



Ask More of Your  
Supply Chain

hfma™

To join, go to: <https://ahaslides.com/TKF13>



# Joe Walsh, Founder

## Supply Chain Sherpas



### Professional Snapshot

- 24 years of progressive Supply Chain leadership experience (across 3 industries)
- Led Intermountain Healthcare's award-winning Supply Chain Transformation; served as Chief Supply Chain Officer
- Led UPMC's commercial spin-out of its Supply Chain into a newco called Pensiamo as EVP of Operations
- Executive Coach to high-impact leaders throughout industry



<https://www.linkedin.com/in/joewalsh/>



### Organizational Overview

- Committed to unlocking the bottlenecked supply chain between suppliers and providers
- We help Supply Chain teams elevate their leadership preparedness, deepen their technical core competencies, and improve their team effectiveness
- **Proven solutions:**
  - **Talent Development:** executive coaching, mentoring, leadership development programs, and supply chain training programs
  - **Performance Improvement:** strategic planning, alignment & governance, value prop design, supplier scorecarding, sourcing-as-a-service, and transformation services



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**People do not decide their futures,**

**they decide their habits,**

**and their habits decide their future.**

F.M. Alexandar



# INSIGHT TO ACTION

- 🕒 **Insight:** What *new knowledge* or *perspective* have I gained from this session?
- 🕒 **Impact:** If you act on this new insight, what *impact* would it have on your life or business?
- 🕒 **Action:** What is the very first tiny step you will take to turn your insight into *action*? When will you do it?



**MICRO ADJUSTMENTS = EXPONENTIAL OUTCOMES**

Go to [MySherpaTools.com](https://www.mysherpatools.com) to download form



Source: APICS



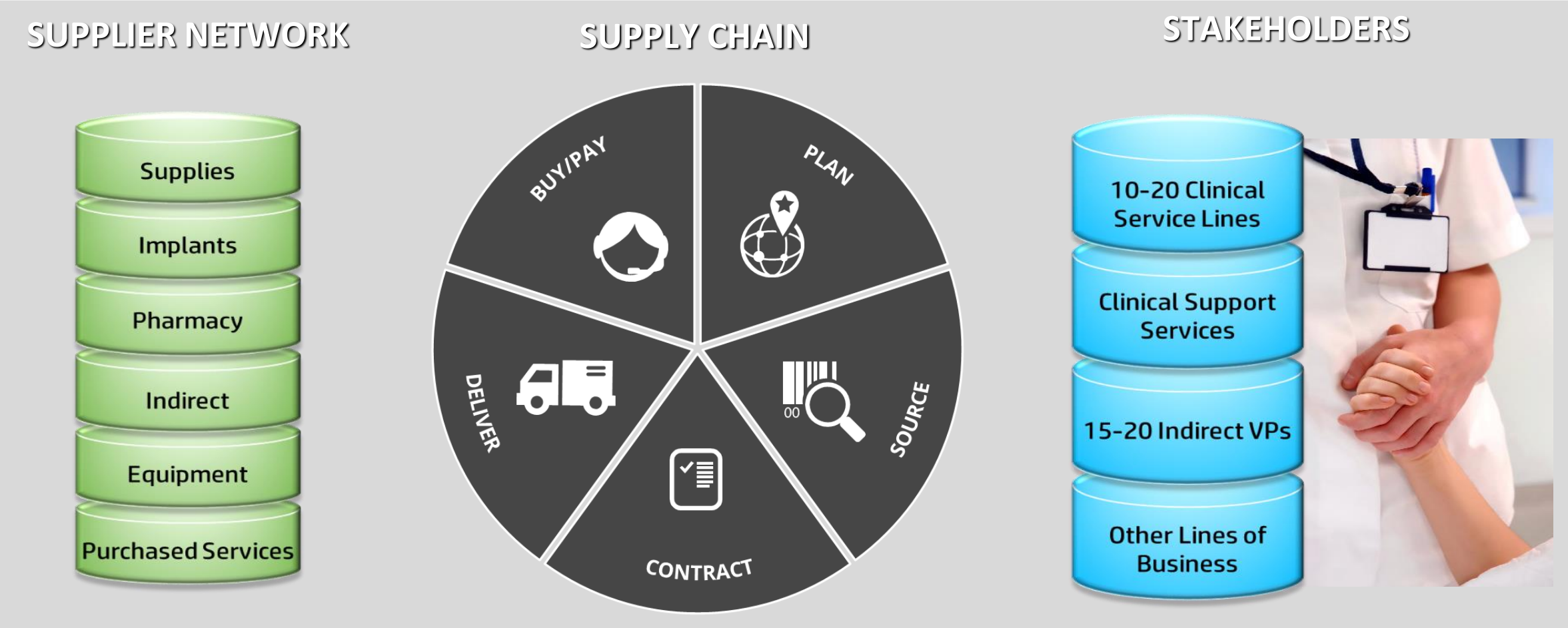
Reactive with stakeholders

Reactive with suppliers

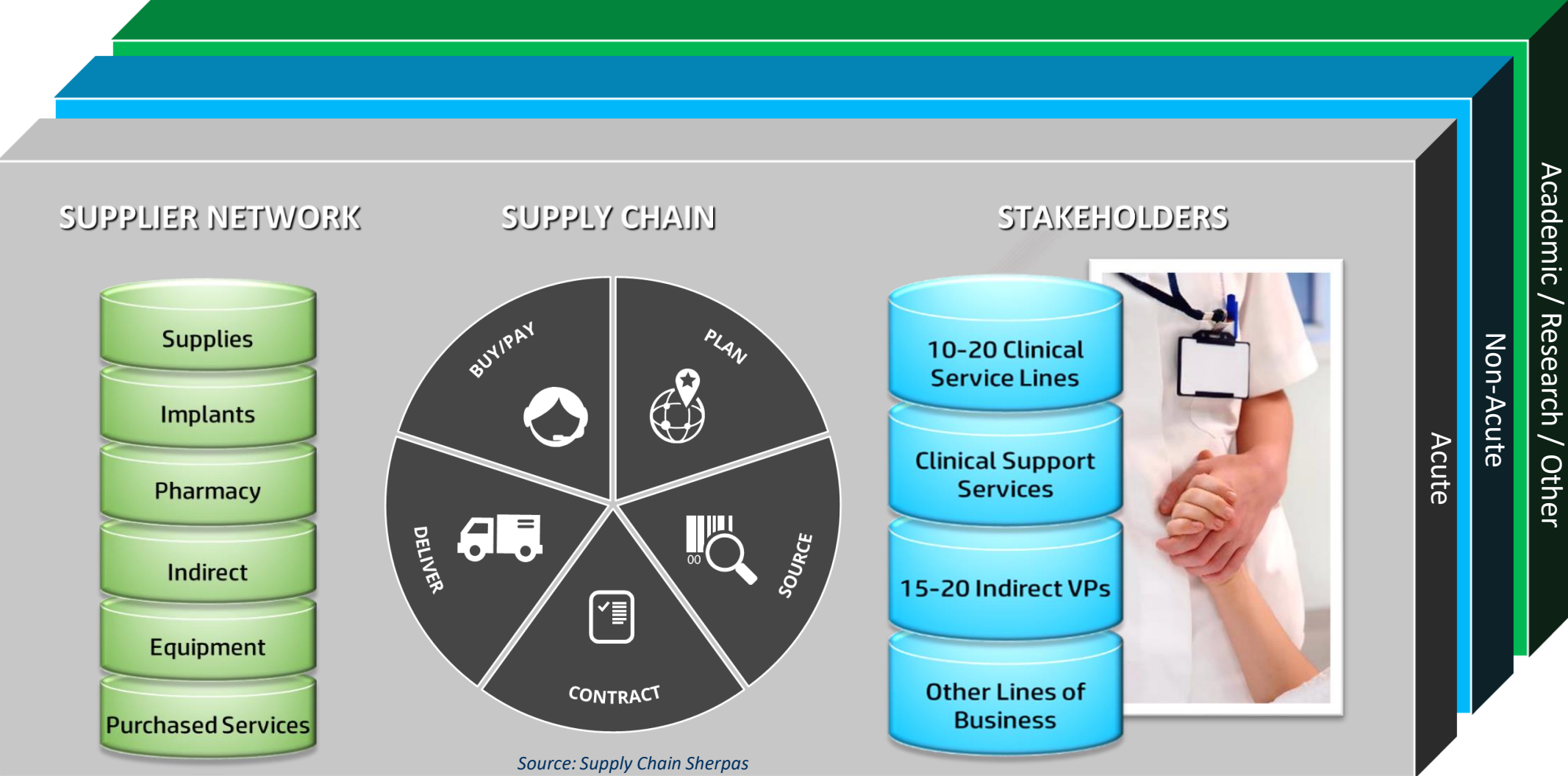
Focused on error prevention; NOT value creation

Rewards "no news is good news"

