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Strategies for Minimizing the Impact of Rising Commodity Prices



There are short-term and long-term actions hospitals should undertake now to offset the effect that increased commodity prices will ultimately have on supply costs. → →

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Greater global demand coupled with world events has recently driven up the costs of commodities like cotton, rubber, food, and fuel at a higher rate than usual. Concerns about an extended inflationary period are not unwarranted.

None of this is good news for the hospital supply chain. Rising commodity prices can result in rising supply costs, which, in turn, can have a major impact on what are already very tight profit margins.

But the extent of any impact on a particular hospital depends largely on how well supply chain leaders have instituted strategies to minimize what at least one manager describes as a never-ending series of increasing costs.

“Our whole lives as materials managers are centered around, ‘Where else can we find more savings?’” says Michael Louviere, vice president of supply chain for Baptist Health System, a four-hospital system based in Birmingham, Ala.

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“We’ve pushed hard year after year, and there’s always a crisis. It’s time to reevaluate and look at a new angle for opportunities. Look at what’s going on and maybe make some strategic changes.”

Although these increases in commodities may be inevitable, hospitals don’t have to capitulate to potential increases to their supply costs. Instead, hospitals can employ the following short- and long-term strategies to help minimize the effect of rising supply prices and provide a thicker layer of insulation for that increasingly vulnerable bottom line.

Short-term Strategies

Strategy No. 1: Have a plan B. Whether it’s with food or pharmaceuticals, supply managers should always be on the lookout for cheaper alternatives that produce the same quality and outcomes.

Food products often provide ample opportunity for switching to cheaper alternatives. For example, chopped broccoli is less expensive than broccoli spears; the same goes for chopped spinach versus leaf spinach, says Joseph DiPaolo, director of supply chain, pharmacy, and the orthopedic service line for Atlantic Health, a three-hospital system based in Morristown, N.J. “The dietitians work with the chefs to figure out where they can make menu changes to mitigate some of the costs without burying the recipe,” he says.

Atlantic Health also expanded its warehouse space to store more supplies, like canned goods, which can be purchased in bulk in order to get volume discounts, DiPaolo says.

At Baptist Health, pharmacists and dietitians are always researching lower-cost, alternative products. “Our pharmacists have been very successful at moving back to a generic product or a base product

that happens to have the same results,” Louviere says, noting that a less expensive alternative has been found for anti-coagulant medication.

Louviere says materials managers at Baptist Health meet with distributors and the health system’s group purchasing organization on a regular basis to discuss alternative options for supplies that would reduce costs. For example, as the cost of latex has risen dramatically, Baptist switched to surgical gloves made from nitro. “We’re not paying those expensive latex prices,” he says.

Strategy No. 2: Resist the Cadillac. Strong marketing techniques can seduce users into loyalty when in reality cheaper, just as effective alternatives exist. It’s up to materials managers to educate users on these other options. So, say product A costs \$20, while product B costs \$10. Both perform the same function without complications, but product A has a great marketing scheme.

“It’s our job to figure out if B is still a good quality product, and most of the time it is,” Louviere says. “So, we have to learn how to sell internally just as well as these suppliers selling externally. We still want to drive quality. We always want a good, solid product, but do we need a Cadillac and a Rolls Royce? Is a Ford or a Chevy okay?”

Strategy No. 3: Reduce choices. Variety may be the spice of life, but if it that variety results in greater expense, maybe it’s time to be a little dull. For example, limiting color choices on even smaller items, such as bed pans, may lead to cost-savings. “Look for products that have the same therapeutic equivalencies, but may not be the same color,” says Mike Alkire, president of Premier Purchasing Partners, Charlotte, N.C.

Supply and Labor Expense as a Percentage of Total Expense



Source: Premier Healthcare Alliance.

This chart shows the median performance of supply expense and labor expense as a percentage of total expense for 180 hospitals that are part of the Premier Healthcare Alliance. The numbers show no significant changes in supply and labor expense ratios for a nearly two-year period beginning in 2009.

Standardizing products, however, can be met with resistance if not handled appropriately. Use clinical committees to identify options that produce the same quality, and then explain to users the reason for the decision to use a different product. “It’s really about understanding what separates products from a therapeutic equivalency standpoint and then working with the users of the products to get them to agree on those therapeutic equivalencies,” Alkire says. “Then everything else is less important, which obviously allows for standardization and drives better prices.”

Strategy No. 4: Redouble past efforts.

Strategies that may have provided some success in the past can languish for a number of reasons, apathy and lack of buy-in from employees representing perhaps some of the most common. For example, at Atlantic Health, efforts to promote sterile reprocessing of single use devices had to be reinforced, as did encouraging employees to limit their amount of printing and instead work from a computer screen only. DiPaolo

says at Atlantic Health, it’s important to “tighten up the places where we have an opportunity to save.”

Atlantic uses its intranet system to post cost-saving ideas from employees and encourage buy-in. Through a Google search, one hospital staffer found that the University of Wisconsin-Green Bay switched to using the century gothic font because the university says it uses about 30 percent less ink during the printing process. In response, the information systems staff at Atlantic set printers to default to the century gothic font, which saves on toner and paper costs, DiPaolo says.

Long-term Strategies

Strategy No. 1: Identify strategic suppliers.

Although simply accepting increases passed along from suppliers as a result of rising commodity prices may seem unavoidable in today’s environment, hospitals are not helpless. Instead, hospitals can be proactive by using suppliers that are constantly looking for ways to improve their procurement and

manufacturing processes to drive better outcomes at lower costs, Alkire says. “Everybody’s looking at organizations that can improve the productivity of their manufacturing to abate some of the costs of those raw goods,” he says.

