HIDA Webinar Series

New Models for Stockless Purchasing
What We’ll Discuss

1. Why stockless
2. Stockless/LUM basics/overview
3. Examples of today’s models
4. Discussing stockless benefits with your customer
5. “What if there’s an emergency?”
Traditional Vs. Stockless

Traditional (bulk)
- Distributor Bulk Storage
- Storeroom
- Central Distribution
- Hosp. Dept.

Just-in-time
- Distributor Bulk Storage
- Storeroom
- Central Distribution
- Hosp. Dept.

(more frequent deliveries)

Stockless
- Distributor Storage
- "Central Distribution" to Totes/Kits
- Hosp. Dept.

(daily deliveries)
I’m a Non-Acute Rep: What’s the Big Deal?
Why Talk about Stockless?

- Established model; recent growth
- Good for providers and good for distribution
Great Solution for Many Customers

- Reduces cash tied up in inventory
- Frees up space for revenue-producing activities
- Allows materials staff to focus on higher-payoff activities other than inventory management
- Reduces activities; increases efficiency
Good For Your Business

- Deeper penetration into customer’s system
- Longer-term relationships
- Wider scope of products through your channel
- Positioning as a logistics partner not just a vendor
Traditional Vs. Stockless

Traditional (bulk)

Distributor
Bulk Storage → Storeroom → Central Distribution → Hosp. Dept.

Just-in-time

Distributor
Bulk Storage → Storeroom → Central Distribution → Hosp. Dept.

(more frequent deliveries)

Stockless

Distributor
Storage → “Central Distribution” to Totes/Kits → Hosp. Dept.

(daily deliveries)
Every Model Is Unique

• No single model or silver bullet
• Can be system-wide or used in specific departments such as:
  o Nursing units
  o OR, ED
  o Surgery, cath labs
  o ICU/CCU
Common Factor: **Intense Relationship Between Provider and Distributor**

- Distributor and healthcare provider operations closely aligned
- More complete “end-to-end” supply chain visibility
- Distributor often services 100+ more ship-to locations per hospital
- Stockless models often move more “direct” items to the distributor
What’s Your Definition?
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Example 1: Eliminating an Offsite Warehouse

- Customer had off-site warehouse serving 3 of its 11 hospitals; duplicative storeroom locations across all system hospitals
- Upgrade/expansion triggered a strategic value assessment of off-site warehouse
- Inconsistent PAR location designs created inefficiencies and reduced clinical staff productivity
- Storerooms were taking up space needed for patient care improvements and revenue optimization
The Solution

1) **Stockless/JIT/Logical Unit of Measure** – Replenishment directly from the distributor to the end user’s PAR locations

2) **Kanban Double Bin Method of Replenishment** – Visual replenishment method that requires no counting: PAR quantities are set up in two bins and when the front (primary) bin is empty, that is the reorder point.
The Outcome

- Increased materials clerk productivity through significantly reducing the number of replenishment touches
- Redeployment of clinical staff to more productive activities
- Improved use of hospital space
- Elimination of off-site warehouse and related inventory
Example 2: Resolving a Traffic Jam

- Hospital had restrictive loading dock space and delivery capabilities
- Storeroom located 3 floors underground led to double packing/unpacking events with every delivery
The Solution

- LUM with two deliveries per day, staged for delivery right to the floor
- No per-line changes encourages adding vendors
- Hospital now 65-70% stockless
- Fewer deliveries, more accurate budgeting, fewer billing discrepancies
Example #3: 
*Integrating Sites of Care*

- IDN in a major metropolitan area wanted to integrate its hospital, nursing home, and surgery center sites
- Acute (bulk) and non-acute (LUM) prime vendor distributors
- Wanted uniform metrics across sites of care
- Financial pressure to cut overhead or face layoffs
- Sought to drive standardization for care consistency and for economies of volume and inventory management
The Solution

- Conducted detailed needs assessment by department
- Moved to hybrid mode: 25% stockless, 75% traditional
- 4-7 day/week delivery in totes sorted departmentally
- Rigidly enforced formulary
- Inventory repurchase program participation
• More cash on hand due to reduction of inventory; storage space freed for revenue generation (e.g., MRI)
• Customer averaging 2,500 stockless lines per week; 2 fewer FTEs now needed
• Reduced “emergency” deliveries
• Clinicians devote more time to patient care
• Overall fill rate of 99.72%; conversion to hybrid model took fewer than 90 days
Example #4: Reducing Redundant Tasks