# Healthcare Supply Chain: The Function



# Healthcare Supply Chain: The Function

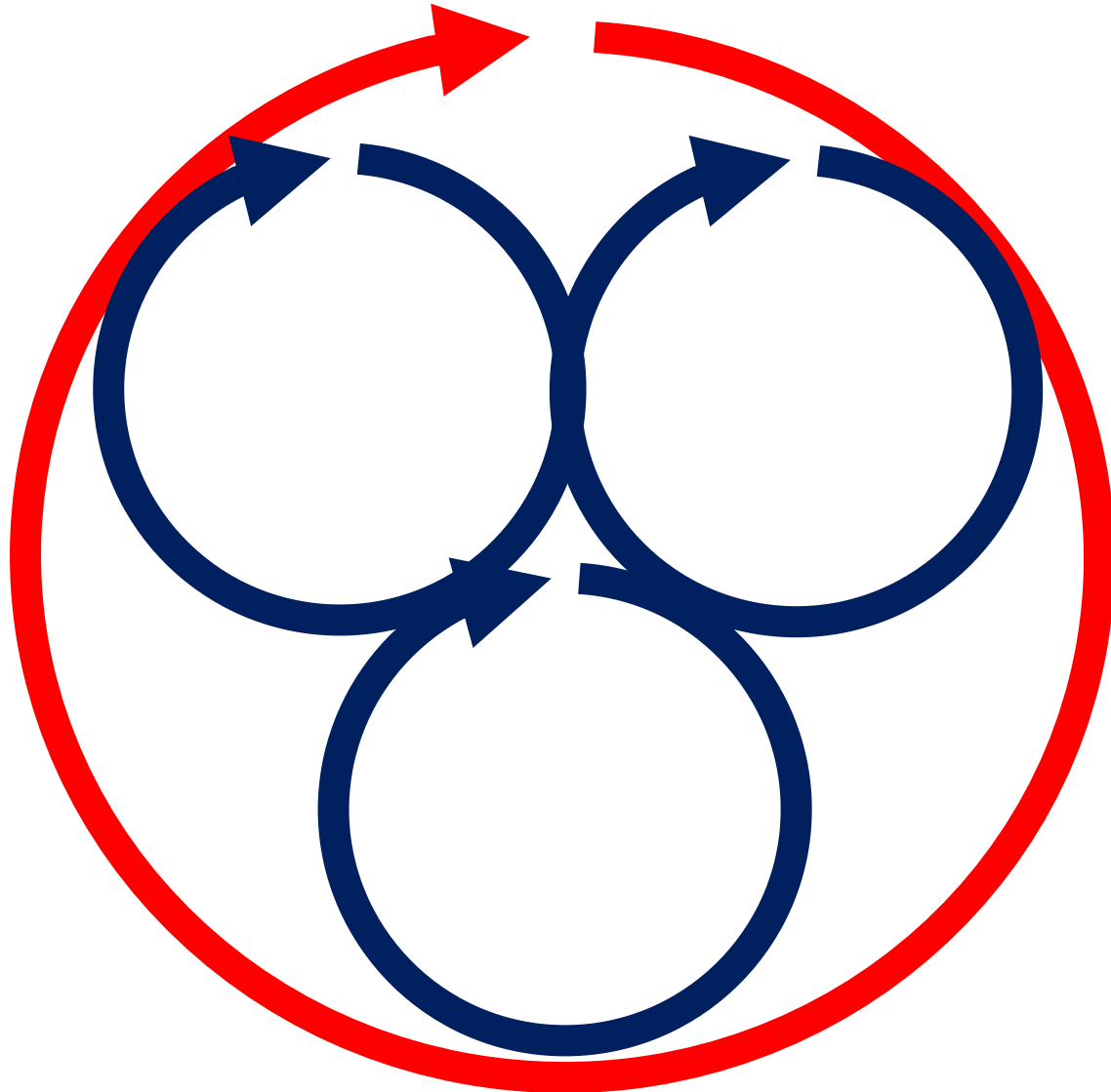




Strategic Importance



# Your Planning Process



**Strategic Plan:**  
Developed every three years;  
Reviewed every year

**Operating Plan:**  
Developed every year;  
Reviewed every month

# Planning Elements

## Strategic Plan Elements

Vision, Mission, Values

Service Offerings, Operating Model, and Value Prop

SWOT Assessment

Gap Analysis

Strategic Imperatives

## Operating Plan Elements

Needs Assessment (1 year)

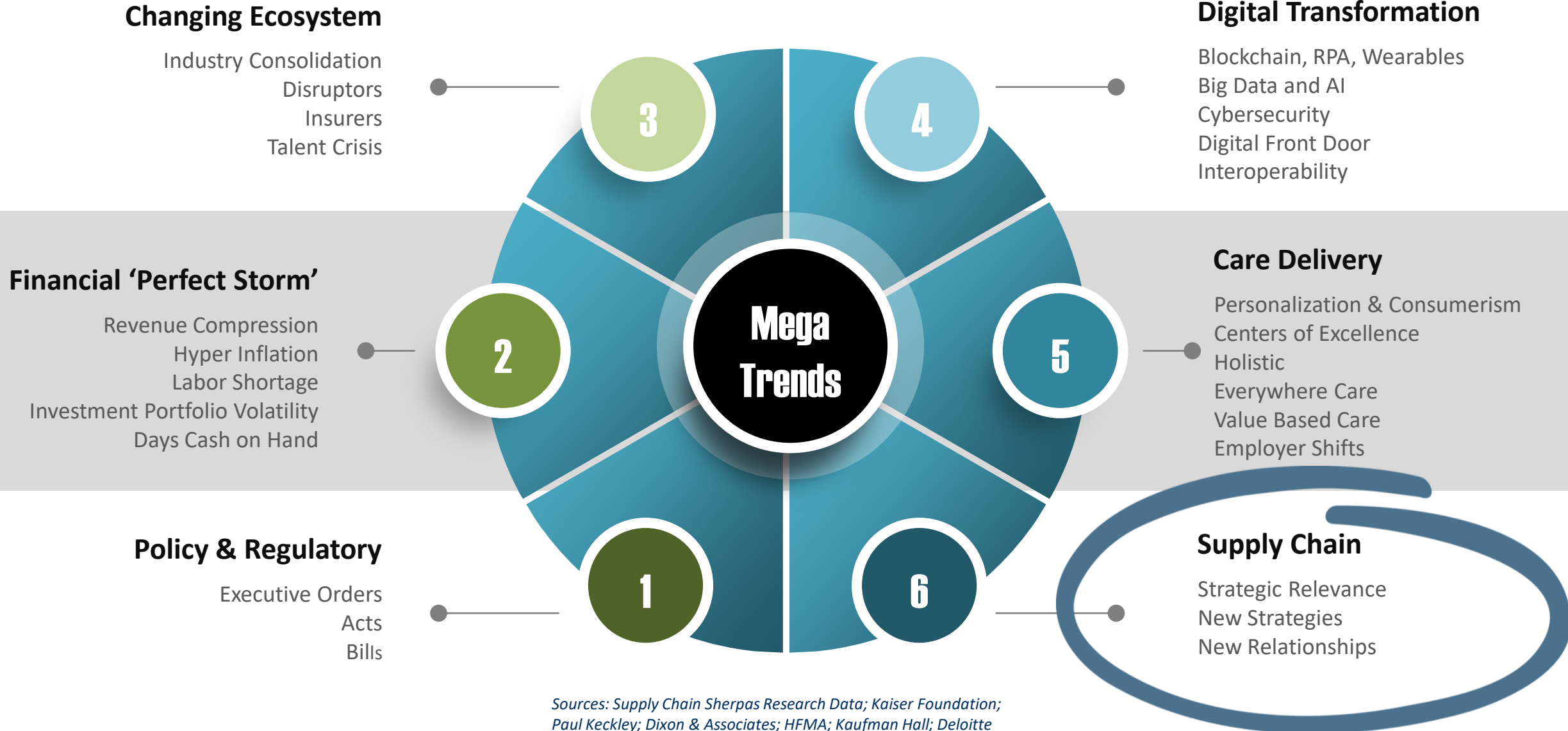
Objectives, Initiatives, Goals & Incentives

Internal Transformation Plan  
(people, process, technology, governance)

Finance & Funding Plan

Execution Plan

# Health System Mega Trends



Sources: Supply Chain Sherpas Research Data; Kaiser Foundation; Paul Keckley; Dixon & Associates; HFMA; Kaufman Hall; Deloitte

# Supply Chain Mega Trends

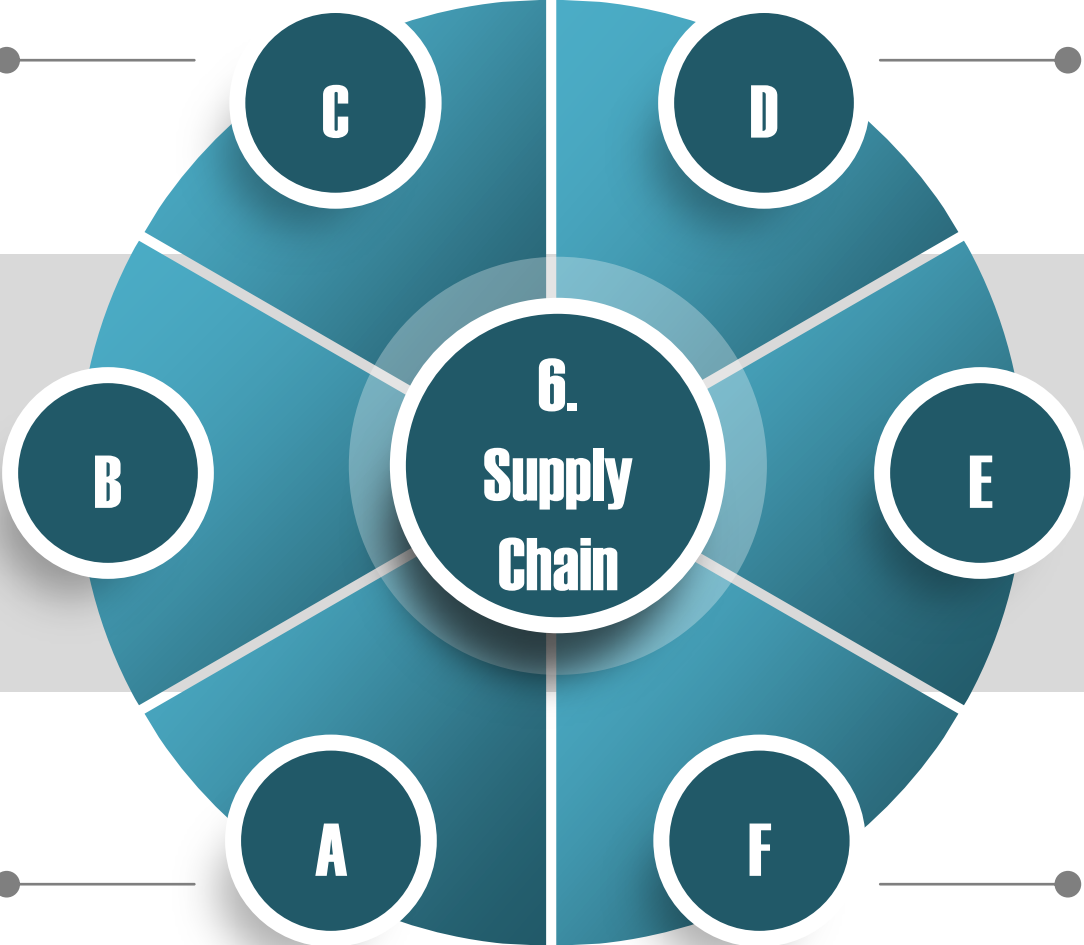


## Strategic Relevance

- Undivided attention of C-suite
- No sacred cows; 100% of non-payroll
- Goal makers (not takers)
- Streamlined governance

## New Strategies

- Sourcing 2.0
- Inventory 2.0
- Resilience 1.0
- Supply & Demand Planning 1.0
- SCaaS
- Outsourcing



## ESG

- DE&I
- Environmental Sustainability
- Ethical Practices (upstream)

## New Relationships

- GPOs
- RPCs
- Distributors
- SC to SC Coordination
- Partnerships / Collaboratives

