Enhancing the patient experience

Suppliers work with providers to deliver superior patient care

SLIMMING YOUR SUPPLY CHAIN

2014 EXPECTATIONS FOR DISTRIBUTION

DEMAND TRENDS CHANGE, DISTRIBUTORS RESPOND
Ready or not, the Affordable Care Act kicks into full gear this year. And with its implementation come several changes affecting our healthcare system and the way providers, manufacturers, and distributors conduct business.

Healthcare policy can result in both positive and unintended supply chain effects. However, if we remain active in industry efforts to educate key government representatives on the issues that matter most to us and our constituents, we will be well-equipped to respond to and help shape these changes.

In 2013, HIDA’s advocacy engagement helped cap off years of hard work to get ‘The Drug Quality and Security Act signed into law, creating a uniform, national pedigree solution that allows manufacturers and distributors to conduct business more effectively and efficiently across all 50 states. This piece of legislation was equally important for preserving patient safety and supply chain integrity.

In 2014, our industry needs to double down on advocacy as an expected influx of new health insurance enrollees and reimbursement reforms, as well as expanding consumer demand, reshape the way that healthcare is delivered. HIDA is doing its part by coordinating advocacy collaboration across industry constituents and fly-in efforts for members to meet with key Congressional representatives throughout the year.

Demands for greater healthcare price transparency and accountability continue to mount, presenting multiple opportunities to participate in advocacy efforts in 2014 and beyond. I encourage you to be engaged and take advantage of the opportunities for advocacy in support of the supply chain, healthcare providers, and the patients we serve.

The question is: how will you be making your voice heard?

Advocacy in action: make your voice heard in 2014

Dave Myers
Executive Vice President
Seneca Medical, Inc.
2014 HIDA Board Chairman
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**Technology update**

- Doctors who regularly view lab test cost data in electronic health records (EHRs) save more than $100 per 1,000 patient visits each month (Journal of General Internal Medicine, 2013).

- Patients using remote monitoring technology lower heart failure-related 30-day re-admissions by 50% and non-heart failure-related readmissions by 44% (Center for Connected Health, 2013).

**Demand trends**

**Top three primary reasons Americans visit retail clinics:**
- Diagnose new illness/symptom—69.1%
- Receive a vaccination—25.8%
- Prescription renewal—21%

(Center for Studying Health System Change, 2013)

**Supply chain**

Distributors make up three of the top five organizations transforming the healthcare value chain (Gartner, Inc., 2013).

Doctors incorrectly estimated the cost of common medical devices such as artificial hips or spinal screws when asked to do so 81% of the time (Health Affairs, 2014).

**Health reform**

Hospitals received more penalties than bonuses in the second year of Medicare’s Quality Incentive Program at an average reduced Medicare payment rate of 0.26% (CMS, 2013).

Two out of three U.S. hospitals have lost money from combined effects of CMS’s Medicare Quality Incentive Program and Hospital Readmissions Reduction Program (CMS, 2013).

More than a quarter (28%) of uninsured Americans would rather pay a fine than sign up for healthcare coverage (Gallup, 2013).
Open collaboration drives confident leadership

**Leave your door open.** I’ve always promoted an open door policy because that’s how the best ideas find me. If my door is closed, I’m preventing an opportunity to collaborate face-to-face with my colleagues, possibly causing them reluctance to innovate. Nothing comes close to “seeing the eyebrows in the room,” as facial reactions help communicate whether we’re on to good ideas.

**Seeking help is one form of flattery.** I’m currently evaluating the different levels of our distribution channels to determine whether we should move to an integrated solutions center. I’m told it’s easy to do and I should jump right in, but I’ve made enough mistakes in my career to have the humility to seek guidance from others who have done this successfully before me. I’m always flattered when I receive these calls, so why wouldn’t I do the same in return?

**There’s a fine line between staying connected and being pushy.** My ideal supply chain partner is solutions-driven, asking me what needs I’m trying to fill. I’m not a fan of pushy sales reps, but I appreciate suppliers who use data to stay connected. Maintaining sophisticated information systems and open lines of communication allows my partners to stay in touch while offering suggestions that cater specifically to Inova Health’s needs.

**A winning team is complementary.** When you’re busy, it’s easy to miss an important detail. Teaming up with strong, consultative partners allows my team to catch the micro by leveraging the analytical skills and subject matter expertise of others. I may know the fundamentals of total joint negotiations, for example, but may not be as well versed as someone who does this every day for a living.

**Let your whole body know what the right hand is doing.** I always maintain an updated plan of succession and ask senior leaders to contribute to the ink of that plan. By keeping these folks so ingrained in the process, each can implement necessary action items if something were to happen. Keep your colleagues engaged and involved with your vision to ensure it gets executed with confidence.

