

# Driving supply chain transformation with integrated point of use technology

## Executive summary

Changing times require a change in strategic direction. It is imperative for healthcare organizations to drive out inefficiencies and waste in their supply streams to meet the challenges of lower reimbursement, higher quality standards and value-based purchasing brought about by the Patient Protection and Affordable Care Act. “Healthcare reform has put pressure on providers to cut costs and maximize resource utilization,” says Todd Tabel, vice president, McKesson Supply Chain Solutions™.

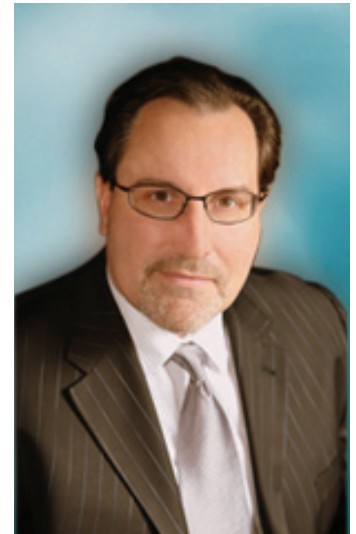
The time to act is now. The defined mission is clear: decrease and control spend. Hospitals are working in an environment where their economic viability is now at stake. They are keenly aware of

the implications of ignoring cost pressures and the need to meet financial performance goals.

The supply chain is the next frontier for optimizing cost savings and revenue. No matter what the economic environment, by placing focus on supply chain controls, organizations can reap significant savings.<sup>i</sup>

This paper will be focusing on several key aspects of transforming the supply chain into a revenue generator:

- Readyng an organization to tackle the supply chain transformation
- Implementing high-dollar, high-risk supply controls
- Using technology to improve visibility and workflow efficiency
- Continuing to achieve results and sustainability



“Healthcare reform has put pressure on providers to cut costs and maximize resource utilization.”

**Todd Tabel,**  
*Vice President,*  
*McKesson Supply Chain*  
*Solutions™*



**BUSINESS  
CARE  
CONNECTIVITY**



**“People don’t dislike change, they dislike being changed.”**

**David Judd,**  
*Materials Management  
Coordinator,  
Centra*

### **Transformation starts at the top**

The leaders who develop a culture that supports strong supply chain management collaboration across all sites within their organizations will gain visibility into, and control over, their organization’s supply chain.

The leadership teams that are forging a path to future financial sustainability are those that strongly align the strategic plan with mission and goals, including financial performance and supply expense management.

But a mission and goals are not enough. To transform an organization’s supply chain, the first step is to get leadership on board. Strong leaders can make the transformation go more smoothly by supporting employees with information and guidance. The cultural shift is a significant one for employees.

Centra is a regional nonprofit healthcare system that has taken on the task of transforming its supply chain. Centra consists of three acute-care hospitals, 38 physician practices, a long-term care hospital and three nursing homes serving the population of central and southern Virginia. Like many healthcare organizations, the Centra supply chain was mired in manual processes and the inability to determine where improvements could be made. This organization has automated the supply chain processes and reduced on-hand inventory by 15%, increased charge capture by 32% and increased supply revenue by 24%.

These impressive results were achieved by implementing systems and using solid leadership principles. “A key factor to success is getting the clinical leadership involved and to see the value of pulling the system change rather than us pushing it on them,” says David Judd, materials management coordinator for Centra. “Clinical people need to have input into decisions. We had many nurses on our committees.”

“People don’t dislike change, they dislike being changed,” Judd quotes. Judd explains that when people are part of the change, they are much more accepting of it — less likely to be critical of a decision they helped make.

Centra also used leadership to train employees and get investment in the new cultural norms. Each unit had a trained coach or champion — someone who trained and certified employees within the unit. Many of the coaches were individuals who had been involved in decisions about how the new system would be used.

Judd also recommends using a phased implementation, starting in the highly committed units first. This is using your cultural influencers to lead the way for other units. “You’ll find that you have immediate success and it will trickle down to other units because there is some competition,” says Judd.

Though many factors are involved when executing a successful supply chain system implementation, Judd believes working with the organization’s executive and employee leaders positively affects acceptance and success.

## **Make a big difference by controlling high-risk, high-dollar supplies**

Some experts believe that around 2020, the medical supply spend will surpass labor as the biggest expense for hospitals and health systems.<sup>ii</sup> An obvious place to look for savings is in the high-risk, high-dollar supplies. With the help of point of use data, organizations are able to optimize supply spend in these areas — controlling cost, inventory levels and charge capture.