## Expanded Goals

- Cost savings
- Inflation containment
- Supply continuity

## Talent Imperative

- Recruit
- Develop
- Engage
- Retain

# Supply Chain is Enabler or Bottleneck to Your Most Pressing Challenges

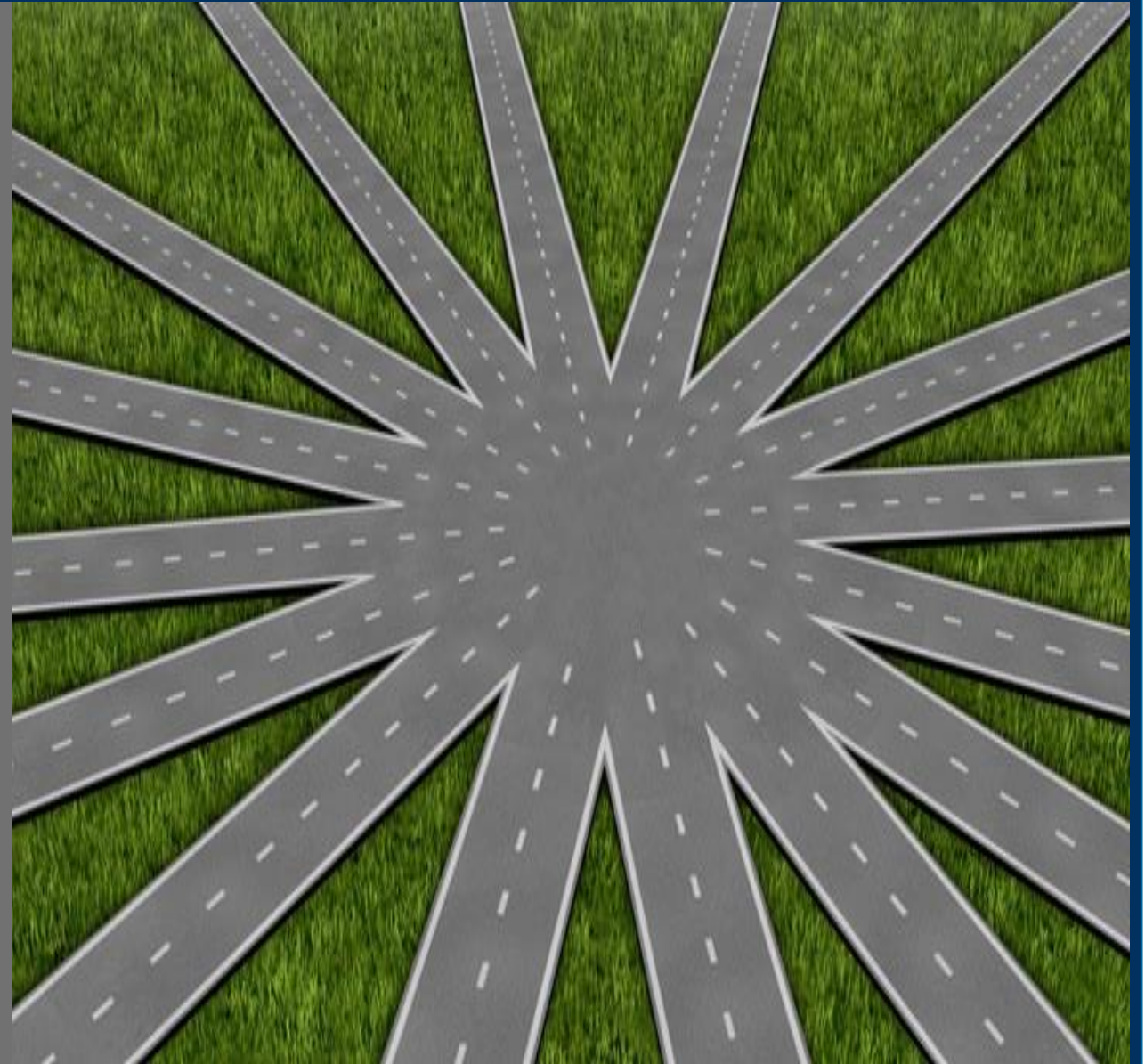
**Financial Crisis**  
(Fix Supply Chain or Cut Labor)

**Growth Imperative**  
(Supply Chain is first place to get synergies)

**Care Transformation**  
(New environments of care need new supply chains)

**Efficiency**  
(Every central function must be more efficient)

**Business Continuity**  
(COVID highlighted importance of supply chain resiliency)




# Health System Consolidation


- ⦿ Expand reach/footprint
- ⦿ Economies of scale (overhead, vendors, payors, customers)
- ⦿ Economies of scope (expanded services)
- ⦿ Two pathways to merge:
  - ⦿ Hospital buying hospital (horizontal)
  - ⦿ Hospital buying ASC; insurance company buying a medical provider (vertical)



# Financial Pressure: Universal Truth

	Current P&L	Cost initiative
Revenue	\$500,000,000	\$500,000,000
Cost	\$475,000,000 95%	\$450,000,000 90%
Profit	\$25,000,000 5%	\$50,000,000 10%

To increase profitability by \$25 million, you could either... 

  
Reduce costs 5%  
(or improve quality)

# Financial Pressure: Universal Truth

**Average Operating Margin**

**0.3%**

Source: <https://www.kaufmanhall.com/insights/research-report/national-hospital-flash-report-june-2023>

**Capital Costs**

**4.0%**

**Labor Costs**

**41.3%**

**Non-Labor Costs**

**54.9%**

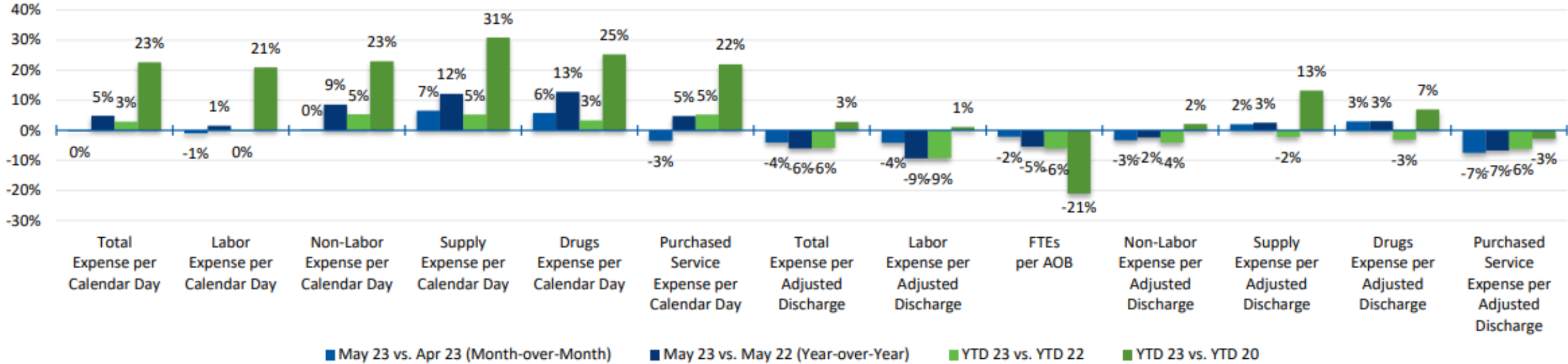
Source: Hospital Cost Structure and the Implications on Cost Management During COVID-19

### Impact

- Which buckets belongs to Supply Chain?
- Why does this matter?
- As hospitals migrate to “everywhere care” across the continuum of care, what will happen to non-labor cost relative to labor costs? Why?

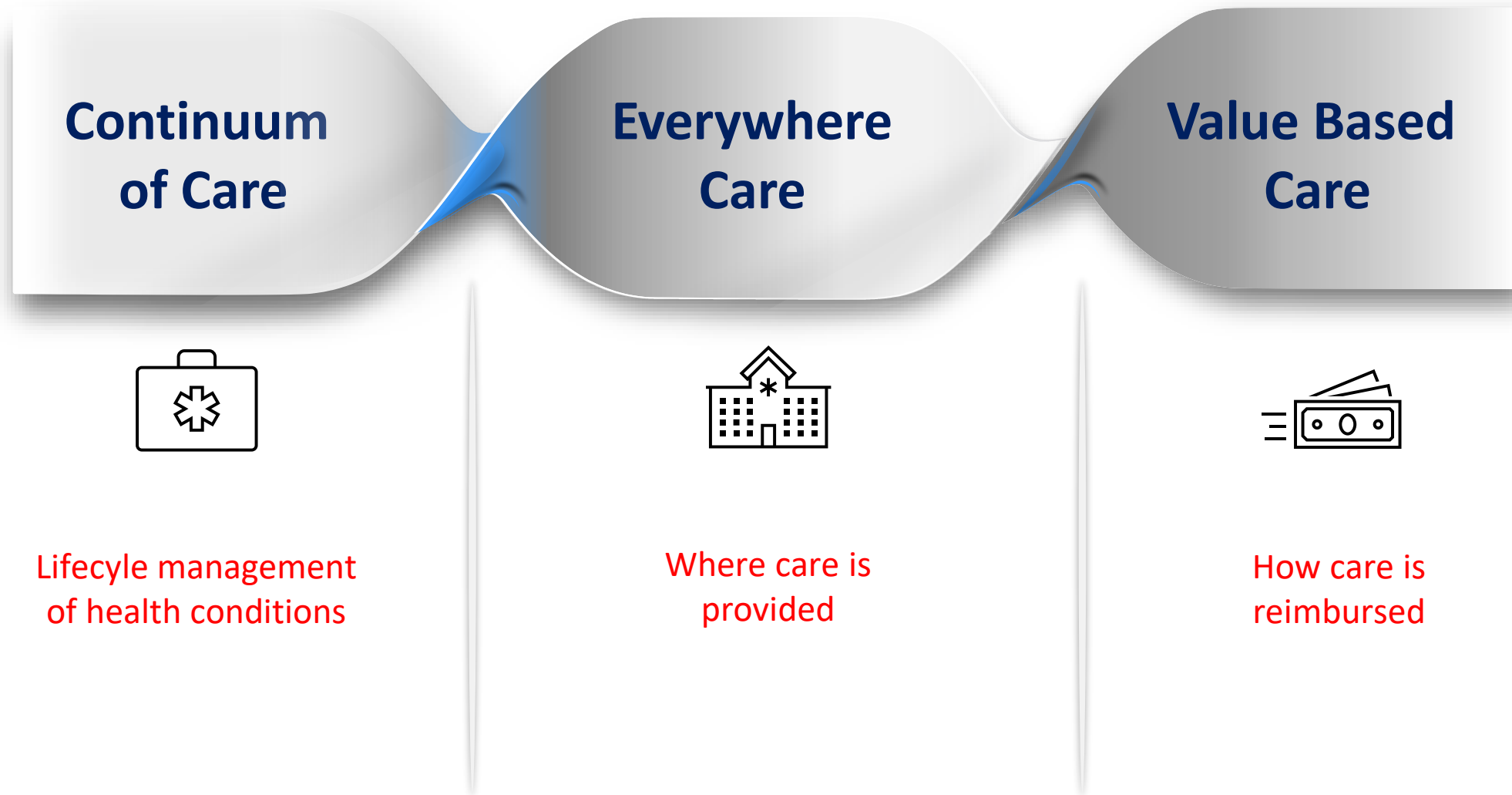


# Financial Pressure



Source: <https://www.kaufmanhall.com/insights/research-report/national-hospital-flash-report-june-2023>

