

Enhancing the Supply Chain Partnership

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Further Curriculum
Development

65 RPDs*
8 3Ps*
115 Kaizen Events*

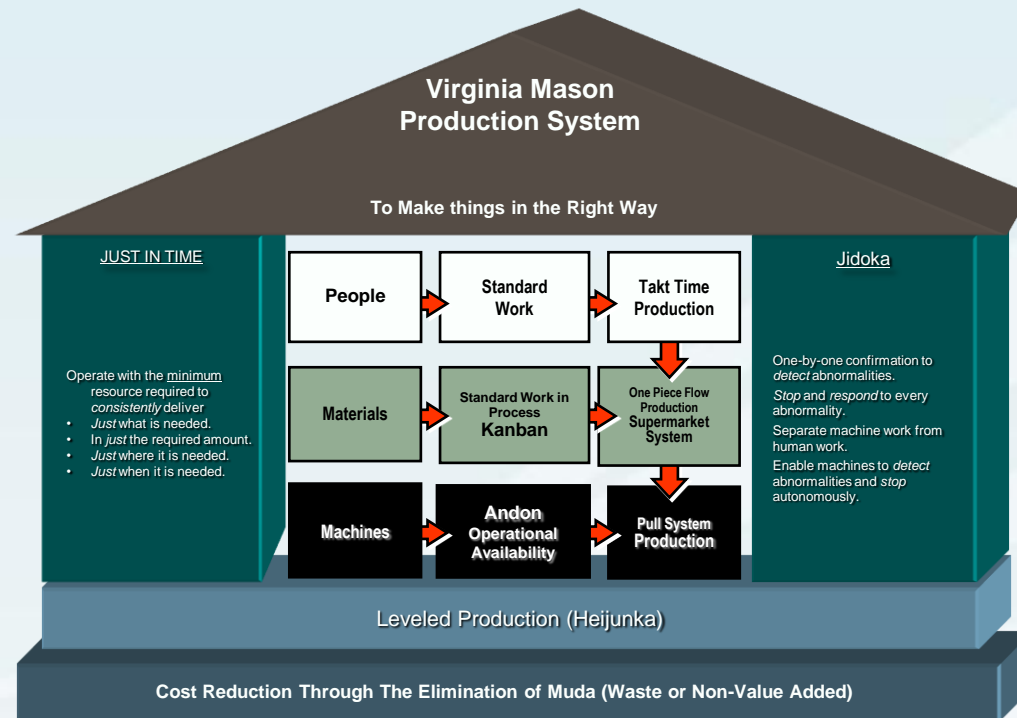
2879 Patient Safety Alerts*



Virginia Mason Medical Center

- An integrated healthcare system
- 501(c)3 Not for Profit
- 336 bed hospital
- 8 locations (main campus and regional centers)
- 400 employed physicians
- 5000 employees
- Graduate Medical Education Program
- Research center
- Foundation
- \$650,000,000 Net Revenues

- We looked *outside* our industry, and found a model that we were sure could work in health care—the lean thinking philosophy, which we now call the Virginia Mason Production System (VMPS).



- VMPS is modeled on the Toyota Production System, a management method with over a half-century track record of success.

Improvements**Education****Activities****Other****2002****Point****Executives
to Japan****395 Staff Involved
47 RPIWs
1 3Ps****18 Patient Safety Alerts****2003****Department****Certify Execs and
Japan Training****833 Staff Involved
108 RPIWs
5 3Ps****125 Patient Safety Alerts
7 Staff in Single KPO
Report Outs****2004****Cross-Department****Certify Directors****787 Staff Involved
110 RPIWs
4 3Ps****204 Patient Safety Alerts
7 Staff in Single KPO
Comp-VMPS link****2005****Cross-Department****Kaizen Fellowship****573 Staff Involved
51 RPIWs****2450 Patient Safety Alerts
22 Staff in 3 KPO Divisions
Divisional Goals****2006****Collaboration with
Outside Vendors****Manager Training****601 Staff Involved
44 RPIWs 1 3Ps
51 Kaizen Events****3315 Patient Safety Alerts
22 Staff in 3 KPO Divisions
Divisional Goals****2007****Model Line Work****Experiential
Supervisor Training****683 Staff Involved
46 RPIWs 5 3Ps
65 Kaizen Events****2855 Safety Alerts
20 Staff in 3 KPO Divisions****2008****Large Integrated
Value Streams****Education Team
3P Training/Cert****820 Staff Involved*
53 RPIWs 4 3Ps
64 Kaizen Events****2710 Patient Safety Alerts
31 Staff in 4 KPO Divisions
Central KPO and VM Institute****2009****Model Lines and
Superflow RPIWs****Further Curriculum
Development****65 RPIWs*
8 3Ps*
115 Kaizen Events*****2879 Patient Safety Alerts*
27 Staff in 4 KPO Divisions**

