



CASE STUDY Healthcare leader's viewpoint

Summary

Health Care System
Baptist Health, Louisville, KY

Size
8 Baptist-owned hospitals, 1 Baptist-managed hospital, 300 points of care, including outpatient, urgent care, physician offices, occupational medicine, physical therapy and diagnostics

Supply Budget
\$70 million-plus in distributed medical and surgical supplies

Challenges
Decentralized supply management organizational structure

- » Multiple brands for same products
- » Limited product standardization for patient care
- » Increased product and inventory costs

Inefficient logistics for physician preference items (PPI)

- » Little control over product availability
- » High shipping costs
- » High acquisition costs

Solutions

- » Centralized supply chain services
- » Standardized supplies across system
- » Improved contract negotiation process
- » Distributed med/surg supply cost reductions of \$8 million over 4 years
- » New streamlined PPI logistics model
- » More control over product availability and delivery
- » More efficient work flow
- » Cost savings on distributed PPI – estimated \$500,000 to \$1 million

Driving savings and value through standardization and physician partnership.

Cindy Gueltzow
Executive Director of Supply Chain Services
Baptist Health, Louisville, KY

Kim Prather
System Director,
Materials Management



Our Health System
Headquartered in Louisville, the Baptist Health family of hospitals, care centers, physician offices and health facilities is the largest not-for-profit health system in Kentucky. We own or manage nine hospitals totaling more than 2,700 licensed beds. Baptist Health has more than 300 points of care, including outpatient facilities, which offer urgent care, express care, occupational medicine, physical therapy and diagnostics.

Home care is also available in 39 Kentucky counties, six counties in Illinois and six counties in Southern Indiana. Our physician network of more than 3,000 employed and affiliated physicians continues to grow as we endeavor to improve access to healthcare and enhance the health of Kentucky and Southern Indiana.

Our Challenges
Decentralized Supply Chain
Prior to 2013, our health system had a decentralized supply management structure for med/surg supplies causing several issues. Although purchasing was done using one consolidated item master, efforts to standardize products across the system were difficult, which meant each hospital could order its own products. This increased our product costs, creating expensive clinical variations.

In this decentralized system, every hospital managed its own inventory, had its own buyers and conducted its own product contracting. If a hospital had an expertise in a certain area, such as cardiology, it would negotiate a product contract for the entire health system. Since there

“ We’re finding that physicians are great partners in helping us drive cost out of the system. Physicians not only want to deliver excellent care, they are concerned about their patients affording that care. ”

was no process in place to control product standardization from a supply chain management standpoint, system contracts were not enforced or adhered to at all locations, which resulted in higher costs.

PPI Challenges

Separately, the way we purchased, received and distributed our physician preference items (PPI) created three main challenges: little control over product availability; inefficient product delivery to our facilities as a result of overnight and second day deliveries to facilities throughout the day; and elevated costs due to high product prices, expensive freight costs and high inventory costs.

The Solutions

Centralize Supply Chain

In late 2012, we began developing policies and procedures for how a centralized supply chain services system should operate using best practices. We hired a new supply chain team and in early 2013, we went live with our new System Services Supply Chain.

Along with a new structure, we also introduced new processes and implemented a new data management system that aggregated all our data system-wide to help us make better decisions. Our new process helped manage our item master data, eliminate redundant items and prevent new items from being added unless there was a compelling reason to do so. We collaborated with our OR leadership to make sure the physician preference cards are changed to the

agreed-upon products. We centrally managed inventories to ensure that contracted products were stocked at the appropriate levels, improving customer service to our procedural areas.

Partnering with a manufacturer/distributor

In 2014, we transitioned to a new medical supply distribution partner, Medline. One of the main reasons we were attracted to Medline is that they self-manufacture and distribute their own products. This gives them complete control over their quality and production. Why was this important to us? If we don’t like something about a product and we want it tweaked to make it work better for our patients or clinicians, Medline can do that. Our previous distributor did not always have that ability.

