A Future Model for the Affordable Care Act: How Do We Prepare and What Role Does Materials Management Play?

Leadership Imperatives for a Volatile Healthcare Environment
Leadership Paradox

“You can’t predict the future, but you must make sense of it in order to thrive.”

Bob Johnson – Get There Early
Getting to Medicare Breakeven

Hospital Costs

- Medical supplies
- Drugs
- Labor
- Other

Physician Practice Costs

- Medical supplies
- Other
- Labor

Sources: AHA, MGMA, NSCHBC, and HIDA research
Healthcare Employment

Source: Bureau of Labor Statistics

Inpatient Admissions

Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2010
Agenda

1. VUCA and Healthcare
2. Innovation
3. Opportunity
4. New Approaches
Volatile Uncertain Complex Ambiguous (VUCA)
VUCA

- Volatile
- Uncertain
- Complex
- Ambiguous

Deeper, Faster Cycles
Less Predictable
Multi-faced and Interconnected
Ambiguous
Beyond Cycles

More than Linear
Permanent State of Constant Change

- Past Isn’t a Predictor
- Too Complex for Neat Answers
- Systems Replace Systems
Healthcare’s **VUCA** World
What is Healthcare Reform, Anyway?

- Penalties
- Payment cuts
- ACOs
- Readmissions
- Insurance mandates

1,000 Pages of VUCA
Demographic

Provider Shortages

Funding Cuts

Quality Measures
Patients Pay More

$2137
$4316

Premiums

Demand Transparency
Innovation
Efficiency Innovations

Sustaining Innovations

25 MPG

50 MPG
Disruptive Innovations

- Simple
- Different
- Affordable
- Convenient
Quality Is Relative

"The Best"

Opportunity

Good Enough
Healthcare “Supply Chain”

Other Industries

Manufacturer  Distributor  Customer
Opportunity
The Old Tools Aren’t Enough
Change or Transform?

**COOPERATION**

- “Have to”
- Protects Your Piece
- Based on Scarcity
- Accommodate

**COLLABORATION**

- “Want to”
- Grows the Pie
- Based on Abundance
- Co-Create
A New Kind of VUCA

- Vision
- Understanding
- Clarity
- Agility
Instead of:

Perfect solutions
Control
Operational problem solving

Focus on:

Fast prototyping
Risk
Vision
Era of Innovation
Billings Clinic
Zero Stock-out at Bedside

**BEFORE**
• 96% fill rate
• BUT: **other 4%** could be critical items
• **Fill rate math suspect**: stocked & non-stocked

**AFTER**
• Distributor anticipates **item usage**
• Daily **in-house presence**; direct interaction with clinical staff
• Result: **zero stock-outs** at bedside for 4 years
Alegent/Creighton Clinic

Consolidating the Non-Acute Spend

**CHALLENGE**

- IDN included 250 non-acute providers across **70 sites** (+ recent acquisition of 220 providers across 30 sites)
- How to herd **all those cats**?

**WINS**

- **Consolidated** to single distributor who supports standardization, data analytics, on-boarding
- **Standardized 400 supply items** + point-of-care testing + diagnostic ancillaries
Carolinas HealthCare System

Kaizen Event with Its Distributor

Diverse Team from IDN & Distributor

Kaizen Event Results
- Identified items with sufficient volume to order in pallet quantities
- Needed to add pallet quantity info to item master to facilitate ordering

After
- Labor planning simplified
- Order in full pallet quantities
- Distributor: less time preparing to ship
- CHS: less time receiving & put away

26% decrease in number of lines ordered each day
Kaiser Permanente
Opening New Facilities Faster

KAISER NEEDED
- To open facilities quickly after construction is complete
- Fewer touch points; fewer POs
- Ease of issue resolution

EVALUATED PRICE VS. COST
- Lower price direct from manufacturer
- Lower total cost to stage products with distributor for fast move-in
Supply Chain Control Strategies

Models Vary in Capital, Staff Intensity

Self-distribution
- Provider owns warehouse and inventory
- Provider employs the logistics staff
- Most capital- and cash-intensive intensive model

CSC
- 2+ providers own warehouse and inventory
- CSC does the logistics or outsources
- More capital- and cash-intensive model

Hybrid/Partnership
- Provider and distributor share warehouse, inventory investment
- Provider and distributor share logistics roles
- Moderately capital- and cash-intensive model

Outsourced Distribution
- Provider needs no warehouse; purchases inventory as needed
- Provider needs fewer logistics staff
- Less capital- and cash-intensive model

JIT/LUM/Stockless
- Provider needs no warehouse, minimal storeroom; purchases inventory in smallest quantities
- Provider needs fewest logistics staff
- Least capital- and cash-intensive model

Self/Local Contracting Can Be pursued With Any Model
Pounding Harder Won’t Do It

How Will We Reinvent Healthcare?
Whole New Ballgame

Volume: More = Better

Value: Better = Better
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