Alkire says suppliers can protect their healthcare customers from rising prices by implementing better, faster, cheaper methods, such as streamlining the procurement process. “Suppliers have more responsibility than just selling the product to the hospital. They also have to sell it efficiently and they’ve got to do so appropriately, meaning by hedging costs,” he says.

Supply management organizations can link hospitals with suppliers that have put such processes in place to serve as a buffer during inflationary periods, Alkire says.

Strategy No. 2: Partner with suppliers. Two heads (or more) are always better than one when it comes to strategizing. Working with manufacturers and distributors to scope out areas of opportunity for reducing costs can lead to significant savings or at least counteract price increases. Louviere, for example, belongs to a not-for-profit consortium of healthcare providers and suppliers that strategize on developing tools and enhancing processes to create efficiency in the supply chain.

Recently, Louviere was involved in a project that helped a manufacturer save \$3 million by reducing purchase order processing costs. The team helped identify a tool that enabled data to be sent electronically between the manufacturer, distributor, and hospital, making its order processing more efficient through every part of the process from order placement through to delivery and payment. Louviere says the technology helps

Overall Projected Price Changes in Nonpharmacy Supplies, 2011

Product Category	National Market Price Projection	Novation Contract Price Projection	Product Category	National Market Price Projection	Novation Contract Price Projection
Business Products	4.4%	2%	Imaging	0.5%	-0.8%
Capital Equipment	2.7%	0.5%	Laboratory	3.8%	0.3%
Cardiovascular	1%	-0.2%	Medical Supplies	3.6%	0.3%
Environmental Services	6.6%	2.2%	Orthopedics	5.4%	2.3%
Food and Nutrition	5.8%	3.6%	Surgical Supplies	3.2%	0.8%
Overall Projected Price Change	3.1%	1.0%			

Source: Novation.

to ensure accuracy from one point to another, resulting in increased efficiency and reduced costs. “In today’s environment, hospitals need to be working in partnership with suppliers. They need to be as worried about what price increases their suppliers are facing as the increases that they are facing, because ultimately the suppliers are going to try to pass those price increases on to their clients.”

Strategy No. 3: Optimize use of automation.

Automating processes creates efficiencies by reducing the dependency on manual labor. But automation, through such features as real-time reporting, can also create visibility to data, which in turn enables a hospital to more easily identify cost-savings opportunities and make more informed decisions about pricing, says Bruce Johnson, CEO of Louisville, Colo.-based GHX. Johnson says technology enables hospitals to ensure contractual compliance—that the prices the hospital negotiated in the contract are actually what it’s paying—and to uncover better pricing opportunities for supplies that are not on contract.

Johnson says although many hospitals use automation, they’re missing out on opportunities for additional savings by not increasing this usage to cover more of their supply spend. “For many

hospitals, it’s an area of focus, but doing that on a broader portion of their portfolio would be critical,” he says.

Multiple supply chains within a health system or even a single hospital can mean that a lot of supply ordering is occurring outside the materials management department, meaning that the hospital is not getting the negotiated price if the item was on contract. An online procurement tool, on the other hand, automatically validates contractual compliance in real time when an item is ordered. Likewise, Johnson says a procurement tool will identify items that are being purchased regularly that are not on contract so hospitals can negotiate better prices for those items.

Johnson says that typically, there is an opportunity to save 12 percent of supply spend by ensuring that supplies throughout the entire hospital go through an automated procurement process. One category where there’s room for improvement is physician preference items, which are often non-stock items and, therefore, may not be ordered through the regular procurement process, Johnson says. “I think there is definitely an opportunity to leverage automation across hospital supply chains,” Johnson says.

Strategy No. 4: Remind, remind, remind.

Perhaps the most cost-effective strategy to help minimize the impact of those oncoming increases is simply raising awareness on where money is being spent to identify cost-savings opportunities. At Atlantic, the president of each hospital holds monthly management meetings during which departmental managers are reminded of the need to look more closely at their budgets. “Just by increasing awareness, people tend to be a lot more judicious about where they spend money. That has a very positive effect,” DiPaolo says.

It Pays to Be Aggressive

Rising commodity prices are cause for concern, but good supply chain leaders are always looking for ways to make operations more efficient. Whether the answer involves working more aggressively internally by charging staff with uncovering cost-savings opportunities or working externally with suppliers to make processes more efficient, combating rising prices is not untenable.

“There’s always somebody out there who is a little bit smarter and has figured out ways to deal with price increases such as these,” Louviere says. “And, if you are patient and go after cost-savings opportunities, there are answers.” ☞



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Using Technology to Achieve Financial and Clinical Outcomes

Learn how Alegen Health's workforce planning initiative helped reduce labor costs by more than \$8.5 million while improving employee satisfaction and quality of care.

Efforts to reduce labor costs while enhancing productivity and improving quality of care are challenging tasks for any hospital, and are accomplished through labor forecasting and workforce planning. Elevating these initiatives to a strategic level can be arduous in light of competing organizational priorities.

Several years ago, Alegen Health, a 9-hospital system in eastern Nebraska and southwest Iowa, began an initiative to reduce labor costs and enhance efficiency through workforce planning. Along with an initial savings of more than \$8.5 million, the initiative led to some important discoveries that have helped Alegen Health not only better manage its labor dollars, but also improve employee satisfaction and achieve higher-quality care.

