



Joy Dicey-Phillips

\$2 Billion Hospital System Saves Millions, Enjoys Superior Staffing Using Distribution

Scripps Health, a community health system based in San Diego, expands distribution outsourcing model to reduce operating costs and improve service.

“Without our distributor our operating budget would increase by millions of dollars every year.”

Why distribution?

“To us, perhaps the major benefit of distribution is that our distributor manages a lot of the carrying costs so we don’t have to. We don’t need to have a stand-alone warehouse and manage all of the resources and all of the costs associated with an ongoing multi-million dollar inventory.

“I’m just thinking what we would need to do if we didn’t have a distributor. We’d have to go out and buy or lease a 30,000 square foot warehouse in a central location to our hospitals, if we could find one. The warehouse would have to have a clean room for the sterile products. And we’d have to take out the insurance to cover it. We’d need to get a specialized computer system to track all of the inventory. And since our facilities are so spread out around San Diego county we would need to purchase or lease at least three or four good size trucks to ensure prompt deliveries. We would have fuel costs, maintenance costs, liability, extra staff and HR issues, more insurance, the headaches of having people on the road, and so on.

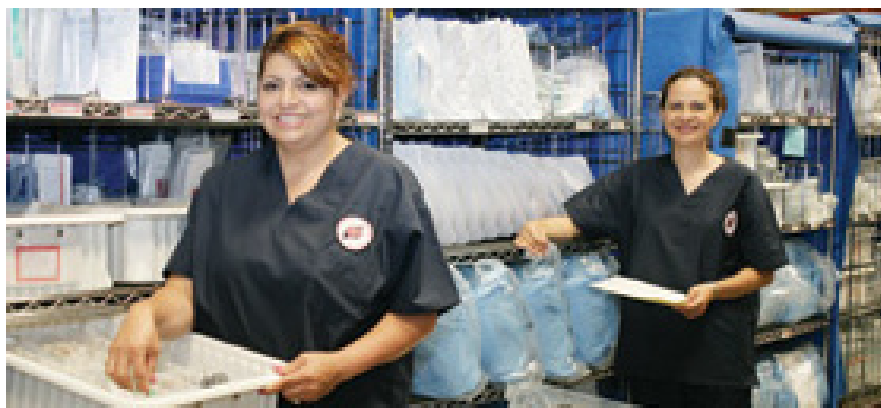
“We couldn’t get low unit of measure benefits. Supplies are a volume business, so you want to buy them by the truckload to get the big savings, but what do you do with them? Wouldn’t it be great if you could get someone to buy a truckload of something for you and hold it and issue it to you as you want it, with no holding costs to you? That someone is our distributor.

“Without our distributor our operating budget would increase by millions of dollars every year. What does it cost us to

get those savings? Our distributor takes all of that off our hands for a very fair annual administration fee. Distribution is a very, very competitive business with very thin margins. I find that I’m more worried that they’ll go out of business than that they’re making too much money off of us.”

Removing staffing headaches

“Over the years we’ve expanded our distribution outsourcing model to get even more benefits. For example, our distributor is now also handling the cart side of our operation. Their people stock the hundreds of carts that we have set up around each hospital. Staffing is always a problem in my business, most of all at the cart level. I recall at least a 30% turnover rate when



Scripps outsources many inventory management functions, including low unit of measure picking, to its distributor.

we used to handle it ourselves. These folks are often very young and they get a better job in the hospital or elsewhere and they're suddenly gone. And maybe they give two weeks notice and maybe they don't.

"But having the bodies was only part of the problem. Training was another. HR might be able to get a temp up to the floor to fill in, but nobody is born knowing medical supplies, so with each new person it could take weeks or months for them to start to pull their own weight. There might be hundreds of different supplies on that cart, different dressings, different IV catheters. They'd ask 'what's the difference between D5W and saline?' Nurses are busy and no matter how patient you are it's hard to keep answering questions when all you want is the right product, fast. I remember I once caught a new guy getting the carafes and the urinals mixed up as he was heading to, of all places, the maternity ward. Well, they both had a lid and a handle!

Distribution solution

"Now, with our distributor managing the cart program, all of those issues are a thing of the past. The people handling the carts are pros, they know their stuff and they do all the stocking, counting, reconciling and the converting to new products very reliably. What's more, the distributor people have a greater understanding of the whole operation and are always ready to help elsewhere in the hospital if they are needed. Once the carts are okay, they may be down with the receiving staff for a little while helping to break open the boxes and get supplies distributed to the floors.

That flexibility makes them even more valuable.

"And, if someone does quit, or if they're on vacation or sick, they're replaced without us even worrying about it, with someone else who is just as knowledgeable and able to hit the ground running. It's just an entirely different situation than before."

Part of our team

"The visibility of our distributor company is very high. Their people are here so much it probably seems that they're hospital people. We have a rep who has a desk and is here full time several days a week to make sure things are going smoothly. Other distributor people take part in our meetings and sit on our hospital committees like Value Analysis. And they're not just there to listen. They bring their expertise, tell us about opportunities for savings. We've probably saved two to three million dollars based on their ideas.

"Everyone from the distributor company is extremely customer focused, in a way that an insourced organization

just would not be. The distributor's people are always aware that they need to please us and keep our business, that a competitive distributor is always waiting in the wings. If we have an issue, the distributor management solves it right away. Their attitude is that the customer is always right, even if they're wrong. If you have an insourced organization and have people who are not performing, what can you do? They're colleagues, not suppliers, and reprimanding or firing people is always difficult. With an outsourced organization, everyone is motivated to keep us happy, and they try harder, every day."

They make my job easier

"What do I like best about distribution? They just make my job easier. I have confidence in the service they are providing me. They know what needs to be done and I don't have to worry about it. I have to give some oversight to it, but, overall I know that they'll get the job done."

Joy Dicey-Phillips has more than 30 years of experience as a supply chain professional, the last eight with Scripps Health.

ABOUT SCRIPPS HEALTH

- \$2 billion non-profit community health system including five hospitals, two clinics, 19 outpatient centers, a home health network and other services
- 2,500 affiliated physicians and 13,000 employees treat more than 500,000 patients annually
- Recently selected as one of America's top 10 health systems based on quality, safety, efficiency and patient satisfaction
- Annual med-surg budget exceeds \$400 million