# Care Transformation



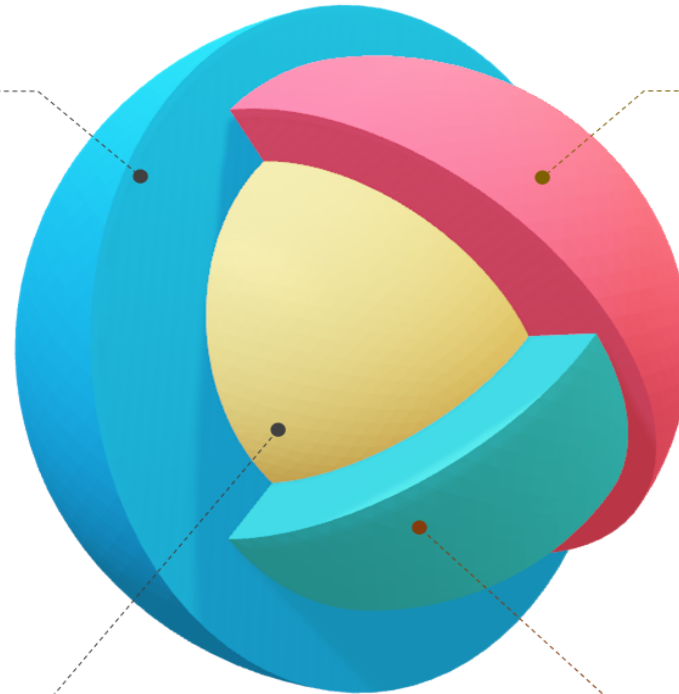
# Supply Chain Resiliency is Part of Bigger Plan

## Business Continuity

“The capability of an organization to continue the delivery of products or services at acceptable predefined levels following a disruption”  
ISO 22300:2018

## Emergency Preparedness

Infrastructure to support responsiveness to emergency situations



## SC Risk Management

Approach to identify potential sources of supply chain risk and implement appropriate actions or strategies (to avoid or reduce supply chain vulnerability)

## SC Resiliency

Adaptive capability of the supply chain to anticipate, prepare for, respond to, and recover from disruptions

Source: Supply Chain Sherpas

**SC Visibility:** “Trackability/traceability of product orders and physical product shipments from the production source to their destination. This includes logistics activities and transport as well as the state of events and milestones that take place before and during transit.” Technopedia

*SC visibility is the foundation of business continuity, and therefore SC Risk Management, SC Resilience and Emergency Preparedness*

# Supply Chain Value Contribution

# Supply Chain Value



**SC ROI**



**Benefits to Organization**



**Supply Chain Cost to Serve**

# Supply Chain Value



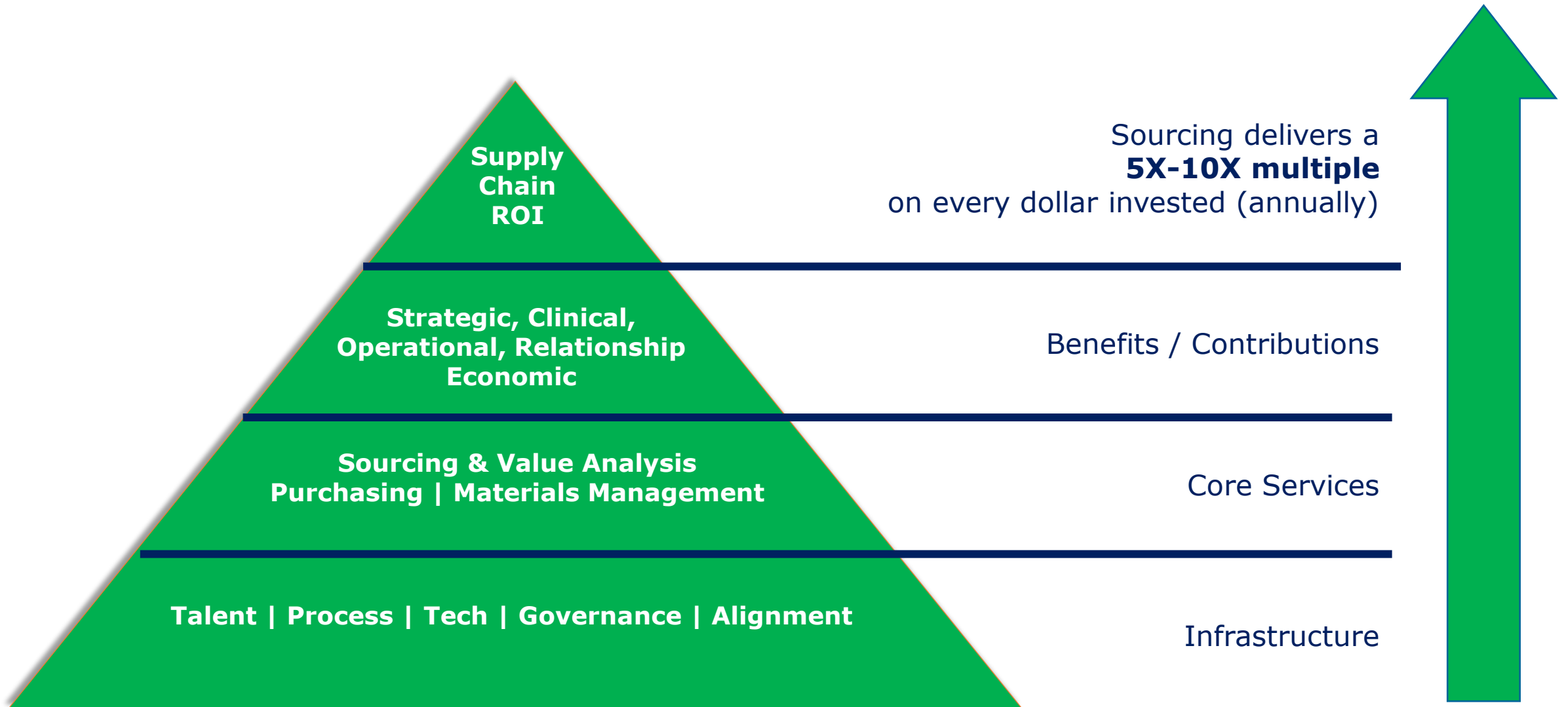
SC ROI



**Supply Chain Cost to Serve**

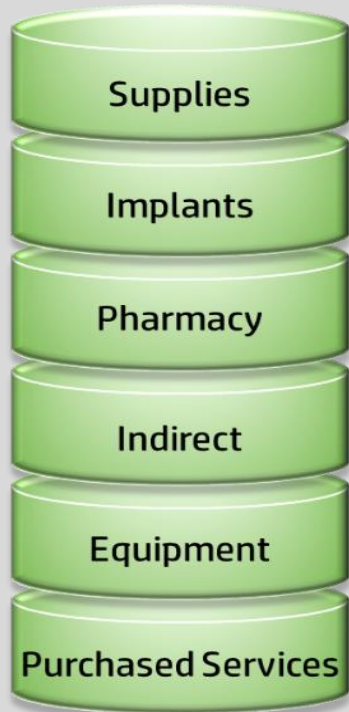


# Supply Chain Value Proposition



# Supplier-Derived Value

## SUPPLIER NETWORK



## SUPPLY CHAIN



## STAKEHOLDERS



# Healthcare Value



**VALUE**



**Benefits that Matter to Stakeholders**

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**Cost of Delivering these Outcomes**

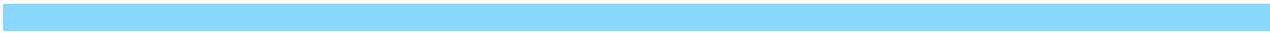
# Healthcare Value



VALUE



S<sub>trategic</sub> + C<sub>linical</sub> + O<sub>perational</sub> + R<sub>elationship</sub>



E<sub>conomic</sub>

# SCORE Value Language®

- **Strategic:** Innovation, DE&I, Environmental, Social, Governance (ESG), M&A/growth, value-based care, everywhere care, community impact, BHAGs
- **Clinical:** Mortality, length of stay, complication rates, readmission rates, and hospital-acquired conditions, clinical efficacy, safety/zero harm, comparative effectiveness
- **Operational:** Room time, procedure time, productivity, throughput, inventory optimization, lifecycle management, equipment utilization rates, supply chain resilience, turnover, cycle times
- **Relationship:** Patient experience, surgeon/clinician experience, employee experience, student experience, supplier experience, community experience
- **Economic:** Cost reduction, cost prevention, waste reduction, revenue capture, working capital improvement

# Roundtable Discussion


## Groups of 3 – 4

- What forms of value do you currently expect from your Supply Chain function?
- What new forms of value would be most helpful to you?
- What will your organization need to consider to enable these additional sources of value?

# Pathway to Supply Chain Excellence


# Supply Chain Excellence: Defined

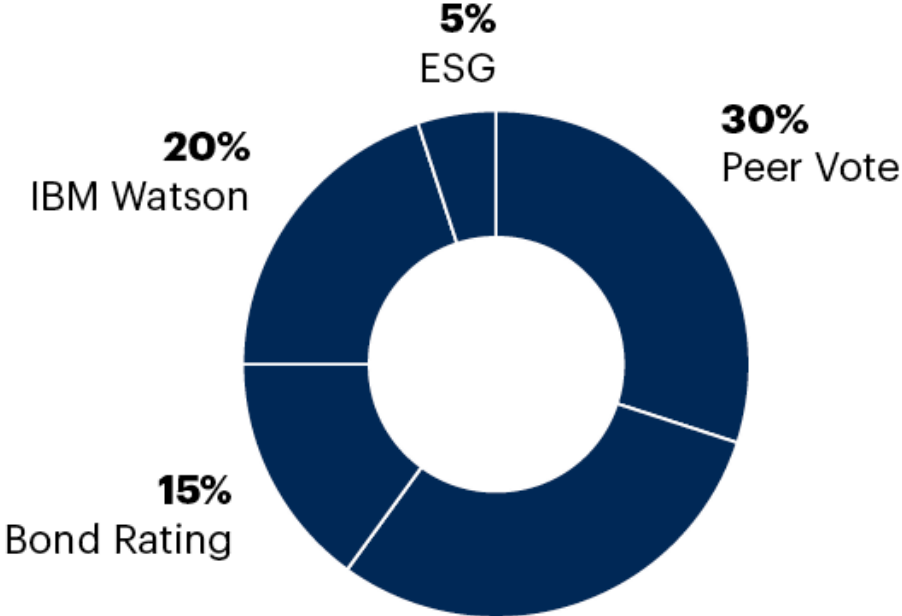
## Methodology

 **Alignment to Quality of Patient Care**  
IBM Watson Health 15 Top Health Systems Study

 **Financial Performance**  
Bond rating as a proxy for financial health

 **Alignment to Environmental Social Governance**  
Healthcare Anchor Network

 **Community Opinion**  
Two independent opinions — a Gartner analyst panel and a peer panel



Source: Gartner  
06072022\_C



# Gartner Supply Chain Top 25 and Masters for 2021



# The Gartner Global Supply Chain Top 25 for 2022



# 550+ Interviews Over Last 3 Years

## How They Feel

## Themes

### Provider organizations

- Supply chain leaders
- Service line leaders
- C-suite

- ⊗ Embarrassed
- ⊗ Overwhelmed
- ⊗ Misunderstood
- ⊗ Fatigued

- ⊗ Undivided attention of C-suite
- ⊗ Savings & resiliency matter equally
- ⊗ Financial crisis
- ⊗ Realignment
- ⊗ Streamlined decisions
- ⊗ New strategies
- ⊗ Remote & hybrid work
- ⊗ Virtual interactions
- ⊗ Power of collaboration
- ⊗ Talent crisis

