers

Mutual Understanding
- Open Communication

Mutual Respect

Mutual Trust

Source: Getting the Most out of SRM, Supply Chain Management Review, Feb 2012
Benefits of SRM Program

Benefits must exist for both Intermountain AND for suppliers

INTERMOUNTAIN

- Fewer suppliers
- Product standardization
- Utilization management
- Improve supplier performance
- Improve service levels
- Improve outcomes
- Reduce TCO
- Enhance revenue opportunities
- Improve health/wellness of patients
- Leverage core competencies
- Earn supplier loyalty

SUPPLIERS

- Incremental business
- SKU rationalization
- Sustainable revenue model
- Become a better customer
- Predictive demand signal
- Evidence-based medicine
- Reduce cost to serve
- Leverage R&D investments
- Enhance sales
- Leverage core competencies
- Earn customer loyalty!
Supplier Segmentation
Intermountain Does Not Need the SAME Relationship with Everyone

Supplier Segments

<table>
<thead>
<tr>
<th>High</th>
<th>Leverage</th>
<th>Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Collaborative Relationship</td>
<td>Strategic Supplier Alliance</td>
</tr>
<tr>
<td>Low</td>
<td>Transactional</td>
<td>Bottleneck</td>
</tr>
<tr>
<td></td>
<td>Transactional Relationship</td>
<td>Custom Relationship</td>
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Segmentation Criteria

Importance
- Purchase value
- Impact on clinical outcomes
- Impact on profitability
- Strategic importance
- “Other” qualitative factors

Complexity
- Availability/ volatility
- Supply base fragmentation
- Lead time variation
- Product differentiation
- Product lifecycle

Source: Adapted from HCMWorks methodology
Supplier Relationships

Suppliers Control Their Own “Destiny”

Performance (What You Do)

Behaviors (How You Do It)

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<th>Average</th>
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Supplier Relationships
Aligning Incentives in Key to Our Mutual Success

Intermountain Healthcare’s Hierarchy of Need

Start

Meet Business/Clinical Objective

Regulatory Requirements

Assurance of Supply

Quality

Service

Cost

Innovation

What You Do
Supplier Relationships
Behaviors Valued By Intermountain Healthcare

- **Willingness to align incentives:**
  - Clinical Outcomes – Satisfaction Ratings – Profitability – Growth

- **Assortment planning:**
  - Preferred access to breakthrough innovations
  - Minimize SKU proliferation
  - Align contracted products to your “A” products: eliminate B and C items

- **High levels of collaboration:**
  - Joint product development efforts
  - Joint cost management efforts
  - Joint utilization management efforts
  - Linking products to clinical care protocols

- **Demonstrable commitments to:**
  - Self distribution model – contracting, logistics, etc.
  - Data standardization & electronic information exchange
  - Quality management & socially responsible manufacturing practices
  - Transparency – financials, data, recalls, demand planning, supply chain, manufacturing, etc.
  - Sustainability – smart packaging, green manufacturing practices, etc.

- **Progressive Account Management:**
  - Formal business development plans
  - Consolidated executive-level representation of all divisions (including single contract for all lines of business)
  - Prioritized allocation during shortages and recalls
  - Access to opportunity buys
Criteria for Strategic Suppliers

- **Supplier Spend Trend**
  - Supplier Performance Trend
    - Below expectations
    - Meets expectations
    - Exceeds expectations

- **Long Term Growth Potential**
  - Investment potential
  - Product development potential
  - Innovation contribution
  - Other long term potential

- **Market/Service Standing:**
  - Financial Standing/Solvency
  - Market position
  - Cross-category support

- **Business Impact:**
  - **What They Provide**
    - Specificity of offering (to Intermountain)
    - Potential of breakthrough offering
  - **Who They Impact**
    - Impact on patients
    - Impact on internal stakeholders
  - **How They Interact**
    - Linkage with key processes
    - Impact on clinical care practices
    - Behaviors
  - **Ease of Replacement**
    - Dependent
    - Reliant
    - Connected
    - Independent
Specific SRM Investments and Progress at Intermountain Healthcare

- Six internal “Supply Chain Consultants” dedicated to SRM

- Segmentation is underway and we are targeting our top 25 strategic suppliers in 2012
  - Business plans
  - Meaningful progress with 10 of the 25 in 2012
  - Goal is to generate $5M in incremental value WITHOUT shifting margin from supplier!
  - Supplier perception surveys will be issued in late 2012

- Category Management methodology is in development
  - Phase 1 (completed): Sourcing methodology recently revised and implemented
  - Phase 2: SRM, SRM and Program Management methodologies

- Early Progress with Suppliers
  - Upstream progress with more than 30 suppliers as Intermountain implements self-distribution center
  - Downstream progress with Coca Cola, Cisco, Verizon, Abbott Ped Nutritionals, GE Healthcare and others
Our Balanced Scorecard

Suppliers are Integral to our Success!

- **Our Internal Customers**
  - Improved Alignment
  - Become Trusted Advisors

- **Our Team**
  - Improve Effectiveness
  - Improve Employee Engagement

- **Our Processes & Technology**
  - Implement SOPs
  - Improve Productivity

- **Our Suppliers**
  - Deliver NEW Value Streams
  - Earn Supplier Loyalty – If Customer Loyalty is financially justified, then how can this NOT be justified?

**Results**
- Clinical Outcomes,
- Savings,
- Avoidance,
- Revenue, ROI,
- Profit, Market Share
Why are We Still Talking about a Lack of Trust?

*Trust is Earned by Both Parties…not Granted by Either Party*

**If...**
- Reason to Act
- Aligned Incentives
- Ability to Execute
- One Party Has to Flinch First!

**Then...**
- Guiding Principles
- Business Plan
- Quick Wins
- Recognize and Reward!