Transformation is difficult

- **It requires a vision**
- **It requires effective leadership**
- **It requires an infrastructure**
- **It requires massive culture change**
- **Culture changes by focusing on improving patient care and staff working conditions**

Alpha Vendor

What

- **Distributing product through a single source**
 - **Distribution Orders Cost 1/5th of Direct Orders**
 - **Standard Work**
 - **Relationships solve problems**
 - **Sharing a Common Vision**
 - **Collaboration to lower Total Supply Chain Cost**
 - **Rework consumes 1/10th of VM's Supply Chain Cost**
 - **Used in other Industries**
- **Virtual Partnership**
 - **Tight Integration**
 - **Trust**

Alpha Vendor

How

Traditional U.S. Model

- Department or firm focus, optimize firm efficiency.
- Emphasis on unit cost/price (minimum quality standards).
- Manufacturer defines needs; specifications of activities; sequential planning.
- Communication is sporadic, problem driven; little sharing of information or assistance.
- General investments; uniform approach.
- Precise contracts that split economic benefits beforehand.

Japanese Partnering Model

- Business system focus (includes supplier/customer economics), optimize value chain efficiency.
- Emphasis on full value chain (systems) costs as well as on improving quality.
- Joint efforts to define needs and problem solve; highly integrated operations and planning.
- Communication is frequent and planned; continuous sharing of information and assistance.
- Customized investments to meet unique customer or supplier needs (e.g., in information systems, people, manufacturing equipment).
- Flexible contracts that adjust to split economic gains fully as market conditions change.

Relationship Buying, Thompson -- Southwestern

Alpha Vendor Risk & Reward

•Difficult to extricate

- Tight Integration of Data
- Rebuild Workforce
- Rebuild Infrastructure

GHX
Contract
Mgmt Knowledge

•Control

- Cost increase without consent
- Data must be shared

Contract
Contract

•Complex

- Perception vs. Actual
- Retention of Knowledge
- ERP / Surgery Scheduling

TSCC
Mgmt Structure
Planning

•Unknowns

•Cost Savings are sustainable

- Productivity Gains are from Process Changes
- Price concessions are temporary

•Positions VM to evolve Supply Chain

- Kitting – Patient Specific
- Kitting – Procedure Specific
- Billing Directly to Insurance
- Vendor Owned and Managed Inventory

•Mitigates Risk of Innovation

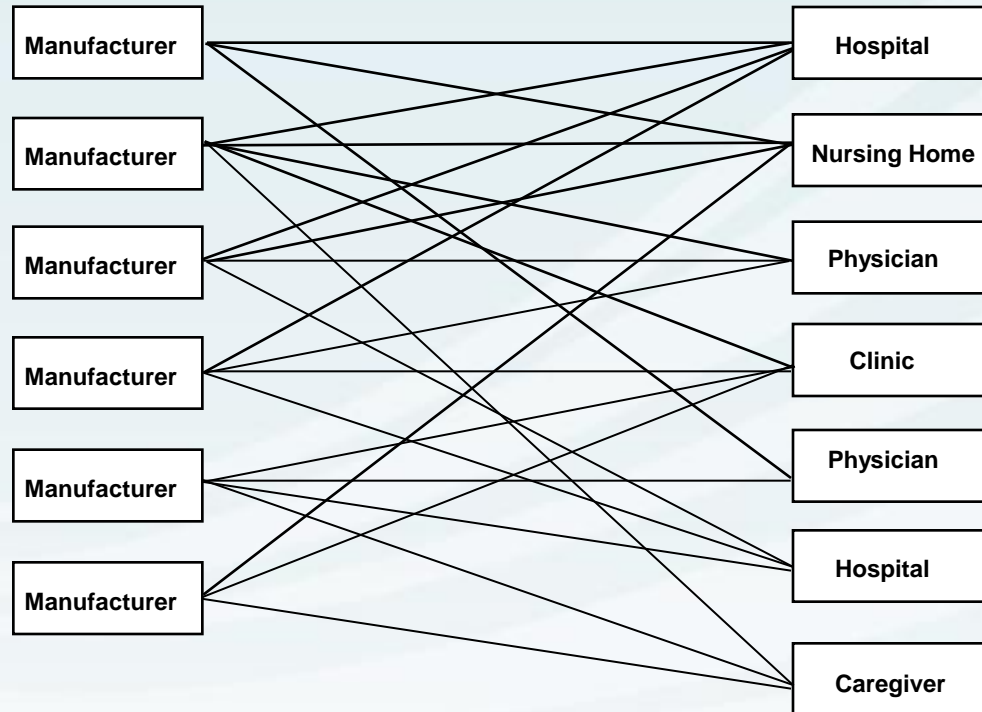
- O&M is a \$4.7 Billion entity
- Both sides share understanding of Purpose
- TSCC self correcting