For example, we wanted to convert to Medline’s plastic patient urinals. However, our clinicians thought the products felt too rough and would be uncomfortable for our patients. We met with our Medline team to see if they could make them smoother and more comfortable for our patients. They passed that feedback on to their manufacturing division and a few months later, we had a prototype. A month after that we got our first order of plastic patient urinals made to our specifications. And we got them for 10 percent less than our previous distributor’s price. That’s the advantage of partnering with a manufacturer that distributes its own products.

Fast conversion process

We were heavily incentivized to convert to Medline’s self-manufactured products. The Medline products were offered at a guaranteed savings over our current prices and eliminated distribution fees. There were also additional savings if we met specific thresholds for Medline brand purchases.

To expedite conversions, we centralized the product analysis rather than having each facility conduct its own assessment. We held a large product fair at one of our largest hospitals, Baptist Health Lexington, and invited all the subject matter experts from our hospitals and other facilities, including clinicians representing wound care, OR, cath lab, ICU, infection control, telemetry, infectious disease, PT — almost every area was represented.

We identified which product categories we wanted to address first (starting with commodities and working to advanced clinical products) and asked each hospital to send us their products with a description and manufacturer named. Since we were not standardized at this time, not every hospital used the same item. Medline sent their clinicians and product experts, as well as their products, and matched them up, side by side, with the Baptist products. Our direction to each Baptist representative was to make a decision on each product. They could decide to switch to the Medline product, switch to Medline with suggested design modifications or keep what they were currently using.

When the day was over, we had agreed to convert 28% of our total spend (\$40 million annually in 2014) to the Medline brand. According to Medline, that was the highest conversion percentage of any hospital system at the start of a new distribution contract. For perspective, we used approximately 18-20% of our previous distributor's branded product.

From that beginning four years ago, we've grown to 47% of our budget devoted to the Medline brand and we're not done yet. We have a goal to get to over 50% within the next year. Today, our total budget has grown to over \$70 million with more than \$32 million in Medline branded products.

Driving standardization

Rather than having each hospital manage the conversions to the Medline brand, we centralized this process. We had a team develop education models for each new product and track product conversions for each facility. A report was developed for each facility leader to document how they were doing on the conversion process, including the percentage of items they converted and comments on what they needed to do to be at 100%.

If a facility has a compelling reason not to convert to a specific product, we will manage how that department gets its unique product. We're not going to

make it available to everyone. A few months after we started using the new products, we had a similar product fair with the same products but this time with a small group of clinicians. We asked the clinicians how the conversions were going and if they had any concerns with any of the products. A few issues arose which were addressed immediately with either new product options or changes in design.

A new supply logistics model for physician preference items

Physician Preference Items (PPI) are very expensive products but are not managed nearly as efficiently as our less expensive med/surg supplies. Within a year, we're planning to have Medline inventory and distribute many of these PPI items similar to the way they're managing the med/surg supplies. This new process will provide us with three huge advantages:

- 1. More control over product availability and delivery.** We want to have access to PPI within the same time frame we have with Medline products every day. By housing them in Medline's nearby distribution center, we'll control the delivery and availability of these crucial products for our patients. In times of an emergency, we'll be able to get them delivered within hours of ordering them.
- 2. More efficient, streamlined work flow.** Currently, PPI is delivered at

all times of the day via Fed Ex, UPS and other delivery services. Our staff is constantly running all over the facility, locating the product and delivering it to the OR or cath lab. In this new, streamlined process, Medline will deliver it every morning with our med/surg products. This means there is just one put-away process for the majority of the products that any one department will need for the day. This makes our team more efficient and frees up time to do more meaningful work.

- 3. Cost reduction.** In this new process, not only will we reduce freight costs by eliminating overnight and second day air services, we can purchase PPI in bulk, covering three to six months of need (vs. per item purchases today). This gives us an additional 1-3 percent discount, which can add up to significant savings. **We expect to save between \$500,000 and \$1 million in the first year and more in the years ahead as we bring in more products to this model.**

Partnering with physicians on supply negotiations

We're finding that physicians are great partners in helping us drive cost out of the system. Physicians not only want to deliver excellent care, they are concerned about their patients affording that care.

