

Cost, Quality, and Outcomes The Supply Chain Value Equation



An Executive Thought Leader Forum Sponsored By

Introduction

The Association for Healthcare Resource & Materials Management (AHRMM) of the American Hospital Association (AHA) is the leading professional organization for the healthcare supply chain. Founded in 1951, AHRMM supports its membership's development through leadership, education, networking, resources, and advocacy. AHRMM is committed to keeping its members ahead of the learning curve, so they "work smarter" in the field and remain prepared for future career opportunities.

The AHRMM Mission

AHRMM strives to advance healthcare through supply chain excellence by providing education, leadership, and advocacy to professionals in hospitals, health systems, and related organizations that are accountable to the community and committed to health improvement.

The Association for Healthcare Resource & Materials Management (AHRMM), a personal membership group of the American Hospital Association (AHA), held its third Executive Thought Leader Forum on July 29, 2013 to discuss the effects and implications of the transforming healthcare environment. The Executive Thought Leader Forum was sponsored by VHA, and held during the AHRMM13 Annual Conference in San Diego, California.

Annette Pummel, AHRMM Board Chair, welcomed participants to the Forum. At the close of the 2012 Executive Thought Leader Forum, participants indicated they would like to delve more deeply into issues promoting supply chain and clinical collaboration and integration, to develop supply chain strategies in response to healthcare transformation, and to develop initiatives designed to advance the supply chain from a transactional program to a strategic resource and contributor to organizational success. The agenda topics for the 2013 Executive Thought Leader Forum agenda directly addressed those issues.

Annette Pummel and Christopher O'Connor, AHRMM Chair-Elect, opened the Forum with a strategic discussion session focused on AHRMM's Cost, Quality, and Outcomes (CQO) Movement. The session was designed to determine where organizations and

supply chain leaders are in relation to CQO, what their needs are relating to the development of future materials, and marketing of currently available materials.

Following a networking lunch, Heather Jorna, Vice President of AHA affiliate Health Research and Education Trust (HRET) presented the core organizational competencies and key transitional steps required for hospitals to successfully transition from the first curve to the second curve.

Business consultant Jamie Kowalski then reviewed results of the 2013 Healthcare Provider Executive Supply Chain Survey. Also on the agenda was the introduction of the new AHRMM Mentor Program by John Gaida and Mary Starr, both AHRMM past presidents.



Annette Pummel

The AHRMM Vision

To advance healthcare supply chain excellence through the provision of education, the sharing and cultivation of knowledge, and continuous advocacy for the profession.

AHRMM Values

- Vision
- Integrity
- Excellence
- Risk Taking
- Strategic Partnering

“Many suppliers have solutions for CQO but unless we have trust, unless we have understanding on how to partner with suppliers, we’re never going to bring their great solutions over to the clinical side.”

-Thought Leader Forum Participant

Executive Thought Leaders’ Profile

The perspectives presented by executive thought leaders participating in this AHRMM event were derived from their years of supply chain experience and a wide diversity of perspectives and experiences. More than 70 percent of participants have worked in the supply chain profession for over 20 years. This is comparable to the tenure of participants in the 2011 and 2012 Thought Leader Forums. Four in ten participants came to the healthcare supply chain profession from another industry, similar to participants in 2011.

In 2011 and 2012, nearly 70 percent of the participants were vice presidents or senior vice presidents. This year, while fewer participants were vice presidents or senior vice presidents (47 percent), there were slightly more CEOs present (9 percent) and more assistant vice presidents (22 percent). Six percent of participants are chief supply chain officers, a category not previously captured.

Nineteen percent of participants work for a single hospital, whether alone or with an integrated delivery network, while 56 percent of participants reported representing multi-hospital systems.

More than three-quarters of the Executive Thought Leader Forum participants are responsible for budgets exceeding \$100 million. Of those, a quarter of the executive thought leaders have budgets over \$250 million, and three in ten are responsible for budgets exceeding \$500 million.

Seven in ten executive thought leaders consider themselves health care generalists, with expertise and experience that is used and valued across the enterprise, as opposed to being specialists whose focus is on a narrow dimension of the system.

Nearly three-quarters of the participants prefer becoming an “official” C-suite member vs. acting as an advisor to the C-suite.

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Cost, Quality, and Outcomes (CQO)



*Annette Pummel, AHRMM Board Chair
American Contract Systems (ACS)*

*Christopher O'Connor, AHRMM Board Chair-Elect,
President, Nexera, Inc.
President, GNYHA Services, Inc.*

The emerging model for healthcare delivery presents unprecedented opportunities for the supply chain profession to help achieve the objectives and meet the requirements of healthcare reform. Supply chain professionals must understand the total costs, including the cost of supplies, procedures and total delivered care, and how they intersect to determine reimbursement levels. To succeed, supply chain must operate from the intersection of cost, quality, and outcomes (CQO). Following their AHRMM 13 keynote presentation, Annette Pummel and Christopher O'Connor met with executive thought leaders to discuss AHRMM's Cost, Quality, and Outcomes (CQO) initiative further.

Supply chain contributions to patient care.

To open the discussion, Pummel and O'Connor polled executives, asking what they believe is their department's largest contribution to patient care. Executive thought leaders offered mixed perspectives in response. About one-quarter of participants believe their greatest contribution is individualized supplies and services that are based on diagnosis and co-morbid conditions. Approximately one-fifth believe their greatest contribution is low cost on readily available supplies and another one-fifth believe it is a scalable formulary with costs that are commensurate in size. At the same time, one-third of participants indicated they offer other significant contributions. Importantly, executives observed that they are responsible for managing all non-labor spending and invest themselves in analysis, evaluation, and outcomes. It was noted that supply chain contributes to the "right product, the right place, at the right time" so that nurses and others can accomplish their jobs without wasting time locating supplies.

Engaging stakeholders in CQO. Pummel and O'Connor asked executives if they were making rounds with



physicians. All agreed that whether it was rounding with physicians, medical service meetings, or nursing huddles, it is vitally important for supply chain leaders to be engaged with providers and ensure open communication. Four in ten executive thought leaders believe that the C-Suite is the easiest group to educate and ensure an understanding of Cost, Quality, and Outcomes (CQO). While many

executives believe that Supply Chain staff (27 percent) and physicians (20 percent) are easy to educate, the fewest executives (13 percent) believe that clinicians are an easy group to educate and ensure understanding of CQO. Executives also pointed out the importance of educating their boards about CQO, particularly as hospital reimbursement and long-term sustainability are dependent on CQO for success.

O'Connor observed that in general, materials managers and suppliers have low levels of trust as buyers and sellers. Suppliers are perceived as "going

around" supply chain professionals to clinicians. O'Connor further observed that suppliers often approach clinicians first because clinicians want to hear about a product's quality and benefits, which is what the supplier wants to talk about. The supplier does not start with the supply chain professionals because that conversation will be focused on price, not quality. O'Connor and other executives pointed out that many suppliers already understand CQO and have a number of great solutions to offer.

Tools for navigating CQO. Executive thought leaders believe that case studies illustrating the successes of other organizations would be the most help in navigating the leadership role at the intersection of CQO. Many also believe that talking points and instructional materials for the C-Suite would be helpful, and a few would like instructional materials for supply chain staff.

When asked, executive thought leaders indicated their belief that their organizations can each offer 1 to 15 individual success stories or case studies based on supply chain leadership at the intersection of cost, quality, and outcomes (53 percent). More than a quarter of the executives believe their organizations could offer more than ten case studies each (27 percent). Few indicated they would have no success stories or case studies to offer. Pummel encouraged executives to submit their case studies to AHRMM for potential publishing in the new AHRMM magazine or on the website. Case studies can prompt others to recognize what they might already be doing in the CQO intersection or inspire them to act on new opportunities.

Measuring success. Recognizing that the indicators currently being measured and tracked will no longer be relevant nor will they advance supply chain and the organization where they need to go, the AHRMM board has been evaluating what metrics should be tracked. Interested in knowing the metrics currently being used by AHRMM members, Pummel and O'Connor polled executive thought leaders with the following results, listed in order from most used to least used:

- HCAPHS score (21 percent)
- Supply expense per CMI Adjusted Discharge (18 percent)
- Severity adjusted average length of stay (14 percent)
- Risk adjusted mortality index (11 percent)
- Other metrics (9 percent)
- 30-day risk adjusted mortality rate for heart attack, heart failure, and pneumonia (8 percent)
- Medicare spending per beneficiary (8 percent)
- Risk adjusted complications index (6 percent)
- Risk adjusted patient safety index (5 percent)

Executives indicated that they continue to track some metrics no longer considered relevant because organizations are still in transition and the metrics

represent the way they are being paid now. Metrics unlikely to be tracked in the future are the per adjusted discharge data, which are likely to be replaced by metrics which measure a more holistic patient encounter from thirty days prior to admission. It was observed that

readmission rates, including rates by DRG, should be included in the list of relevant metrics for the future. Other quality measures used by CMS should also be tracked since they drive reimbursement. Executives noted that CFOs tend to look at certain metrics because historically that's what's been tracked and can be compared.

How organizations are working from the intersection of CQO. Executives shared the following examples of ways their organizations are working from the intersection of CQO:

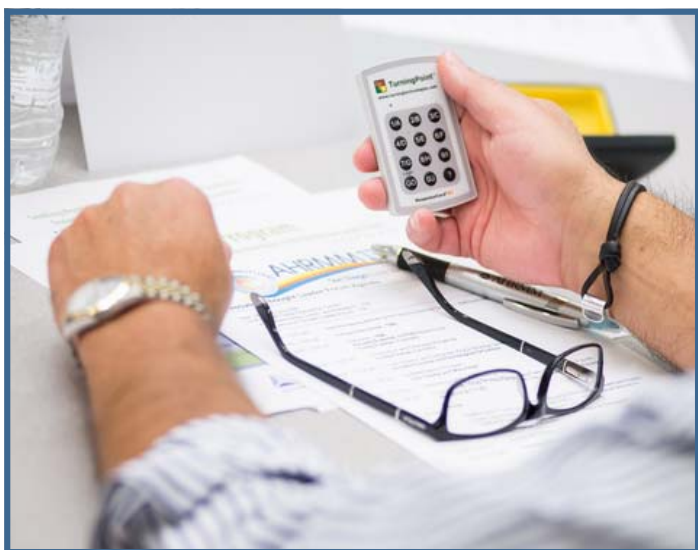
- A magnet hospital, is integrating resource utilization functions into its nursing teams.
- Having conversations with primary care physicians who want to know the cost, quality, and outcomes of specialists and surgeons prior to making referrals.
- Another hospital is working with the specialists on efforts to reduce the full costs of hospitalizations.
- A health system is seeking out the best practices which may be in place at one or more of their hospitals but not at others.
- Another hospital is drilling down to the product level to identify disparities between products, then meeting



with physicians and surgeons to further assess and discuss products and their implications to costs, quality, and outcomes.

- An executive observed that the supply chain is accountable to manage everything outside of the hospital as well as inside, and CQO must expand to encompass the entire spectrum.
- Calling attention to the fact that 30 percent of value-based contracting reimbursement is based on patient satisfaction, the supply chain profession contributes to patient experiences through its management of non-labor spending, including ease of parking, televisions, and many other factors.
- It was noted that physician incentives are changing, driving them to also evaluate cost and quality, providing supply chain with opportunities to meet with physicians in private practice.

Executives observed that CQO is encouraging strategic thinking, which will help to facilitate supply chain advancement to the C-suite. Historically, supply chain has been a “closed shop” where supply chain leaders have spent their careers in healthcare. Supply chain leaders entering the healthcare field from other industries will add value and strength to the healthcare supply chain field.



Data needed at the intersection of CQO. The challenge for many supply chain leaders is the ability to extract the desired data. There were discussions about software vendors already reviewing the CQO initiative and evaluating development of tools that supply chain leaders can use to extract valuable data.

Recognizing that they must begin monitoring things not previously tracked, a few executives indicated they are able to obtain outcomes data either from the insurance companies they own, or those that they partner with.

Executive thought leaders also identified the need for analysts to gain the most benefit from the data.

Leveraging educational opportunities. Supply chain executives would like to have tools that can help them to educate chief financial officers (CFOs) about the role and responsibilities of the supply chain, and particularly about the opportunities that could be realized with CQO. CFOs that understand the value of the supply chain might prove to be effective supply chain allies.

Executives are also interested in education and tools that will provide supply chain leaders with the skill and expertise that will allow them to sit down with their CFOs and strategically address key financial issues and best methods for measuring outcomes.

Executive thought leaders were interested in knowing about AHRMM’s efforts to reach out to universities that offer supply chain degrees. Pummel noted that AHRMM funds research for several universities. In response to concern that many graduates accept jobs with suppliers instead of hospitals and health systems, hospital executives were encouraged to consider offering supply chain internships to students and graduates.

Before closing the discussion, executives discussed the role of AHRMM as a conduit for creative thinking and ideas and sharing of best practices.