"This really is an innovative approach, but I'm afraid we can't consider it. It's never been done before."

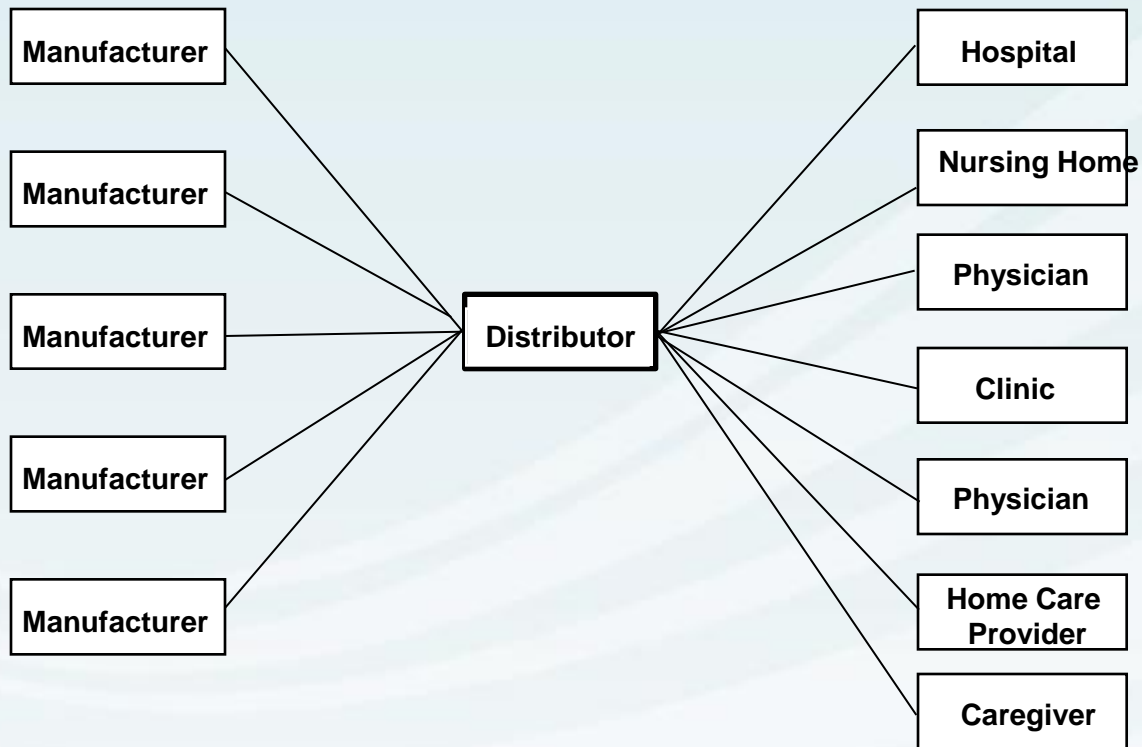
The Supply Chain

Without a distributor, the flow of orders, invoices, payments and information between manufacturers and healthcare providers is extremely complex.



The Supply Chain

Now look what happens when a distributor gets involved.



Activity Based Models



House cost \$ 100 K
Commission @ 6%
Fee to Sell: \$6K



House cost \$ 400 K
Commission @ 6%
Fee to Sell: \$24K

What Did The Agent Do Differently?

