Ready for anything

Distribution lessons in emergency preparedness

4 STEPS TO BETTER CONTRACT PRICING
NEW REALITIES IN LONG-TERM CARE
HOW TO BALANCE COSTS AND QUALITY
Embracing true collaboration

When I talk to distributors and providers, I’m struck by how quickly supply chain relationships are evolving.

Distributors, once simply wholesalers of medical products, are redefining themselves as full-service logistics partners for their customers. Hospitals, health systems, and non-acute healthcare providers now have more ability than ever before to customize their supply chain solutions to fit their unique needs, and distributors are working with them at every step.

Take a health system looking to eliminate the storerooms in individual hospitals and move toward a consolidated service center approach instead. Today’s distributors are eager to collaborate and custom design a solution that minimizes the provider’s capital investment while meeting their supply chain objectives.

We’ve seen integrated delivery networks partnering with distributors on a variety of innovative models—the system owns the warehouse and the distributor runs it, the distributor owns the warehouse with designated space for the provider’s owned inventory, you name it. Relationships are changing fast in the non-acute environment as well.

Established models like stockless and JIT are evolving too. Participants in these models are taking advantage of new technologies to make them even more efficient and to prevent stock-outs even during emergencies, as you’ll see on page 8.

Sure, traditional buy-sell relationships haven’t disappeared, nor should they. Still, these innovative partnerships demonstrate an industry that’s moving closer to true collaboration.

Elizabeth Hilla
Senior Vice President, HIDA
Executive Director, HIDA Educational Foundation
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by the numbers | News, trends, and stats in the healthcare supply chain

The cost of care

$22 Thousand

14 Days

10%

It costs more than $22,000 to cover an average family of four’s medical expenses, a $1,300 increase from 2012 (Milliman Medical Index, 2013).

Hospital lengths-of-stay quadruple to 14 days when patients contract a preventable complication, such as blood clots, pneumonia, or infected incisions (Journal of the American Medical Association, 2013).

Employer-sponsored insurance availability has fallen by approximately 10% over the past decade. The average employer pays nearly 60% of employee medical expenses (Robert Wood Johnson Foundation, Milliman Medical Index, 2013).

Demand trends

Family physicians generate an average of nearly $2.07 million for their affiliated hospitals, an increase of more than 24% since 2010 (Merritt Hawkins, 2013).

Between 2003 and 2009, ER-related hospital admissions grew by 17% and now account for nearly half of all hospital admissions in the U.S.; admissions from other outpatient settings dropped by 10% during this same time period (RAND Corporation, 2013).

Technology

To date, eligible hospitals and office-based providers have received more than $14.6 billion in incentive payments for adopting electronic health records (HHS, 2013).

The market for all wireless health monitoring devices in the U.S. is expected to reach $22 billion in 2015, compared to $7 billion currently (Deloitte, 2012).

Health reform

- States forgoing Medicaid expansion under the Affordable Care Act will spend an additional $1 billion on uncompensated care in 2016 (RAND Corporation, 2013).

- More than 90% of employers with 200 or more workers have wellness programs promoting healthful practices, such as exercising, quitting smoking, and lowering cholesterol and blood pressure (U.S. Department of Labor, 2013).

- The federal government could save more than $300 billion in healthcare costs over the next 10 years by moving to a risk-based payment system and focusing on more integrated care methods (Brookings Institution, 2013).
what i’ve learned

Materials management is a delicate balance of quality, costs

Team effort goes beyond your walls. Most patients come to us from short-stay acute care hospitals, often on respirators or with extensive wounds. We need to know where they’ll end up before they walk through the door, which is why our long-term care affiliations are extremely important to us. Having confidence that our patients will be taken care of after they leave is a valuable asset.

Don’t be penny wise and pound foolish. When evaluating medical products, our top priority is care outcomes, not price. We frequently conduct clinical trials to evaluate product quality and minimize common problems that occur during patient stays. Eliminating long term acute care (LTAC)—acquired conditions is one of several ways we maintain our reputation for providing quality care in our hospital.

Quality comes at a price. Because of the nature of our diagnosis-related group (DRG) reimbursement, we can’t bill discretely, and we have to scrutinize how product costs affect our bottom line. We may use more expensive products on occasion, but only because clinical outcomes remain our focus. Providing a range of price points, particularly for wound care, is one way our supply chain partners help to ease this burden.