From First Curve to Second: Hospitals and Care Systems of the Future



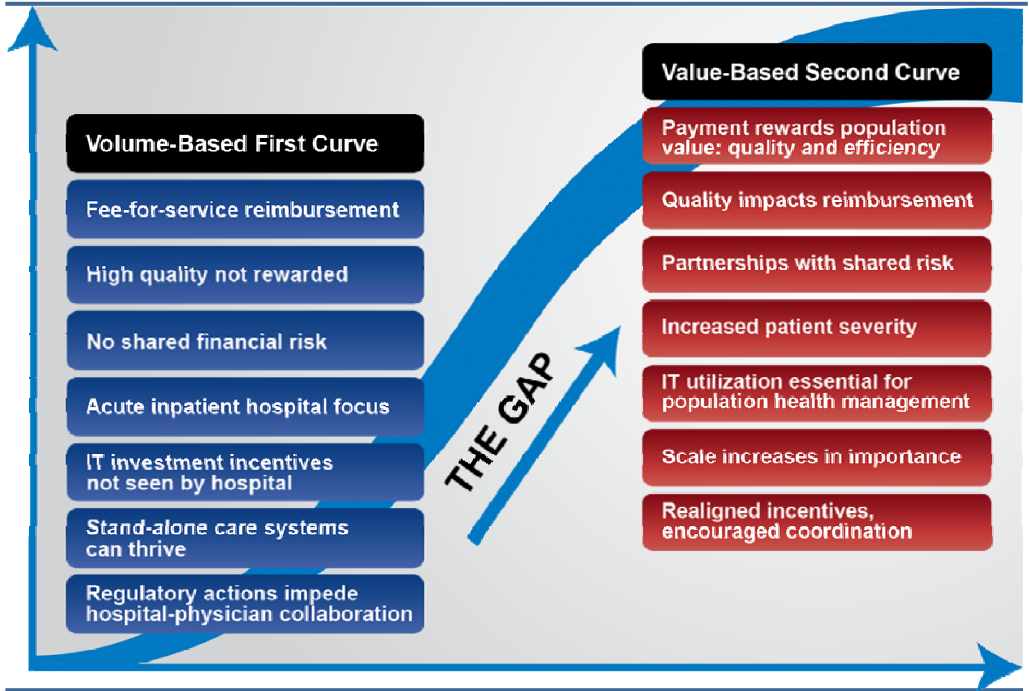
*Heather Jorna, Vice President
Health Care Innovation, Health Research and Education Trust (HRET)*

In the current economic environment, hospitals need to focus on performance initiatives that will remain crucial in the long-term. The American Hospital Association (AHA), through its Hospitals in Pursuit of Excellence (HPOE) strategic platform, has studied the role of the hospital of the future. As healthcare transforms from a volume-based to a value-based market, HPOE has identified actionable strategies and core competencies for hospitals to pursue in making the transition.

Strategies and competencies for achieving the second curve.

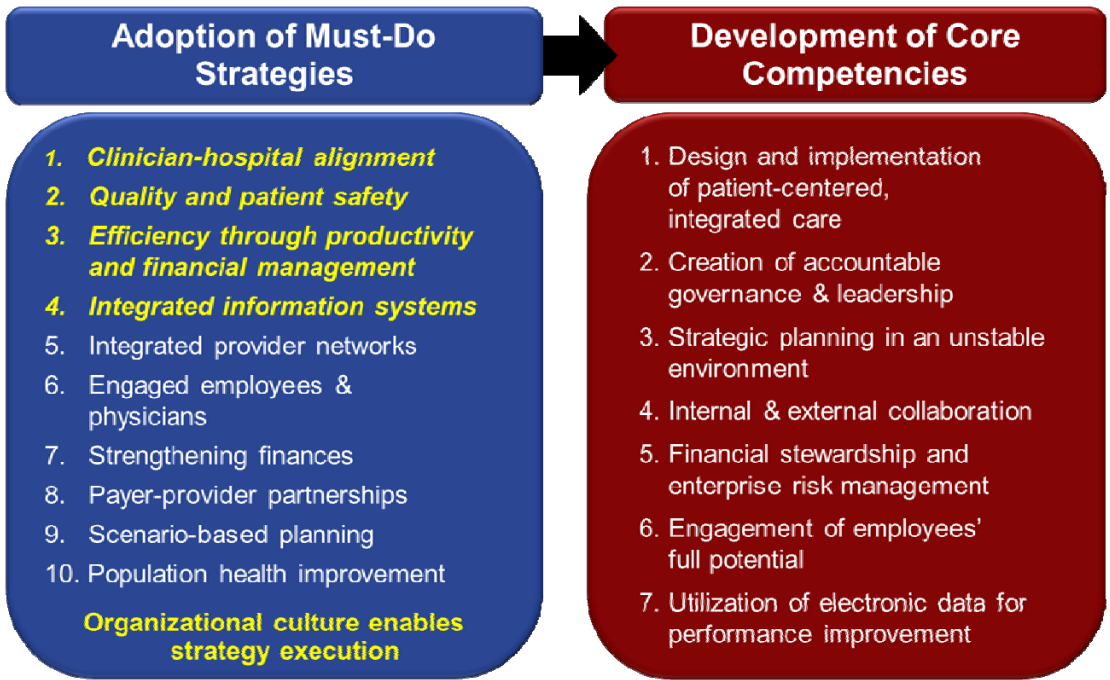
Heather Jorna shared with executive thought leaders the ten “must-do” strategies for hospitals striving to transition from first curve to second curve markets. First curve markets are those characterized as fee-for-service. Second curve markets are characterized

Figure 1: Volume-Based First and Value-Based Second Curve



as value-based markets. Of the ten strategies (refer to Figure 2), four have been identified by hospital executives as most critical to be accomplished; and supply chain is

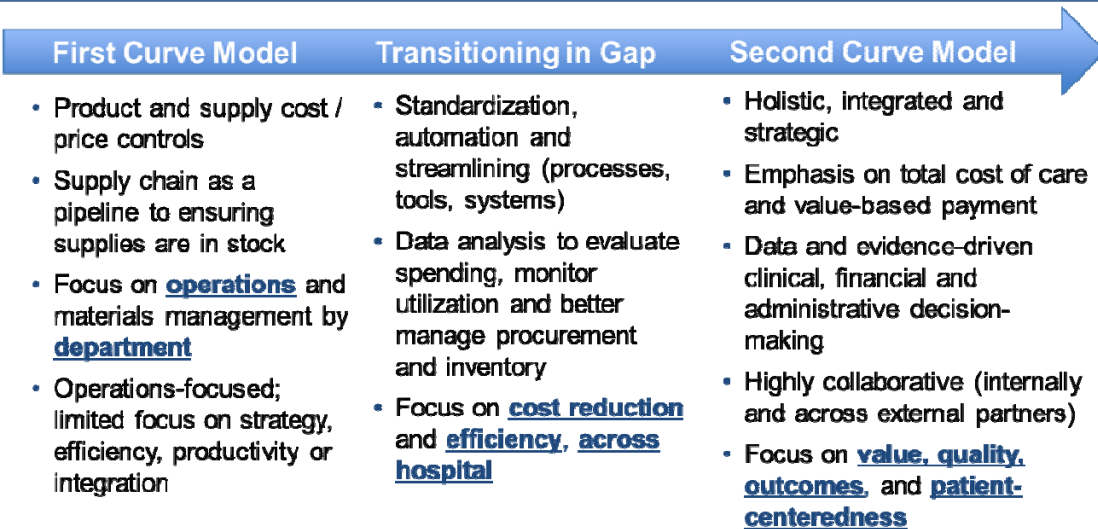
Figure 2: Must-Do Strategies and Core Competencies



considered well-positioned to deliver on the goals of cost, quality, and outcomes. Sixty-one percent of hospitals have or are currently implementing the first four strategies, while 16 percent are implementing the last six strategies and 14 percent have completed all ten.

Opportunities and challenges for supply chain. When asked which strategies supply chain has the opportunity to play the most significant role, executive thought leaders

Figure 3: The supply chain is shifting toward transformational change



Source: American Hospital Association; Booz & Co. "The Transformative Hospital Supply Chain *Balancing Costs with Quality*," 2011

indicated the greatest opportunities for the supply chain is in strengthening finances, followed by efficiency through productivity, clinician-hospital alignment and quality, and patient safety. While some believe there is an opportunity to engage employees and physicians, only a few believe that integrated information systems, integrated provider networks, payer-provider partnerships, and scenario-based planning offer supply chain an opportunity, and no one believes there is a role for supply chain in population health improvements.

Executives also indicated their belief that the strategies that pose the greatest challenge for supply chain are clinician-hospital alignment and population health management. Many executives also believe that integrated information systems, integrated provider networks, and payer-provider partnerships will also prove to be challenging.

HRET has developed a self-assessment tool for organizations to gauge their progress from first to second curve. The tools, *Second Curve Road Map for Health Care* and *Metrics for the Second Curve of Health Care*, are available on the Hospitals in Pursuit of Excellence section of the American Hospital Association's (AHA's) website (www.HPOE.org).

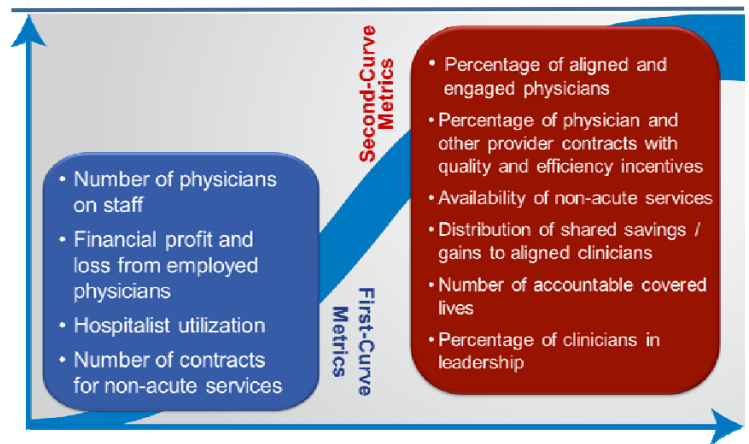
Transforming supply chain. Jorna outlined the supply chain transformation from first to second curve, observing that the field is transitioning from one that is operationally focused on product and supply cost and price controls to a strategic approach that is more holistic and integrative with an emphasis on total cost of care in value-based contracting. She

emphasized that in the second curve, supply chain should expect greater collaboration with new and different partners, both internal and external, all with a focus on value, quality and outcomes, and patient centeredness.

The metrics in the second-curve will shift from counting physicians and numbers of contracts, and looking at profit and loss, to evaluating the alignment, engagement and leadership opportunities for physicians and other providers across the continuum of care.

When polled, nearly half the executive thought leaders

Figure 4: Strategy #1: Aligning Hospitals, Physicians and Other Providers Across the Continuum of Care



indicated they are currently implementing the first strategy, aligning physicians and providers across the continuum of care. About one-third have already completed implementation while the rest are developing a strategy for implementation. This is comparable to a CEO survey recently conducted by the AHA.

Achieving strategy #1, Aligning hospitals, physicians and other providers. Jorna called attention to the role of supply chain in achievement of the first strategy of aligning hospitals, physicians, and other providers. Supply chain's unique position offers opportunities to build trust and partnerships with physicians and other leaders in the organization. Offering increased transparency into the supply chain and building physician understanding of comparative effectiveness of supplies, drugs, and devices will help to advance cost, effectiveness, quality, and outcomes. When asked what actions they are pursuing to align providers and supply chain professionals, executive thought leaders indicated that collaboration across departments and governance and management structures are the actions most are pursuing, along with many who



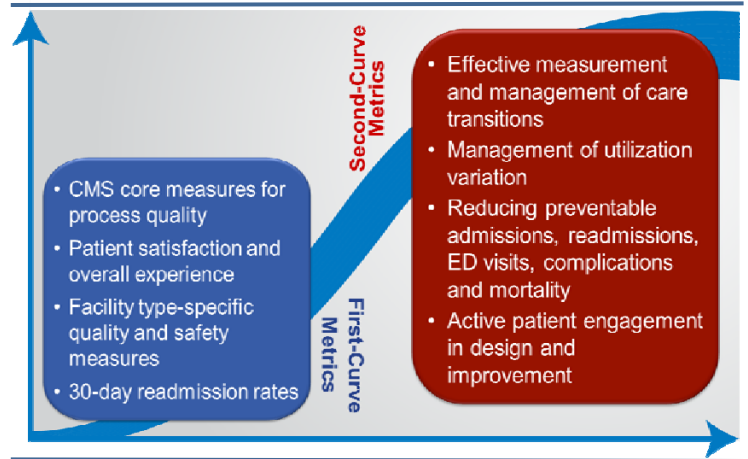
are working closely with physicians to educate and engage them on CQO. A few indicated their shared culture,

vision, and goals align the supply chain into the continuum of care.

When asked how their organizations are integrating supply chain management into the continuum of care and aligning with clinical providers, executive thought leaders responded with the following examples:

- Engaging clinicians, sharing evidence-based data, providing information on their costs and peer

Figure 5: Strategy #2: Utilizing Evidence-Based Practices to Improve Quality and Patient Safety



comparisons initiates valuable dialogue that is part of the daily regimen;

- Joint development of a shared savings program with physicians has created motivation for physicians and answers the question “What’s in it for me?”;
- Supply chain participates in all strategic conversations, including monthly nurse leadership and service line meetings, with agenda items and discussion points; and
- Co-management agreements with physicians and different disciplines, with supply chain as a member of the co-management team that facilitates discussions about how supply chain can participate in the metrics and co-management relationship.

Achieving strategy #2, Using evidence-based practices.

The second strategy will shift attention to effective management of transitions and ensuring clear communication among providers. Utilization variance management will assume a greater priority as will a number of outcomes measurements. Patient and family engagement is also an important component of the second curve. When polled, executive thought leaders responded that about one-third have already implemented the use of evidence-based practices to improve quality and safety. About one-quarter of the group is currently



implementing evidence-based practices, and another one-third are developing implementation strategies. A handful of respondents indicated that they are not considering evidence-based practices.

Jorna stressed the critical impact that supply chain can have on quality and patient safety, including support for informed clinical decision-making, product and service safety guarantees, incorporation of clinical protocols and evidence-based medicine in supply chain management, and reduction of errors through automation and quality checks. When asked, supply chain executives indicated they are incorporating clinical protocols and evidence-based medicine into supply chain decision-making and their management processes use automation and quality checks. While some indicated they are negotiating quality and safety guarantees, only a few are providing real-time information and analytics on supply CQO for informed clinical decision-making.

When asked how they are utilizing evidence-based practices in supply chain management, one executive indicated that the supply chain at his organization is embedded into clinical programs, enabling supply chain to offer process guidance and information about strategic sourcing, including total cost of ownership, as part of the decision process.

Another executive commented that her organization chose not to credential several physicians who failed to

meet its desired profile. The organization also acted to ensure that physicians on key committees were advocates of change and could challenge other physicians to reduce practice variation.