The Workforce Planning Journey

Beginning in 1996 and continuing for the next several years, Alegen Health integrated several disparate hospitals into one system. As the health system embarked on a formal and rigorous quality mission, hospital leaders realized more than ever the direct impact that efficient and effective workforce management would have on a hospital's ability to deliver safe care, increase workforce capacity and productivity, and ensure patient and employee satisfaction. Staffing became more than an administrative task for the hospitals: It was considered key to the bigger picture of resource management.

To better manage hospital staffing, Alegen Health continually asked: "How

do we put the right resources in the right place, at the right time, and at the right cost?" Answering this question involved a series of changes in how the health system managed its resources holistically.

A shortage of qualified healthcare professionals had been identified as the greatest threat in 1998, when Alegen Health launched a major expansion and integration of facilities:

- > Labor comprised 60 percent of the health system's expenses (including more than 100 separate agency contracts)
- > Resource management was often left to "chance," leading to crises at the health system
- > Competition for labor sometimes caused conflict between nursing leaders within Alegen Health
- > Managers were forced to barter with core staff to get them to work extra hours during times when staffing levels were low
- > Core staff were let go for a shift from one unit while expensive agency resources were used in another
- > Employee surveys revealed that staffing disparity was causing widespread dissatisfaction

Alegen Health leaders were given a mission to solve the resource management challenges within the five largest hospitals. They quickly formed a multidisciplinary team led by nursing, which included representatives from human resources, operations and finance, to tackle the issue. Their team was guided by seven goals:

- > Develop fully articulated strategies clearly understood by all stakeholders
- > Leverage economies of scale to optimize resources and improve operational efficiencies
- > Create plans that are achievable within defined periods of time
- > Develop and apply processes and policies consistently across the organization
- > Use one source of data for planning and analysis purposes
- > Ensure strategies are sustainable for ongoing practice
- > Identify a workforce management technology partner to support strategic goals

Formulating the plan took considerable collaboration with department leaders to produce enterprise wide staffing matrices, benchmark current labor hours against national norms, and adjust productivity targets for all cost centers. One of the biggest challenges to collaboration was the concern that Alegen Health's smaller hospitals might not get the staff they needed and that the larger hospitals would have priority access to the resources. Other questions arose: Would staff resist the changes? Would nurses be tempted to transfer to other hospitals within the system? Would they flee to competing hospital systems during major nursing shortages? Would leaders be held to unrealistic productivity goals?

Thankfully, such concerns turned out to be unfounded.

From Planning to Action

- The outcome of the plan was two-fold:
- > Create an integrated resource management center for monitoring and analyzing the continual rise and fall of patient volumes with the available resources
 - > Direct a team to work in collaboration with clinical leaders to achieve

deployment of contingency resources to the units with the highest need based on census and patient acuity. At the outset, the team developed a comprehensive set of business and clinical rules. These parameters were automated within Alegen Health's new software. Thus, communication at the time of deployment—in those crucial minutes leading up to the start to the shift—could center on the handful of extreme situations that fell outside the pre-set guides. The early teamwork to set these parameters continues to have an impact on patient care in a tangible way, as it allows for real-time collaboration to focus on those patients whose care most requires special consideration.

The skillful balance of core-to-contingency staff ratios led Alegen Health to save more than \$8.5 million in the first two years after the enterprisewide

resource management plan was launched. In the ensuing years, utilization of contingency staff has never returned to the prechange levels as the organization has continued to make resource management a strategic focus. The exhibit on page 7 shows the year over year savings realized during the transition period. Through these efforts, Alegen Health also realized a vast improvement in staff satisfaction. The number of float pool staff and adjustments in core staffing and core staff shift cancellations due to census fluctuations decreased dramatically.