That happens when you work with your physicians and show them not just the cost of the item. With the

Numbers tell the story

	2014	2017
Med/Surg Budget	\$40 million	\$70 million
% of Medline Product	28%	47%
Total Accumulated Savings Since 2014	\$3.3 million	\$8 million

The evolution of physician preference items (PPI) logistics.

Old Logistics System

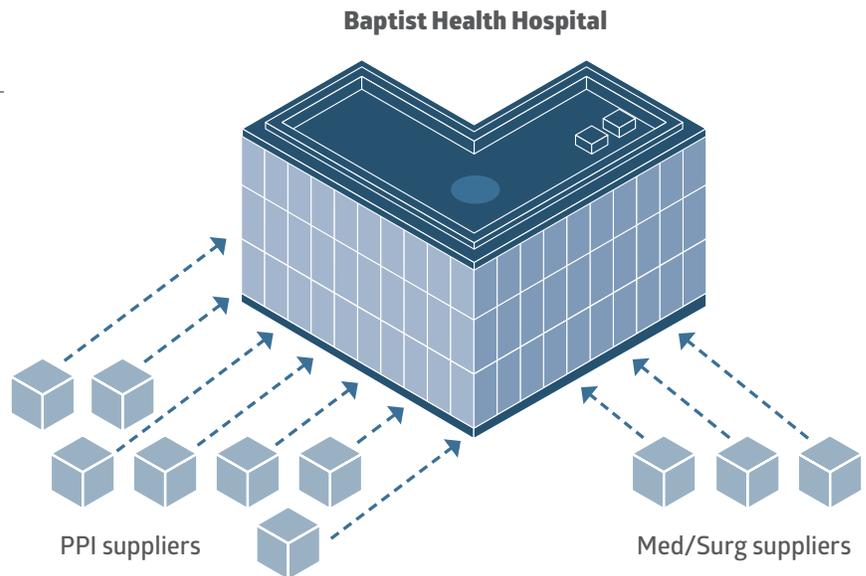
Poor visibility to data, pricing, inventory

Multiple POs per item per day from each manufacturer

Multiple deliveries per day via overnight

Multiple touchpoints per product

Multiple AP transactions per manufacturer



New Consolidated Model

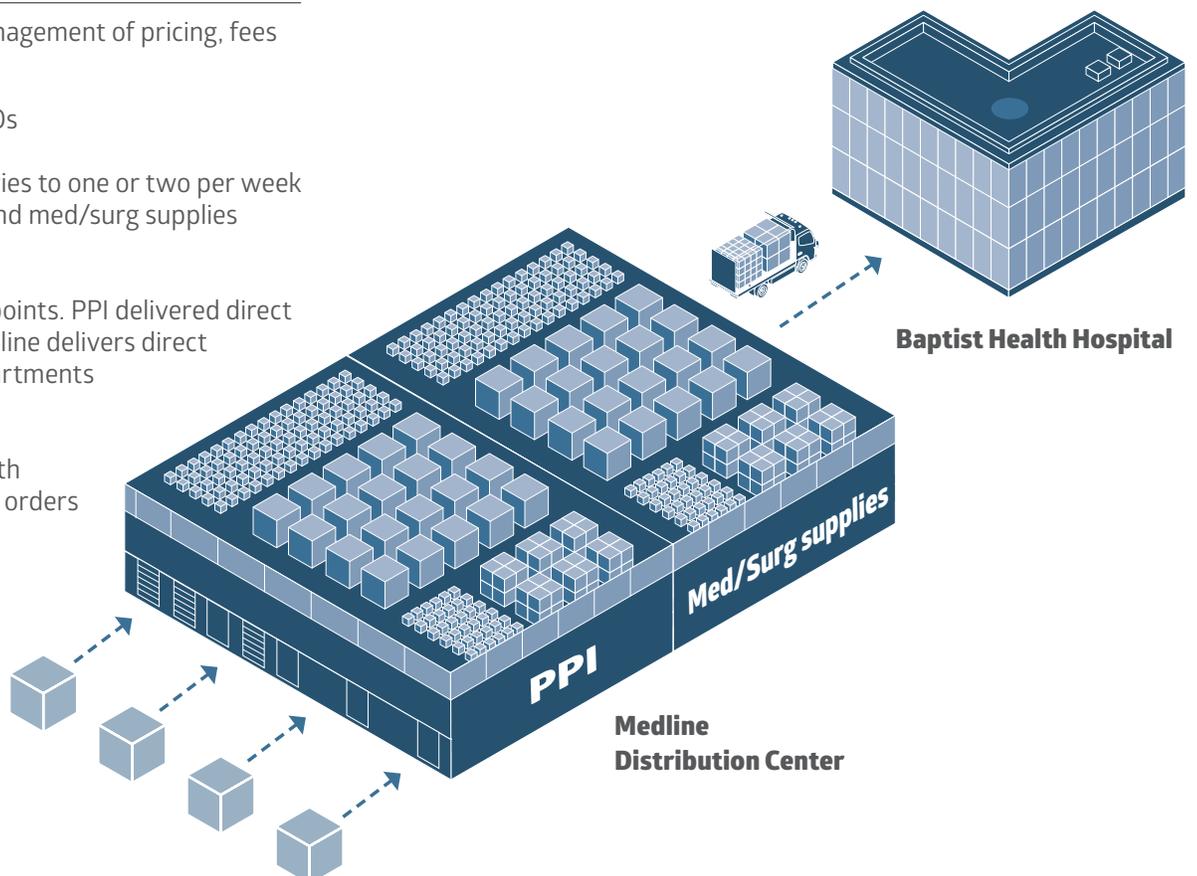
Better data management of pricing, fees and inventory