Achieving strategy #3, Improving efficiency through productivity and financial management. The third strategy is designed to shift attention to costs per episode of care vs. inpatient stays, with focus on shared savings, risk management, cost-reductions, and managing costs to meet Medicare payment levels. When polled, most executive thought leaders indicated they either already have or are implementing productivity and financial management strategies to improve efficiency.

Improving efficiency is an area where the supply chain can make an impact by:

- Focusing on total cost of care;
- Increasing automation;
- Standardizing and streamlining workflow;
- Utilizing real-time analytics;
- Optimizing vendor management and improving negotiating power; and
- Utilizing device identification for tracking and monitoring of supplies, location, and utilization.

Figure 6: Strategy #3: Improving Efficiency Through Productivity and Financial Management

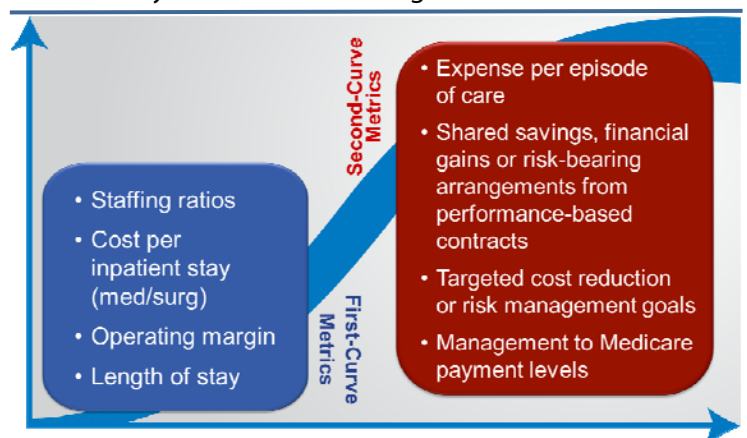
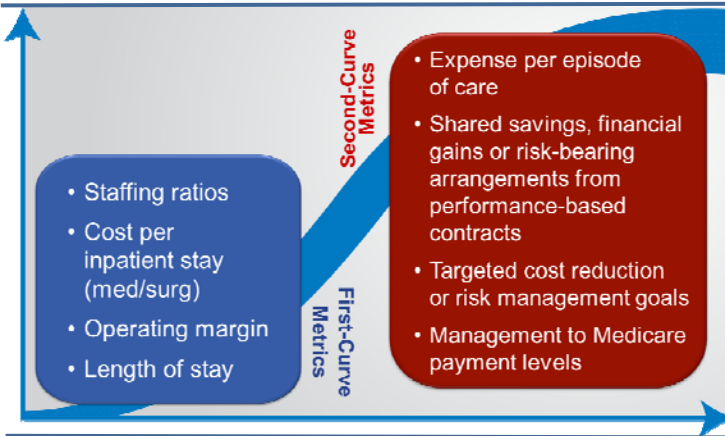


Figure 7: Strategy #4: Developing integrated information systems



Executives indicated they are doing most of these things, with the exception of unique device identification, which only a few indicating they are implementing. When asked how the supply chain is contributing to efficiency, productivity, and financial management, executives responded by highlighting efforts to standardize and to reduce clinical variation.

One executive commented on his organization’s efforts to implement customized radio frequency identification (RFID) and real-time locating services (RTLS). RFID and RTLS are giving the organization information that goes beyond simple tracking to provide process insights as they relate to time stamps, alarms, needed equipment, equipment requirements, and clinical requirements. The organization is beginning to find applications to improve productivity, quality improvement, and safety.

Achieving strategy #4, Developing integrated information systems. The fourth strategy presented by Jorna was the development of integrated information systems, which should integrate information not only within the hospital, but also incorporate information from post-acute care and the public health department. Second curve metrics will require information from an integrated system that allows access to information and data across the continuum to best manage population health. When polled, executives indicated their organizations were

almost equally split between having already implemented, are currently implementing, or are developing a strategy to implement integrated information systems.

Jorna emphasized that information system integration will facilitate access to comprehensive data, fewer errors, lower costs, improved care delivery, and greater efficiency. It also provides real-time analytics and business intelligence to support meaningful, strategic metrics for administrative, financial and clinical planning, and decision-making.

Based on polling responses, executives indicated that many are implementing system-wide integration with supply chain information systems and data standardization, integrating automation tools and are evaluating the impact of supply chain on cost, quality, safety, patient outcomes, reimbursement, process efficiency, and satisfaction. Fewer executives indicated they are using real-time analytics on supply chain metrics or are using tracking tools.

When asked how their organizations are integrating information systems for supply chain management and the strengths and challenges supply chain is facing in addressing the strategy, executives cited the challenge of complaints that the system does not work, only to find that data and information weren’t loaded correctly, pricing wasn’t updated, etc. It was also observed that having a system available is one thing, but having it available to all

Figure 8: Core Competencies



parties to take full advantage of has been a different undertaking and that integration piece is not yet in place.

Executives noted the opportunity they are finding when supply chain loads information into a data warehouse for future intelligence, which can then connect to other clinical and financial elements such as length of stay, adverse events, etc. to deliver a stronger picture of costs and outcomes tied together. Others have automated data and have integrated the full revenue cycle, which delivers real-time data.

Jorna discussed with executives opportunities for the supply chain profession, which includes the ability to influence change and impact cost, quality, and outcomes, addressing the Institute for Healthcare Improvement's (IHI) "Triple Aim" initiative. Supply chain's interaction with clinical, administrative, and financial aspects of the organization make it increasingly important to have visibility at the executive level, and to engage at a strategic level, leading collaboration internally and externally with various partners. Supply chain management has the

opportunity to examine the supply chain holistically end-to-end to find potential savings and opportunities to impact cost, quality, and outcomes.

Jorna identified evolving skills for successful supply chain professionals in the second curve, including being:

- Change agents and problem solvers;
- Visionaries willing to embrace risk;
- Progressive and nimble with an ability to think differently and strategically about supply chain management (end-to-end, holistically, total cost/value); and
- Leaders in collaboration among internal partners and external suppliers to support quality, accountability, and value.

Executives observed that the ability to plan strategically in an unstable environment is a core competency for supply chain leadership.



The 2013 Executive Survey on Supply Chain Management: Summary of Findings



Jamie C. Kowalski, FACHE, FAHRMM
Jamie C. Kowalski Consulting, LLC

Jamie C. Kowalski Consulting, LLC, in collaboration with the Marquette University College of Business Administration, Center for Supply Chain Management, conducted the *2013 Executive Survey on Supply Chain Management*, which was sponsored by AHRMM, AmerisourceBergen, and Owens & Minor. The survey, conducted since the 1980s, is designed to compare and contrast views on critical supply chain and healthcare issues, and prompt strategic discussions and action plan development.

The survey was distributed to C-level executives and supply chain leaders. A wide range of organization sizes and types (hospitals and integrated delivery networks), were represented by the completed surveys, matching industry provider demographics. Three hundred and sixty-four surveys were returned, a 40 percent increase over the 2012 responses.

Key Survey Findings. Kowalski presented highlights from the survey's findings and facilitated a discussion about the results. Below are some of the key findings from the survey:

- In rating the impact of various components of healthcare reform, supply chain leaders and C-level executives believe that:
 - ACOs present either a challenge or a great challenge, but C-level executives believe bundled payments present a greater challenge, with some potential for opportunity ; and
 - C-level executives believe the challenge presented by supplier recovery of the medical device excise tax through raising prices is less than the supply chain believes it to be.
- Most C-level and supply chain executives strongly agree that the need for supply chain to optimize will



intensify and optimization is one of the top three expense reduction strategies used to meet the challenge of reform. Most either agree or strongly agree that supply chain management must become a core competency.

- Most C-level and supply chain executives either agree or strongly agree that the supply chain has a direct, critical relationship with and impact on patient safety. They generally agree that supply chain management has a direct, critical relationship and impact on quality outcomes, and most strongly agree on the supply chain's relationship and impact on margin management.
- Supply chain leaders and C-level executives generally disagree that service lines with supply chain-related operations (pharmacy, food service, engineering) should report to a Chief Supply Chain Officer. In discussion with executive thought leaders, leaders questioned if the results would have been more favorable had pharmacy not been included in the list of service line examples. In response, it was noted that supply conversations about drugs are the same as the conversations about implants, in which the supply chain is a key participant. Supply chain leaders must demonstrate that they are a strategic leader before

Managing and reducing product utilization and achieving high levels of product standardization are the two tactics ranked most able to generate the greatest improvements.

they can expect C-level executives to support increasing service line reporting to Chief Supply Chain Officers. It was also observed that the responses from the C-level may depend on the size of the organization.

- C-level executives were more likely than supply chain leaders to indicate that their organization does not have a supply chain strategic plan.
- Supply chain leaders were more apt to indicate a higher percentage of the operating budget is related to the supply chain than C-level executives indicated, with many C-level executives indicating that 21-25 percent of the operating budget is supply chain related. It was remarked that a study conducted in 2008 or 2009 indicated the percentage is more than 50 percent.
- Sixty-seven percent of C-level executives indicated they were satisfied or very satisfied with supply chain performance. Kowalski challenged thought leader executives to consider if that was good enough, and whether the supply chain profession should be seeking stronger performance in hopes of consideration for core competency optimization. Most supply chain and C-level executives indicated that supply chain performance has substantially improved in the last two years. On both factors, the percentage of favorable responses has dropped slightly in recent surveys. The group debated potential reasons for the



Supply Chain Skills for Success

C-level executives prioritized supply chain skills as follows:

1. Leadership
2. Strategic thinking and planning
3. Communication and collaboration with physicians
4. Change management
5. Communication and collaboration with executives
6. Negotiation
7. Results oriented
8. Analytical
9. Project management
10. Big picture vision
11. Taking action
12. Lean/Six Sigma
13. Transaction oriented

drop, but determined that not enough information is available to be definitive.

- Leaders indicated that although supply chain has the metrics to measure financial performance, they are less likely to have supply chain metrics to measure the impact on quality. Agreement with metrics to measure financial performance has improved and may represent greater awareness of C-level executives of supply chain measures through increased use of dashboards.
- The top three measures of supply chain leader performance are total annual (or annualized) savings in supply chain operations, total annual consumable supply expenses per total net revenue, and supply expense per adjusted discharge.
- C-level executives indicated it is likely or very likely that they will advocate for investment in supply chain, will



personally collaborate with and mentor supply chain leaders, and will ensure all leaders and staff understand supply chain concepts to optimize performance. It is less likely, but still possible, that C-level executives will engage a 3rd party to assess the supply chain and guide development and improvements. Many thought leader executives indicated that they spend as much time explaining the supply chain to the C-suite as they do to anyone else.

- C-level executives agree that the supply chain acts strategically in their organization and can be a physician satisfier.
- Managing and reducing product utilization and achieving high levels of product standardization are the two tactics ranked most able to generate the greatest improvements.
- Most respondents indicated they are considering information that would monitor real-time the relationship between clinical outcomes plus total supply chain costs and total cost per episode.
- Supply chain leaders and C-level executives agree that group purchasing organizations (GPOs) are the centerpiece of supply chain strategy because they can provide valuable C-level information and/or data.
- Supply chain leaders and C-level executives generally agree that the CEO is the most appropriate executive

to engage physicians about supply chain-related expense reduction strategies, though some agree it should be the supply chain leader and some C-level executives believe it should be the CFO.

- In general, neither supply chain leaders nor C-level executives are involved in discussing supply chain management with physicians during recruitment, hiring, or orientation.
- Though generally aligned, C-level executives are more likely to believe that physicians positively contribute to supply chain related initiatives to reduce operating expenses than supply chain leaders.
- While physician compensation is not tied to supply chain performance, both supply chain leaders and C-level executives believe that ACOs have either a moderate or significant impact on physician cooperation related to supply chain management.
- Supply chain and C-level executives agree that outcomes-based reimbursement will drive standardization and utilization management and supply chain will be the source of increased savings to help maintain margins.
- C-level executives agree more strongly than supply chain leaders that managers, clinicians, physicians, and staff must contribute to reaching supply chain performance targets.



- While about two-thirds of C-level executives agree or strongly agree that their supply chain leader has the skills and experience to deal with reform, a quarter are neutral in their opinion and the remaining executives disagree.
- About 40 percent of C-level executives agree that their supply chain leaders have developed the strategy, resources, etc. to enable the organization to respond to reform.
- C-level executives want supply chain leaders to spend a greater percentage of their time on strategic issues and less time on transactional issues (tactical time spent is about correct).
- Supply chain leaders are more likely to believe that suppliers will positively contribute to optimizing supply chain performance and reduced expenses.
- While about one-third of C-level executives believe their knowledge of supply chain management is advanced, the rest believe they could improve.
- Supply chain topics are rarely on ACHE Congress or Cluster Meeting agendas because they are the responsibility of next-level executives (CFO, VP Operations, etc.), or they are perceived as not as important as other issues.

Summary of findings. Kowalski's summary of survey findings includes:

- C-level executives and supply chain responses generally are aligned;
- Improvements have been made, but more are needed now;
- C-level executives still lack a full understanding of what is needed vs. what the current state is;
- C-level satisfaction with supply chain leader performance is just "OK";
- C-level satisfaction with supply chain performance is "satisfactory";
- Suppliers are not perceived as part of solution;
- Cost, quality, and outcomes technology and tools are lacking;
- The opportunity to engage/change physicians is being missed; and
- Supply chain leaders need to find out what their "C" knows, thinks, believes, and is willing to do.

AHRMM Mentor Program

Presented by

*John Gaida, Senior Vice President
Supply Chain Management, Texas Health Resources, AHRMM Past President*

*Mary Starr, Assistant Vice President,
HealthTrust/AdvantageTrust, AHRMM Past President*

John Gaida and Mary Starr introduced the new AHRMM Mentor Program to executive thought leaders. The program offers a six-month opportunity for supply chain professionals to benefit from the experiences and leadership of seasoned AHRMM professionals. Drawing on their wealth of past experience and expertise, mentors are uniquely positioned to offer a range of assistance and guidance to other supply chain professionals. Mentors offer an opportunity to strengthen an individual's work life and career.

