

Evaluating Self-Distribution: A Guide for Healthcare Executives



What do I need to know to evaluate self-distribution?

- **What is self-distribution?**
- **Why might a hospital or IDN pursue this model?**
- **What are the key strategic considerations?**
- **How do I know if my organization is a good candidate for self-distribution?**
- **What processes will my organization have to take on?**
- **What are the risks?**
- **What's a good process for evaluating models?**

What is self-distribution?

Self-distribution is essentially “do-it-yourself” logistics

- **Hospital or health system sources products directly from manufacturers and delivers to healthcare providers within its network**
- **Organization operates warehouse or consolidated service center**
- **System takes on procurement, warehouse management, inventory control, order fulfillment, transportation, and other roles previously managed by outside distributor**



Why might a hospital or IDN pursue this model?

- **Desire for standardization and control**
- **Perception that internal supply chain management is an indicator of supply chain excellence**
- **Concern that distributors have conflicting loyalties**
- **Consolidation of other services (lab, linen, etc.)**
- **Disaster preparedness concerns**
- **Acquisition of non-acute providers**
- **Desire to capture distributor margins as savings**

*General agreement that it's
only for large IDNs*

What are some key strategic considerations?



- **Will self-distribution add to or detract from patient care?**
- **Does the potential return offset the cost?**
- **How much risk can the organization assume?**
- **Can my organization commit the needed resources for 5–10 years, and is that the best use of scarce resources?**

How do I know if my organization is a good candidate for self-distribution?

- **Strategic alignment of the self-distribution activity with organizational goals**
- **Senior-level executive sponsorship**
- **Capital estimated at \$40 million over the first 3 years**
- **Annual supply spend of more than \$100 million**
- **Staff expertise**
- **Risk tolerance**
- **Standardization of products and GPO contract portfolios**
- **Manageable geography**
- **Technology**



What processes will my organization have to take on?

■ **Purchasing**

- Expect to significantly increase staffing due to the increase in the total number of suppliers and orders
- Many manufacturers are less technologically sophisticated than the average distributor so expect more non-EDI ordering
- Allow for longer lead times from manufacturers than from regionally located distributors

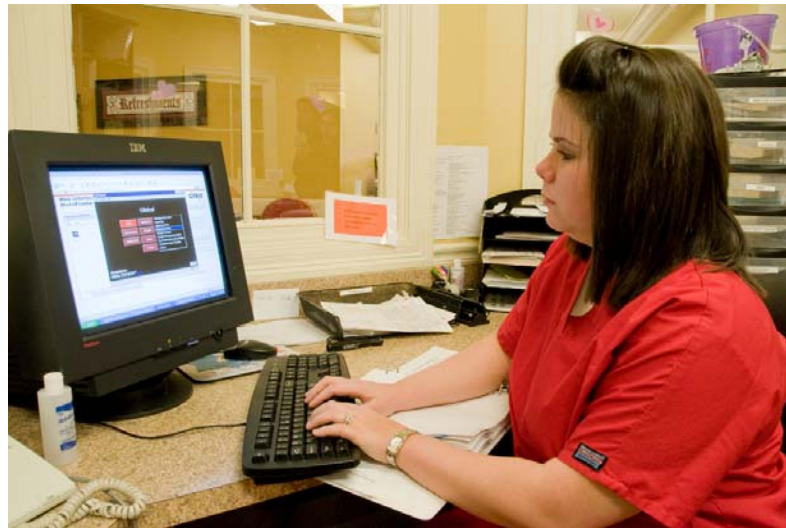
■ **Inventory and warehouse management**

- More suppliers = more deliveries
- More variation in policies and processes (e.g., returns)
- Substantial investment in space, equipment, and technology

■ **Pick and pack, delivery etc.**

Additional expansions necessary in:

- **Information technology**
- **Customer service**
- **Contract administration**
- **Accounts payable**



What are the risks?

■ **Capital and credit risks**

- Initial investment estimated at \$40M for first 3 years
- Ties up a substantial piece of the organization's available credit
- Risk that this capital could be needed for other more urgent investments (for example, IT to support accountable care)