Have the final say. Product standardization with other hospitals has never been essential for us; we use what’s most familiar and comfortable. Patients sometimes come in with attached items that we have to duplicate, such as ostomy appliances, so we’ve already had to standardize in some ways. I think this trend will continue with ACO growth, but ultimately if you make a good product, chances are we’ll use it.

Time is too precious to waste. I’m frequently invoiced for items costing more than originally negotiated, and it’s my job as materials manager to figure out why—sometimes after my day has ended. It would be helpful for manufacturers and distributors to proactively communicate with their contract teams and alert me of these changes. Healthcare providers have too many other important decisions to be distracted by chasing contracts.

Product standardization with other hospitals has never been essential for us; we use what’s most familiar and comfortable.

Convenience is an attractive sell. We don’t currently own an on-site lab, but we recognize the benefits of testing at the patient’s bedside. We’re currently looking at two different blood gas analyzers, for example, which are convenient to use for respiratory therapists, nurses, and registered nurse practitioners. If you can please your staff and patients at the same time, that’s a no-brainer.

Pam Sparks
Materials Manager,
Regional Hospital for Respiratory and Complex Care
Germ-killing soap is “super bug” kryptonite
A recent report from the CDC found the most effective way to prevent infections in ICU patients is daily washing with strong, germ-killing soap and a swab of antibacterial ointment inside the nose. The study reported hospitals that adopted the practice found a 44% reduction in bloodstream infections and significantly reduced the presence of superbug MRSA. Most hospitals use mild soap to wash ICU patients, but the study results will likely impact infection control efforts, including future CDC recommendations.

Washington tackles long-term care challenges
Today, nearly half of Americans receiving long-term care are under the age of 65. Experts predict that over the next few years as many as 70% of people age 65 and over will need long-term care both in home and in nursing homes.

Medicare and Medicaid—currently the major coverage for such care—are poorly equipped to handle the massive need. A 15-member commission, established by Congress in January, will guide Washington policy with recommendations on the best ways to meet need and finance services for seniors and disabled Americans.

Health leaders talk vendor credentialing best practices
For the fourth year, the Vendor Credentialing Summit (August 14-15) brings providers, vendors, suppliers, GPOs, and hospitals together to share best practices and strategies to gain leadership support and implement requirements around vendor credentialing activities. For details, visit www.hcirbestpractice.org.

Big moves to simplify, strengthen “pedigree”
Twenty-nine states have laws stipulating how drugs are traced through the U.S. supply chain. For companies working in multiple states, the overlapping regulations are a source of inefficiency and expense. Thanks largely to a coordinated and aggressive push from HIDA and other industry leaders, many members of Congress support uniform tracing, or pedigree, requirements. Industry insiders stress that a national “traceability” solution strengthens patient safety and supply chain integrity. Capitol Hill has legislation ready.

When President Obama signs the law, the patchwork of state “pedigree” standards will be consistent across states.
Pulling Together
Wake Forest Baptist Medical Center consolidates its supply chain amid rapid growth

With 885 licensed beds on its main campus and a rapidly expanding portfolio of new locations, clinics, and ambulatory service sites, Wake Forest Baptist Medical Center needed to consolidate its supply chain to eliminate waste and save money. The rapidly growing system had five distribution models, multiple vendor relationships, and more than 150 different sites.

“Despite more locations joining the health system, I needed to use existing labor to first manage these additional sites but then also streamline and make our supply chain more efficient,” said Marisa Farabaugh, director of Supply Chain Operations at Wake Forest Baptist Medical Center.

Wake Forest Baptist worked with Cardinal, a long-time distribution partner, to develop a hybrid ambulatory process that allows clinics to order directly through a vendor, but maintain restocking through Wake Forest Baptist. Roughly 80% of supplies are now shipped directly to individual sites—greatly reducing the main campus staff’s labor time.

Efficient Growth
Technology was key in the supply chain’s streamlined success. Each site now can scan product barcodes, upload data directly, and immediately reorder needed supplies. Despite facing new and unfamiliar technology, current employees feel more supported in the new process and now have the benefit of a tool that enables time savings and checks for accuracy. The internal supply chain team at Wake Forest Baptist now maintains an efficient item master.