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**“My ideal supply chain partner is solutions-driven and uses data to stay in touch while offering suggestions that cater specifically to Inova Health’s needs.”**

**Nurture your roots.** As you advance professionally, you sometimes lose touch of skills or abilities needed to pull together certain information. At some point, you may need that information at arm’s reach, yet find it difficult to communicate or interpret what you seek to others. I’m currently taking an advanced Excel course to keep these skills fresh in my mind and it’s the best decision I’ve made in some time.
Congress passes SGR “patch,” proposes deal

As part of a bipartisan, bicameral budget agreement, Congress passed a 90-day “patch” bill in December 2013 to delay a 16.7% reduction to the physician sustainable growth rate (SGR) payment formula and an overall 20.1% reduction in Medicare reimbursement payments for physicians.

The Senate Finance, House Ways & Means, and House Energy & Commerce Committees recently proposed a bipartisan, bicameral policy deal to repeal and replace the SGR formula at a cost of $128 billion. The new formula updates physician Medicare reimbursement payments by 0.5% over the next five years, incentivizes the patient-centered medical home, and rewards value and quality care. Congress has until March 31 to pass the compromise and agree to an offset. If an offset isn’t agreed upon, then another “patch” is likely through the end of 2014.

“Pedigree” legislation becomes reality

President Obama has signed the Drug Quality and Security Act (H.R. 3204) into law, creating a national prescription drug pedigree monitoring system. The uniform pedigree solution allows distributors and manufacturers to conduct business the same way in all 50 states, a significant enhancement to preserve patient safety and supply chain integrity.

The FDA is now tasked with the responsibility of implementing and enforcing H.R. 3204 over the next several years. Phase 1 of the law begins January 1, 2015, and requires manufacturers, wholesalers, and repackagers to comply with applicable traceability requirements and engage with only “authorized trading partners.”

States expand Medicaid, long-term care services

Effective January 1, 2014, state Medicaid programs expanded in 25 states (and the District of Columbia) that chose to extend coverage to individuals with incomes up to 138% of the federal poverty line. To keep up with this pace, federal Medicaid expenditures are expected to grow by an average annual rate of 8%, with acute care growing slightly faster than long-term care.

The number of states offering Medicaid long-term services and supports (LTSS) programs is set to increase to 26 in 2014. These states are also expected to continue the trend of transitioning their Medicaid LTSS systems from fee-for-service to managed-care models throughout the year.
Catholic Health Initiatives goes lean on inventory to maximize resources

The challenge: In early 2013, Catholic Health Initiatives (CHI) held initial discussions with its prime vendor, Owens & Minor (O&M), to determine best practices for reducing waste and improving operations efficiency in its inventory system.

The process:
By applying “lean” supply chain management principals, the partners underwent a three-step process to determine the viability of moving from a dock/bulk delivery system to a low-unit-of-measure (LUM)/just-in-time (JIT) model:

1.) Pro Forma Assessment and Proof of Concept. O&M reviewed CHI’s inventory practices across four facilities in one region. Order numbers and SKU arrangements helped determine the number of inventory touch points, and existing shelving structures were scrutinized to determine optimal use of space. Results were presented to CHI executives, and both partners agreed to run a pilot program at one of CHI’s hospitals.

2.) Commodity Surveillance. Confidence in preliminary results encouraged O&M and CHI to deploy teams to approximately 30 hospitals over a four-week period, measuring commodity goods movement around and within CHI’s healthcare facilities. Inventory volumes were tracked from top-to-bottom: external warehouses, loading docks, internal storerooms, hospital carts, etc.

3.) Results Analysis. O&M used surveillance and assessment data to refine its business case for implementing phased deployment of its branded LUM/JIT model across CHI’s facilities. Currently, both parties continue to refine analyses and discuss longer term plans, with an optimistic view to a larger, enterprise-wide launch in 2014.

Future plans:
Final figures from the pilot are still being calculated, but both CHI and O&M have agreed to expand the program to a second hospital based on initial success:

• CHI’s demand and predictability curves have smoothed out due to mutually close collaboration, ultimately increasing service levels.

• The partners are laying a foundation for more optimized processes, ensuring the most appropriate, leanest touch points get used with high degrees of accuracy and consistency.