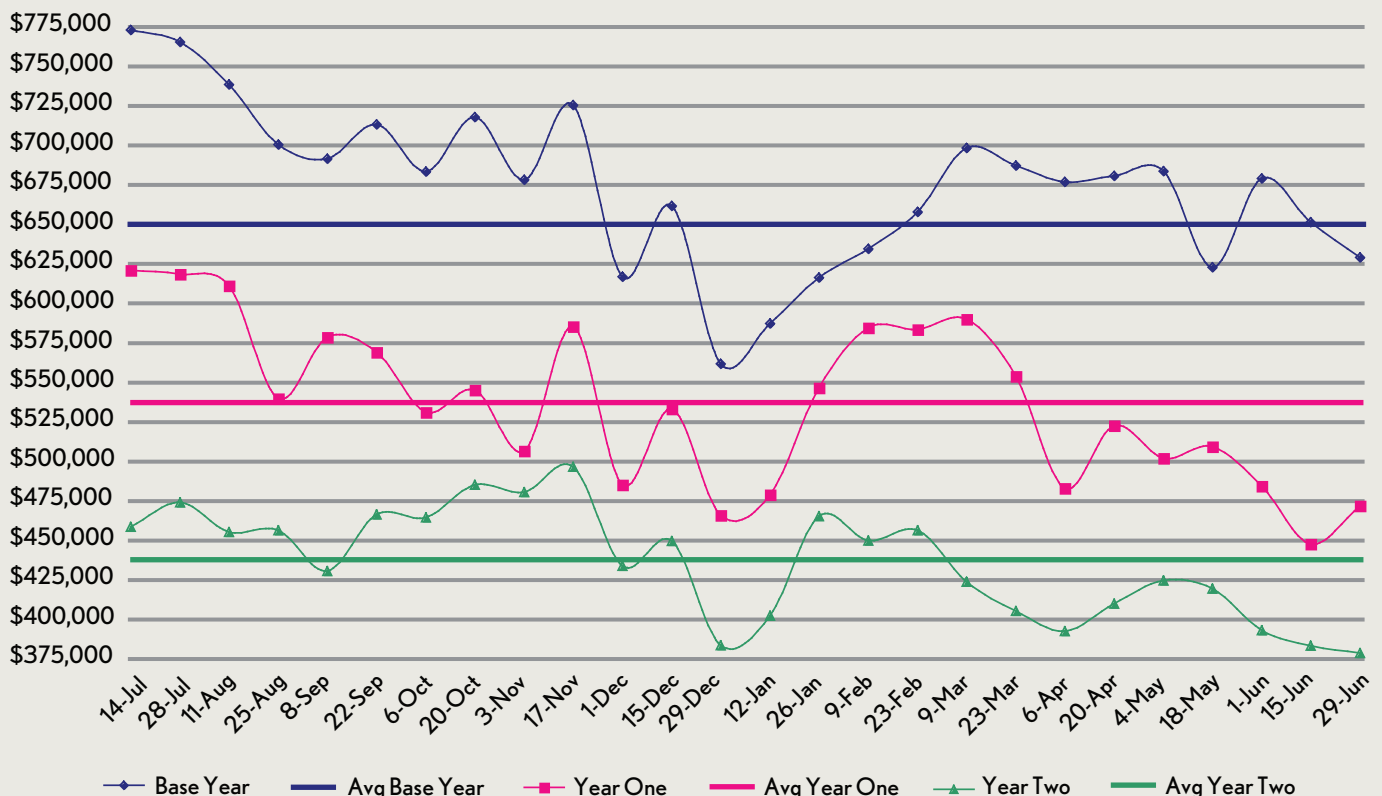
Executing the Plan

Achieving the desired goals required a coordinated, enterprisewide approach, with high-quality patient care as the centerpiece of all decisions. A key component was a labor management partnership that was designed to operate a resource management center (RMC).

The RMC is staffed and operated by Alegen's resource management partner and coordinates employee deployment and operates in parallel with patient through-put under the rigid set of clinical and financial protocols developed by the Alegen Health team:

- > **Develop resource goals.** Identify staffing strategies and desired outcomes, including budget goals, labor hour standards, and workload matrices. Goals must encompass the enterprise, hospital, and unit view.
- > **Maximize core staff resources.** Create balanced schedules and ensure core staff are meeting FTE commitments to reduce the potential need for using more costly forms of contingency staff.
- > **Proactive shifts.** Identify gaps between core staff schedules and emerging patient demand to allow use of more cost-efficient forms of staff, and eliminate last-minute chaos and deal making to fill open shifts.

Labor Dollars Saved through Alegen Health's Workforce Planning Initiative



> **Strategically allocate resources across system.** View enterprise resources across the five hospitals by unit, day, and shift, deploying staff to meet patient needs.

> **Analyze outcomes in real time.** Provide real-time decision support data regarding open shift needs and overtime as well as analytics to trend and track to performance goals. Ensure access to consistent, actionable data that can give leaders the tools with which to make an impact on performance within near-term timeframes.

After initially using legacy software and dozens of time intensive work-arounds, Alegen Health built a software product that enables the health system to automate end-to-end workflow processes and measurement of the key performance indicators (including productivity, contingency percentages, and average hourly rates) the health system has developed. Alegen Health knew that the right technology solution should be highly configurable to allow adaptation to each hospital's business needs and rules.

One of the strongest components of Alegen's software solution is its predictive model, which allows the hospital to identify emerging patient demand against the supply of its available labor resources. The model considers multiple variables and indices and has allowed the health system to realize 20 percent more efficiency than it did in staffing to a fixed patient census. The model begins estimating demand weeks in advance of a scheduling period based on multiple variables including patient census and flu indices and continually adjusts the anticipated demand until just before the start of a shift, when actual conditions create the final plan and the deployment of resources occurs.

Don't settle for an off-the-shelf product and conform your organization's needs to the functionality of the product. Make sure you are looking for a customized solution that will adapt to your organization's labor management needs.

Results

Alegen Health's managers continue to embrace the concepts established in the original resource management plan. As a result, adoption of workflow processes and technology remains high within the organization.

In turn, effective resource management at an enterprise wide level has had a positive impact on quality and safety throughout the health system. Alegen Health is the No. 1 ranked healthcare system in the United States in terms of quality, as reported in a study by the Network for Regional Healthcare Improvement, an organization focused on improving financial and clinical healthcare outcomes (Hines, S., and Maulik, S. J., "Variation in Quality of Care Within Health Systems," *The Joint Commission Journal on Quality and Patient Safety*, June, 2008).

Resource management also is part of the platform for employee engagement and retention, which are two criteria for the American Nurses Association Credentialing Center's Magnet® Recognition Program, a prestigious designation awarded to hospitals that demonstrate nursing excellence. Alegen Health Mercy Hospital has achieved Magnet® designation twice. Just 6.38 percent of all healthcare organizations in the country have achieved this status,

and only one-third of these organizations have been redesignated.

Such accomplishments can, in part, be attributed to multidisciplinary collaboration and implementing the right technological system to enable a holistic view of workforce planning and resulting outcomes.

Lessons Learned

There were a number of lessons that Alegen Health learned as part of its workforce planning initiative.

The labor budget must be an essential element in resource management plans. The budget must be developed, analyzed, and adjusted based on what is occurring with the organization's labor demand. Matching demand and supply to the most cost-effective source is key to successful resource management.

The right technology provides managers with comprehensive analytical data they can use to plan and respond. Don't settle for an off-the-shelf product and conform your organization's needs to the functionality of the product. Make sure you are looking for a customized solution that will adapt to your organization's labor management needs.