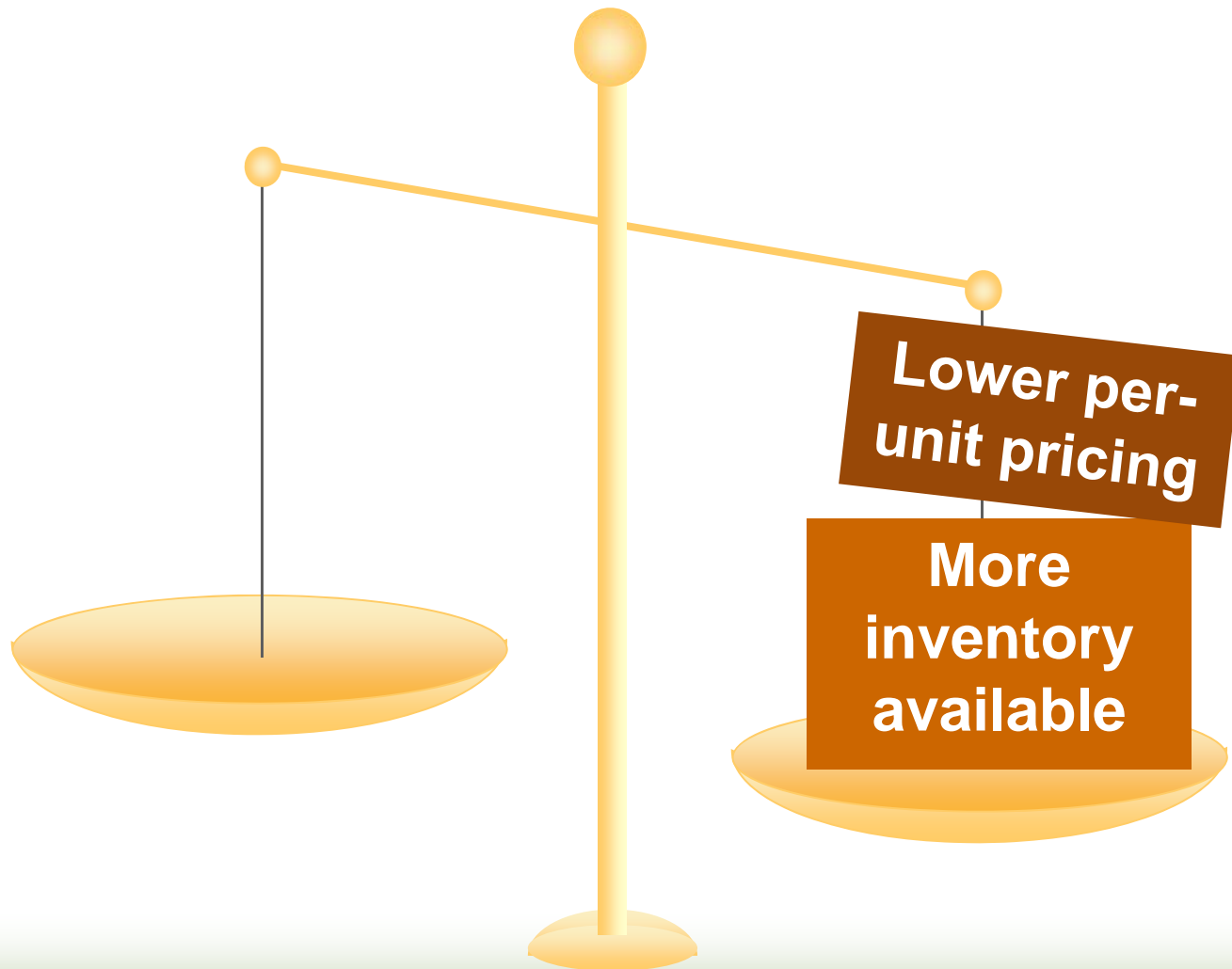
■ **Strategic risks**

- Long-term, fixed-cost investment
- Hard to change course if the program delivers less than expected rewards