Starr reminded executives of how critical they are to the success of supply chain professionals. She noted that everyone likely has someone in their past who contributed to their success by offering advice and assistance. Despite executives' busy schedules, the AHRMM Mentor Program is

designed to streamline the time required, yet yield significant contributions.

Gaida recalled his own invaluable experience when a mentor to whom he was reporting with encouraged him to leave in order to advance Gaida's own career opportunities. Gaida also encouraged the executives to participate and make the program a success.

Gaida and Starr also asked executives to encourage interested individuals to seek out a mentor through the program.

More information about the AHRMM program can be found at: www.ahrmm.org/ahrmm/resources_and_tools/mentor_program/index.jsp.



Executive Profile

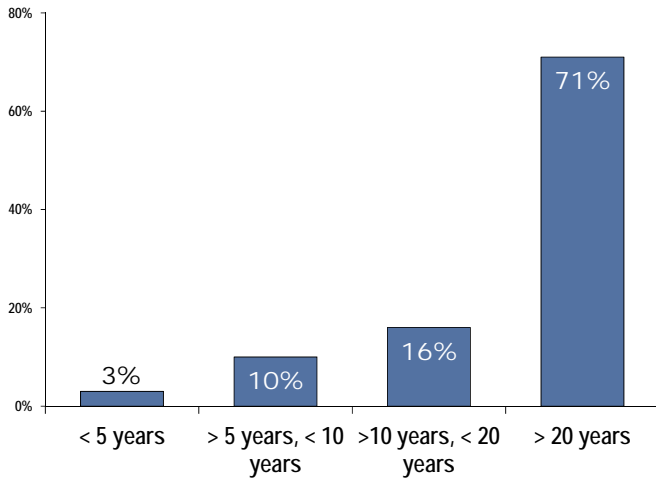
A Little Intelligence Gathering From Thought Leader Forum Executives



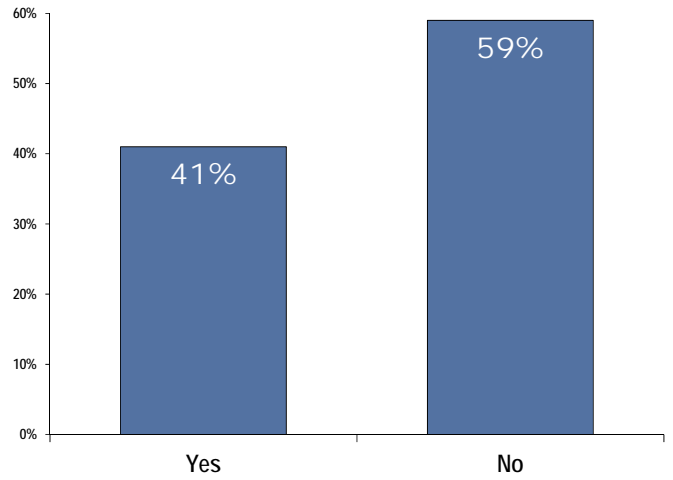
Polling Results

Thought Leader Forum attendees were asked to answer eight questions about themselves and their organizations during the session, results of which are shown in graphs below and on the following pages.

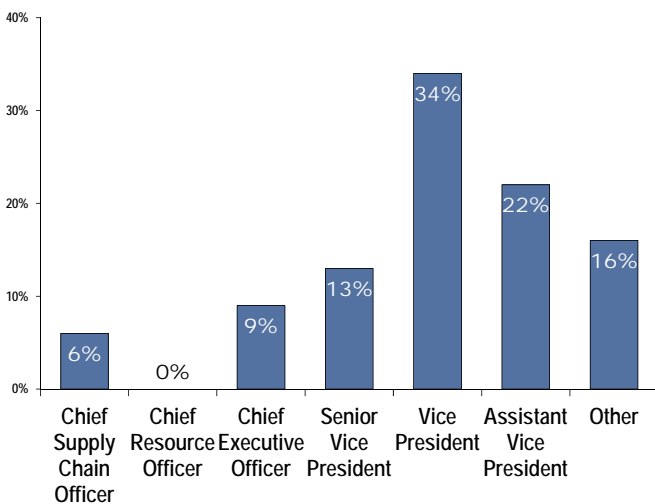
Question: How long have you been in the supply chain profession?



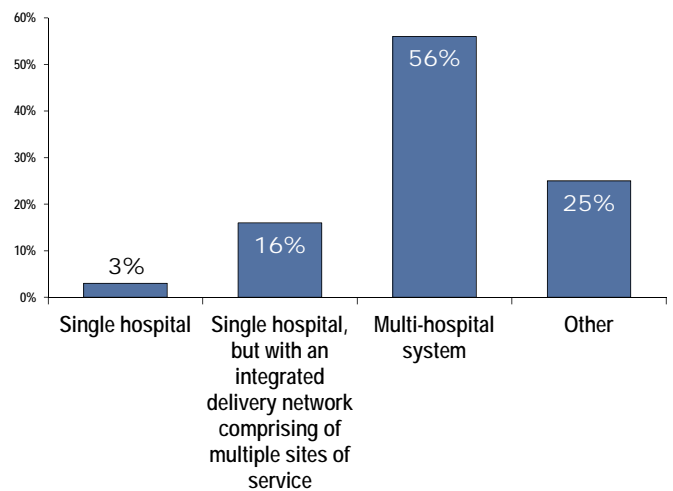
Question: Did you come to the healthcare supply chain profession from another industry?



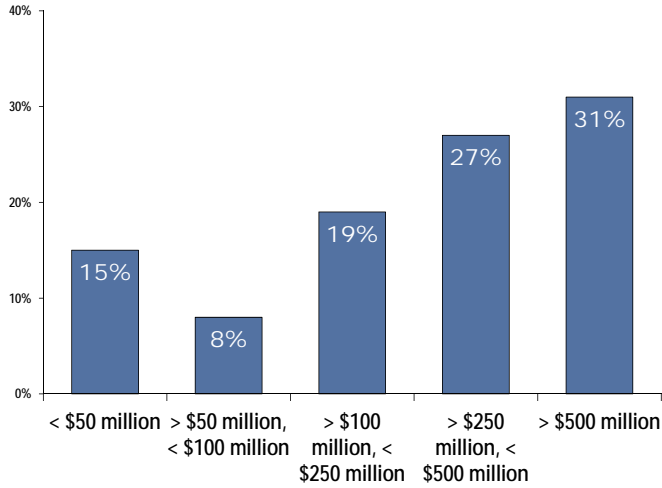
Question: What title is closest to yours?



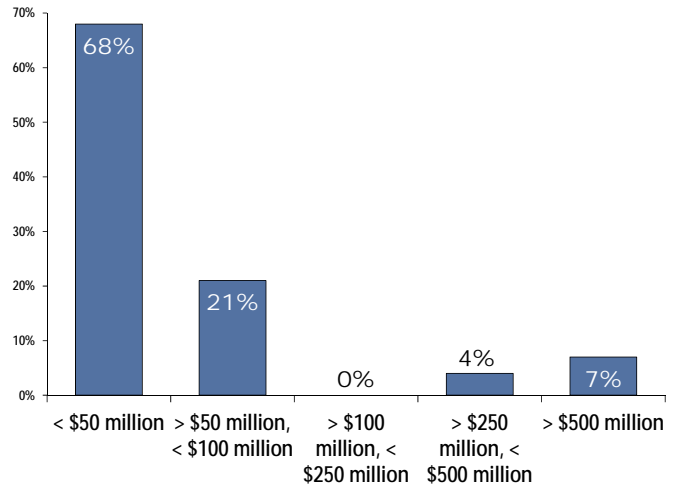
Question: What type of organization do you work for?



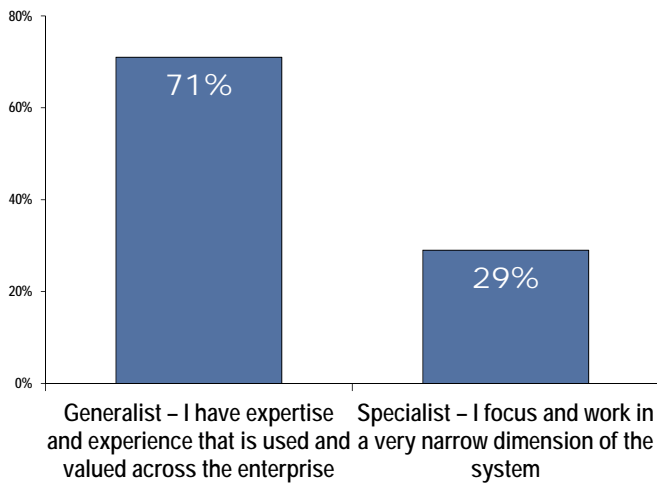
Question: What is the size range of your current budget responsibility?



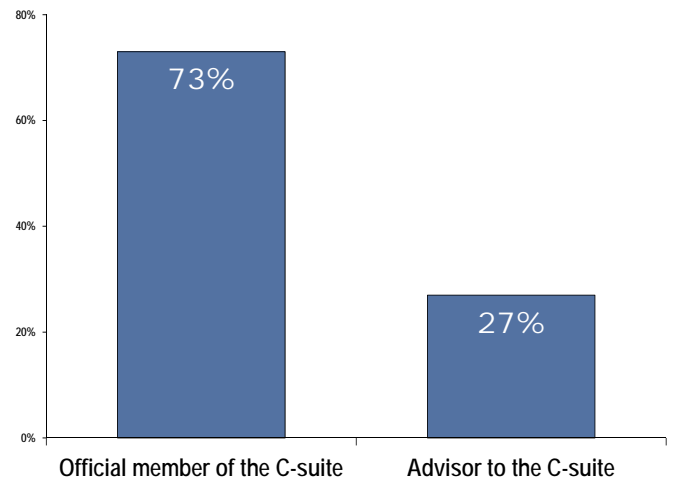
Question: What was the size range of your budget responsibility in your first position in the healthcare supply chain?



Question: Are you primarily a healthcare generalist or a specialist in a narrow field?

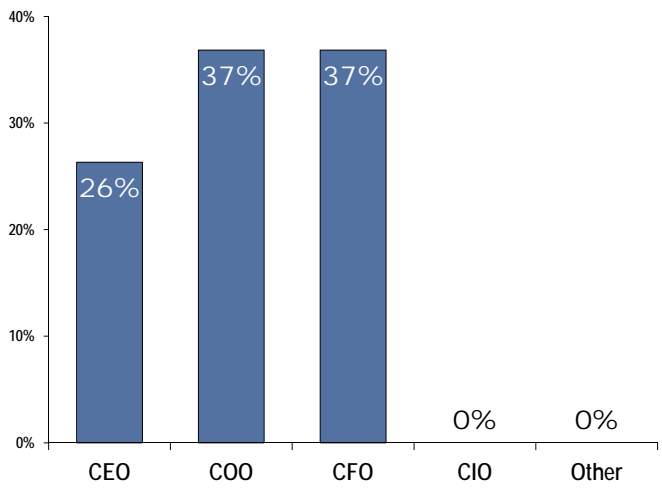


Question: Do you prefer becoming an "official" member of the C-suite, or acting as an advisor to the C-suite?

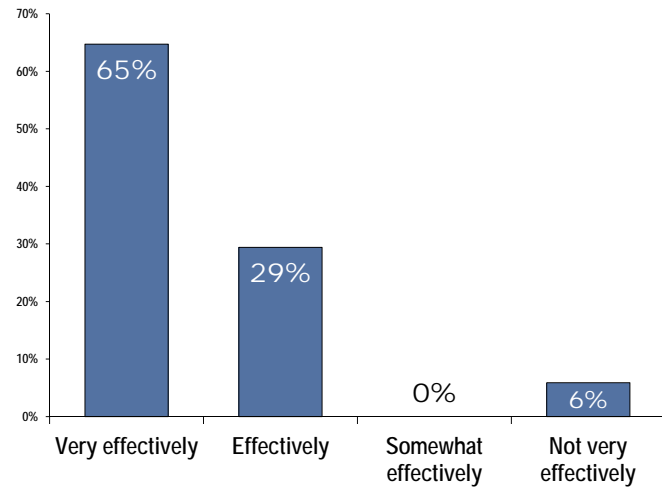


Thought Leader Forum attendees were asked to answer eleven follow-up questions during the session, the results of which are shown in graphs below and on the following pages.

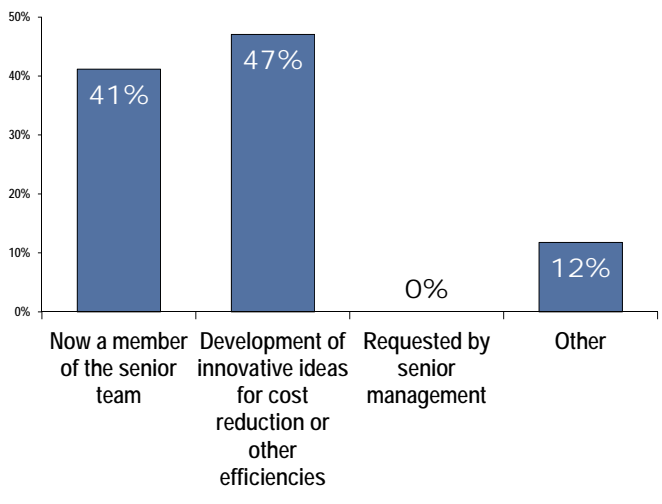
Question: Which position in the C-suite is most important for supply chain executives to have the closest relationship with?