- Hospital had existing LUM model
- Inefficiencies in the stockless process led to wasted time and labor (17 FTEs needed for storeroom and distribution)
- Even with LUM in place, there was unnecessary handling and duplication packing and unpacking tasks
Before

• Totes delivered on pallets at 6:30am

• Internally moved from pallets to carts -- 2 person task, took 2+ hrs each morning
The Solution

• Distributor truck is loaded in sequence for hospital floor delivery
• Totes arrive on carts by unit and internal delivery route, pre-sorted for immediate delivery to floors
• Adopted “Disney” overnight replenishment model
After

- Delivery at 11:00 pm
- Totes on carts pre-sorted
- All departments delivered / put away by 4:00 am
- Offsite location orders picked/packed for cross docking
The Outcome

- Storeroom and distribution staff reduced
- Two hours of unpacking/picking eliminated
- Clinicians arrive for morning shifts with ready-to-go inventory; more time dedicated to serving patients
- Materials staff expanded scope of service to departments that had traditionally managed their own inventory: cath lab, radiology, internal clinics, etc.
So What’s Different About Today’s Models?

- **Flexibility**: combine with bulk wherever stockless doesn’t make sense
  - Look for “best unit of measure” -- don’t spend $12/hour delivering 65¢ worth of supplies
- **Technology advances**: enhance stockless success
- **Cost structures**: many variations
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Stockless Benefits: Financial

- Reduction/redeployment of FTEs
  - Less clinical staff time related to ordering/handling products
  - Less materials management staff time
- Redundant inventory eliminated
  - Warehouse inventory, storeroom inventory, unofficial inventory
- Reduced non-clinical storage space leads to increased clinical, revenue-producing space
- Reduced “tipping cost” for corrugated waste
- Capital freed up for other priorities
Stockless Benefits: Clinical Time

• High in-stock levels improves confidence, ease of finding products; reduces hoarding
• Eliminates unit clerk/nurse ordering of supplies except for emergency situations
• More time dedicated to serving patients
Stockless Benefits: Other Factors

- **Green**: reduced packing material, corrugated, shrink wrap
- **Outcomes**: reducing corrugated may reduce infection risk
- **Cleaner data**: tied to more automation, less cost-plus pricing, and fewer vendors
- **Standardization**: requires push toward uniform formulary
Why Wouldn’t a Customer Want the Distributor to Hold the Inventory?

- Distributor core business is logistics; provider core business is patient care
- Distributor cost per square foot generally lower
- Distributor labor costs generally lower

Across industries, the goal of top performing supply chains is to own as little inventory as possible while maintaining optimum service levels.
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Example #5:  
Ready for Nebraska Blizzards

- Hospital wanted to reduce expensive hospital space used for inventory…
- …but worried about stock outages in the event of snowstorms, tornadoes or other emergencies
Response: Disaster Planning and Backups

Distributor maintains *non-allocated* 3-week inventory for all customers plus *allocated* 5-day reserve for each stockless customer.

**Other Contingencies**
- Cell and satellite phones
- Remote location that can handle emergency fax orders
- Laptop backup for electronic orders on both distributor and provider end
- Weather alerts
- Automatic item substitution list for critical items
- Automatic reorders in event of communications failures
Example #6: 36” of Snow, 0 Stockouts

Scenario
- Winter Storm Nemo is projected to blanket parts of New England with up to 3 feet of snow, power loss

Solution
- Weather alerts warn of likely road closures, power loss
- Stockless distributor contacts provider, determines appropriate order
- Early delivery preempts transportation capability loss
Put It In Writing

- Automatic substitution lists or approved alternative products for critical item shortages
- Predetermined alternate delivery routes
- Contractual arrangements guaranteeing inventory reserves
- Availability of generators/reserve power
- Primary point person for automatic disaster order

“Stockless customers actually have more inventory in the pipeline than if they had their own warehouses.”
– Dave Myers, Executive Vice President, Seneca
Start the Conversation

• “Could we have a conversation about ways to free up some of your staff time for high-value activities like PPI management?”
• “Have you ever thought about moving this storeroom offsite and reclaiming the space for patient care?”
• “Have you ever taken a look at the benefits of going to a stockless or LUM model?”
Positioning Non-Acute Services

- Single solution for all your locations
- Orders delivered on a just-in-time basis to all your locations
- Full visibility to usage across the system
- Minimal storage required at each location
- No capital investment required
- Ability to customize the formulary and enforce standardization
Let Me Know What You Think

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