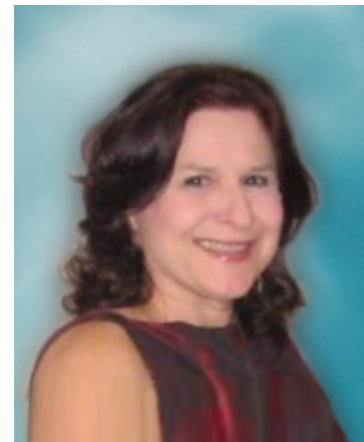
Management of high-risk, high-dollar supplies, (e.g., hips, knees and cardiac stents), inclusive of PPI, is an industry-wide issue that is affecting healthcare efficiency and profitability for both providers and suppliers. While implants represent approximately \$40 billion as a market segment, lack of visibility and control over these devices costs the healthcare industry an estimated \$5 billion per year from inefficient, disconnected manual processes, and lost, expired and wasted product.<sup>iii</sup>

These same manual processes are unable to track recalled medical devices. If an organization cannot tell how many devices are in inventory, determining the cost of a recall is difficult at best. According to the FDA Enforcement Reports, in the third quarter of 2013, 30 million devices were recalled — an increase of 215% over the previous quarter.<sup>iv</sup>

Employing more than 2,000 highly trained medical professionals, Washington Health System serves southwestern

Pennsylvania with more than 40 off-site locations throughout three counties, providing approximately 3800 cardiac procedures a year. This health system was operating with manual processes and an outdated materials management system. There was no integration between materials management and other hospital systems. As an organization, Washington Health System decided to tackle a high-risk, high dollar area — cardiology. This organization went from a manual tracking system to an integrated CVIS. Washington Health System currently uses Cath Lab, EP, Ultrasound and EKG systems — all of which are integrated into the CVIS. Although the older materials management system can't integrate as well as the others, they get the supply chain functionality needed through the other cardiology-specific systems.

Before system integration, Washington Health System suffered from lack of visibility into inventory needs, gaps in the supply chain cycle and a high percentage of manual documentation. "The McKesson system helps us consolidate charting, billing and supply replenishment with a single scan," says Marcia Deeb, CVIS coordinator, Washington Health System. Now a nurse can scan a device bar code and the on-hand inventory is decremented, the charge is submitted and the item is added to clinical documentation. As part of the automated bar code process, the serial number and lot number are captured — making it easier to track recalled items.



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**Marcia Deeb,**  
*CVIS Coordinator,  
Washington Health System*



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**Beverly Sanborn,**  
*Assistant Vice President  
of Materials Management,  
Holy Name Medical Center*

### **Visibility and accountability**

With different departments handling manual processes in different ways, it can be difficult to know where the supply budget is being spent. With proper technology and processes, organizations can put controls into place and gain visibility of where individual dollars are going.

Holy Name Medical Center, a 371-bed acute care medical center in Teaneck, N.J., knew its supply chain management process could be improved. Departments traditionally managed their non-stock purchases without intervention from materials management. This disconnect and the lack of automation made it challenging to know what was on the shelf, what was about to expire or where missing inventory went.

Holy Name Medical Center also sought greater visibility into its staff workflow, hoping to improve accountability. The organization implemented a point of use system for nursing areas and labs — integrated into the MMIS. The medical center realized significant savings: reduced storeroom inventory by 36%, reduced non-stock supply expenditures by 10%-15% and improved overall charge capture by 56%. But there were other benefits.

“A real-time, perpetual inventory system like ours demands accountability,” says Beverly Sanborn, assistant vice president, Materials Management. A weekly compliance report helps determine education needs and identify areas of concern. Average compliance at Holy Name Medical Center is 70%, with a high of 99.86% in Cath Lab.

The system helped create a culture of transparency in other ways, too. Holy Name Medical Center can now track the true cost of patient care. “Our monthly finance report tracks variables like physician cost per case. When expenses are up, we compare cost per case averages and drill down to pinpoint the reasons why,” says Sanborn. “I can always find what I’m looking for. If we’re missing inventory, I can tell who used a product and on what patient.”

At Holy Name Medical Center, automation has allowed investigation at a level that was not possible before. Greater visibility has helped this organization realize greater returns.

### **Workflow and processes**

Many facilities struggle with automating supply chain processes and streamlining the workflows. With the technological advances of point of use systems, automating the supply chain is possible. Automated tasks free staff to focus on patient care. If nurses are grabbing supplies and using stickers to bill, using technology to automate inventory tasks can improve workflow and inventory accuracy.

Rush Health Systems is an integrated health system consisting of eight hospitals, 23 primary care facilities, four extended care clinics and physician practices throughout east Mississippi and west Alabama. Before using a point of use system, the health system was using many manual processes — wasting time and money.



Inaccurate counts also caused problems. There were overstocked items in some areas, but stockouts in others.

“The manual charge capture and replenishment processes were time-consuming, tedious and ripe for error,” explains Angela Jensen, CSPDS, central supply/ sterile processing department supervisor at Rush Foundation, the organization’s flagship hospital.

The nurses at Rush Health Systems were spending a lot of time dealing with inventory charge capture. A nurse would take a supply to a patient, remove the charge label from the package and put it on the patient charge card; then a ward clerk would manually enter the charges from the charge card into the billing system.