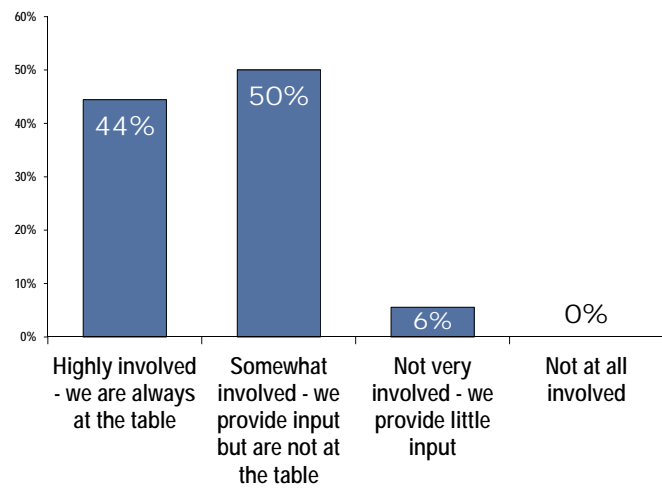
Question: How effectively do you engage with these senior leaders on strategic issues?



Question: Of those who have engaged very effectively or effectively, how have you done it?



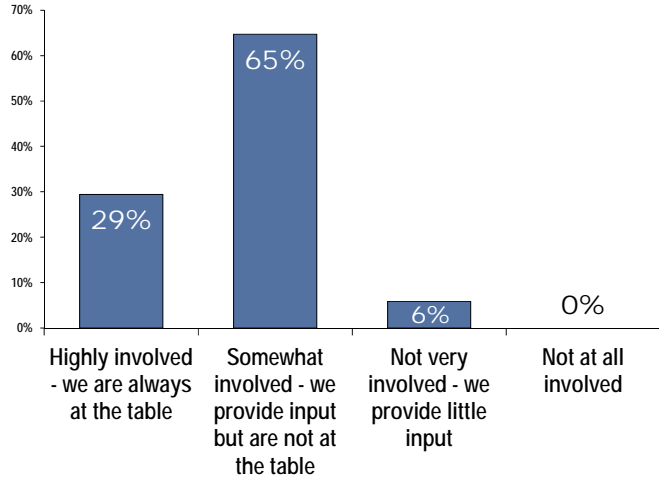
Question: How involved are you in your organization's strategic planning process?



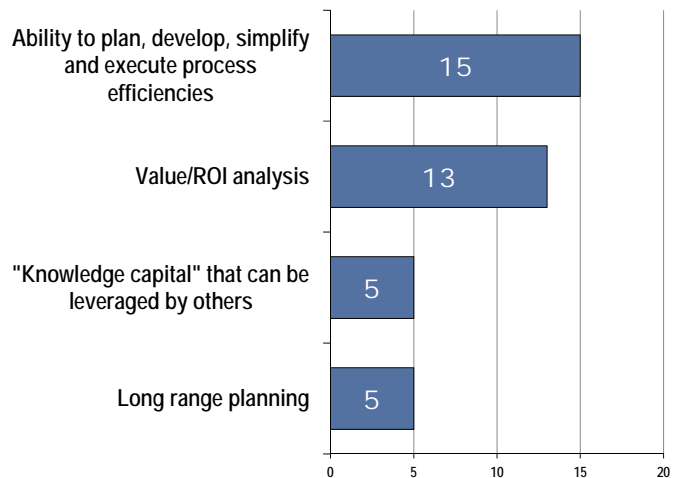
Other:

- I'll never be a member of the C-suite, but I am included in the majority of their conversations
- Appropriately engaging on specific issues/initiatives
- Delivering results

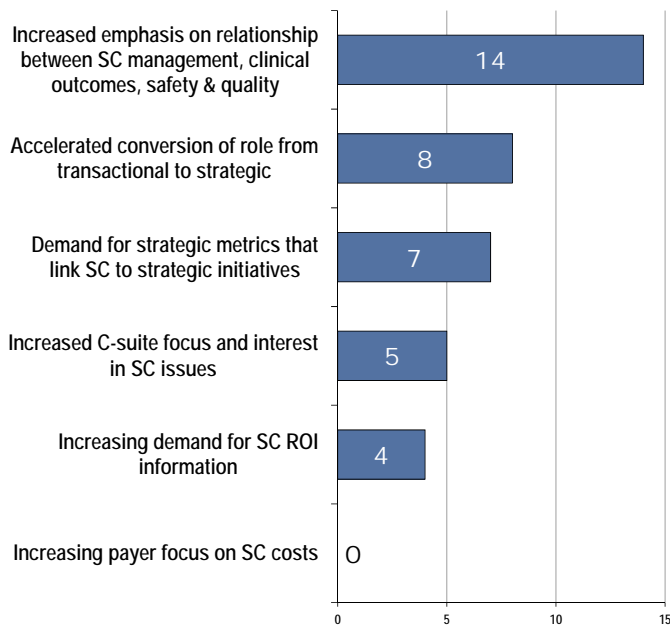
Question: How involved are you in your organization's physician engagement?



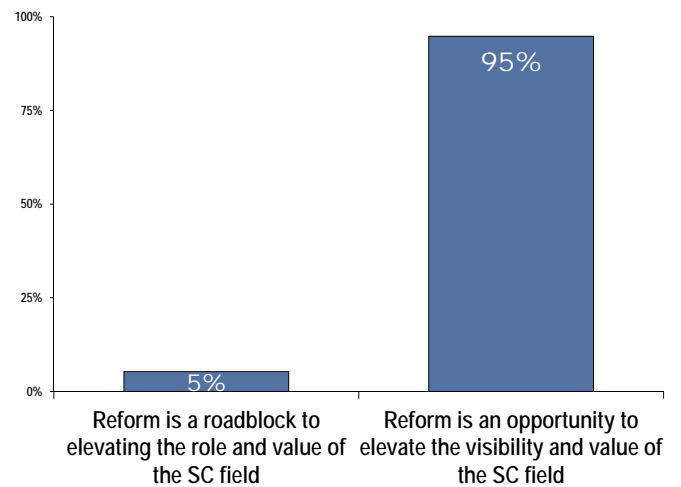
Question: Which two supply chain competencies can most benefit other areas of the organization?



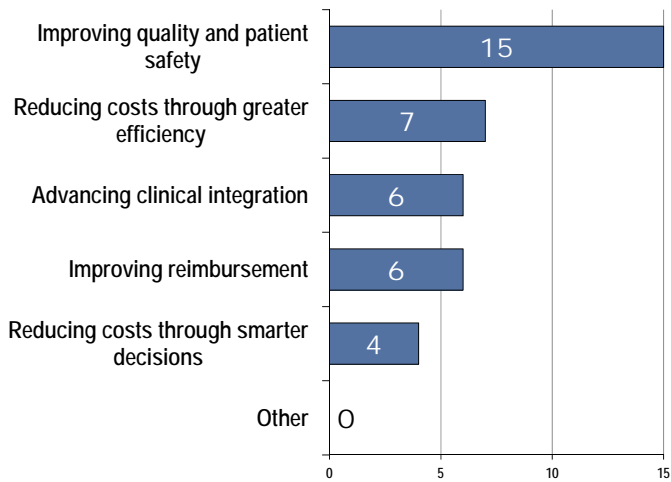
Question: Which two challenges or opportunities provide the greatest potential for supply chain executives?



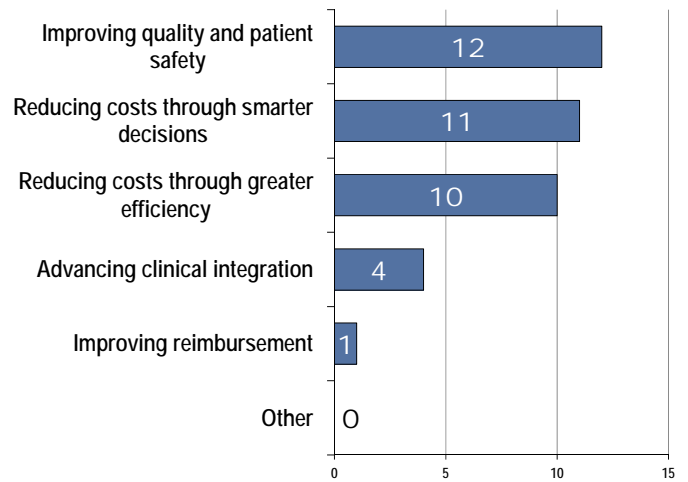
Question: Is healthcare reform a roadblock or an opportunity to elevate the supply chain as a critical factor in reform success?



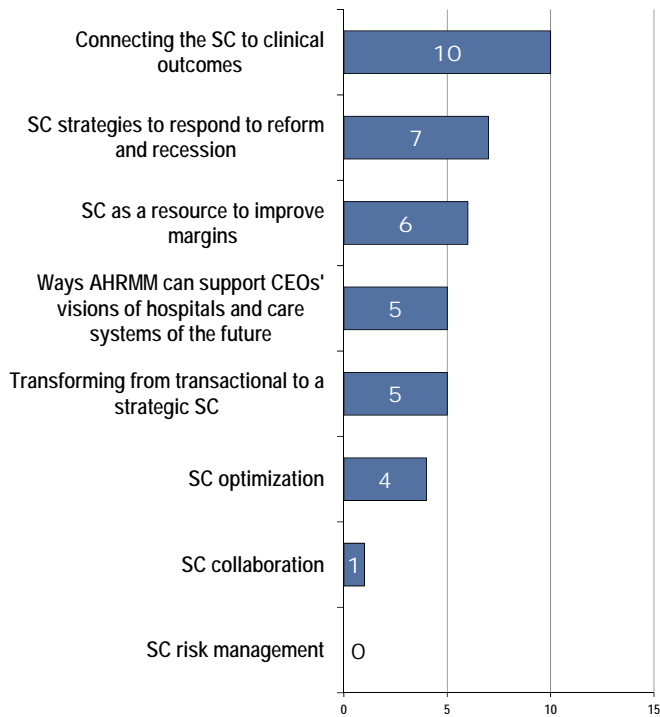
Question: Which two issues interest the C-suite most, dominating their time and attention?

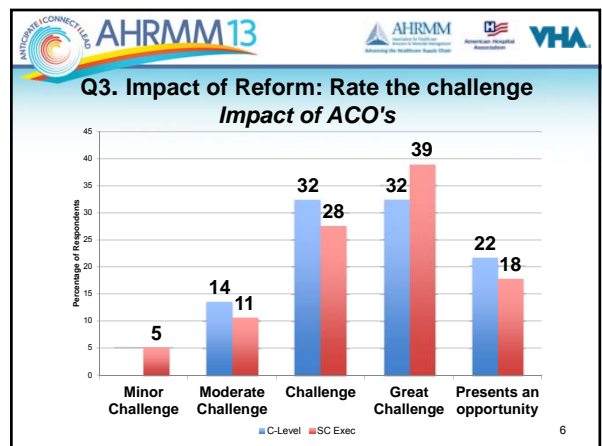
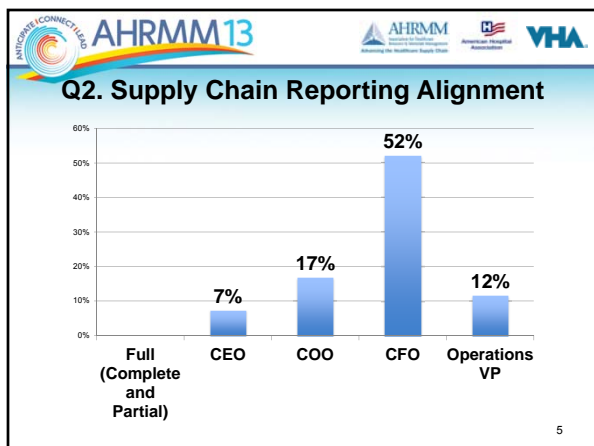
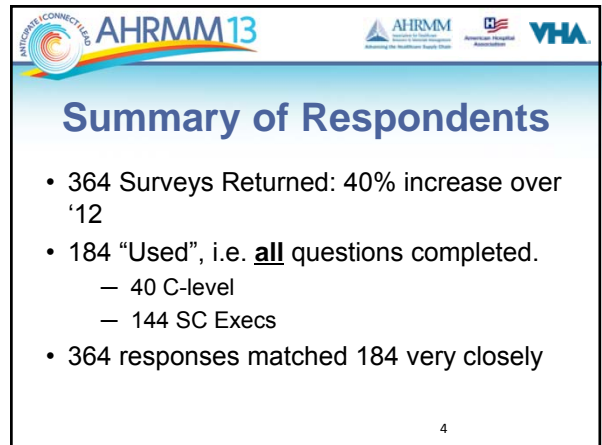
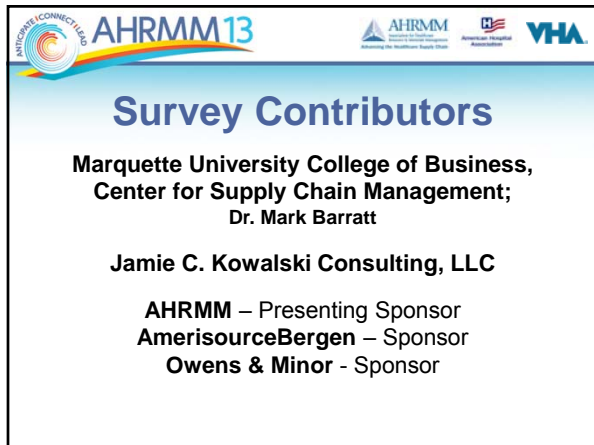