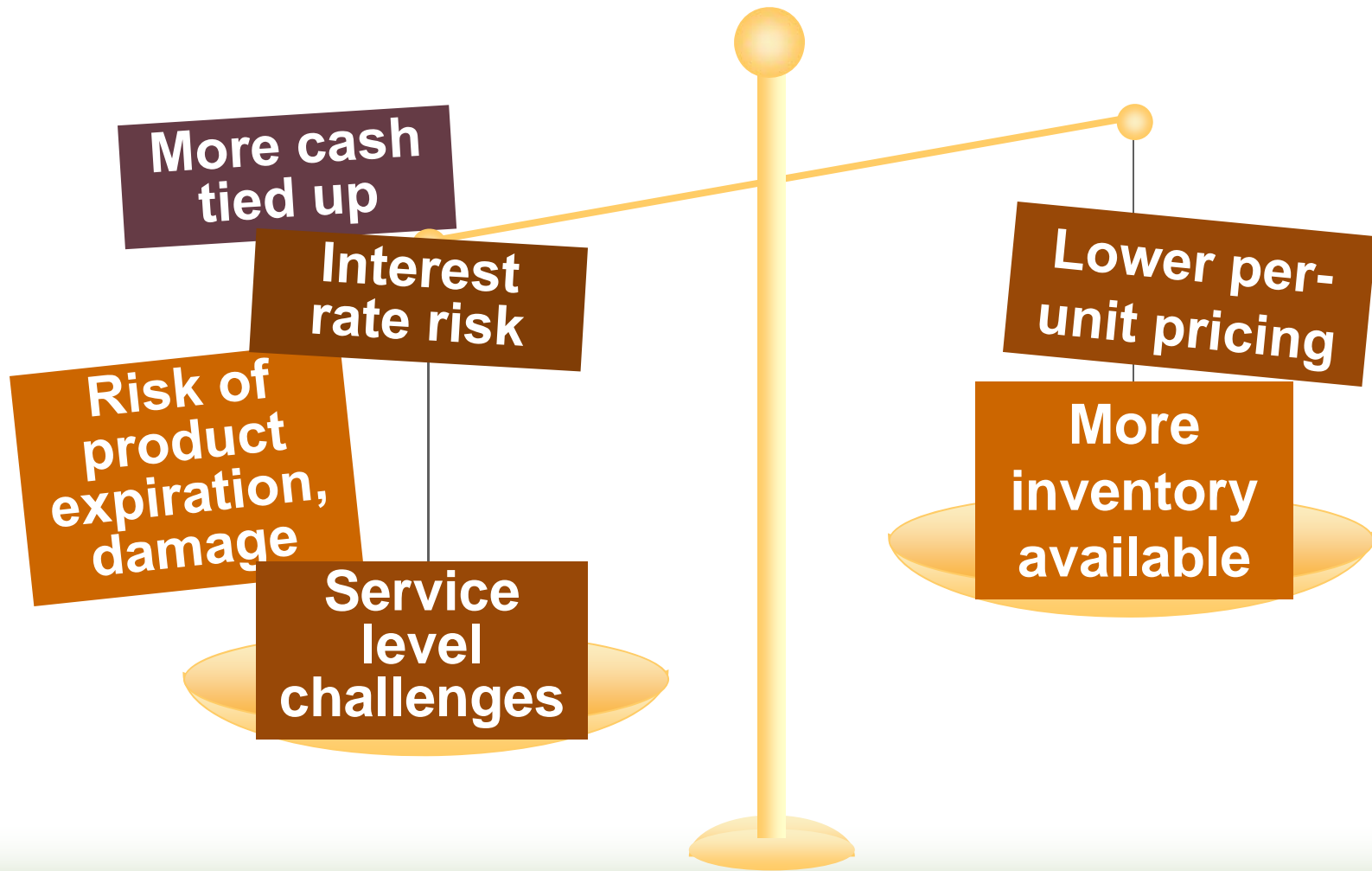
■ **Clinical risks**

- Could the program result in lower service levels to clinicians, impacting patient care?

Measure to see how the advantages...



...balance out with the risks.

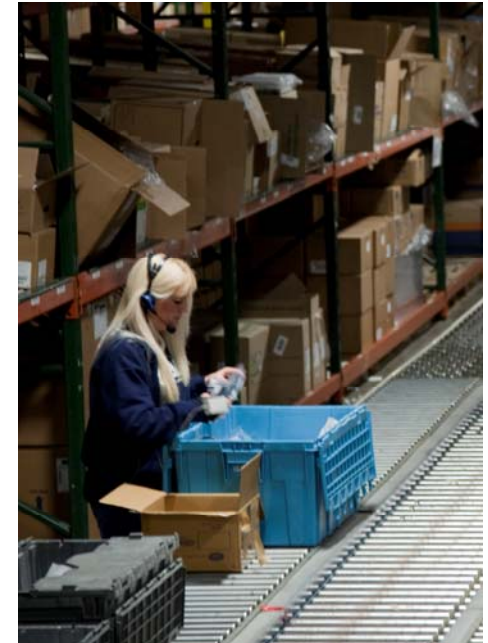


What's a good process for evaluating models?

- **Investigate viability of self-distribution in a broader context of reducing total supply chain costs**
- **Address gaps in current supply chain practices before considering self-distribution**
 - *Product standardization should be a prerequisite to self-distribution rather than an objective.*
- **Analyze both the price of medical products and internal costs to procure and manage products; be sure to account for all overhead and staff costs in analysis**
- **In analyzing models, distinguish between self-distribution and self-contracting**

Wait, aren't self-distribution and self-contracting the same thing?

- **Self-distribution involves logistics**
 - Warehouse required; high fixed costs
- **Self-contracting involves contract negotiation and management**
 - Lower fixed costs
- **Many healthcare organizations combine both in one do-it-yourself model**
 - However, the risks and return from each activity are different and should be evaluated separately



What alternative strategies might achieve the same goals?

Objective	Potential Strategies
Need for standardization and control	Customized ordering portals that allow staff to purchase formulary products only
Consolidation of other services (lab, linen, etc.)	Customized service arrangement with outsourced logistics provider or distributor
Disaster preparedness concerns	Strategic inventory of key products with additional back-up inventory held locally at distributor location
Need to service the system's non-acute providers	Negotiated prime vendor contract with a qualified distributor based on system-wide use of contract savings
Desire to capture distributor margins as savings	Compare potential ROI from self-distribution to potential ROI for self-contracting



HEALTH INDUSTRY DISTRIBUTORS ASSOCIATION

www.HIDA.org

A resource from the
Health Industry Distributors Association
310 Montgomery St.
Alexandria, Virginia 22314
(703) 549-4432

DISTRIBUTION
STREAMLINING HEALTHCARESM
www.streamlininghealthcare.org