The driving force behind this effort was the challenge to minimize internal labor and streamline disparate order processes into a single, uniform process. This makes the model highly relevant to larger hospitals or health systems with multiple locations.
Ready for anything

Distribution partners collaborate to synchronize emergency preparedness efforts
Are you interested in the efficiencies and cost savings offered by stockless or low-unit-of-measure (LUM) inventory models, but worried about getting stuck without enough inventory during emergencies?

Healthcare providers who have adopted low-inventory models say that service disruptions are preventable, even during snowstorms, disasters, and other events that impede deliveries and increase product usage. The key, they say, is to work closely with your distributor to put the right processes and contingencies in place in advance.

**Two main preparation areas:**

**Data and technology**
- Use utilization reports to precisely determine inventory minimums and maximums. Usage rates can be analyzed by month, week, day, and even by clinical department.
- Agree upon and preload hypothetical or conditional orders to be used if communications are down.
- Set up weather alerts on computers, cell phones, and email systems to notify staff if inventory reserves need to be increased several days before a storm actually hits.
- Employ generators and cell/satellite phones for backup power and communications to keep materials management staff operational if city grids fail during extreme weather.

**Contingency planning**
- Map out alternate delivery routes for vendor partners to use in case of detours, road closures, or hazardous road conditions.
- Agree on automatic substitution lists or pre-approved alternate products to avoid shortages of critical items.
- Consider contracting with your distributor for reserved inventories. These products are set aside for your organization, guaranteeing available warehouse stock regardless of the emergency scenario.
- Keep emergency contact lists up-to-date, including all city, county, state, and federal emergency response agency contact information for easy reference.

Could this happen in your area?

**Scenario:** A strong winter storm is projected to blanket the area with up to three feet of snow. Power outages and impassable roads are expected to make deliveries difficult or impossible for several days. Your facility is stockless and maintains only about two days’ inventory for most items.

**Response:** Your distributor receives weather alerts about the threat and immediately begins preparing an early delivery. Usage data is employed to determine appropriate quantity increases in case roads are closed for an extended period. The delivery is made before the storm hits.

Open communication between supply partners is the best way to avoid being caught off guard. Providers should know how their vendor partners will respond during emergencies and precisely what the vendors’ inventory capacity is. Similarly, distributors must know their customers’ item and order preferences for any given situation.

Proper response planning allows providers to focus on patient care, trusting that their vendors can and will deliver in times of need. “Over the years, we have always worked closely with our providers to ensure their daily deliveries,” says Lou Andreozzi, Operations Manager for The Claflin Company. “We proactively manage our transportation regarding impending adverse weather conditions and our customers have come to anticipate and expect this attention, as they should.”
Confronted with a declining reimbursement environment, providers are making pricing accuracy a high priority. While there’s no magic wand for pricing accuracy, the best bet is ongoing collaboration and timely communication among providers, manufacturers, and distributors.
Contracting activity in provider organizations is now far more complex than in previous years and accounts for a greater percentage of products. It’s critical to recognize that reality and pay attention to contract expiration dates. Last-minute negotiations—or past-due negotiations—add to pricing complexity and inaccuracy. Avoid these last-minute negotiations by keeping track of upcoming expiring contracts.

Distributors administer pricing while manufacturers own it. Manufacturers must provide the right price at the right time or risk causing pricing inaccuracy problems down the supply chain. Providers can help by collaborating with manufacturers in a timely manner to ensure that pricing accuracy begins with them.

Price changes are inevitable, but a process with distributors to communicate changes quickly will give everyone ample time to update pricing files. Set up another process to identify mismatched prices between providers and distributors before invoices are sent.

Today’s environment requires vigilant and sustained attention from manufacturers, distributors, and providers long past contract negotiation time. The only industry constant is change; key players must maintain communication regularly.

Here are four steps to help get the process rolling:

**step 1**

**Check the expiration date.**

**step 2**

**Take a team approach.**

**step 3**

**Communicate changes quickly.**

**step 4**

**Stay focused.**

Pricing accuracy yields savings and advantages beyond the obvious:
- decline in AP issues
- less time wasted correcting pricing disputes
- increased efficiency in managing and maintaining contracts and pricing files
- less money and resources spent resolving pricing issues, which often cost more than actual purchase orders

In this industry, **13 percent** of price changes are retroactive by **15 days or more.**