An enterprise approach to labor management is a strategic imperative in achieving financial, quality, and satisfaction outcomes. Involve all stakeholders early and often in your labor management strategy. ☞

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A Model of Supply Chain Success: Sisters of Mercy Health System/ROi

As a recognized supply chain leader, ROi uses innovative and practical strategies that health systems of all sizes can employ to improve their own supply chains.

Sisters of Mercy Health System, St. Louis, ranked third in Gartner, Inc.'s second annual list of the top 25 health-care supply chain organizations in the country. The list recognizes healthcare companies that pair excellence with value—defined as high quality patient care delivered at optimal cost. Sisters of Mercy is one of five healthcare providers that made the list.

The reason for Sisters of Mercy's success in supply chain rests with ROi (Resource Optimization and Innovation), the health system's for-profit supply chain division. The division is run as a separate unit from the health system, and handles supply chain management for all of Sisters of Mercy's 26 acute care hospitals

and numerous other care facilities, in addition to other health systems.

ROi has won numerous accolades for its successful strategies. According to ROi president/CEO Vance Moore, a disintermediated operational model forms the foundation of ROi's ability to create value for both ends of the supply chain. ROi not only negotiates pricing directly with manufacturers, but also purchases supplies, picks them up from the manufacturer, and distributes them from its own 100,000-square-foot consolidated service center in Springfield, Mo.

This operational structure offers financial benefits for manufacturers and health systems. As a purchaser and a

negotiator, rather than a negotiator only, ROi has the ability to garner greater compliance, meaning health systems are actually purchasing supplies from a specific vendor at negotiated rates. By acting as its own transporter of goods, ROi reduces costs for the manufacturer, Moore says. The result of greater market share and increased efficiency for vendors is better pricing for health systems, Moore says.

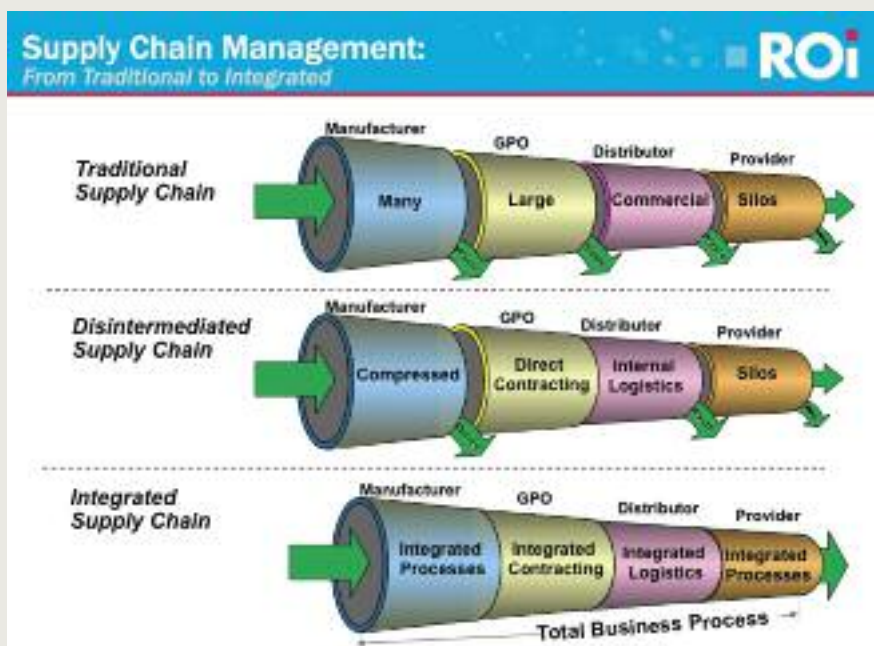
Innovative Strategies

From manufacturing supplies such as custom procedure trays in-house and repackaging pharmaceuticals to improve patient safety and reduce costs, ROi employs innovative strategies that contribute to its ability to add value, Moore says. ROi also has a private-label product line, produced with outside manufacturers, that removes general and administrative costs and costs associated with the sale of a product from the total cost of the product, Moore says.

Another area of innovation demonstrated by ROi is its approach to collaboration with vendors. Moore says it's important to get a clear understanding of what suppliers want. When asked this question, suppliers often say they want to grow their business properly, Moore says. But that response doesn't provide enough information for the purchaser to be helpful. ROi's response: "We know that's what you want to do. Now tell us how you want to do that from a strategic standpoint and we'll see if we can't help you with that," Moore says

For example, ROi may propose a way to increase a supplier's profits by buying more strategically. Rather than buying 50 commodity items from the manufacturer, ROi narrows the purchase to the

Types of Supply Chain Models



Source: ROi.

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The Value of Sisters of Mercy's Supply Chain Approach

Value: Supply Chain Contribution FY10 Value Report	
ROI	
Mercy Supply Chain - Value Report - FY10	
ROI - Customer Value Category	Mercy Value
Fee Elimination	\$4,634,700
Centralization	\$4,405,000
Contracting / Rebates	\$6,844,500
Results from Consulting Services	\$8,943,100
Equipment Investment in Hospitals	\$1,590,100
Total Supply Chain Contribution	\$26,417,400
Centralization Fee (to ROI from Hospitals)	(\$4,150,000)
Net Financial Benefit to Customer	\$22,267,400
Customer Return = 6.4:1	

Source: ROi.

manufacturer's five most profitable items. A product like blood pressure cuffs can come in many styles, but all cuffs have the same function. Reducing the variety of cuffs ROi purchases to those that are most profitable for the manufacturer can also reduce cost, Moore says.