### Supplier organizations

- Commercial teams
- Marketing teams
- Operations & supply chain teams

- ⊗ Anxious
- ⊗ Disconnected
- ⊗ Helpless
- ⊗ Stuck

# 9 Characteristics of Industry Leaders

## 1. Massive value contribution

1. All forms of value
2. BHAGs
3. Value tracking

## 2. Organizational alignment

1. Elevated role and c-suite support
2. Seat at sr. leadership table (viewed as strategic)
3. Organized for scale
4. Staffing levels that balance effectiveness and efficiency
5. Aligned incentives
6. Effective governance

## 3. Change makers

1. Courage to challenge the status quo
2. Master communicators (internally and externally)
3. Peer collaborators (think supply chain resiliency)
4. Enablers of new company strategies (think non-acute, ESG, innovation, etc)
5. Extenders to community partners; RPO leads; commercialization leads

## 4. Extraordinary talent

1. Strong leadership competencies
2. Training and development
3. Employer of choice / high engagement
4. Overcome healthcare compensation barriers
5. Staffed for success

## 5. Operational excellence

1. Benchmark often, and often set the benchmarks
2. Culture of results-orientation, quality-orientation, and continuous improvement
3. Rigorous and data-driven
4. High commitment to service excellence with SLAs and transparent cost to serve models

## 6. Deep sourcing & contracting capabilities

1. Full scope and span of control of non-payroll expenses
2. Focused use of GPOs and more expansive use of dedicated team
3. 6-10X ROI on every sourcing resource
4. Deep clinical and operational integration
5. Masters at segmentation: customers, suppliers, products, projects, etc.

## 7. Tech enabled processes

1. Well defined, streamlined, and consistent business processes
2. MDM strategy and governance
3. EMR and ERP integration
4. “Touchless” P2P, strategic use of enabling ops tech

## 8. Strong, high-trust relationships

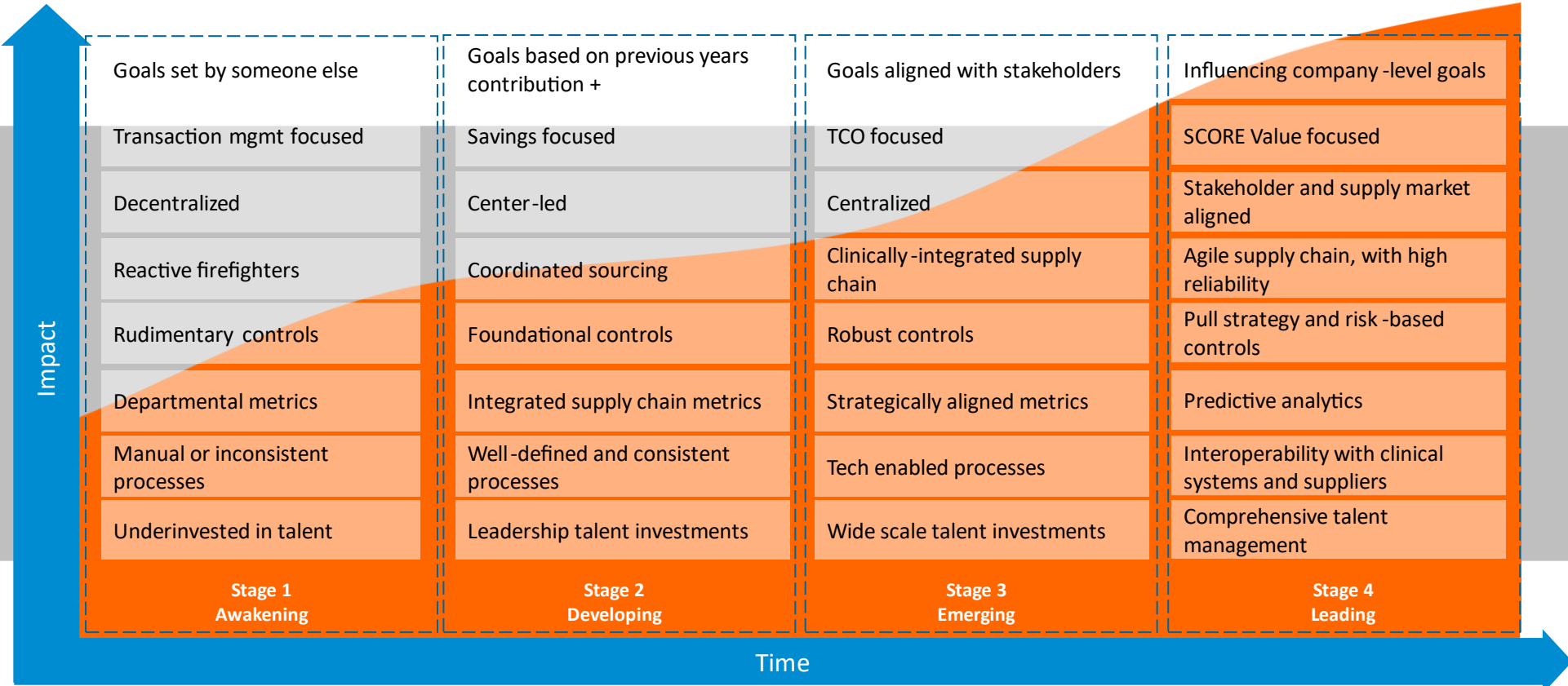
1. Internal stakeholder
2. Executive leadership
3. Supplier partners
4. Formal engagement models for each

## 9. Risk management

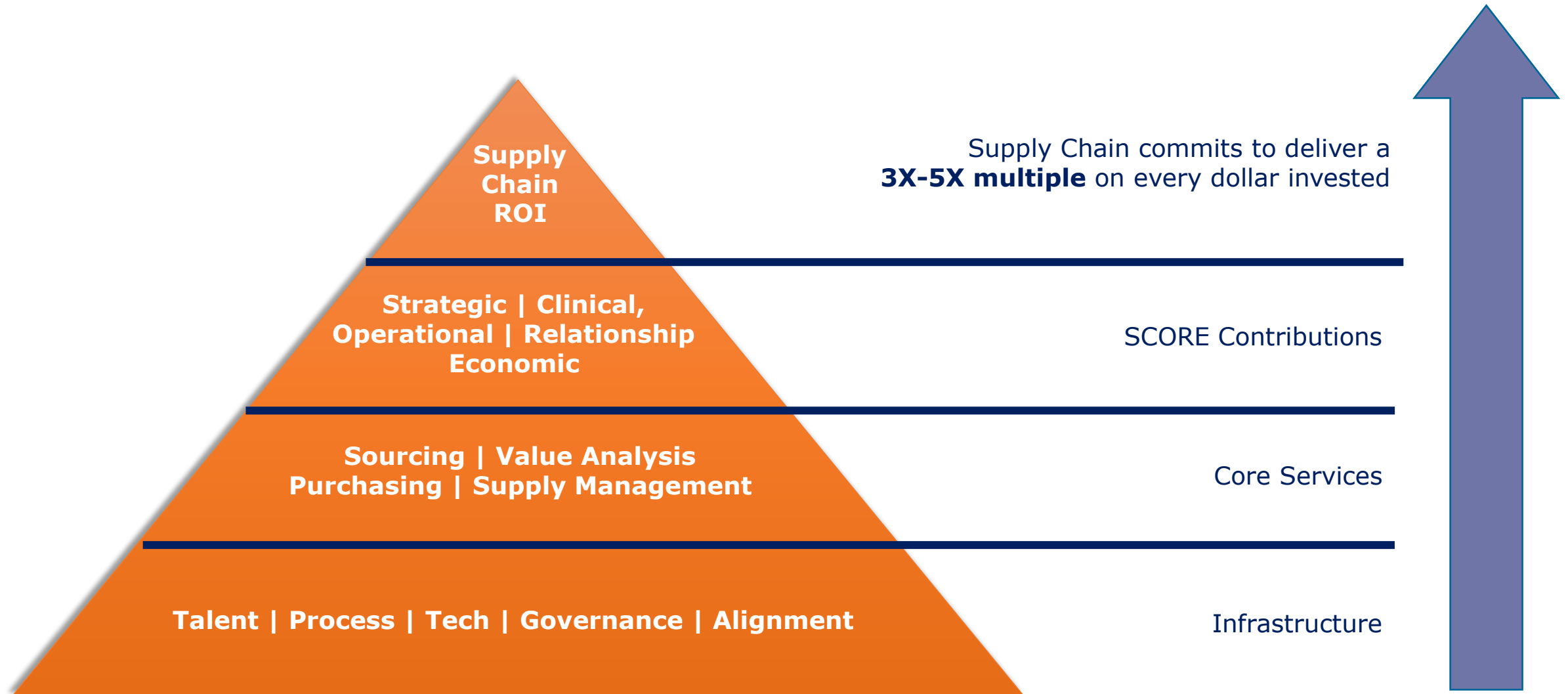
1. Integral part of organization’s business continuity plan
2. Prioritized types of supply chain risk with mitigation plans
3. Strategy to bolster resilience to disruptions
4. Emergency preparedness plans, which are tested