*HIDA distributor survey, 2011*

**How late are retroactive change notices?**

- 1-7 days retroactive: 66.7%
- 8-14 days retroactive: 20.0%
- 15-30 days retroactive: 6.7%
- >30 days retroactive: 6.7%
Long-term care today is part of a care continuum that includes home health and acute care, and it’s evolving to better support that continuum. Executives from Health Dimensions Group, Genesis Healthcare, Golden Living, Bethany Home of Lindsborg, and Regional Hospital for Respiratory & Complex Care described the changes recently during an extended care focus group at the HIDA Educational Foundation’s Manufacturer-Distributor Seminar in Austin, TX.
The executives said their facilities are adapting to reimbursement cuts at the same time that patient acuity levels are rising and hospitals are demanding more from their long-term care partners in order to prevent readmissions.

**Challenges for this market sector:**

- Census in nursing homes is expected to be flat while demand for home care grows significantly. Patient preference and technology are seen as two major drivers of this shift.

- The home medical equipment market is in the middle of a major shake-up with an approximated 40% of suppliers exiting this market as a result of Medicare’s new competitive bidding program which has resulted in rock-bottom reimbursement rates.

- Medicare and Medicaid reimbursement declines are forcing providers to cut budgets at the same time that they’re working to improve patient satisfaction—a difficult conundrum.

**The panelists agreed that strong relationships with vendors are important for weathering the changes. They recommended:**

- **Frequent engagement and open communication**—Identify changing needs and anticipate and preempt supply chain disruptions before problems occur.

- **Sharing data and best practices**—Clinical decisions are informed by supply data and can benefit from vendor input. It is easier to determine appropriate item par levels based on demand and utilization trends when distributors share pooled procurement data from different partners across markets.

- **Identifying changing product needs**—For example, panelists pointed out that the growing population of bariatric patients creates a range of new needs, from larger sizes of incontinence products to wider doorways.
Medicaid expansion presents opportunities, challenges

Surge in Medicaid enrollment expected
The Congressional Budget Office (CBO) expects 25 million uninsured Americans to gain healthcare coverage through subsidized health plans or the expansion of Medicaid by 2023. This projection is down from 27 million. The CBO anticipates adults and the aged to experience the largest average annual rates of growth.

New state and federal Medicaid expansion expenditures (with all states expanding), 2013-2022
State funding will only account for approximately 7% of all new Medicaid expenditures between 2013 and 2022.

States considering Medicaid expansion
Not all states are expected to expand Medicaid coverage, potentially leaving one in five newly Medicaid-eligible Americans excluded by CBO estimates.
Close up

Steve Blazejewski, President, Surgical Supplies, Covidien

Customer needs drive the quest for new ideas

Streamlining Healthcare: How are medical device manufacturers currently answering the call to help improve healthcare outcomes and reduce readmissions?

Blazejewski: Manufacturers are creating newer devices and instruments that enable minimally invasive surgery (MIS), leading to shorter hospital stays and faster recoveries for patients. Our industry recognizes that rising healthcare costs are unsustainable, and we can help by broadening our innovation focus to improve patient outcomes while lowering the overall cost of healthcare.

Delivering clinically relevant and economically valuable solutions that meet our customers’ needs in the most efficient, effective manner is a priority. We can accomplish this by collaborating with customers to create new products, improve on older technology, or create new business and delivery models.

Streamlining Healthcare: Where are you seeing the greatest progress toward new product innovation?

Blazejewski: It is important not to lose sight of customer needs in the quest for new ideas. The greatest progress I see is a move towards more “responsible innovation.” Within the current healthcare environment, responsible innovation is a philosophy that has:

- Clinical relevance: enhancing clinical value
- Economic value: lowering the cost of healthcare
- Quality of life: improving patient outcomes

Valued product development and business model innovation starts with the customer—not the technology or the great idea. As healthcare evolves, medical products that have automation and intelligence may significantly increase how providers are informed about products, procedures, and outcomes.

Streamlining Healthcare: What would you say are your most pressing needs for today’s changing healthcare supply chain?

Blazejewski: The value proposition: Customers are looking for the right product to be used in the right procedure at the right value, and it’s our job to help deliver on this proposition. There is considerable consolidation happening among providers in the marketplace. As medical device manufacturers, we need to fully understand this consolidation and its implications on decision-making across multiple stakeholders within the supply chain. As pressure builds, having a clear value proposition will only become more critical.

Covidien is a global healthcare products company and manufacturer of medical devices and supplies.

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