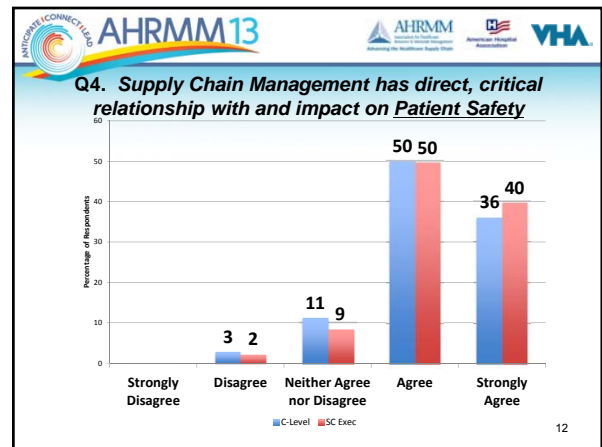
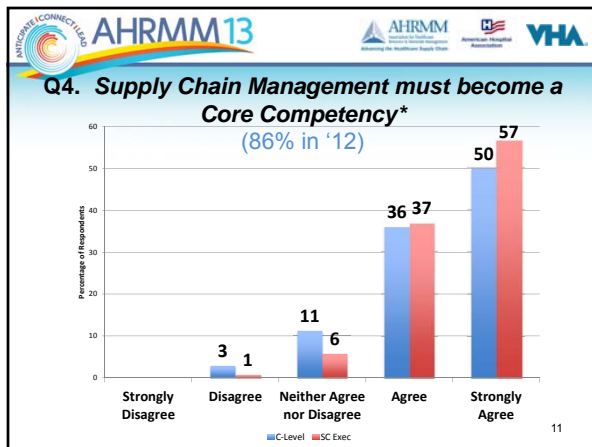
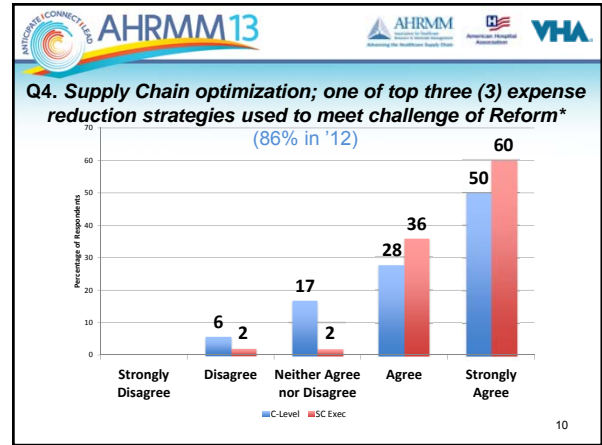
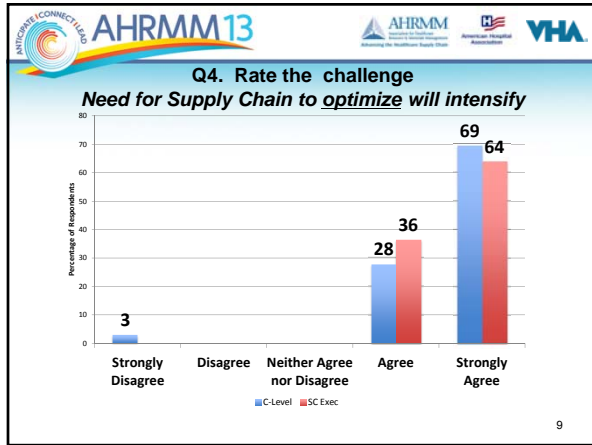
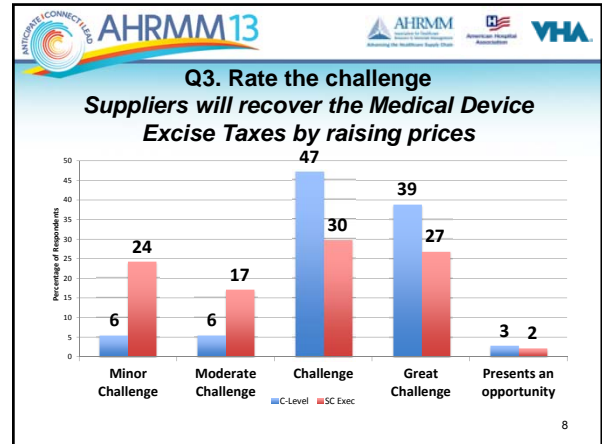
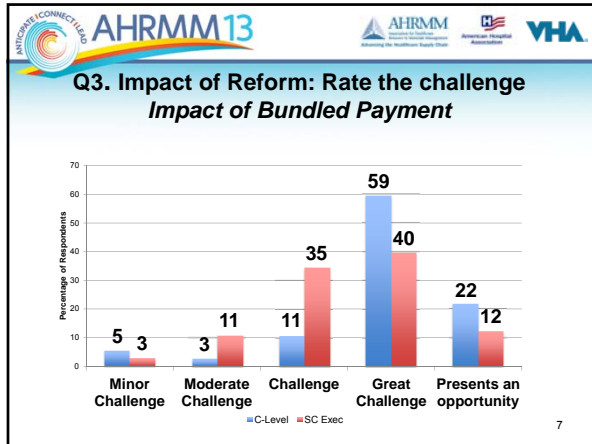
Question: In which two areas does the supply chain have an opportunity to play the most significant role?

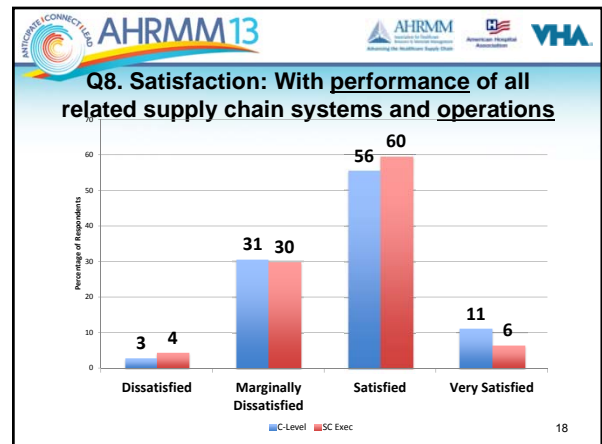
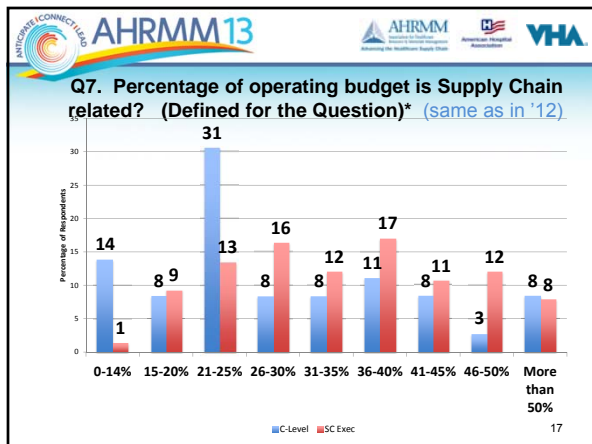
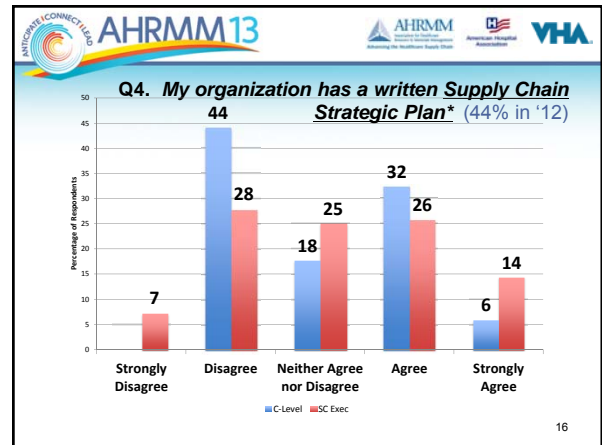
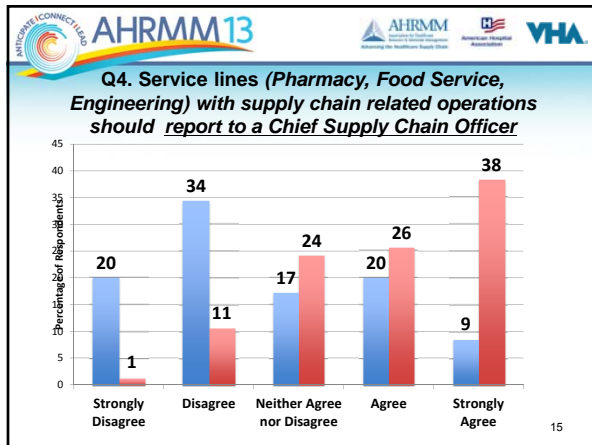
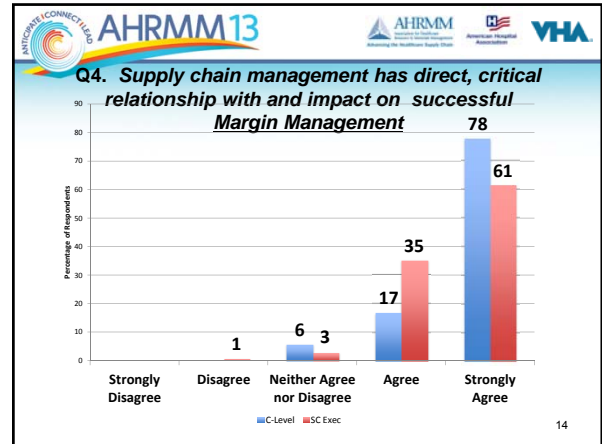
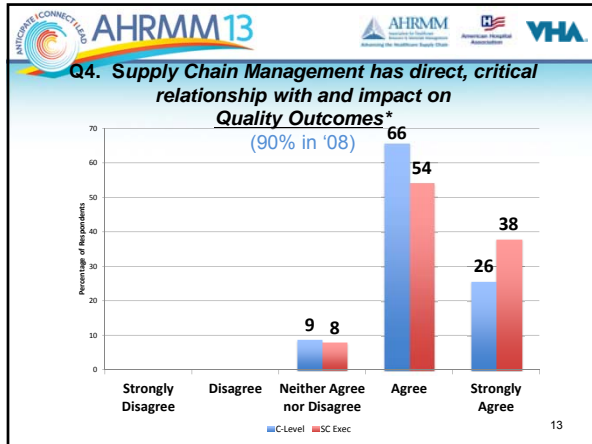


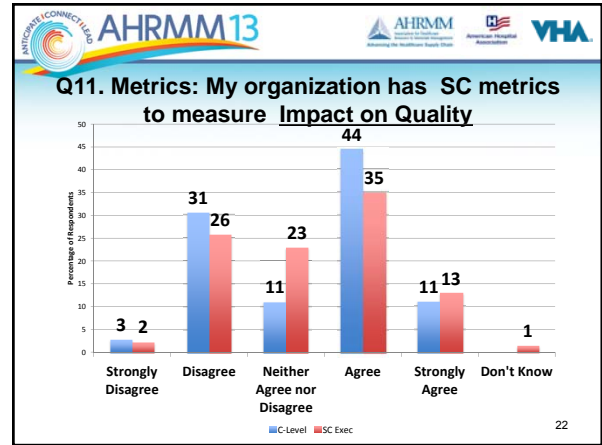
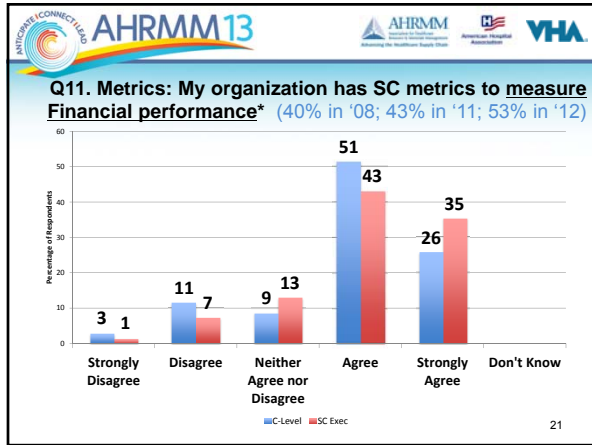
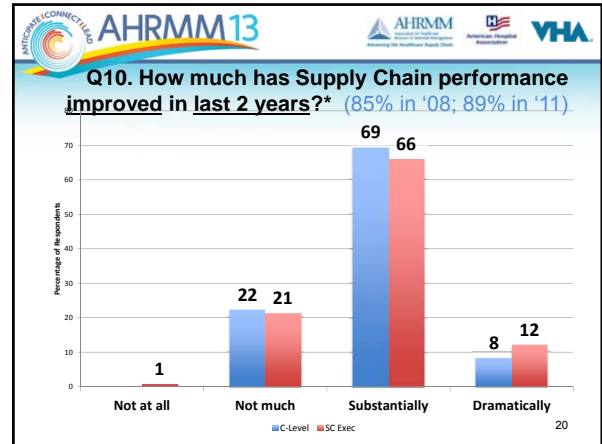
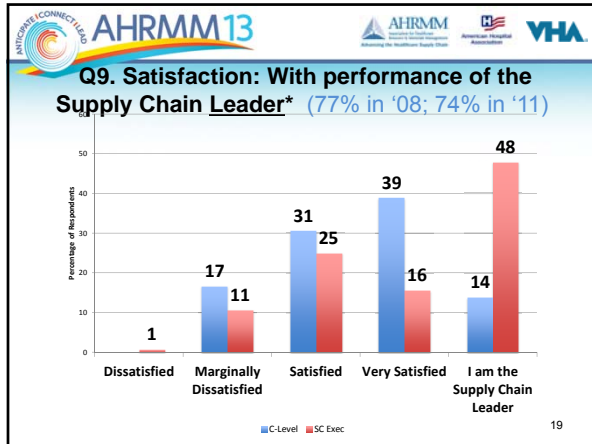
Question: In which two areas would you like to delve more deeply?