# Supply Chain Maturity Model

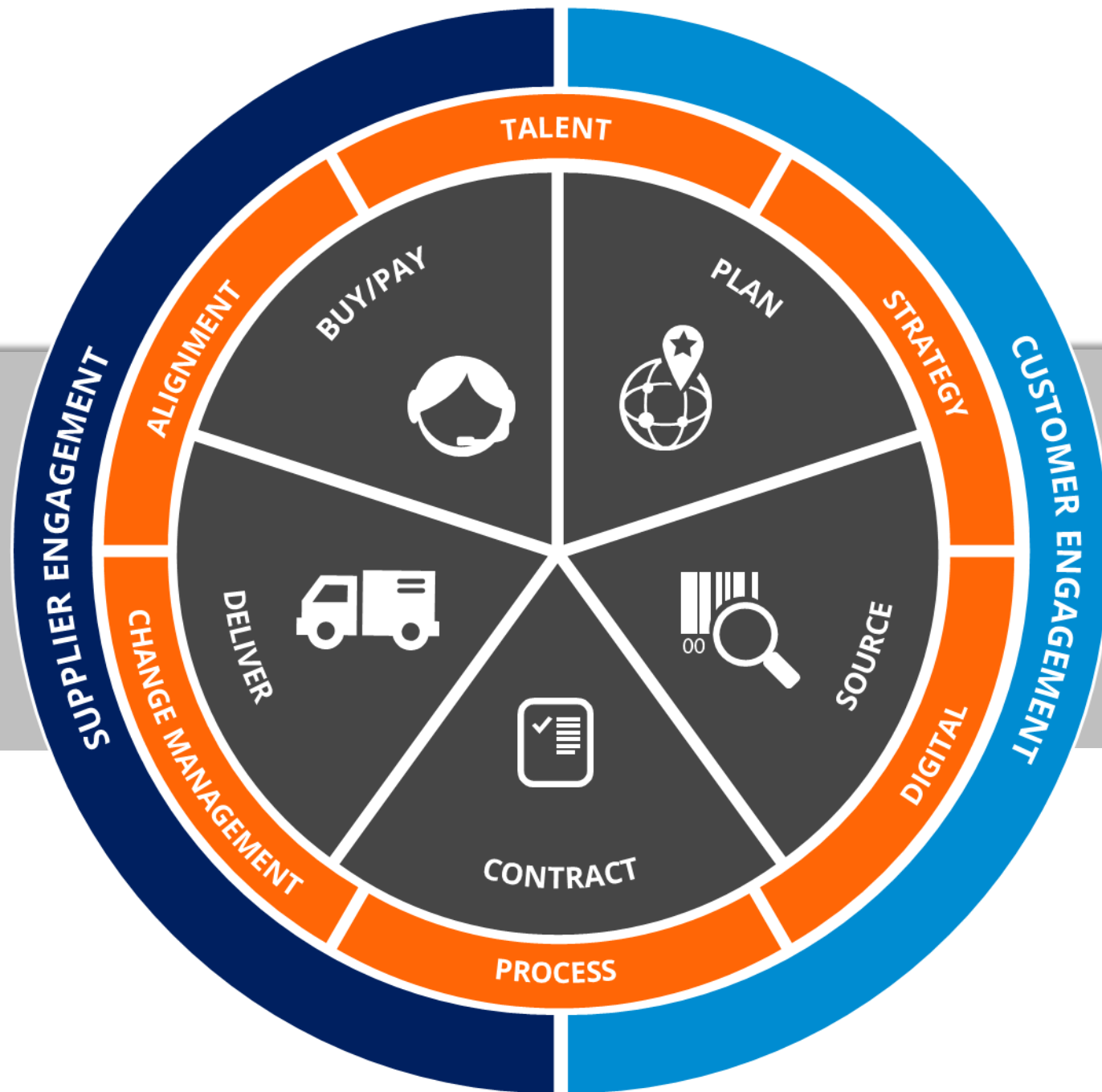
**Goal is to dramatically accelerate capabilities and enhance performance**



# Supply Chain's Value Prop



# Supply Chain 2.0 Framework



# Transformation is Holistic Approach to Improvement Across 12 Dimensions of Supply Chain Excellence

## Operations

Sourcing

Procure-to-Pay

Logistics and Materials Management

Program Management

## Infrastructure

Talent Management

Change Management

Alignment, Structure, and Governance

Risk Management

MDM, Technology, and Insights

Business Process Optimization

## Relationships

Supplier Relationship Management

Customer Relationship Management





The obstacle in the path becomes  
the path. Never forget, within  
every obstacle is an opportunity  
to improve our condition.

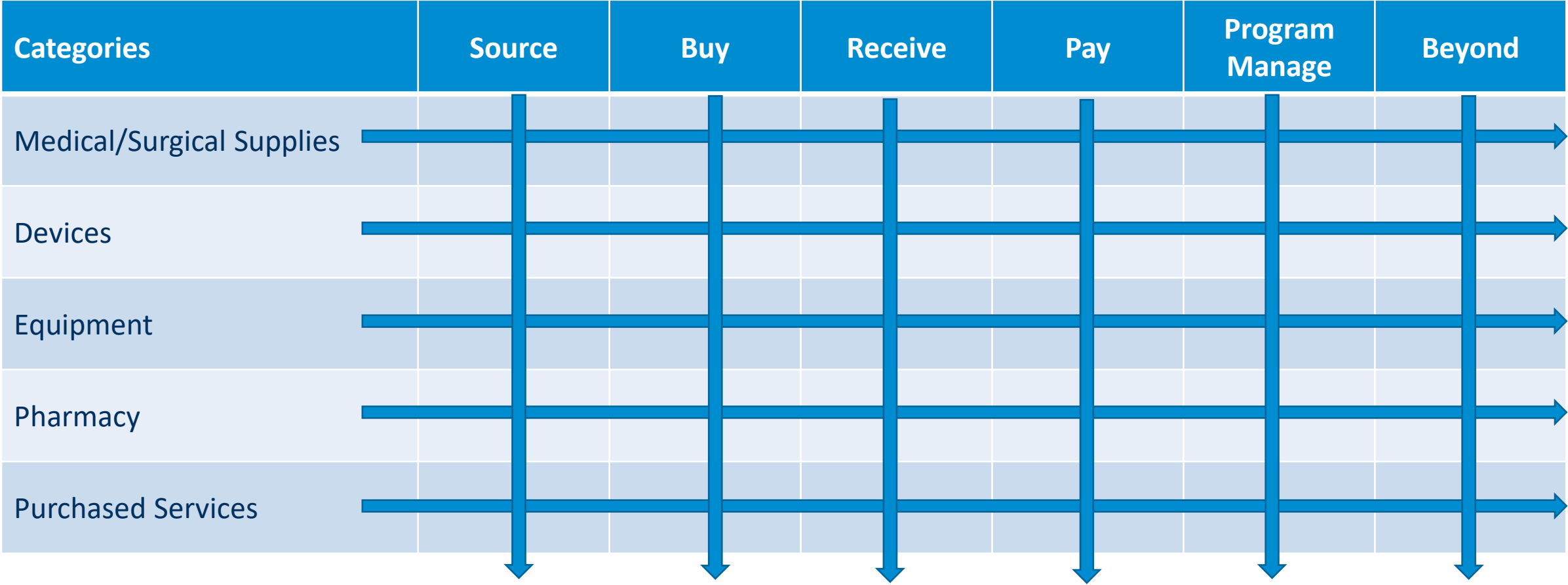
Ryan Holiday

“ quote fancy

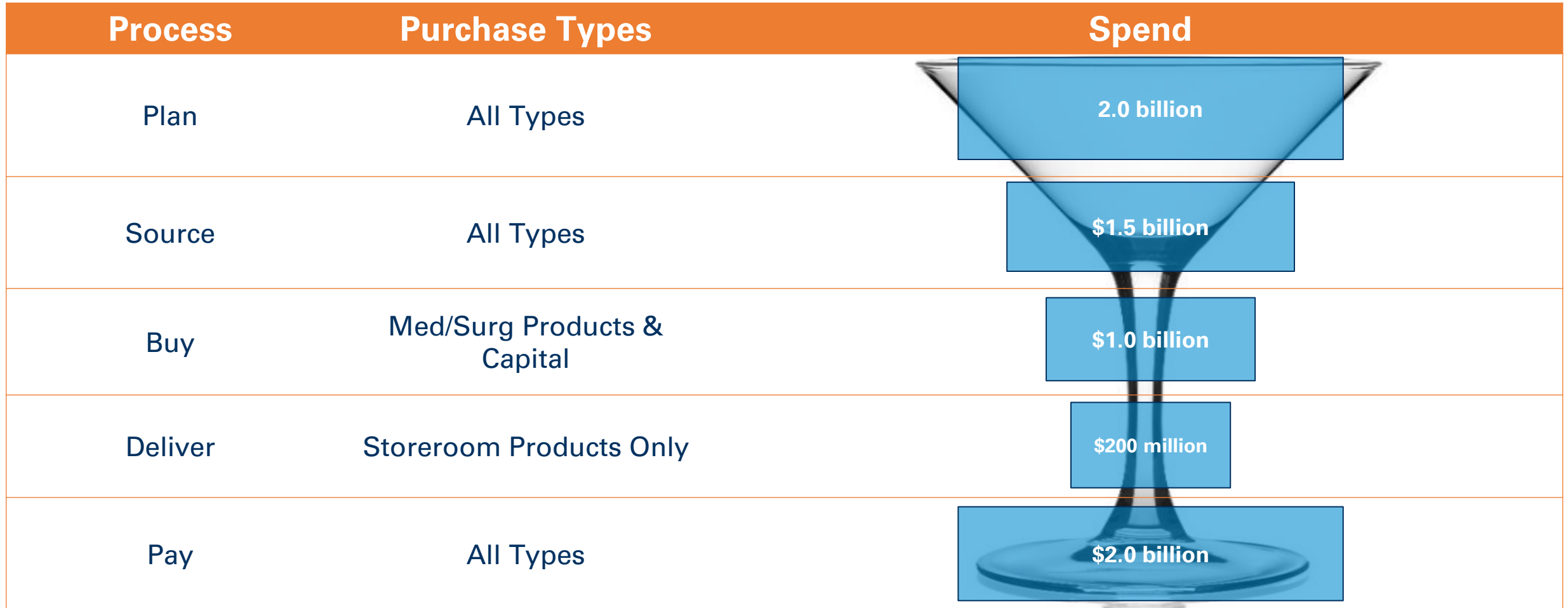
# APPENDIX

Not intended for distribution

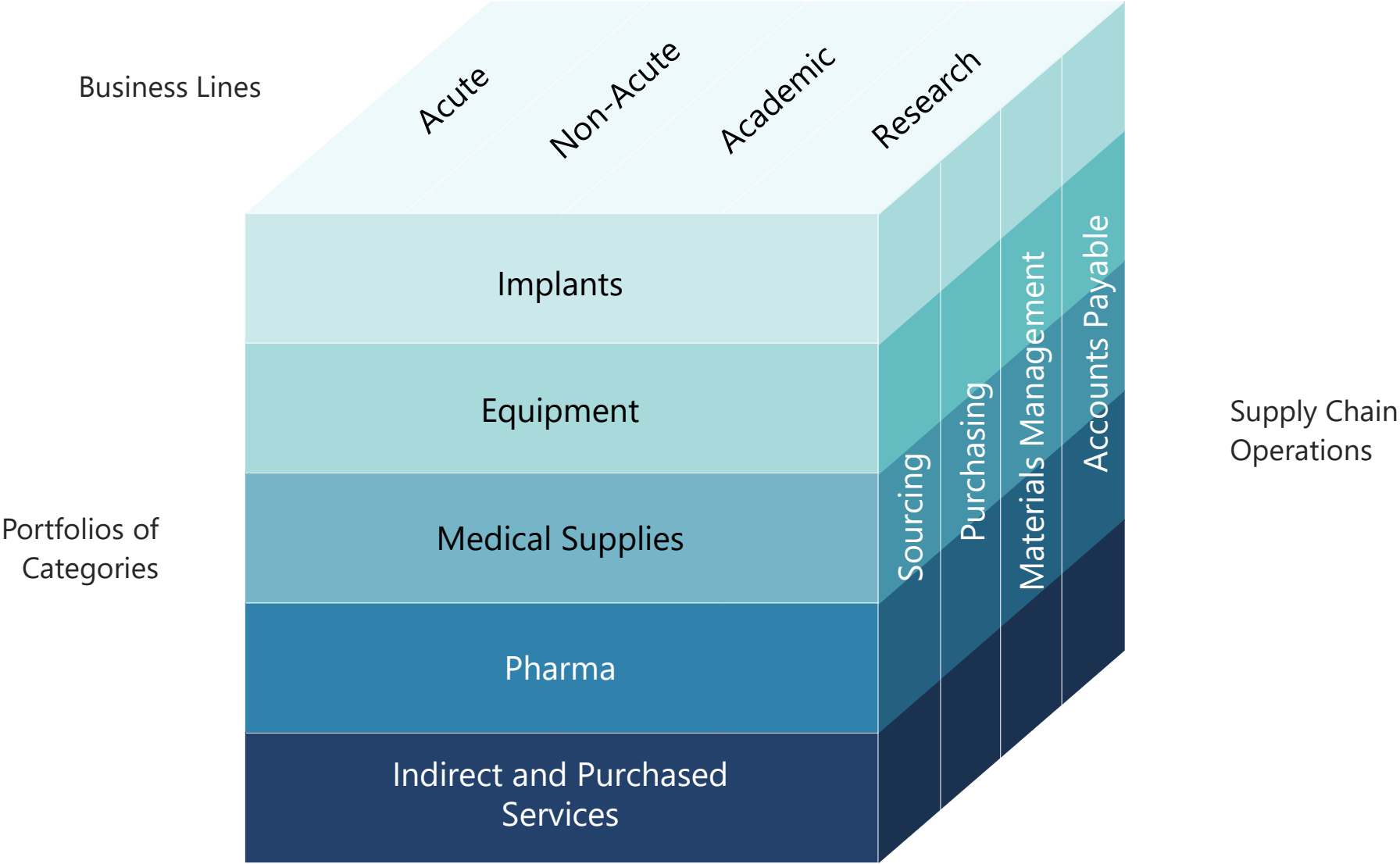
# Objective: Earn Trust & Expand Influence