Total Supply Chain Cost Model

TSCC expands Activity Based Costing to the supply chain in 3 distinct levels

- **Level 1 – Operational Efficiency**
- **Level 2 – Supplier Evaluation**
- **Level 3 – Supply Chain Optimization**

Partnering with Manufacturers

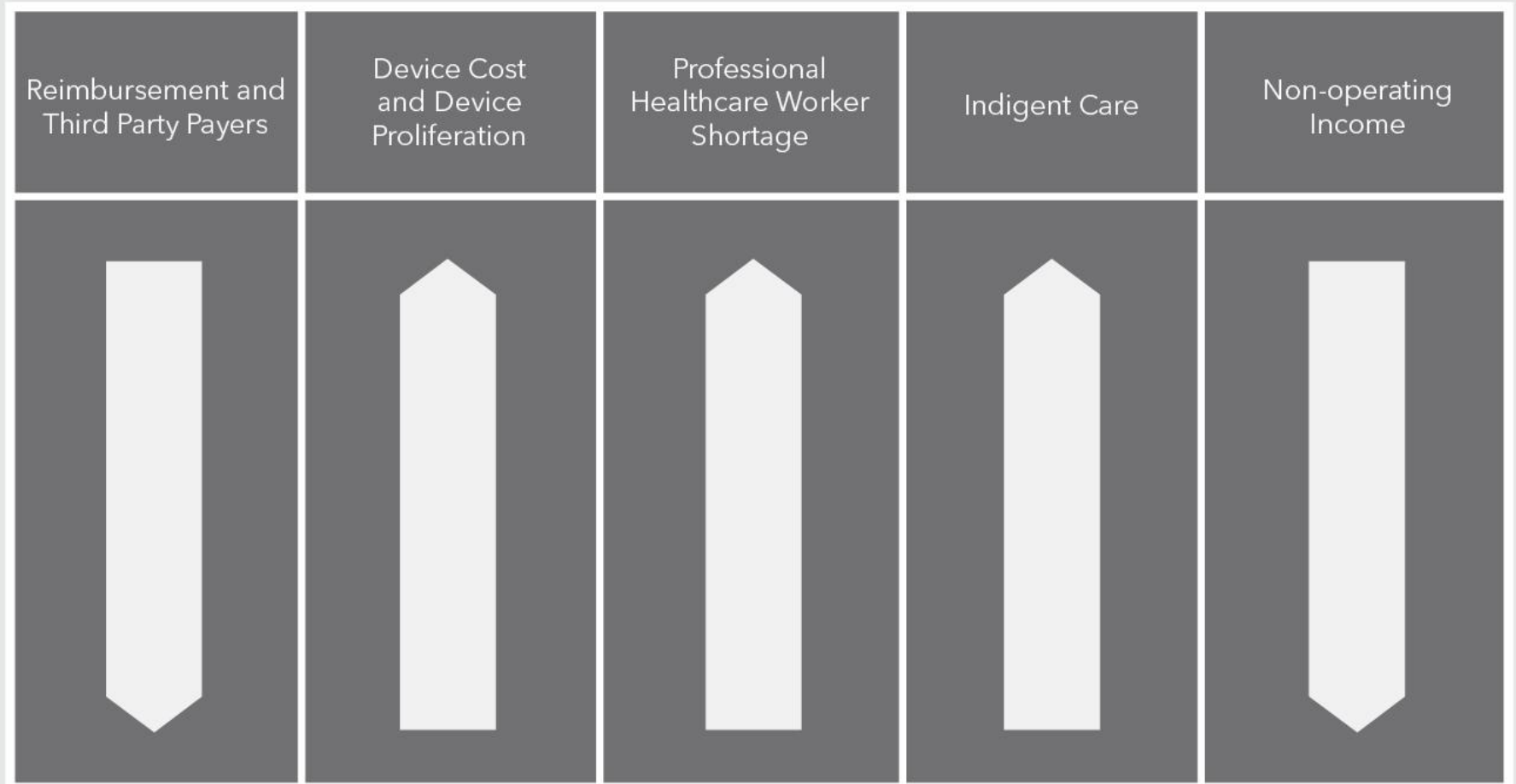
- Supply Chain Improvements
 - Distribution Pilots
 - Consignment Pilots
- Lessons Learned
 - Shared efficiencies (Lean Enterprise)

Physician Preference Products and Supply Chain Innovation

*Mike Hughes
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Cook Medical*

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Changes in Healthcare Landscape



“We have tried “partnering” with device manufacturers before. It didn’t work out. They focused on up-selling the contract, not delivering value.”