Both organizations quickly learned that certain tenets of LUM aren’t all-encompassing. “If you only need 10 combs per day, we can deliver 12 today and eight tomorrow, but it actually makes more sense to receive a weekly delivery of 50 since it’s such a small, low-cost item,” says Joseph Sheil, Senior Client Project Manager at Owens & Minor. “True savings are achieved with higher-priced, more burdensome items that carry greater lead times. We can spread out deliveries and leverage inventories among multiple customer sites, creating resource efficiencies.”
There’s a growing push among supply chain partners to support and improve a patient’s overall healthcare experience. Hospital reimbursements are more dependent than ever on care quality, and suppliers are embracing the patient experience movement to deliver high-value products and services more effectively.
The Affordable Care Act (ACA) and its related programs are the catalyst behind the patient experience movement. “The ACA’s Hospital Value-Based Purchasing (HVBP) Program is designed to promote better clinical outcomes as well as improve a patient’s experience of care during hospital stays,” says Florence Doyle, Vice President, Strategic Sourcing, CHE Trinity Health.

The HVBP program uses healthcare performance metrics to determine hospital Medicare reimbursement rates. One metric, the Patient Experience of Care score, relies on patient surveys to measure overall perceptions of hospital experiences.

Results are determined by factors such as hospital food preparation, environmental services, and even staff with whom patients interact. Manufacturers and distributors are taking note of these metrics, reorienting their service offerings to address quality improvement.

“It is the responsibility of supply chain professionals to ensure they understand the new patient experience landscape and that provider expectations are clearly articulated in vendor contracts,” says Doyle.

Suppliers look to respond
Suppliers are seizing opportunities to embrace patient experience. Welch Allyn is one such champion of the movement, focusing on the ways its products and services are a part of that experience.

“We follow the formula that value is a function of both quality and cost. Each carries a number of important aspects for one to gain a full understanding of what generates real improvement in healthcare settings,” explains Steve Meyer, President and CEO, Welch Allyn. “Given the pressures facing healthcare today, providers are increasingly making trade-offs around the ‘value propositions’ we offer; our sensitivity to it has increased dramatically over the past few years.”

Meyer offers three important areas suppliers should consider while shaping their patient experience strategy:

1. **Products and services.** Think about what you are currently offering. Understand the features providers really value for the given cost and how this maps to their P&L. Ask whether these products can improve care and outcomes—and if there’s proof to back it up—and ask if patients will be and feel better as a result of their interactions with your products and services.

2. **Sales reps.** Sales reps can be valuable problem solvers for providers. In a crazy, mixed-up healthcare environment, many are looking for real solutions to help navigate changes. Suppliers may not always have the perfect solution, but they can still be a resource. When helping, it’s important to remember who the real customer is: the patient. If more effective, lower-cost care can be delivered, everyone wins.

3. **Distribution networks.** Meyer suggests using lean processes to streamline distribution networks and promote value. Hospitals and physician offices have crucial needs for supplies to be delivered in low-cost, timely, and efficient manners. This affects patients, who have greater say since they are being asked about healthcare environment experiences. Every supplier can make an impact, since the ability to reduce the burden of work frees more time to focus on patients. This positions healthcare systems to deliver higher value, which is good for everyone.

“Our entire industry needs to understand how much more integrated the supply chain will have to be to support patients,” Meyer says. “We need to challenge each other to focus on how we can deliver services more effectively, allowing patients to get healthier and stay healthier.”
Diagnostics providers seek to do more with leaner lab budgets

Lab diagnostics providers face a tough task: improving patient outcomes while cutting costs.

Their challenge is familiar: providers of all types are facing similar, seemingly contradictory objectives. But laboratory managers say their situation is especially perplexing: lab tests influence an estimated 70% or more of medical treatment decisions, yet account for only a small fraction of total costs.

“We’re actively engaging our physicians to make sure that the test they order will give them exactly what they want.”

—Julie Halic, Chief Operating Officer, PeaceHealth Laboratories
Laboratory professionals are responding to these pressures with new efforts to wring more value from every diagnostics dollar.

**Getting physicians on board**

Educating the physicians who order lab tests is critical to maximizing the lab investment, according to Julie Halic, Chief Operating Officer, PeaceHealth Laboratories.

“We're actively engaging our physicians to make sure that the test they order will give them exactly what they want,” says Halic. “Sometimes they're ordering an older test, when a newer one is more useful, for example.”

To enlist physicians in her efforts to cut costs, Halic shares information on the costs and utilization levels of diagnostic tests. “We're able to provide a dashboard along with our tests that include utilization, test information, cost of test, trend data, and so on. We want to make this a sustainable process for our future, and the future is all about information.”

**Targeting chronic illness**

Lab managers are also working to leverage the value of diagnostic tests in preventing and controlling costly chronic conditions. “Chronic diseases are painfully underdiagnosed and undertreated,” explains healthcare policy expert Gunter Wessels of Total Innovation Group, Inc. (TIGI). “Approximately 50% of diabetic patients actually receive hemoglobin A1c tests, which means only half of those with diabetes are controlling their blood sugar.”