# Span of Influence

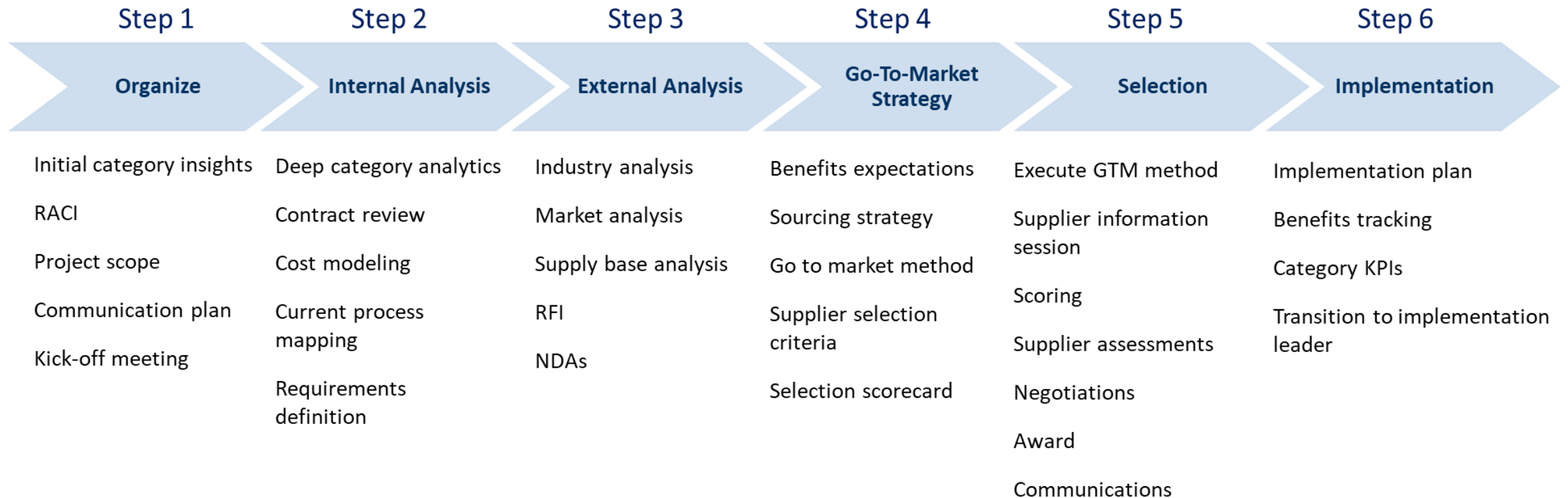


# Influence Analysis



# Strategic Sourcing Process

**Strategic Sourcing** is a process to *evaluate and select* suppliers and solutions, which best meet the combined needs of the OHSU. This process applies to ALL non-payroll suppliers of products, services, solutions, capital and technology.



# Why We Are Targeting 25th Percentile

**25th Percentile  
1<sup>st</sup> Sourcing Event**

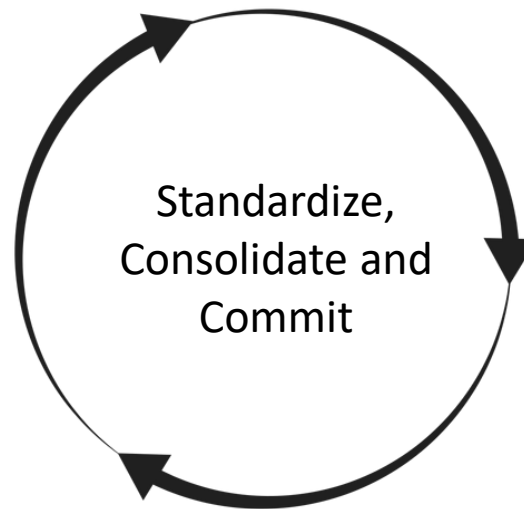
**50th percentile  
2<sup>nd</sup> Sourcing Event**

**75th Percentile  
3<sup>rd</sup> Sourcing Event**

Years 1-2

Years 3-4

Years 5-6



**Typical Tactics:**

- Renegotiations with incumbents
- Structured RFPs and negotiations
- All play / capitated pricing models
- Supplier consolidation where practical

**Typical Tactics:**

- Credible threats to supplier's existing business
- Structured product formularies
- Market share shifting
- Construct pricing models

**Typical Tactics:**

- Total cost of ownership modeling
- Collaborative SG&A reduction
- Joint innovation
- Utilization management programs

# Category Strategies Become More Progressive Over Time



## 1.0 Cost Management

- 1.1 Contract Coverage
- 1.2 Price Benchmarking
- 1.3 Aggregation
- 1.4 Cost Per Case
- 1.5 Target Costing
- 1.6 Source to Spec

## 2.0 Compliance

- 2.1 Supplier Consolidation
- 2.2 Product Standardization
- 2.3 Formulary Management
- 2.4 Ordering Controls
- 2.5 Receiving Controls
- 2.6 Payment Controls

## 3.0 Utilization

- 3.1 Demand Management / Consumption Analysis
- 3.2 Comparative Effectiveness
- 3.3 Appropriate Use Guidelines
- 3.4 Clinical Practice Guidelines

## 4.0 Outcomes

- 4.1 Patient Clinical Outcomes
- 4.2 Patient Experience
- 4.3 Safety / Zero Harm
- 4.4 Timeliness of Care
- 4.5 Value Based Care Measures

## 5.0 Beyond

- 5.1 Staff Engagement
- 5.2 Efficiency
- 5.3 Value Analysis / Value Engineering
- 5.4 Innovation
- 5.5 At-Risk Contracts



# Evolution of Sourcing in Health Care



GPO



Self Contracting



Strategic Sourcing



Category Management

# Important Differences

Function	GPO	Contracting	Sourcing	Category Management
<b>Goal</b>	Competitive prices (based on what others have paid)	Improved pricing compared to GPO contracts	Lowest total cost of ownership	Unlock ALL forms of value (Strategic, Clinical, Operational, Relationship, Economic)
<b>Process</b>	Member input Contract activation	Tactical RFPs or direct negotiations with specific suppliers	N-step process to guide the process of supplier/product selection based on specific needs; organized based on expense categories	Holistic approach to discrete areas of opportunity, which are organized based on the supply market
<b>Led By</b>	GPO and representative sample of member providers	Purchasing or a few dedicated sourcing professionals	Deeply skilled strategic sourcing experts, in conjunction with VAT committees	Integrated category councils, typically co-chaired by supply chain and clinical champion

# Category Strategies Become More Progressive Over Time



**Years 1-2**

1<sup>st</sup> Sourcing Event

**Years 3-4**

2<sup>nd</sup> Sourcing Event

**Years 5-6**

3<sup>rd</sup> Sourcing Event



**1.0**

**Cost Management**

- 1.1 Contract Coverage
- 1.2 Price Benchmarking
- 1.3 Aggregation
- 1.4 Cost Per Case
- 1.5 Target Costing
- 1.6 Source to Spec

**2.0**

**Compliance**

- 2.1 Supplier Consolidation
- 2.2 Product Standardization
- 2.3 Formulary Management
- 2.4 Ordering Controls
- 2.5 Receiving Controls
- 2.6 Payment Controls

**3.0**

**Utilization**

- 3.1 Consumption Mgmt.
- 3.2 Comparative Effectiveness
- 3.3 Appropriate Use Guidelines
- 3.4 Clinical Practice Guidelines

**4.0**

**Outcomes**

- 4.1 Patient Clinical Outcomes
- 4.2 Patient Experience
- 4.3 Safety / Zero Harm
- 4.4 Timeliness of Care
- 4.5 Value Based Care Measures
- 4.6 Resilience

**5.0**

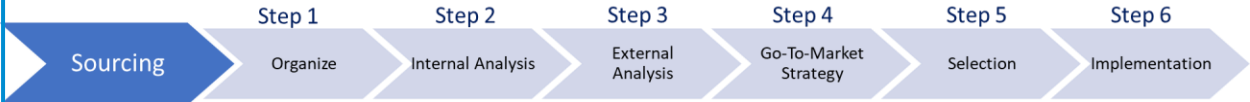
**Beyond**

- 5.1 Engagement
- 5.2 Efficiency
- 5.3 Value Engineering
- 5.4 Innovation
- 5.5 At-Risk Contracts