After implementing the point of use system, the nurses scanned an item being issued with a bar-code scanner, the correct charge was sent to billing and the inventory was decremented — in one step.

The inventory replenishment process was even more tedious with nurses trying to keep up with non-stock inventory and supply techs having to manually manage the stock inventory. “Many of us are familiar with the craziness of counting supplies on both the nursing side and supply side,” states Jensen. “We wasted more than 200 hours of clinician and staff time per month counting supplies.”

Now the point of use system checks inventory levels and systematically orders items if needed. The order information

is sent to the MMIS where a pick ticket and PO is created. From there, the materials staff handles receipt and putting away of inventory. The time nurses spend counting inventory has been reduced by 95% from 200 hours to only 10 hours per month.

By using automation to transform their supply chain, organizations are able to make their processes and workflows efficient — helping to reduce labor expenses.

### **Achievable results: sustainability**

A point of use system is a big investment. Many organizations have realized initial benefits of implementing such a system. But are results sustainable into the future?

With McKesson Point of Use Supply™ on all the floors and in procedure areas, Holy Name Medical Center has realized a 10% to 15% supply spending reduction in nonstock purchases, which represents a \$1.2 million potential savings on its \$50 million annual spend.

By working the point of use solution into each department standard workflow, Holy Name Medical Center is setting the stage to continue achieving results. Setting controls and using the information provided by the system to monitor activity and exceptions enables the medical center to sustain positive results. “At our year-end physical counts, we found that our actual inventory variance was less than 1% for most units and less than 2% overall,” says Beverly Sanborn, assistant vice president, materials management.



**“The manual charge capture and replenishment processes were time-consuming, tedious and ripe for error.”**

**Angela Jensen,**  
*CSPDS, Central Supply/  
Sterile Processing Department  
Supervisor,  
Rush Foundation*

With a point of use system, organizations can streamline the current inventory. Access to data enables organizations to determine what they are using and what they need, leveraging that information when negotiating contracts with vendors.

“We really know what is on our shelves, and we only have our reorders set based on minimum and maximum numbers of what is on hand. We can now see what we are actually using and what it really costs to do a right cath compared to a peripheral cath.,” says Marcia Deeb, CVIS coordinator, Washington Hospital, Washington, Pennsylvania. “We did reduce the amount of balloons, stents and wires we use because we were able to get better pricing. The usage reports helped us determine quantities and percentages that we needed to acquire a good contract,” says Deeb.

With proper controls in place and the visibility offered by a point of use system, organizations are able to sustain efficient processes and savings.

## Conclusion

An organization must consider many factors before implementing a point of use system. Transforming the supply chain is not just a system implementation, it is also a cultural change. Strong leadership is required to successfully guide employees through the new workflows, processes and level of accountability.

The transformation is not an easy one, but can deliver a payoff. Organizations can gain visibility and control over the supply spend — ultimately leading to significant savings.

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## Endnotes

- <sup>I</sup> “Strategic Supply Management,”Hospitals & Health Networks, [http://www.hhnmag.com/hhnmag/jsp/articledisplay.jsp?dcrpath=HHNMAG/Article/data/12DEC2011/1211HHN\\_Feature\\_Gatefold&domain=HHNMAG](http://www.hhnmag.com/hhnmag/jsp/articledisplay.jsp?dcrpath=HHNMAG/Article/data/12DEC2011/1211HHN_Feature_Gatefold&domain=HHNMAG).
- <sup>II</sup> “Strategic Supply Management,”Hospitals & Health Networks, [http://www.hhnmag.com/hhnmag/jsp/articledisplay.jsp?dcrpath=HHNMAG/Article/data/12DEC2011/1211HHN\\_Feature\\_Gatefold&domain=HHNMAG](http://www.hhnmag.com/hhnmag/jsp/articledisplay.jsp?dcrpath=HHNMAG/Article/data/12DEC2011/1211HHN_Feature_Gatefold&domain=HHNMAG).
- <sup>III</sup> GHX, “The Current State of the Implantable Device Supply Chain: Part 1 in a GHX Educational Series for the Healthcare Community, October, 2012, [http://www.ghx.com/desktopmodules/bring2mind/dmx/download.aspx?language=en-US&Command=Core\\_Download&EntryId=1694&PortalId=20&TabId=1095](http://www.ghx.com/desktopmodules/bring2mind/dmx/download.aspx?language=en-US&Command=Core_Download&EntryId=1694&PortalId=20&TabId=1095).
- <sup>IV</sup> Expert Recall Quarterly Recall index, Third quarter 2013, [http://www.expertrecall.com/wp-content/uploads/Q3-2013\\_ExpertRECALL-Index.pdf](http://www.expertrecall.com/wp-content/uploads/Q3-2013_ExpertRECALL-Index.pdf).

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