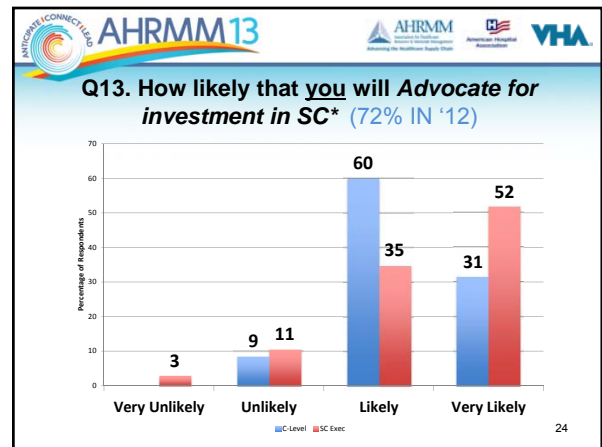


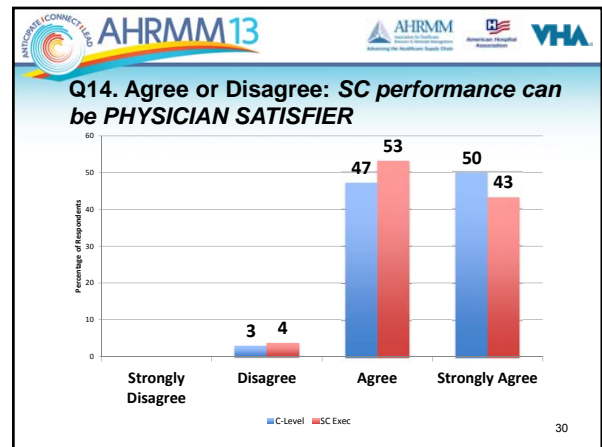
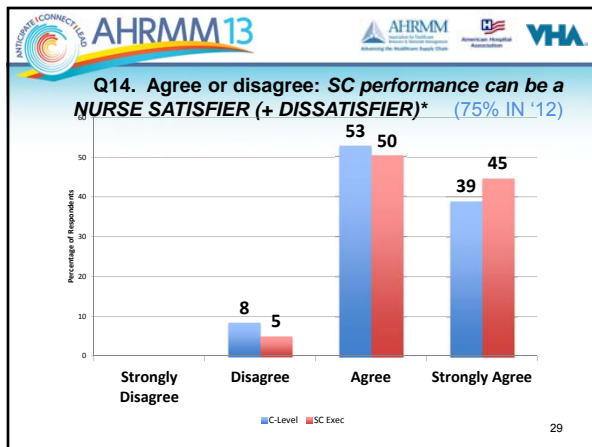
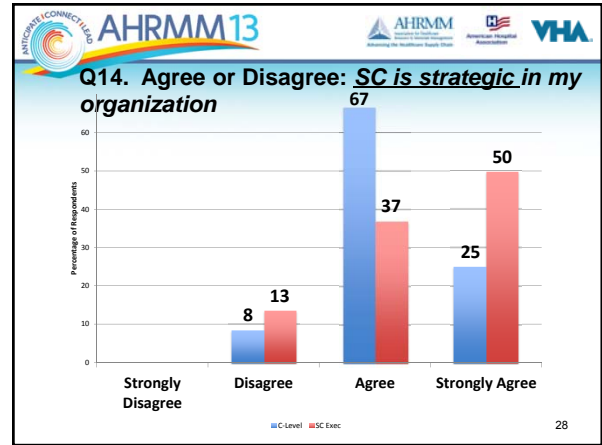
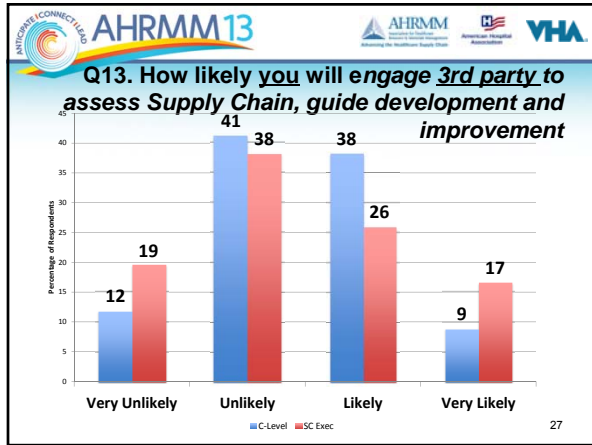
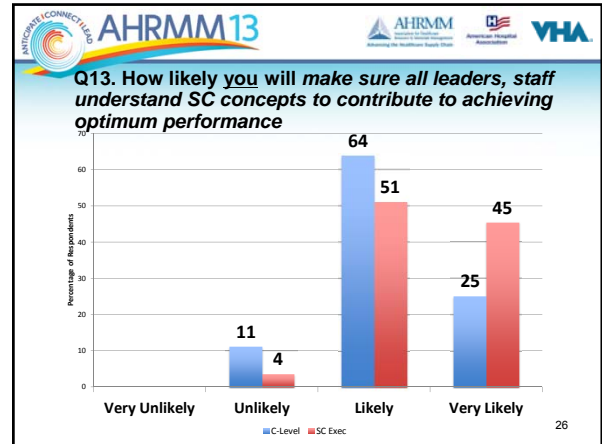
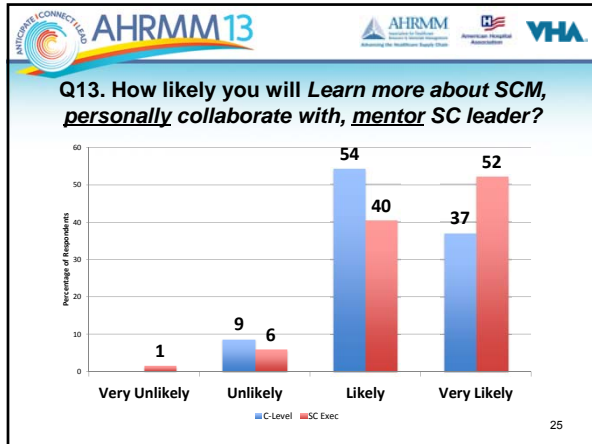
AHRMM13

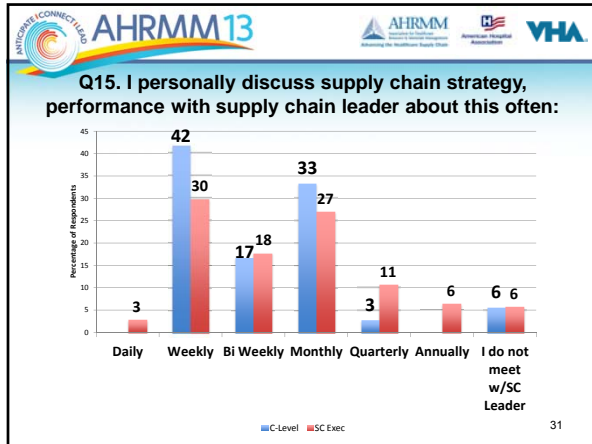
Q12. What do you use to measure performance of the supply chain leader?

Measure	Top Measure	Measures	(%) Measures
Total annual purchases of consumable goods & services 3	23	83	45
Total annual consumable supply expenses per total operating expenses	40	79	43
Total annual consumable supply expenses per total net revenue 2	52	59	32
Total annual increase (% and/or aggregate) & decrease in spending on consumable goods & services.	24	67	36
Total annual (or annualized) savings in supply chain operations 1	61	77	42
Supply Expense per Adjusted Patient Day	49	81	44
Supply Expense per Adjusted Discharge 3	51	61	33
360 Survey results from physicians, executives, clinicians	6	54	29

23



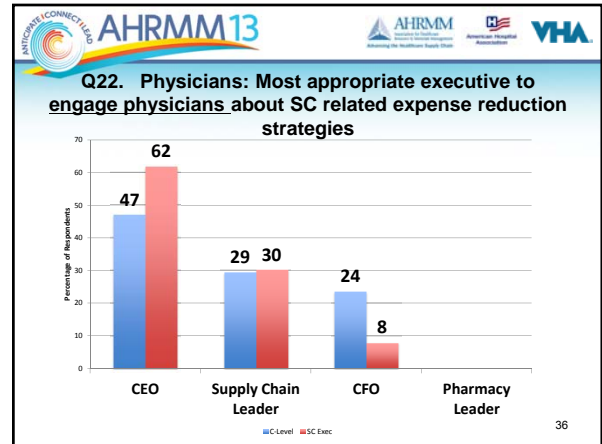
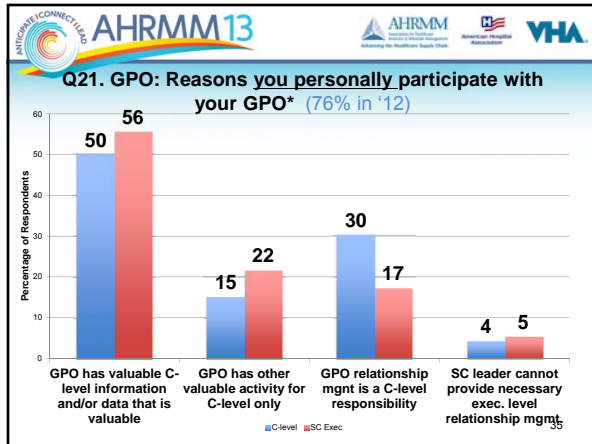
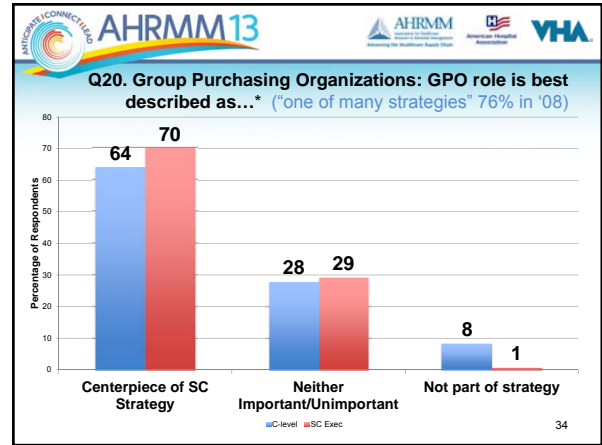
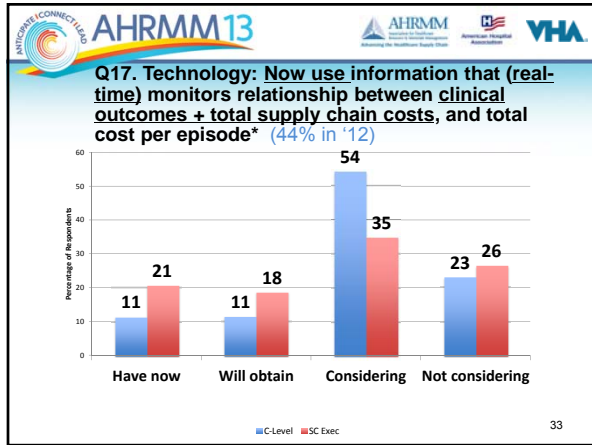


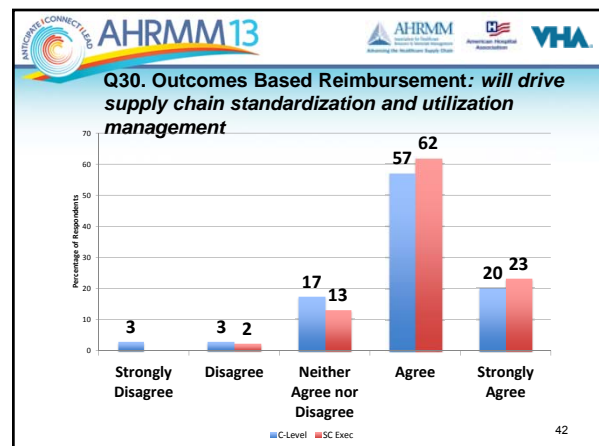
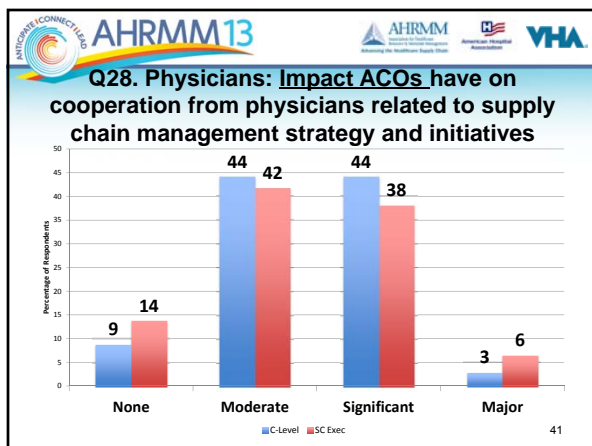
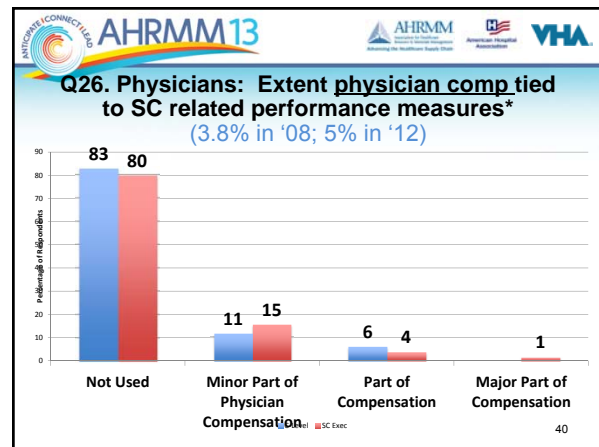
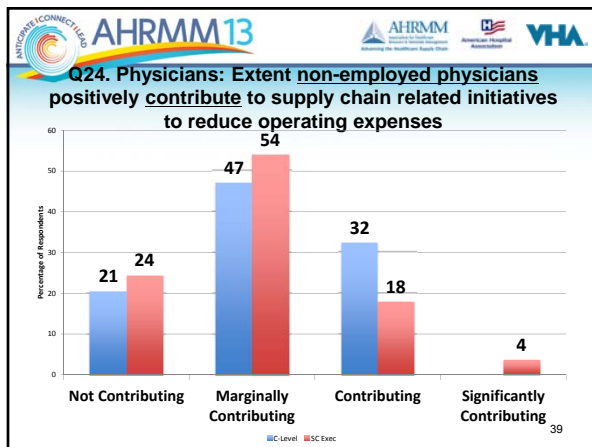
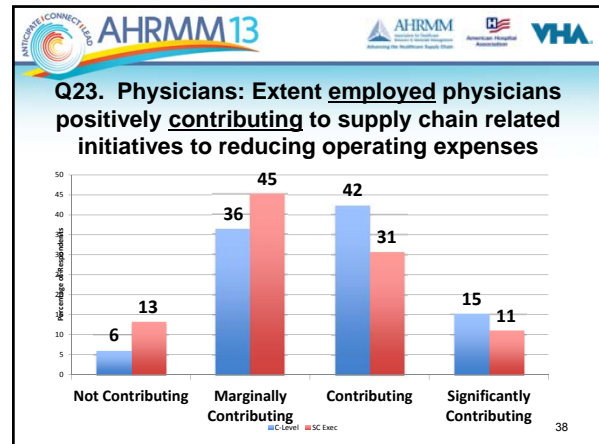
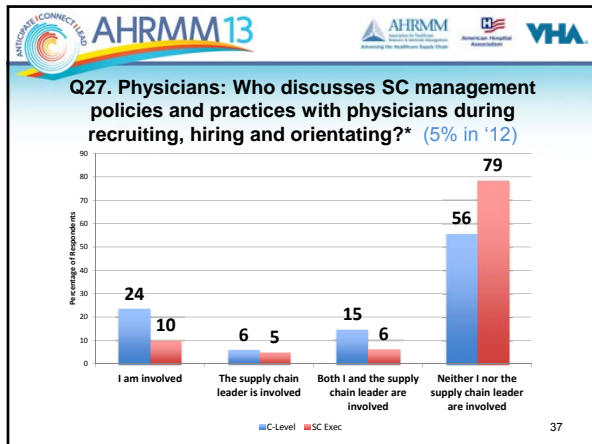