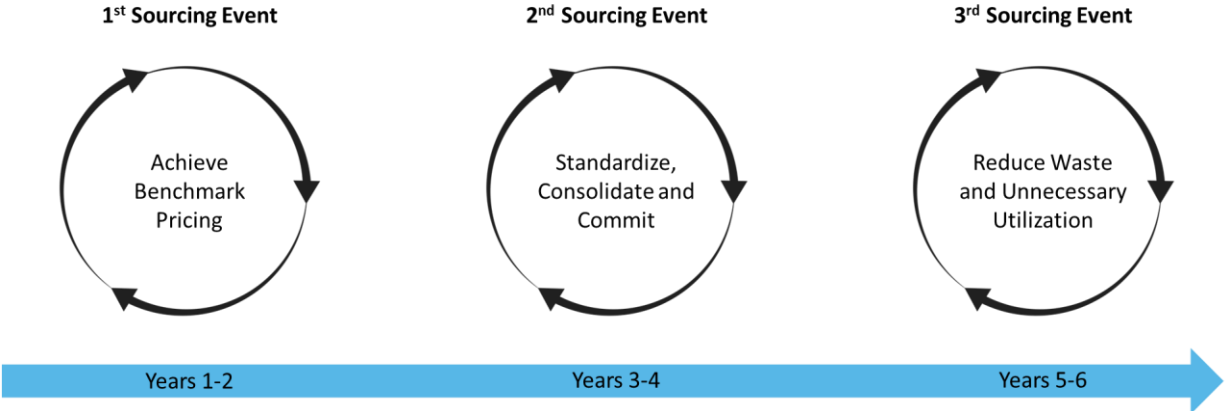
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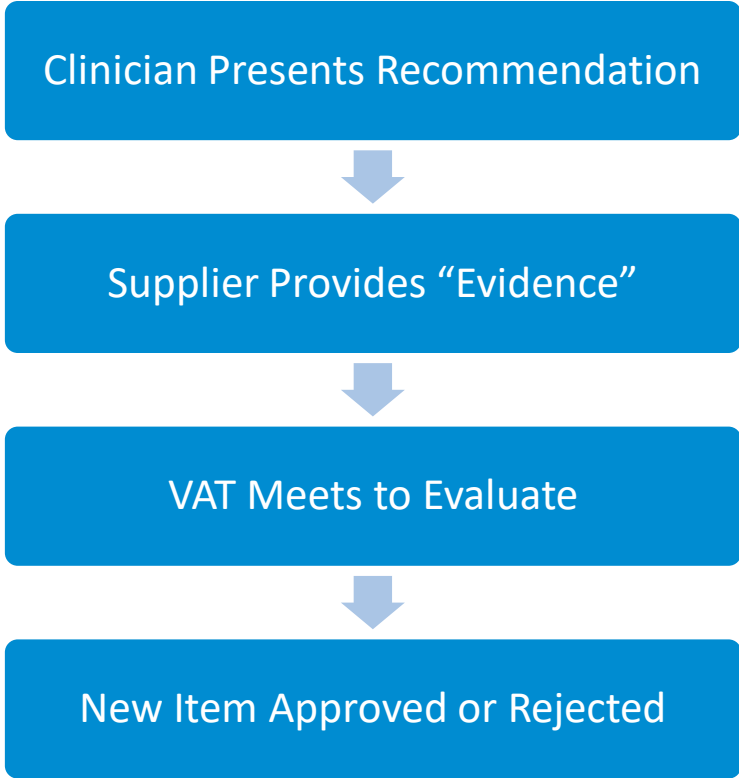
# Strategic Sourcing (Supplier Evaluation/Selection)



For Most Product Categories:



# Value Analysis (Clinical Product Evaluation/Selection)



## **Value Analysis** (Clinical Product Evaluation/Selection)

**Healthcare value analysis** contributes to optimal patient outcomes through an evidenced-based systematic approach to **review** healthcare products, equipment, technology and services.

Using recognized practices, organizational resources collaborate to evaluate clinical efficacy, appropriate use and safety for the greatest financial value.

*Association of Healthcare Value Analysis Professionals*

**AND**

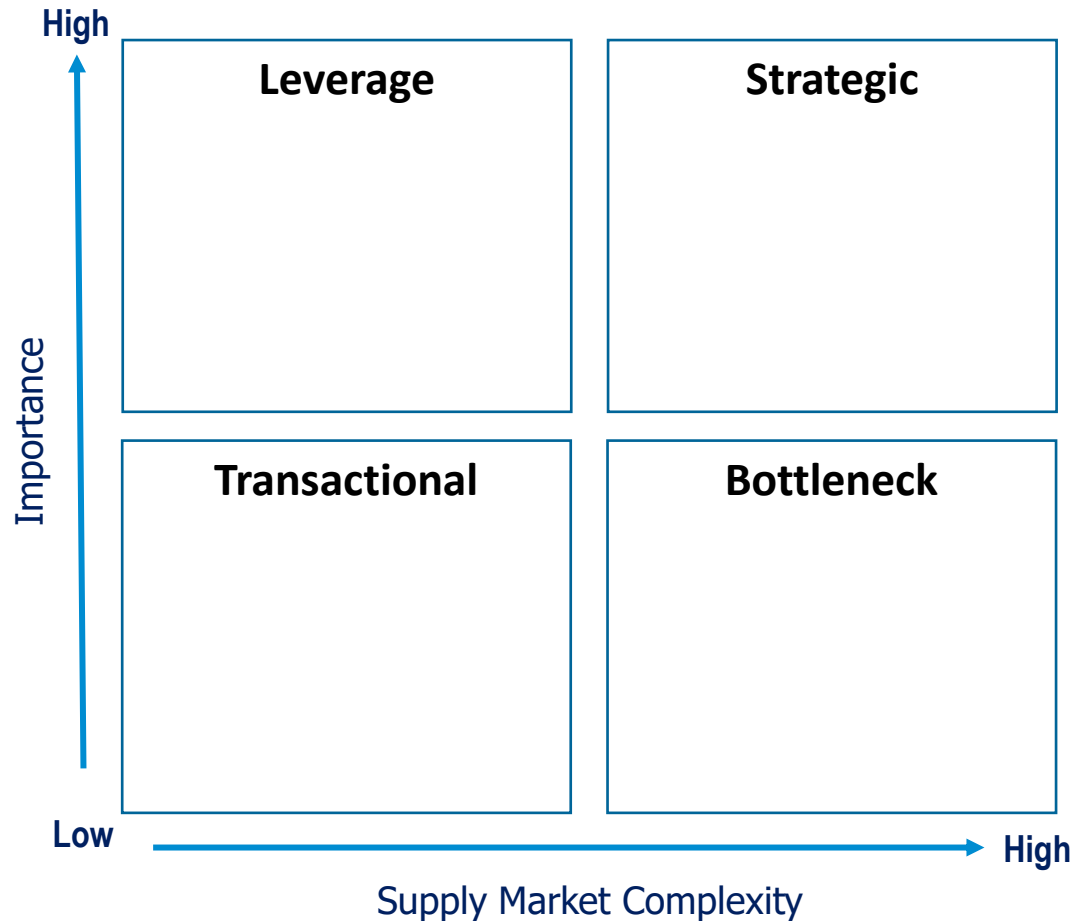
## **Strategic Sourcing** (Supplier Evaluation/Selection)

**Sourcing** is a system-wide process to ***evaluate, select and manage*** suppliers, which best meet the combined needs of organization.

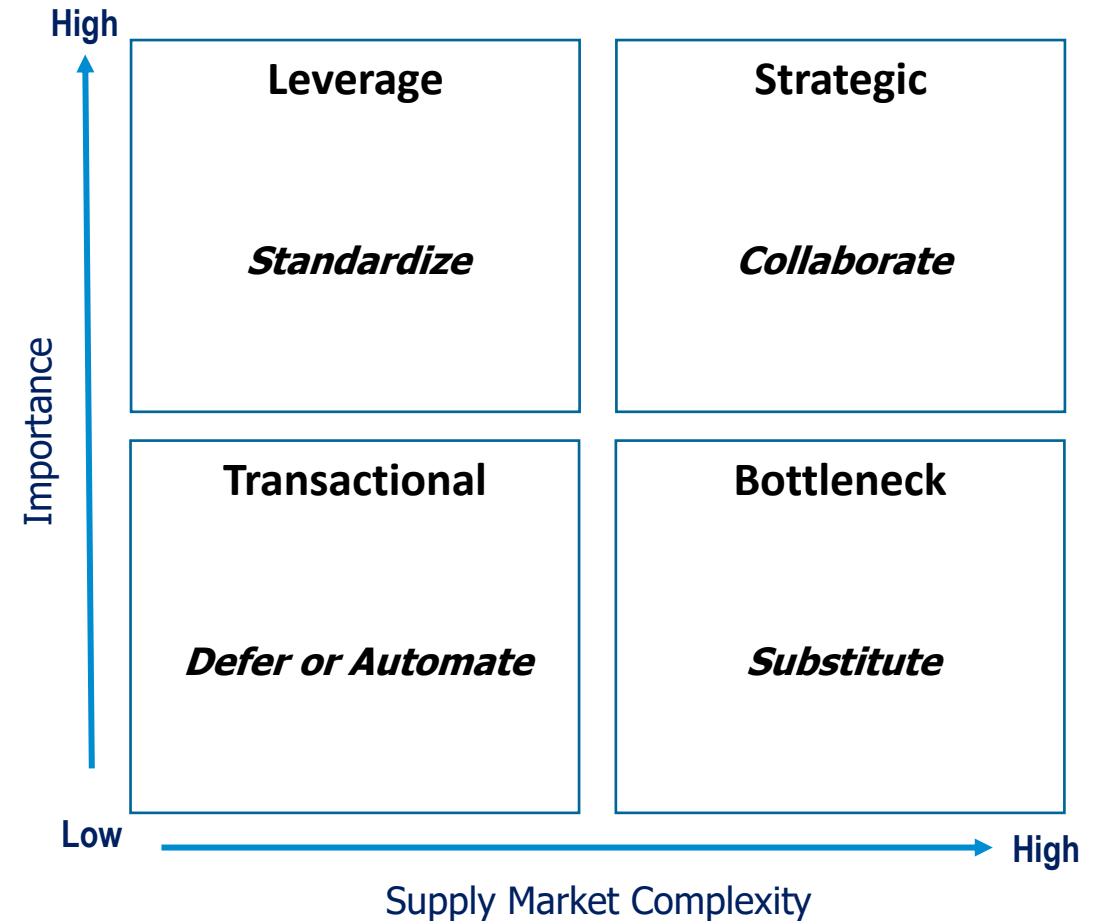
This rigorous process applies to ALL ***non-payroll*** suppliers of products, services, solutions, capital and technology. This includes clinical and non-clinical areas of the organization.

# Strategies Vary by Product Category

## Category Analysis



## Sourcing Strategy



# RFPs Are 1 of 64 Tools in the Sourcing Toolbox

Supply power	High	8	Invention on demand	Leverage innovation network	Functionality assessment	Specification assessment	Value chain reconfiguration	Revenue sharing	Profit sharing	Strategic alliance		
	7	Core cost analysis	Design for sourcing	Product teardown	Design for manufacture	Supplier tiering	Sustainability management	Project based partnership	Value based sourcing			
	6	Vertical integration	Intelligent deal structure	Composite benchmark	Process benchmark	Collaborative capacity management	Virtual inventory management	Total life cycle concept	Collaborative cost reduction			
	5	Bottleneck management	Political framework management	Product benchmark	Complexity reduction	Visible process organization	Vendor managed inventory	Supplier development	Supplier fitness program			
	4	Sourcing community	Buying consortia	Cost data mining	Standardization	RFI/RFP process	Expressive bidding	Total cost of ownership	Leverage market imbalances			
	3	Procurement outsourcing	Mega supplier strategy	Master data management	Spend transparency	Supplier market intelligence	Reverse auctions	Price benchmark	Unbundled prices			
	2	Compliance management	Closed loop spend management	Supplier consolidation	Bundling across generations	Make or buy	Best shoring	Cost regression analysis	Factor cost analysis			
	Low	1	Demand reduction	Contract management	Bundling across product lines	Bundling across sites	Global sourcing	LCC sourcing	Cost based price modeling	Linear performance pricing		
			Low	A	B	C	D	E	F	G	H	High
			<b>Demand power</b>									