"In doing so, we will drive up the supplier's profit; we just ask them to lower our price at the same time," Moore says. "The supplier is now making more profit per transaction. ROi benefits because instead of having 50 items on the shelf, we've got five items on the shelf. So, we've cut our inventory, we're turning product more quickly, we've made the process cheaper for us, too," Moore says.

Achieving a Highly Functional Supply Chain

As a for-profit entity, ROi exists to do what is right from a clinical perspective and at the same time drive significant financial value Sisters of Mercy and

those we serve. But health systems don't have to set up separate business units in order to duplicate some of the supply chain success that ROi has achieved. Moore says ROi operates under what he says are the four components of a highly functional supply chain.

Component No. 1: Tie supply chain strategy to corporate strategy. Supply chain managers must have a good relationship with senior executives and understand their

When Sisters of Mercy consolidated its materials management information systems to one system, managers discovered incidents of multiple pricing for the same supply because the supply was being called something different across facilities.

long-term goals for the health system to develop a strategy that maps supply chain strategy with the goals of the overall organization, Moore says. "Then you know you're going to get the political coverage you need to do something creative or innovative, because health care doesn't necessarily reward innovation, especially on the operations side," Moore says. "You've got to be able to connect the two strategies."

Component No. 2: Control the data. Used appropriately, data can be powerful decision-making tools that identify areas for cost savings. Gaining access to and using data effectively requires an integrated computer system across facilities. When Sisters of Mercy consolidated its materials management information systems to one system, managers discovered incidents of multiple pricing for the same supply because it was being called something different across facilities. So, say an item costs \$1 at a hospital in one city; the same item would cost \$1.25 at another facility a few hours away, Moore says.

"By getting control of our data, we could see the variation in pricing that existed and we could also better leverage our volume. Once we were better able to analyze our volume, we were able to not only obtain consistent pricing, but also, in most cases, lower pricing, because we negotiated on a consolidated and committed volume base," he says.

Component No. 3: Control movement of goods. "That doesn't mean you have to put up a distribution center," Moore says. What it does involve is working with your distributor to create a process or solution for moving goods that best fits your organization. "It's letting a distributor know, 'This is what I need you to do for me, and this is how I need you to do it,'" Moore says. "I think you can change your relationship with your distributor.

Creating a healthy supply chain means reaching out to others who have already done so.

Take more ownership of it, and define exactly what works for you, then hold the distributor accountable to delivering that.”

Component No. 4: Control relationships.

Moore says a good supply chain leader makes the business personal by getting to know those who work on the front lines. “This is an area where I think most supply chain leaders are struggle,” Moore says. If a supply chain leader is located at the corporate site and his only form of communication to supply chain staff is through an occasional memo, that causes difficulty because a personal relationship

hasn’t been formed with local staff and leaders, he says.

ROi initially set up account managers to develop relationships with supply chain staff and users, who are more likely to raise questions, make suggestions, and thereby head off potential problems when there is an established line of communication.

Once a solid relationship was established between Sisters of Mercy staff and ROi, there was no longer a need for the account managers. Instead, Moore and his team works directly with managers and clinicians. “I get collaborative calls from CEOs, physicians, nurses, and my customer base every day,” he says.

Finally, Moore says creating a healthy supply chain means reaching out to others who have already done so. He says

representatives from about 30 percent of all hospital beds in the country have visited ROi to see its operational model at work and visit the consolidated service center. “We’ve made tons of mistakes, but we’ve learned from them. There’s no reason for another hospital system to recreate those mistakes,” he says. “I would say that most providers that have advanced models are more than happy to share both their good ideas and their bad ideas.”

Moore says this sharing of information is a win-win for both providers and ROi. ROi can absorb successful strategies from other health systems, he says, and “Hopefully, they’ll learn something from us, too.” ☎



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The Power of a Single Partnership

DCH Health System is expected to save millions by using a single vendor for pharmacy and medical-surgical supplies and switching to low-unit-of-measure distribution.

When a health system dominates its market, its focus centers less on the need to stay ahead of other hospitals and more on challenging itself to enhance efficiencies, reduce costs, and improve quality of care—all critical initiatives in an era of reform. At DCH Health System in western Alabama, two supply chain initiatives have improved efficiency and care processes while reducing costs.

Several years ago, DCH Health System, which has a 90 percent market share in its home county in and a 70 percent share in the broader, seven-county service area, switched to low-unit-of-measure (LUM) distribution to lower costs and improve quality of care. The initiative arose when the health system reviewed its supply chain processes and costs and asked, “What if?": “What if there were a better way to do things related to supply chain? What if enhancing supply chain processes could result in better care for patients?”

Additionally, in 2010, DCH’s participation in a newly formed regional purchasing coalition prompted the health system to consider

combining supply chain agreements for medical-surgical and pharmacy supplies, rather than taking the traditional view that medical-surgical and pharmacy supply chain agreements should be maintained separately from one another. Here, again, the initiative began by asking, “What if?": What if these agreements were combined: What new efficiencies, savings, and quality improvements could be gained? And what would be the impact on ROI?” The result: Today, DCH manages just one agreement—a seven-year master agreement—with a single vendor for medical/surgical supplies, pharmacy distribution, pharmacy data analytics, and more. The health system undertook this initiative in 2010, and while it is too early to determine the ROI, the health system expects to save tens of millions of dollars over the long term from this single-vendor contract and LUM distribution combined.

It all began with a simple, but powerful insight that turns the traditional view of supply chain management upside down: Price and cost are far from the same thing.

Price vs. Total Cost

“It’s how you look at it philosophically: The price of the product is not the total cost of the product,” said Johnny Gilliland, DCH’s director of materials management. The key is to see the supply chain as a single, seamless process that encompasses not just every touch point, but also every product purchased, from medical-surgical to pharmacy to lab. And to manage that single supply chain, LUM is the key.

