

WORKING THE PUZZLE

How to Gain Leadership Buy-In to Supply Chain Improvement



Spring 2010 IDN Summit and Expo

Peer-to-Peer Learning Exchange Research Report

How to Gain Leadership Buy-In to Supply Chain Improvement

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SETTING THE STAGE

The Patient Protection and Affordable Care Act of 2010, signed into law by President Obama last month, creates a new world for providers of care. Cuts in payment, value-based purchasing and new forms of payment all will place heavy emphasis on providing care that is of higher quality and lower cost. Transparency of pricing and quality metrics will make the ability to collect, analyze and fully report data vital to everyday operations. A new 2.3% tax on all medical devices will force providers to look harder at big-ticket and high-volume purchases. When you add to these developments with the fact that supply costs—including equipment, pharmacy and other non-labor expenses—already are estimated to represent more than a third of all hospital expenses, and could top 45% in the coming decade, the critical role of the supply chain as a source not only of potential savings but also increased quality becomes clearer.

All the more troubling then, that senior management of health systems is often disengaged when it comes to the performance and effectiveness of the supply chain. Essentially, many system CEOs basically seem to say, "I trust the senior supply folks are doing what they can to keep costs down. With limited resources, they just have to do their best." In most IDNs, supply chain executives are basically mid-level managers—very few have made it into the C-suite. In fact, most supply chain executives feel as though they aren't on management's radar. They may have a great story to tell, but the key decision makers aren't available to listen to it. It is worth noting that this is not true of other industries. Organizations such as Wal-Mart and Federal Express have found that supply chain efficiencies can often be the bottom line, not just improve it.

Looking at the top 15 issues concerning healthcare CEOs as measured by the American College of Healthcare Executives this year, the supply chain is nowhere to be found. Even when the No. 1 issue—financial challenges—is broken down into component concerns, supplies is to be found as just one component of the larger issue of "Increasing costs for staff, supplies, etc."

And yet, interwoven through the other top concerns, including healthcare reform, patient safety and quality, physician-hospital relations, care for the uninsured and technology, are the very things that the supply chain can positively impact. There are healthcare CEOs who "get it." They have either led or been a key part of improving their organizations' supply chain function through a focus on quality, cost-efficiency and innovation. They know that making supply chain transformation a strategic priority on par with finance, market competitiveness, quality of care and patient safety is the key to organizational success.

One who does get it is Lynn Britton, CEO of Sisters of Mercy Health System, St. Louis. There is a key reason, though: Britton started out in materials management. In fact, when Mercy began to centralize purchasing, logistics and other supply chain functions under a new department called ROi back in 2002, Britton, was the department's first president. He has worked with his team to fully embrace participation by his supply chain team in Mercy's overall operations. There are signs that more C-suite execs are starting to pay a little more attention to the supply chain.

There is good reason for doing so. During its 2009 Conference & Exhibition, the Association for Healthcare Resource & Materials Management (AHRMM) hosted a Thought Leader Roundtable called “Leveraging Supply Chain leadership: Building Organizational Advantage in Challenging Times.” The thought leaders—including C-suite executives—discussed a broad range of strategic issues and challenges confronting supply chain leaders today. Jay Kirkpatrick, 2009 AHRMM president stated then: “The overwhelming message that came out of the roundtable was that in the current economy, and with healthcare reform imminent, supply chain professionals are uniquely positioned to play a strategic role in preparing their facilities for future reimbursement cuts, pay-for-performance challenges and increasing cost pressure.”

CEO, SUPPLY CHAIN VIEWPOINTS

Historically, many hospital executives haven’t had a full understanding of the specific challenges faced by materials management, but that may be changing. In 2008, the Healthcare Financial Management Association (HFMA) conducted the Healthcare Executive Survey on Supply Chain Management. It surveyed chief executives and materials management leaders on key challenges facing hospitals.

The C-suite leaders and supply chain professionals agreed that clinical performance and outcomes/patient safety were the No. 1 challenge faced by hospitals; and both agreed that the No. 2 challenge was overall operating costs. The survey also looked at the chain of command in healthcare organizations. Reporting relationships observed by respondents ran the gamut, though a majority of supply chain leaders report to the head of finance. Sixty percent of supply chain leaders said they report to the CFO, 8% to the CEO, and 7% to the COO (24% report to an individual other than those listed).

One of those reporting to finance is New York-Presbyterian Hospital’s procurement department. Its supply chain professionals feel that being aligned with the system’s finance department, rather than individual hospital COOs, helps to develop supply chain metrics that are most important to the organization’s financial needs.

At Memorial Hermann Healthcare System in Texas, the supply chain department is under the facility services department. That has enabled supply chain to achieve synergies with the purchasing occurring in a construction boom within the 14-hospital system. Supply chain improvement savings goals are tied to the organization’s overall operating budget and Medicare profitability.

At the AHRMM roundtable, it was apparent that supply chain leaders are beginning to emerge from disciplines other than a purchasing background, including finance, accounting and information technology. This migration of experience and expertise can bring new business perspectives and acumen that can result in dynamic, innovative new approaches and better results for supply chain management.