“We need help. It is a matter of survival for us.”

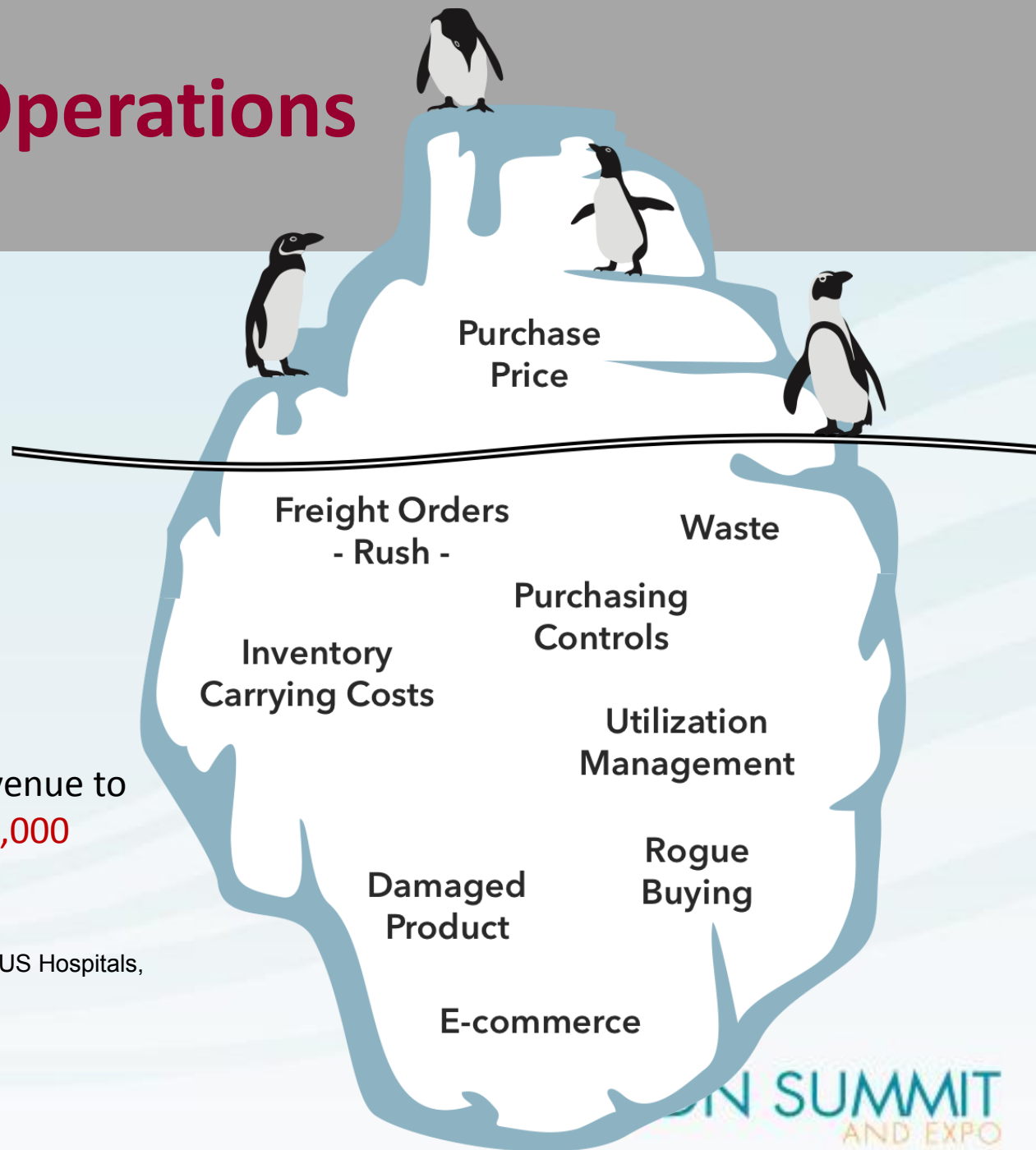
“We have to change the way we work together. We have to have strategic partners, not just partners”

“We have to have a different conversation than just contracts. It is just not a matter of price anymore.”

“We need a better choice.”

“We’ve got our commodities in line. The next area for savings is Physician Preference Items.”