Consolidated POs

Reduced deliveries to one or two per week with both PPI and med/surg supplies on same truck

Reduced touchpoints. PPI delivered direct to Medline. Medline delivers direct to hospital departments

PPI invoices consolidated with other med/surg orders



“**Total savings since our agreement began has surpassed \$8 million** and we’re expecting to realize significantly more savings every year as we convert to additional Medline products and reduce our distribution fees.”

assistance of our Decision Support Department, we provide utilization, revenue and expense data. Data and project management is extremely important to driving down cost. Everyone working together can help us negotiate more favorable terms with our PPI suppliers.

As an example, we partnered with our cardiology service line on drug eluting stents and cardiac rhythm management products. By consolidating manufacturers, we were able to negotiate significant savings totaling approximately \$5 million. When you add the benefits of our new PPI supply chain logistics model, including additional discounts for bulk purchasing and reduced freight expenses, the savings will be closer to \$6 million.

According to Baptist Health’s Chief Financial Officer Steve Oglesby, our supply chain’s ability to collaborate with key partners is a major reason our system has reduced expenses. He said: “Our supply chain leadership has elevated what they do far above the traditional cost saving activities of price negotiation, procurement and

vendor management. They have been instrumental in changing our culture to be more physician led, driven by data and centered around bringing greater value to our patients. Through multidisciplinary teams organized by service line, they arm physician leadership with outcome, quality and cost data to make decisions. This process is fundamentally changing the way we approach our business — where the health system supply chain leaders and data analysts are partnered with physicians to drive greater engagement and improvement.”

Summary

Supply Chain will continue to collaborate and provide support to our physicians and clinicians to drive value. We will continue working with our caregivers to provide the highest quality products at the lowest possible costs. We’re able to achieve lower costs by standardizing products and clinical protocols across our system, working with a distribution partner that also manufactures its own products and partnering with our physicians to drive down costs.

About the authors

Cindy Gueltzow is the Executive Director of System Services Supply Chain at Baptist Health in Kentucky/Indiana. In this role, Cindy is responsible for developing and executing the system-wide supply chain strategy for eight hospitals and over 300 outpatient sites. Cindy has been with Baptist Health for over 18 years and has been in a leadership role over Supply Chain for six years. Cindy holds a Bachelor of Arts degree in Business Communications from the University of Louisville.

Kim Prather is the System Director of Materials Management at Baptist Health. In this role, Kim and her teams are responsible for the distribution and management of supplies from the dock to the bedside, for Baptist Health’s eight hospitals. She has worked closely with Baptist Health for 19 years, initially as the system’s medical supply distribution partner and the last two and a half years in the Supply Chain Materials Management role. Kim holds a Master’s Degree from the University of Louisville.



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