

Serving today's IDNs

By Laura Thill

Twenty-plus years
after stockless
purchasing debuted,
materials executives
continue to demand
outsourced services
from their distributors.

Fast, efficient service may have been distributors' calling card at one time. But, today they must provide that and much more. As the role of technology continues to evolve, and supply chain executives focus more and more on supply chain optimization, distributors look to bridge the gap between the loading dock and the patient's bedside.

Still stockless

One trend that continues to work for some distributors in the hospital market is that of stockless purchasing and low-unit-of-measure deliveries. "One of the best ways to reduce expenses is through low-unit-of-measure," says Kim Gravell, vice president of innovation, Cardinal Health Supply Solutions business (Dublin, Ohio). Not only does this call for less staff on the provider's part to manage fewer products, it also enables the existing staff to be more efficient, she contends. Managing fewer products in the warehouse enables providers to focus on how they are moved beyond the loading dock and through the facility, she notes. "It is the foundation of supply chain optimization," she says.

In addition, the role of technology in supply chain management has evolved in recent years, continues Gravell. This, coupled with supply chain management's refined expertise, has made low-unit-of-measure deliv-

eries more desirable than ever before, she points out. And, supply chain executives are looking to the distributor to make this possible.

Granted, stockless purchasing and low-unit-of-measure programs have not proven to be successful approaches for every distributor over the last 10 or 15 years, but they have worked to the advantage of others. "You will not get full agreement about [this topic] among distributors, because this trend has worked to the disadvantage of some," says Ted Almon, president and CEO, Claffin Company (Warwick, R.I.). "But, I feel strongly that stockless/low-unit-of-measure programs have vastly exceeded our projections from a decade ago. Especially in dense, urban areas such as ours, space in hospitals has become far too valuable to use for inventory storage.

"Also, the technology to support custom, value-added logistics has advanced exponentially," he continues. "Today, nearly two-thirds of Claffin's business is some variation of just-in-time [service], and our surveys of the Boston market indicate that over 75 percent of the hospital volume is done on a unit-of-use to the point-of-use basis."

Indeed, Claffin "bet heavily" on low-unit-of-measure delivery when it designed a new distribution center about 10 years ago, notes Almon. "It is expressly organized as a pick-and-pack operation," he explains.

“This is fundamentally different from a standard bulk warehouse [operation], and we consider this technology a core competence and a sustainable competitive advantage. Using voice-directed zone picking on a nearly 1,400-foot-long flow rack/conveyor just-in-time line, we can produce low-unit-of-measure orders faster, cheaper and better than our competition and for considerably less than our hospital customers could do by themselves.”

Today distributors, such as Cardinal Health, work much more closely with materials managers and CFOs than in the past. As supply chain management becomes more expensive, this becomes increasingly necessary, says Gravell.

“Labor has always been a large supply chain expense, and it is growing at a rapid rate,” says Frank Ridgway, vice president of market management, Cardinal Health Supply Solutions business. We’ve lagged behind other industries from a supply chain management perspective.” Healthcare is closing this gap by adopting models, such as retail, which deliver the product to the end-user without concerning him or her with how the product made it from the loading dock to the shelf, he says. “For instance, Target’s concern from a supply chain perspective is that the product is on the shelf for the customer. But, the customer shouldn’t have to be concerned about how it got there. A low-unit-of-measure approach is a platform for addressing this.” Cardinal

launched its low-unit-of-measure program, ValueLink, 20 years ago.

“The key issue here is that we not only are focused on working with the customer to get products to the loading dock,” Ridgway continues. An additional 65 percent of the process involves managing product flow beyond the dock and the storeroom and to the patient’s bedside, he says. “We

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want to reach further into the hospital and closer to the patient.”

“We use the phrase, ‘beyond the customer’s dock,’” says Gravell. “The focus today is on managing inventory closest to the patient. [To do so], we must really understand what goes on within the customer’s four walls. A product is just a product until we see it in use,” she says. “And, it’s costly to move products and data within a hospital or hospital system if not done efficiently.” Providers don’t want physicians and clinicians rummag-

sites, such as clinics, nursing homes and surgery centers. Each IDN has a different set of needs and follows a different set of guidelines. So, it’s no wonder a cookie-cutter approach to delivery will not work in this setting.