The thought leaders agreed that supply chain professionals will achieve C-suite recognition, respect, and inclusion by earning credibility through sound, consistent results. As one participant outlined, the traditional supply chain story has been limited to a financial message. These professionals need to be able to prove that they can positively impact clinical outcomes and create new relationships with physicians as well.

A KEY ROLE IN PHYSICIAN RELATIONS

Healthcare reform, economic challenges and changing reimbursement structures are all driving a need for greater collaboration between physicians and hospitals. Successfully establishing truly collaborative relationships with both physicians and top executives will allow supply chain professionals to address the significant costs associated with physician preference while also giving them the ear of the C-suite.

The top three strategies ranked as “high” or “tremendous” opportunities by respondents to the HFMA survey for garnering physician and clinician buy-in were engaging the executive team in development of a supply chain strategic plan with clear goals and accountabilities (51%); sharing data with physicians to increase their awareness (50%); and conducting value analysis (49%).

Bringing physicians into a collaborative role on value analysis teams is of particular interest when it comes to C-suite relations. These multidisciplinary teams assess various products and determine the value added by certain product features to patients’ outcomes and safety, weighed against costs. Often, C-suite executives serve on these teams, along with a range of clinicians, department chairs and supply chain professionals.

In the HFMA survey, some hospitals reported that they are leveraging physician peer pressure to limit supply costs. One supply chain executive for a 13-hospital system described how his organization publishes a quarterly resource guide internally with data by payer and by vendor, which shows how the hospitals stack up against one another and how different vendors compare. Making this information available paves the way for discussions with physicians because they can see how they compare with their peers based on the vendors they use.

THE IMPORTANCE OF DATA

Data—its collection, analysis and reporting—may be one of the best means of improving communication between the supply chain and the C-suite. Data quality, therefore, is a key place to start. It is critical to have a clean, consistent and upgradable materials management information system. Most enterprise resource management vendors offer supply chain modules that handle the day-to-day tasks of planning, scheduling and procurement. These systems also include reporting functions that help decision-makers identify purchasing trends and fluctuations in vendor pricing.

Data-driven decision-making is enabled by tracking and benchmarking, which help to identify gaps in performance and opportunities for improvement. Comparing performance levels across a certain period of time and range of peers allows hospitals to note trends and see where there is room for improvement.

Metrics being tracked should include supplies as a percentage of operating expense and as a percentage of net revenue. With that data, materials managers often can help determine where opportunities exist to trim costs and be able to easily communicate that to the finance department and the rest of the C-suite.

CEOs anecdotally report that much of the reporting they get from supply chain departments seems to be in a different language than typical finance department reports, for example. It behooves all supply chain departments to pay more attention to the presentation of data. Asking top executives for tips on what kind of reporting is easiest for them to digest is a key best practice.

ONE WAY IN: FINANCE

Hospitals can implement continuous improvement processes in their supply chains by focusing on three key areas: tracking and benchmarking what spend should be, analyzing supply use by service line and linking the supply chain to the revenue cycle. Efforts in the three areas don't have to be conducted separately; ideally they will feed off one another, with data from one area driving decision-making in the others.

Respondents to the HFMA survey indicated substantial potential for improvement through better integration of the revenue cycle and supply chain. It was viewed as an area of "high" or "tremendous" opportunity by 50% of respondents. Developing shared goals and accountability to foster collaboration was seen as the most useful strategy in this area. When it comes to raising the profile of the supply chain department, that strategy is especially useful.

When pricing supplies, a key consideration should be level of reimbursement. The importance of linking costs to the level of reimbursement is just beginning to become clear in health care. A few years ago, one major health system employed pricing benchmarks to reduce the cost of knee implants by more than 10% at just one hospital. However, today that system uses the reimbursement for knee implants as the basis for bringing costs down.

The fundamental underpinning of linking the supply chain to the revenue cycle involves matching the revenue cycle's chargemaster (prices of supplies that are charged to patient cases) with the supply chain's item master (the cost of the supplies). The task may sound easy enough—but not when the revenue cycle and supply chain departments use different tools, have different staff members and report to different executives.

One healthcare organization that is working to link the two is Florida's Orlando Health. The system adopted a tool that allows revenue integrity and materials management information systems to share data, which means users can compare charge and cost data. By providing information such as charge code number, description, price and volume data, the tool enables the revenue integrity staff to link the same items listed under different descriptions or different prices on the chargemaster and item master, for example.

Another benefit to using the tool is the ability to track markups and fluctuations on prices for supplies. Rather than applying an annual, across-the-board percentage increase on items in the chargemaster, the organization now reviews each item for appropriate adjustments to charges.

CONCLUSION

This is a critical juncture for healthcare supply chain leaders' ability to reach senior leadership. Health reform, financial pressures, the skyrocketing cost of medical devices, greater concern over quality of care and patient safety—all these factors should place supply chain optimization at or near the top of the list of health system priorities.

Though things are slowly changing, that is not where the supply chain is today. It is up to the supply chain professional to do his or her part to change that dynamic, finding new ways of adding value and communicating that value to the top decision makers in their organizations.