**Reaching out to the community**

Labs are also reaching out to expand their reach through community wellness programs.

“We conducted a study where participants received baseline lipid panels and A1c tests. We then provided a test group with electronic monitors and pedometers that helped track their health and activity levels online,” explains Halic. “Unsurprisingly, the test group performed better on improving health metrics compared to the control group who received no such assistance.”

PeaceHealth is now partnering with universities to model its Community Health Study, which incorporates social media and online technology. The programs help at-risk patients maintain regular exercise programs and wellness levels, and allow PeaceHealth to maintain a visible presence in the community.

“Approximately 50% of diabetic patients actually receive hemoglobin A1c tests, which means only half of those with diabetes are controlling their blood sugar.”

—Gunter Wessels, Healthcare Policy Expert, TIGI

Although cost constraints often cause providers to re-evaluate their operating models, targeted community outreach, preventative medicine, and data efforts can help to alleviate or eliminate this pressure altogether.
The Health Industry Distributors Association’s (HIDA) annual Executive Conference attracts hundreds of distributors, manufacturers, and provider executives to discuss upcoming changes affecting healthcare relationships. This year, HIDA invited leading IDN supply chain leaders and supplier executives to share the ways in which their organizations are adapting to the demands of health reform and accompanying changes.

In advance of the conference, *Streamlining Healthcare* caught up with some participants to determine what supply chain partners can expect for 2014 and beyond.

**WHAT’S THE NUMBER ONE SUPPLY CHAIN GOAL YOU’D LIKE TO ACCOMPLISH IN 2014?**

“We’ve had a 5-10% drop in discharges across our system, yet we’re not seeing a corresponding drop in supply spend. We need to get much better at adjusting for volume. Supply Chain Management has set out to increase collaboration with our vendor community and deepen ties with our clinicians, multiplying our effectiveness to accomplish more with less.”

—Ed Hardin, Vice President, Supply Chain Management, CHRISTUS Health

“One of our key strategies as an organization is cost leadership, and Presbyterian Supply Chain leads this effort. While I have many supply chain goals to achieve in 2014, attaining our savings goal of $10 million from our bottom line would have to be first and foremost. It is essential that success starts with us so that we can set the example for our organization to continue to thrive.”

—Matthew Pehrson, Vice President, Supply Chain and Resource Management, Presbyterian Healthcare Services

“I’d like to find a new way to partner with physician/surgeon staff to share in savings that reduce costs for our health system. We’ve successfully reduced PPI costs through traditional ways—building constructs in orthopedics, leveling pricing in cardiology by item, or using review methodologies when dealing with new products—but we have to look at things differently and ask the tough questions. For example: how do we really get physician/surgeon buy-in for cost reduction? Can we not only reduce manufacturers, but also standardize practices? Or, how can we create new models (possibly rep-less) to effect greater savings and efficiencies? In all these new discussions, we need to find a way to reward physicians/surgeons for their work.”

—John Gaida, Senior Vice President, Supply Chain Management, Texas Health
2 ARE THERE ANY LONGSTANDING PROCESSES OR ASSUMPTIONS THAT YOU ARE FORGOING IN ORDER TO ADAPT TO THE CHANGING HEALTHCARE LANDSCAPE?

“We’re beginning to change the way we engage clinicians with regard to cost reduction and standardization. Previously, we held face-to-face meetings with management teams, determined what was best for all, and implemented our decisions. Now, we use technology to assess the needs of frontline clinical staff; one 24-hour day assessment allows us to consider hundreds of perspectives rather than just a few. This is still evolving but it’s becoming increasingly important to engage a large number of clinical staff in these decisions in a much more timely fashion.”

—John Gaida

“We’re limiting our capital spend, but otherwise our expanded scope has provided great cover to do some of the big things and investments that in years past we couldn’t make.”

—Ed Hardin

“Truly nothing is off the table if it has the potential to improve quality, outcomes, or reduce operating expense. The only thing not up for negotiation is our core belief, ‘The needs of the patient come first.’ Once you factor that into SCM discussions, we are able to reconsider every aspect of the supply chain through a new and different prism.”

—Bruce Mairose, Vice Chair of Supply Chain Management (SCM), Mayo Clinic

3 IN WHAT AREAS ARE YOU CURRENTLY ENHANCING YOUR SUPPLY CHAIN TO CAPITALIZE UPON RECENT HEALTHCARE OR HEALTH REFORM DEVELOPMENTS?

