



INTEGRATING THE SUPPLY CHAIN ACROSS A HEALTH SYSTEM

As providers look for ways to improve efficiency and reduce costs, many are looking at how supplies are purchased, delivered, and stored.

The average hospital has 40,000 to 50,000 supplies—from bandages to cardiac stents—listed on its item master, or inventory list. Multiplied by multiple hospitals in a health system, and supply management quickly adds up to a mammoth and costly logistical exercise.

Like many U.S. health systems, Trinity Health has recognized the potential savings and efficiencies to be gained with a more centralized approach to supply chain management. By reducing supply-related expenses, the health system will have more dollars available for IT upgrades, clinical improvements, and other investments necessary to achieve its vision of becoming a “care delivery organization” that delivers the full spectrum of care in a coordinated, efficient manner.

EFFICIENCIES OF SCALE

In 2000, when Trinity Health was created with the merger of Holy Cross Health System and Mercy Health Services, the opportunities for creating efficiencies were vast. One of the objectives: centralize supply chain operations across the Novi, Mich., system’s 44 acute care hospitals and dozens of ancillary facilities that are spread across seven states.

Lou Fierens, hired as senior vice president of supply chain and capital project management, was given five years to reduce supply chain costs by \$110 million. Fierens and his staff not only reached that goal a year early, but also brought total cost savings to more than \$350 million over the next few years.

How? While investing in a central supply chain information system was unavoidable, Fierens says the initiative was really about putting the right people in the right positions—and performing the right processes that brought results.

STRATEGIC SOURCING

One of Fierens’ first initiatives was creating the concept of strategic sourcing, a procurement process that involves continuous evaluation of purchasing strategies to improve efficiencies and reduce costs. First, he hired category sourcing managers for each clinical and support service line, such as cardiovascular, orthopedics, and medical-surgical. These managers are responsible for identifying ways in which supply costs can be managed more effectively in each service line, using tactics such as assessing the use of supplies and negotiating better pricing on contracts.

Fierens then developed the Trinity Health Strategic Sourcing Process, which incorporates:

- Stakeholder involvement, or involving the end user in the sourcing process
- Transparency, or ensuring that all suppliers have equal information about the purchasing opportunity and all stakeholders have information necessary to evaluate the value of proposals
- Competition, or giving suppliers the opportunity to suggest how Trinity Health can improve quality and/or lower costs in creative ways

SEPARATE BUT TOGETHER

Fierens says one of the greatest challenges of the initiative was changing the culture of separate organizations in which hospital employees were accustomed to working independently. To transform that mindset, Fierens formed a system-level sourcing operations steering team, which comprises a COO, CFO, or other senior leader from each hospital in the system. He told team members, “You are going to help us with establishing our priorities, you’re going to give us input around how things are working, helping to guide the work to greatest effect—with the understanding going in that we’re going to work together.”

In addition, all hospital-based supply chain managers meet annually to agree upon a set of common performance objectives that each manager will be measured against. “We are all beginning to speak the same language around our operating priorities because we’ve all agreed on what these priorities are and how they’re going to be measured,” he says.

Another important step was centralization of procurement staff. As the supply chain information system was installed across the health system, staff who were previously located in each hospital were consolidated in one location to serve the entire health system. “One of the key tenants in taking advantage of our economies of scale is to create standardized work processes and have a focused work group perform the activity. In this way, we can elevate a ‘back office

function’ to a strategic source of information and common practice,” says Fierens.

“Our next phase is consolidation of accounts payable. Our vision is to streamline the procure-to-pay process to better manage the entire ‘req to check’ process giving us the ability to better manage cash,” he says.

PARTNERING WITH PHYSICIANS

At Trinity Health, most of the physicians are independent, which makes gaining their support in reducing supply costs more difficult, says Fierens. “Those relationships take a long time to build. We are in a better place today, but we could have moved further faster had we engaged physicians more directly.” Developing formularies for supplies, for example, would have helped in controlling hospital spend much earlier because physicians would have had a protocol to follow for using certain medications for specific cases.

“We really need to partner in the care delivery process with physicians and other clinicians so we can make the best decisions around our supply catalog, or our formulary for supplies,” says Fierens. “Physicians and clinicians are interested in data, and data can drive behavior. Creating transparency to the greatest extent possible around the impact on outcomes—and cost is an outcome—is important.”

SUPPLYING THE MARGIN

Trinity Health has been able to measure average annual savings of about \$50 million, for an ROI of 15:1. Plus, the health system has seen improved operating margins. When Fierens joined Trinity Health in 2001, the margin was 0.09 percent, he says. In FY07 and FY08, the margin exceeded 5 percent. Even with the recession, the margin topped 3 percent last fiscal year.

Revenue improvement and other operational initiatives contributed to Trinity’s success. “But there isn’t any way that result would have been achieved at the level it was without the supply chain contribution,” he says. “Supply chain management is the key pillar in managing nonlabor expense.” ■

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