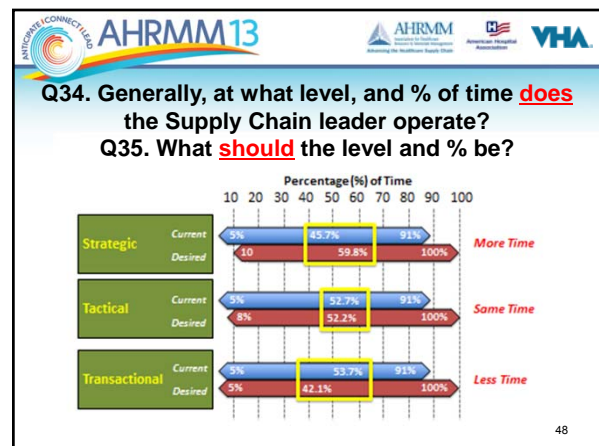
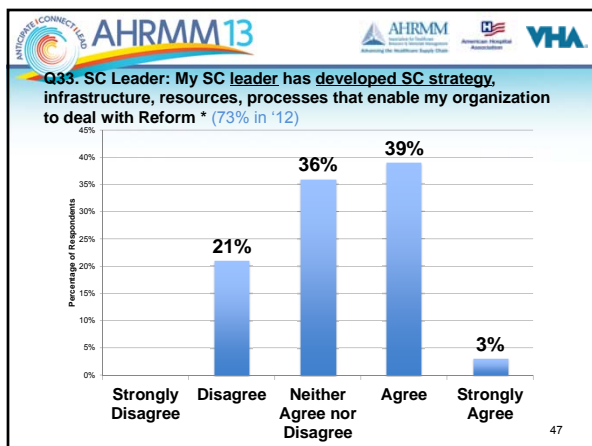
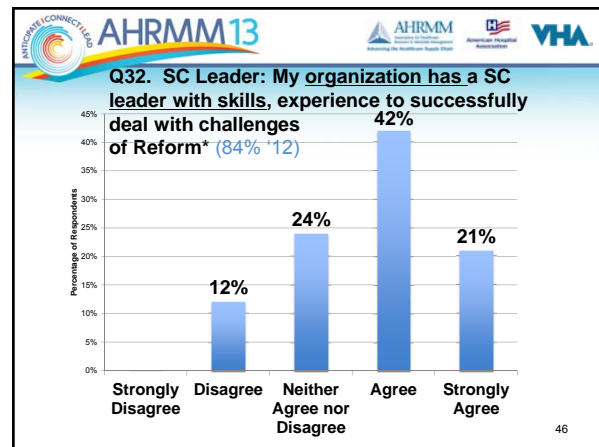
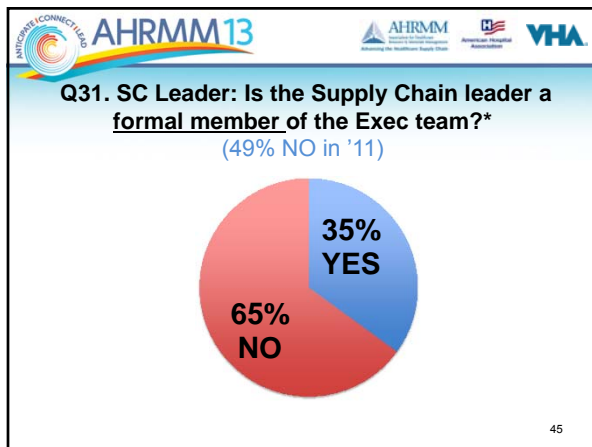
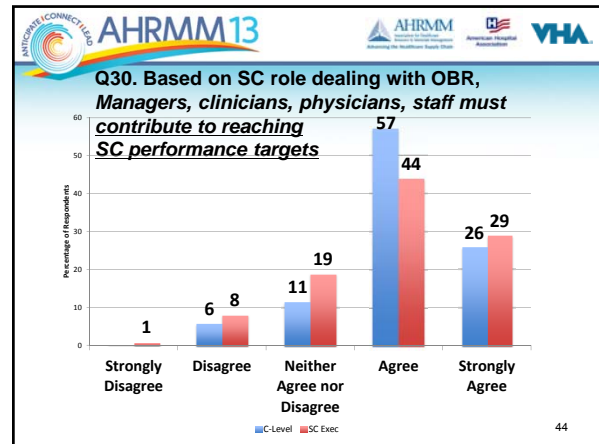
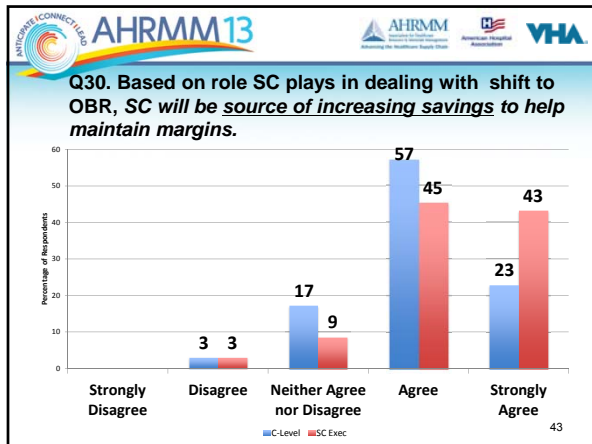
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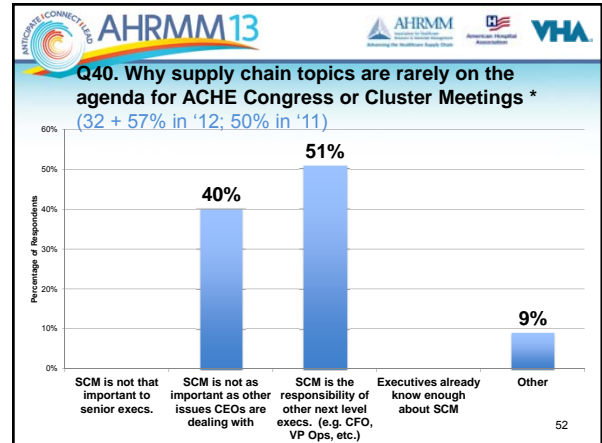
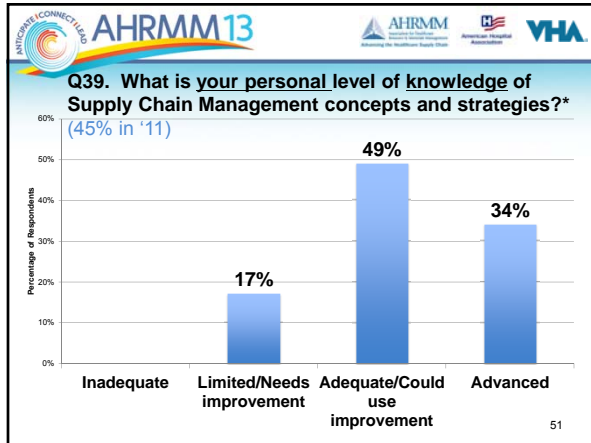
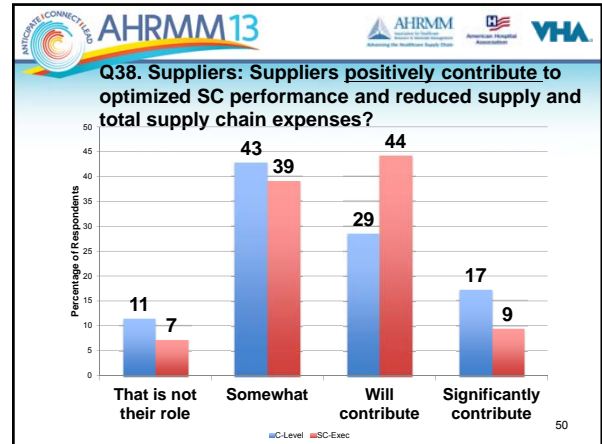
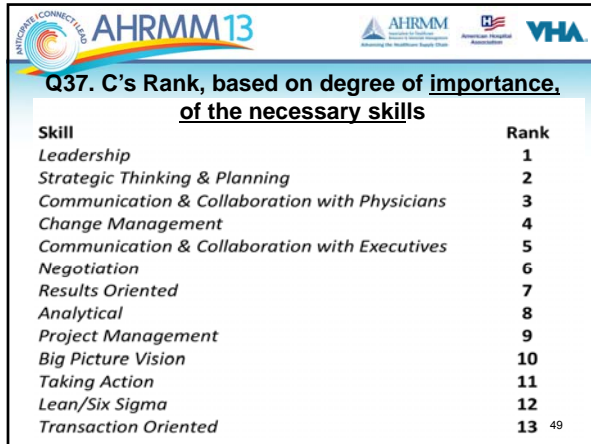
Q16. SC Tactics: Rank in order of ability to generate the greatest improvements*

Tactic	Rankings						Total	E-Rank	Rank
	1	2	3	4	5	6			
Increased use of GPO contracts	27	13	32	45	46	16	179	655	5
Improved selecting and using products and devices that meet but do not exceed outcome requirements	33	31	21	30	38	26	179	624	4
Obtaining lower product prices	25	27	35	53	28	11	179	602	3
Managing and reducing product utilization	58	52	31	13	17	8	179	440	1
Achieving high levels of product standardization	31	52	59	22	13	2	179	477	2
Engage 3rd party expertise to assess the Supply Chain and guide development and implementation of improvement	5	4	1	16	37	116	179	961	6









- AHRMM13**
- Summary of Findings**
- Cs and SCs responses generally are aligned
 - Improvements made; more needed NOW
 - Cs still lack full understanding of what is needed vs. what is current state
 - C Satisfaction with SCL performance; "OK"
 - C Satisfaction with SC performance; "satisfactory"
 - Suppliers not perceived as part of solution
 - CQL technology tools lacking
 - Opportunity to engage/change MD's missed
 - Find out what your "C" knows, thinks, believes, is willing to do

Executive Thought Leader Forum Participants

Richard Beach
AVP Materials Management
Intermountain Healthcare

Mark Campbell
VP, Materials Management
Tampa General Hospital

Karen Conway
Executive Director, Industry Relations
GHX

Richard Coons
Chief Executive Officer
Parallon - San Antonio Supply Chain

Cathy Denning
Senior VP, Sourcing Operations
Novation

Florence Doyle
VP, Supply Chain Management
Catholic Health East

Afshin Fathollahi
VP, Support Services
Cottage Health System

Michael Ferris
Co-Founder, EVP Operations
Management Health Solutions Inc.

Cathy Fischer
VP, Supply Chain and Affiliates
Gundersen Health System

John Gaida
Senior VP, Supply Chain Management
Texas Health Resources

Thomas Golaszewski
VP, Resource & Materials Management
Meridian Health Systems

David Hargraves
VP, Clinical Supply Chain
UPMC

Stephanie Hunt
Director, Materials Management
Lake Health

Brent Johnson
VP, Supply Chain
Intermountain Healthcare

Jay Kirkpatrick
Chief Executive Officer
HealthTrust

Steve Kramer
Associate VP, Logistics
Susquehanna Health

Mary Beth Lang
VP, HC Pharmacy and SCM Commercial
Services
UPMC

Michael Langlois
VP, Supply Chain
Beaumont Health System

Jan Lea
VP, Supply Chain
Methodist Health System

Dale Locklair
VP, Procurement & Construction
McLeod Health

John Mateka
Executive Director, Supply Chain
Operations
Greenville Health System

Bob Matthews
Assistant VP, Supply Chain
Albany Medical Center

Dale Montgomery
VP Support Services
Hays Medical Center

Suresh Nirody
Assistant VP, Supply Chain
Cincinnati Children's Hospital Medical
Center

Brent Petty
System VP, Supply Chain
Wellmont Health System

Jonathan Pressnell
Principal
Greenbriar Equity Group

Beverly Slate
Regional Director
Catholic Health Initiatives

Mickey Sparrow
Materiel Manager
Tuomey Healthcare System

Bob Taylor
AVP, Supply Chain
UAB Health System

John Willi
Senior Director, Supply Chain
Management
Dana-Farber Cancer Institute

Anthony Ybarra
Senior VP, Supply Chain
Community Hospital Corporation

*Moderated by
Cindy Fineran, Senior Consultant
The Walker Company Healthcare
Consulting*

*Presentations by
Annette Pummel, AHRMM Chair,
Chief Operating Officer, American
Contract Systems*

*Christopher O'Connor,
AHRMM Chair-Elect,
President, Nexera, Inc.,
President, GNYHA Services, Inc.*

*Heather Jorna, Vice President
Health Care Innovation
Health Research and Education Trust*

*Jamie Kowalski, CEO
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