“We’re targeting our supplier interactions in an effort to change the dynamics of the buy/sell relationship to form better partnerships that optimize our efficiencies. We’re also seeking greater integration into and support of the clinical practice with an emphasis on data and analytics that drive improved outcomes.”

—Bruce Mairose

“We’ve focused our efforts on building a diligent value analysis process engaging physicians and clinicians to assist in supply reduction and utilization management, most successfully in areas of PPI management and blood utilization management.

We’ve also implemented an electronic system to help manage our inventories more effectively and have focused on point-of-use supply chain management systems using the Lean Six Sigma approach for managing supplies in our OR settings and nursing areas.”

—Matthew Pehrson
Industry consolidation increases, private practice remains strong

Hospital mergers, acquisitions on the rise
Recent data show that hospital merger and acquisition activity has increased significantly since 2009, reaching its highest point in the last 10 years in 2012.


Private practice medicine remains strong
Although consolidation between physicians and hospitals is increasing, a recent American Medical Association study suggests that private practice medicine remains strong despite an increase in hospital employment.

Hospital cost growth to outpace physicians by 1% annually
Revised national health expenditure projections show that average hospital cost growth will outpace physicians by nearly 1.0% per year through 2018.

Physician distribution, by practice ownership


National health expenditures, in billions of dollars

Source: Centers for Medicare & Medicaid Services, 2014.
March/April 2014   |   Streamlining Healthcare

Streamlining Healthcare: What healthcare trend is most affecting your business strategy for 2014?

Zacur: Changes in healthcare utilization are dramatic. It’s not just the flattening of demand that resulted from the recession. We’re entering an unprecedented era of healthcare seasonality that reaches beyond flu and is tied more to reimbursement. People are holding off on using health insurance until they hit their deductibles.

Customers are more focused on cost reduction than ever before. And that’s a fit with our business because the increased efficacy of diagnostics ensures that patients receive better treatment. In addition, breakthroughs in technology enable more accurate results in less time, improving lab efficiencies and reducing cost over time.

Streamlining Healthcare: What other opportunities or disruptors have you identified for the coming years?

Zacur: Three important areas come to mind as a result of customer feedback we receive:

1. E-commerce: Seamless e-commerce supply chain solutions are crucial for conducting business easily and avoiding contract kick-outs.
2. Technology: Assessing and adopting new technologies in inventory management and logistics is crucial for maintaining a competitive advantage. Diagnostics sales trends can change in a heartbeat with the development of a new test, and staying on the leading edge of these developments ensures that our customers benefit from their relationship with us.

3. Customer education: This is a key component of our customer value proposition. Our value is our scale and depth of capabilities. Developing and maintaining a salesforce that is customer-focused, has great listening skills, and is able to quickly solve problems is a competitive advantage in this industry. The more that customers share with us about the challenges they face—clinical, operational, or financial—leads to the development of better treatment plans, and ultimately improves patient outcomes.

Streamlining Healthcare: How are distributors like Fisher Healthcare responding?

Zacur: There’s no doubt that the healthcare environment is rapidly changing, yet large and small distributors have proven equally agile in responding to evolving customer needs. We aren’t just box movers—we work with each of our customers to create customized solutions that address shifts in utilization, reimbursement tightening, and the demand for better outcomes.

“We work with each provider to create the customized solutions they need as utilization shifts, as reimbursement tightens, and as demand for better outcomes grows.”

Demand trends change, distributors respond

Mark Zacur, Vice President, Marketing & Business Development, Fisher Healthcare
Post-Acute, Long-Term Care, and Home Care Opportunities

Join provider, distributor, and manufacturer leaders in Chicago to discuss trends impacting nursing homes, assisted living, hospices, home care, and more.

You’ll gain key insights into your customers’ current and future challenges, and ideas for reaching and serving this changing market.

Featured Speakers

Beth Williams, Life Care Centers of America
Terry O’Malley, M.D., Partners HealthCare
Theresa Bush, Southern Care Hospice
Fred Browne, McKesson Medical-Surgical
Bill Abrams, Medline
Dennis Clock, Clock Medical Supply
Fran Kirley, Nexion Health

Program Highlights

The Future for Post-Acute Care: How will these markets evolve as new healthcare policies push more care out of the hospital?

New Drivers and New Decision-Makers: Who will make the purchasing decisions, and how will their decision-making criteria evolve amid reimbursement changes?

Manufacturer-Distributor Relationships: How do supply chain partners work together to drive sales in a consolidating market?

New Opportunities: Where will the most promising opportunities lie as care settings shift?

For more information visit www.HIDA.org. Registration opens February 2014.