Streamline Operations

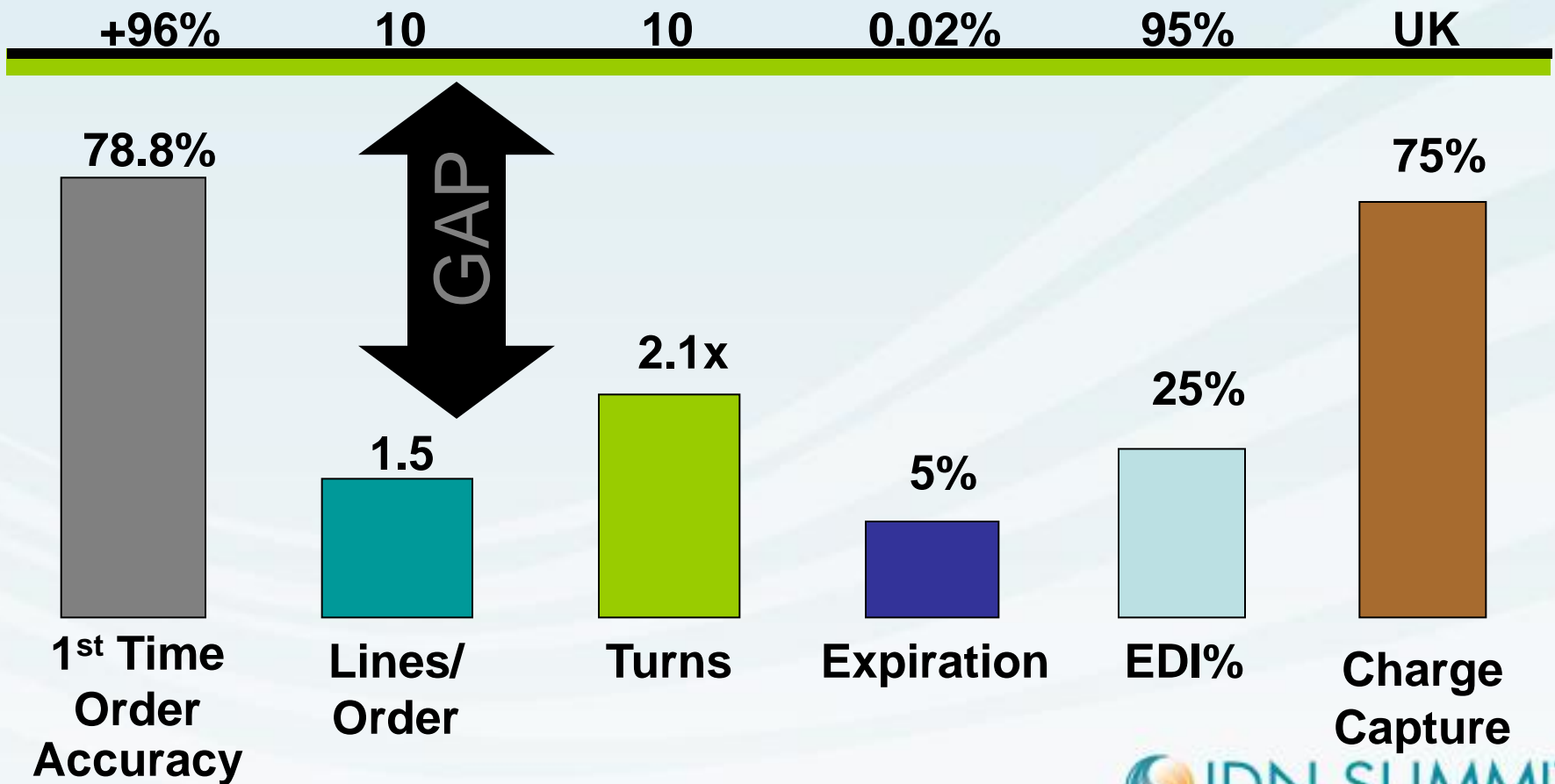


“It takes **\$11,700,000** in new revenue to have the same impact as a **\$100,000** reduction in operating costs”

“The Sourcebook, Comparative Performance in US Hospitals, Deloitte and Touche”

Supply chain costs with direct products

Typical Distributor Performance



Distribution Pilot Program

- *Pilot IDN's Identified in June 2010*
- *Aim to lower overall costs by identifying variables that add cost, time & space.*
- *Insure that visibility was maintained for end users.*
- *Develop innovative supply chain solutions that are repeatable/scalable.*
- *Important to leave “comfort zone”.*

Opportunities