Depending on the IDN, distributors may be called on to deliver to all or some of these sites. They may be expected to handle both acute-care and non-acute care accounts, or one or the other. Sometimes supply chain executives expect their distributors to deliver products to all sites for one

becomes the same as a just-in-time/low-unit-of-measure program with some remote ship-to’s.”

Not only is it a matter of *who* pays the bills, but how they pay, notes Almon. “Again, contracting with IDNs is highly individualized, and it isn’t only the deliveries that can be costly,” he points out. Other factors that impact distributors’ costs include:

- How does the provider place its orders? (via Web site, phone, etc.?)
- Is the distributor expected to provide customer service to each of its sites, or will it work through a centralized purchasing office?
- Will the distributor need to follow-up with the provider’s off-site locations?

“Generally, [our] contracts take on a fee-for-service orientation, but I can say that there are hospital systems with highly integrated and automated requisitioning/purchasing systems, where off-site entities can look just like part of the hospital,” says Almon. “Off-site customers [tend to] use a Web-based catalog and ordering system – perhaps one we have developed for them – and there is centralized payables for all of the related entities.”

Filling the gaps

A growing trend has been for distributors to provide their customers with outsourced supply chain services, which calls for the distributor to employ all of the warehouse and central supply chain personnel, according to some experts. “With the increased importance of supply chain management, we do see more customers coming to us,” says Ridgway. “IDNs want to focus more on patient care. This is especially critical where our customers have senior-level understanding and realize that help is needed to drive change and move to new models of supply chain management. Today, we (distributors)

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ing through cabinets and storerooms for products that aren’t on the shelf, where they belong, she adds.

“We want the supply chain process to run as efficiently as possible,” says Ridgway. “My role is to work with [Cardinal’s] teams and, in turn, our customers, to support their supply chain optimization. Very little of the customer’s value proposition actually has to do with the price of a product. We focus more on such things as product utilization, reducing labor costs, standardization and inventory reduction.”

Customer by customer

Distributors today work closely with provider organizations comprised of multiple hospitals and other care

cost-plus fee, and sometimes not. Anything goes, and distributors must be flexible in order to meet their customers’ needs.

“The old saying, ‘If you’ve seen one IDN, you’ve seen one IDN,’ really holds true here,” notes Almon. “We have customers using a fully integrated outsourced distribution model for all of their affiliates through us. These tend to be the networks that have committed to a consolidated purchasing system and treasury functions.

“For us, the determinant in doing these integrated programs is that a single entity will pay the bills,” he continues. “If that’s the case, then we can work off a common item/pricing file for all of [a provider’s] sites, and it

are in a position to fill in the gaps for IDNs and assist them in achieving the supply chain model they [desire].”

As IDNs develop newer models of supply chain management, they require more sophisticated reports and benchmarking tools, notes Gravell. “Our reports have to be more sophisticated,” she says. “Today, we must do a better job of measuring the value of what we’ve done and helping our customers better utilize data

and more distributors becoming proficient at delivering these services. “We certainly expect to see [this trend] continue to proliferate, [particularly] where there are vendors with the appropriate capabilities to amortize the technology that leverages supply chain functions of multiple hospitals in a single automated facility,” says Almon. “We also expect that some distributors will leverage Internet technology and

e-commerce in segments of the market where high cost distribution models have persisted. Barriers to entry in this game are not high, but the stakes elevate quickly as markets develop and sophisticated e-commerce capabilities [emerge that] require specialized skills and expensive platforms.

“One thing is certain,” he continues. “The market will develop in response to the economic incentives that are created within it – and, to a



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that can impact patient care. We are much more committed to this today. Capturing data is key, as is knowing what to do with it.” And, technology today enables distributors to provide more sophisticated benchmarking measures, she adds.

Indeed, with so many issues on the table, contracts today must be much broader in scope than ever before, says Ridgway. Given this, “we tend to see longer-term contracts, with varying degrees of aligning incentives and goals,” he adds.

More of the same

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large degree, healthcare reform (e.g. reform of the reimbursement system) will become a reality. As a result, nimble organizations can expect an unprecedented period of opportunity.”

“Distributors will continue to deliver greater value with regard to the services we provide,” says Gravell. “Also, we will expand beyond our traditional services.”

“In the future, we want to move to an individualized model, where we work more seamlessly with our customers,” adds Ridgway. “Take the vending machine [concept]. We insert our money, push a button and we have a high degree of confidence that we will get our Coke. This is the type of model our customers are looking for.”