SESSION FOLLOW-UP

Introduction

Most participants at this Peer-to-Peer Learning Exchange expressed confidence that they possess the wherewithal to engage their senior leaders in productive communications. Most report at a regular frequency to a senior leader, a leadership team or to the board. Supply Chain Management appears to be clearly “at the table and on the agenda” at these institutions. The trick will be staying that course through the demanding times ahead.

Major Points

- Connecting the dots. A great deal of the exchange centered on the need to establish Supply Chain as an integral part of mission fulfillment, an integral part of the whole.
- Competing Priorities. It was clear that the Supply Chain Practitioner must compete with a multitude of high priority topics to get their agenda forwarded.
- Informatics. Evolving from the traditional line item transaction-oriented reports to more comprehensive service line analytics appears to be a winning strategy.
- Plan the work, work the plan. Earning the trust and confidence of the C-Suite requires setting a strategic course and demonstrating the return on the outcome.
- Who's on first? Virtually all participants spoke of the frustration experienced to reorient or course correct as leadership changes.
- Staccato messaging. Everyone is doing more with less, including senior leaders. The participants felt that concise brevity was another winning strategy.
- Know your audience. First base your message in the mission, vision and values of the organization, then...If you're talking to the CFO, talk in dollars and cents. If you're talking to the COO, talk in process improvement and efficiencies. If you're talking to the CNO, talk quality and effectiveness. Etc.

Key Finding

As the participants began comparing frustrations; “we waste time defending benchmarks and consultants”, strategies; “I find that bringing a bundle of strategic information like quality control data, infectious disease and outcome reports from third party sources improves the integrity of the message” and successes; “stuck in the middle between reimbursement and outcomes, we fill a role as facilitators/informers and make sure we're involved”, a clear theme of collaboration emerged. Not traditional collaboration with the outside (suppliers), but between organizational peers. Making these connections with other department heads and working to consolidate messages and strategies is not only more efficient, but also a key enabler to integrating the supply chain as an integral part of the ultimate objective; quality cost effective delivery of care. “Everyone is busy, we have got to find ways to bring the work together and line up with the mission of the organization”.

Additional Findings

Building and tooling the Supply Chain team for strategic success then took the floor. The participants shared details on how they have changed their scope of responsibilities; "I have taken on decision support and informatics for my organization. It has helped me get the information that I need and plugged me into pieces of the organization that I knew very little about". How they have recruited different expertise; "So it's unanimous then, everyone here has a nurse or clinician in their supply chain department". And how they have sought out partners and technology to aid their messaging; "We use a third party service to gather FDA, evidence-based quality and outcomes information that can be added to our presentations, we can't just keep focusing only on cost". The right awareness, the right people on the team and the right tools are critical ingredients for developing the trusted advisor role desired by supply chain professionals.

Next Steps

Participants expressed concern over further distancing themselves from their peers. The notion that if you've seen one IDN, you've seen one IDN, was mentioned and it was suggested that that condition may only get worse as supply chain practitioners embark on more inter-organizational strategies. The need for more comparative effectiveness intra-organization benchmarks was seen as a critical element of future success. Senior leaders still tend to rely on traditional benchmarks and supply chain practitioners find that they waste a great deal of time defending their broadening strategies against myopic benchmarks. It was generally felt that research in this area would help supply chain practitioners increase their effectiveness in engaging their senior leadership.

INFORMATION RESOURCES

John Cunningham, "C-Suite engagement is key to supply chain," Hospital Impact, Aug. 31, 2009
<http://www.hospitalimpact.org/index.php/2009/08/31/p968>

"Your Strategy for Continuous Supply Savings," Healthcare Financial Management, September 2009 http://www.hfma.org/NR/rdonlyres/80D0460A-B9D3-411E-B56E-790A9899576D/0/400670_SupplySavings_EduRep.pdf

"Opportunities for Supply Chain Improvement," Healthcare Financial Management, May 2008
<http://www.hfma.org/NR/rdonlyres/DCFF45C7-658D-4ADF-B012-D7C1B6B685E4/0/400607OppforSupplyChainImprov08.pdf>

"Effective supply chain leaders gain in stature," Materials Management in Healthcare, July 2009
http://www.matmanmag.com/matmanmag_app/jsp/articledisplay.jsp?pf=true&domain=MATMANMAG&dcrpath=MATMANMAG/Article/data/07JUL2009/0907MMH_Coverstory

Leveraging Supply Chain Leadership: Building Organizational Advantage in Challenging Times, a Healthcare Supply Chain Thought Leader Roundtable of the Association for Healthcare Resource & Materials Management http://www.ahrmm.org/ahrmm/news_and_issues/issues_and_initiatives/files/leveraging_supply_chain_leadership.jpg.pdf

The logo consists of a circular emblem with a stylized, swirling 'S' shape inside, followed by the text 'IDN SUMMIT' in a large, bold, sans-serif font, and 'AND EXPO' in a smaller, all-caps, sans-serif font below it.

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