Compared with traditional bulk delivery, LUM is more efficient, bypassing the need for a hospital storeroom and substantial inventory. LUM automates and streamlines processes, eliminating the need for human intervention that can cause inefficiencies and errors. “We have been able to save \$200,000 a year by cutting 10 FTEs,” said John W. Winfrey, DCH’s vice president/CFO. Staff overtime trends are lower as well.

Since the latest LUM version was installed in 2007, on-hand inventory has shrunk nearly 70 percent. The end-goal is to reduce storeroom inventory to about 15 percent of its 2007 high.

Choosing the Best LUM Solution (Again)

In 2010, DCH worked with a regional purchasing coalition to issue a sole-source medical-surgical request for proposal. The decision regarding whether to switch to a new vendor for medical-surgical supplies or stick with its current vendor was not made lightly. “Any new supplier would have to be able to handle the advanced LUM system that we were already using,” says Winfrey. DCH visited the alternate vendor’s warehouse, and the difference between this vendor and the vendor the organization was currently working with was clear: The alternate vendor was essentially a manufacturer that had also become a distributor, while DCH’s current partner was a dedicated LUM distributor. DCH chose to retain its current vendor’s LUM distribution expertise.

This review prompted DCH to ask another “what if” question: What if medical-surgical and

Overtime Trends, FY07-11 (to-date), DCH Health System



Source: DCH Health System, December 2010.

Continued on page 18



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Using Lean 5 S to Improve Outpatient Oncology

One oncology department has used an increasingly popular process improvement strategy for medication and supply management. The results: better patient care and a healthier bottom line.

Three years ago, during Central Baptist Hospital's first unannounced Joint Commission survey, the outpatient oncology department was cited for expired medications and supplies. Although a requirement for improvement (RFI) from the Joint Commission is tough for many departments to accept, it was especially difficult for a department and hospital with a stellar reputation and patient satisfaction ratings well above the median.

Staff in outpatient oncology had picked up several unconstructive habits, such as leaving unopened supplies in various locations. There was a need not only for process change, but also a change in culture.

To improve management of medications and supplies in outpatient oncology, Central Baptist's performance engineer and the department's nursing director conducted a Lean Six Sigma 5 S event. Lean Six Sigma is a philosophy of continuous improvement that requires the reduction and removal of non-value added components from processes, such as those involved in patient care. The 5 S technique is a Lean Six Sigma strategy that emphasizes an effective work space, standardized processes, and waste reduction. The technique involves five steps: sorting, setting in order, standardizing, shining, and sustaining.

Initial Assessment

To conduct an effective 5 S, frontline workers must drive the process. In a hospital, the staff who provide care should drive the workflow (i.e.,

determine what items are maintained and how items are arranged). Consequently, along with the Lean-trained performance engineer and nursing director, the 5 S team also included three departmental nurses—one with long-term experience, one with two years' experience, and a nurse who was temporarily assigned to the area. Including staff with different experience levels allowed the team to incorporate various points of view.

Before implementing the 5 S steps, the team conducted a walk-through to assess the current state of the department and determine which areas needed to be addressed first. Each team member was assigned a specific area and was asked to rate its condition using the following questions.

- > Are there unnecessary materials and equipment including outdated or broken items?
- > Are there cluttered halls, counters, drawers, cabinets, and storage rooms?
- > Can patient care items be easily located?

The assessment revealed that unnecessary materials and equipment were located throughout the department. The medication room was overstocked. The supply rooms carried duplicated items located in patient rooms, on countertops, in drawers, and on movable carts. The resulting disorganization cluttered the workspace and caused staff to spend valuable time hunting for needed items.

Putting the Lean 5 S Steps into Action

Step No. 1: Sorting. First, team members pulled all expired and outdated medications

and supplies from their assigned areas. Most of the supplies that had expired were found on movable carts, because no one was responsible for rotating the supplies stored on these carts. The unneeded items were placed in boxes and bins and picked up by pharmacy and materials department for disposal.

Monitoring equipment, temperature devices, movable carts, and like items were evaluated. The team members consulted with other department members to gauge opinions on the equipment needed. Equipment considered unnecessary by the team was moved to a temporary location and tagged for removal. Department staff were given 24 hours to give an opinion as to whether or not the equipment should be kept or removed.

The team discovered that two of the carts stored in outpatient oncology belonged to other departments, but were used to service oncology patients. Removing these carts helped to clear the halls and open up storage space.

Step No. 2: Straightening. The goal of straightening is to organize an area by placing needed items in the best location. Visual cues are used to identify the item's placement. Examples of visual cues include labeling, signage, color coding, and shadow boxes (colored tape placed on the floor or the wall used to visually mark the locale).

Once the expired and unnecessary items were removed, the team identified the best places for supplies. The team considered where the patients are placed, what type of services are provided in these areas, staff preferences, and sizes/shapes of needed items. Items used on every patient were kept as close to care areas as possible, decreasing the

to-and-fro motion. Items used less frequently were located farther away.

Heavier items were stored in lower locations to avoid overhead reach and were located as close to the care area as possible. Supplies, especially needles, that had been stored in drawers in mixed stocks were placed in separate bins of different colors and sizes.

After consulting with the materials department, the team minimized the number of supply locations to avoid placing a hardship on the staff responsible for managing supply stocks. Par levels were adjusted based on usage reports. Every item was reviewed, and those not needed on a routine basis were either returned to materials or sent to another department. Current stock levels, were maintained for some items, such as dressing kits and peripherally inserted central catheter trays, that were routinely back ordered. Similarly, the pharmacy department reviewed medication stock levels and also reduced par levels.

Once the best locations were identified, supplies were organized, stored in these new locations, and labeled. The team used shadow boxes to identify home stations for equipment, which gave staff a consistent place to return equipment and helped them avoid hunting for items. The staff saw immediate benefits, and buy-in for the project was solidified.

Step No. 3: Shine. Shine refers to maintenance, such as maintenance of equipment and a specific area. This step is important because employees are taught to prepare equipment for the next use. Workers learn to clean areas as the work occurs, avoiding a buildup of clutter.

After supplies and equipment were removed, floors and countertops were given a thorough cleaning. Daily checks

were implemented to maintain cleanliness and to verify equipment quality. For example, oxygen tanks were checked to verify that they were functioning properly. The staff agreed to shine the department at the start of the day and at the close of the work day.

Step No. 4: Standardize. Standardization refers to actions designed to meet consistent guidelines. The practices identified in steps one through three must be hardwired to become routine.

The staff's main complaint was a lack of time to rotate the various supply stocks. Supply stocks placed in the five patient rooms were proving especially difficult to properly maintain. To help standardize the practices of sorting, straightening and shining, staff agreed to avoid stocking supplies in patient rooms. Instead, the supplies needed to provide care would be picked from the closest stock location and brought into the rooms.

Changing habits was one critical part of the cultural shift required to standardize the new practices. Staff would be responsible for putting unused supplies back in their proper places. To meet this standard, staff were asked to hold each other accountable. In addition, the department's technician was asked to provide support to the nursing staff and to help ensure that supply stocks are properly rotated, par levels are sufficient, and areas and equipment are maintained and equipment is functioning and stored in the proper places. The technician leads in these activities with the help and support of the nursing staff.

Step No. 5: Sustain. The fifth and final step in the 5 S process is to maintain the changes. To sustain the changes, the team implemented "tidy days" when each area of the department was sorted and straightened. The department also implemented the 5 S techniques as part

of the overall department orientation for new employees.

Benefits of 5 S

From cost savings to patient safety and staff satisfaction, the benefits of the 5 S efforts were numerous and continue to have an impact not only on outpatient oncology, but also the entire hospital. The reorganization yielded financial savings of approximately \$27,000, resulting from reduced par levels (\$20,000) and reduced labor hours in nursing (\$7,000).

Necessary supplies are more easily accessed, reducing the amount of searching and gathering activities. As a result, nursing staff was able to provide patient care more quickly. Time studies showed that staff have saved an average of three to seven minutes per patient.

The 5 S strategy also yielded improved patient safety, staff satisfaction, and overall collaboration. By not mixing similar supplies in the same location and eliminating expired supplies and medications, patient safety was improved. Because staff determined which items to stock and where to place the items, workflow and work areas became much more user-friendly. In addition, due to the visual cues and color coding, new and temporary staff were able to acclimate more quickly to the departmental set-up.

The changes also satisfied the RFI noted by the Joint Commission, and the oncology department not only met compliance standards but also set a new standard of organization for the hospital. Many nursing units and physician offices have since conducted 5 S activities to improve organization and workflow in their areas.

Lessons Learned

Although change is not easy, lean techniques provides a road map for a new way of thinking, a shift away from the "We've

always done it this way” attitude to the “How can we do it better?” philosophy.

Slow change was the usual way that adjustments were made within the hospital, but during the 5 S improvement process, employees learned that significant change can occur quickly—something required by the Joint Commission’s time-sensitive RFI. Once the staff understood the 5 S approach, the project took just 63 days to complete.

The project also taught employees to work through inevitable roadblocks by evaluating the situation, or in some cases walking in the other person’s shoes. One change, for example, required laboratory staff to maintain the lab cart in the laboratory department, rather than oncology. Lab employees were instead asked to bring supplies with them. To ensure that the process would work, members of the 5 S team walked with staff from the lab to outpatient oncology carrying supplies. The team’s efforts showed concern for lab staff and ensured that the process change would work for both departments.

Employees also learned that sharing successes brings rewards. At first, acknowledging mistakes was difficult. However, the project was so well received that the results were shared at directors and staff meetings across the hospital. As a result, employees became resources for others working on 5 S events. In addition, the project was submitted to the Nursing Management Congress, an annual convention for nursing leaders, in 2009 and won best practice recognition. The 5 S process started in outpatient oncology has since been adopted hospitalwide. ☞

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These before-and-after photos show the dramatic effect Lean 5 S has had in outpatient oncology work areas at Central Baptist Hospital

Continued from page 14

pharmacy supply chain services were integrated into a single solution? DCH visited its current partner’s pharmaceutical center to “kick the tires,” as Winfrey puts it, to determine whether the vendor could fulfill DCH’s supply chain needs in both areas. The pricing was competitive—but even more impressive were the vendor’s drug cost opportunity analysis capabilities, according to Tim Martin, DCH’s director of pharmacy. These capabilities offer the clearest view of the drug cost/utilization equation. “The key is to put the right clinical protocols into play, let the data drive what’s in the formulary, and use the formulary to control cost,” Martin says.

Based on the vendor’s expertise and drug cost analysis capabilities, DCH added pharmacy distribution and data analytics to its single-source

solution. The organization also added a customized kitting program and lab distribution to its suite of supply chain services provided by the vendor.

The Value of a Single Partnership

Ultimately, DCH would like to work with a single supply chain partner for all of its supply chain services. “With a single, all-in supply chain solution, we believe our organization will have more control over our supply chain and will enhance opportunities for success,” Winfrey says. ☞

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