Distributors work behind the scenes to ensure pricing accuracy.

The price is right.

SUPPLIERS MAXIMIZE DISTRIBUTOR PARTNERSHIPS

PROVIDER BUSINESS BECOMES MORE PATIENT-FOCUSED

ARE YOU READY FOR GS1 STANDARDS?
Transformation: distributors tied to healthcare success more than ever

Healthcare providers are going through transformations to improve their supply chains while doing considerably more with less. Distributors must transform as well, and HIDA’s upcoming Streamlining Healthcare Conference offers solutions to do that.

Mark your calendars for September 30 – October 2, Chicago, when distributors, manufacturers, and providers from across the country will share innovative ways to deliver transformative care. For the first time ever, provider experts will facilitate programming to offer creative strategies that address patient needs and reduce costs.

This Streamlining Healthcare issue features Dr. James Merlino of The Cleveland Clinic, who will lead our Patient Experience Summit by outlining ways providers are making care safer, more effective, and more patient-friendly. Our brand-new Value Analysis Summit features leading infection control expert Hudson Garrett, PhD, of PDI, who will explain unique value analysis methods that correlate infection prevention choices to patient outcomes.

More than ever, distributors are recognizing how vital they are to their customers’ success. I invite you to attend our show and take advantage of the many opportunities to transform with your peers.

Matthew J. Rowan
President & CEO
Health Industry Distributors Association
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The cost of care

Annual hospital safety report card grades:

- ‘A’ – 31.9% (of hospitals)
- ‘B’ – 26.5%
- ‘C’ – 34.8%
- ‘D’ – 5.9%
- ‘F’ – 0.9%

The Leapfrog Group, 2014

Physician-office visits increased by 2.7% in 2013, the first such increase in four years. IMS Institute for Healthcare Informatics, 2014

Health reform

Insurance expansion under the Affordable Care Act will cost $1.383 trillion over the next decade. CBO, 2014

More than nine out of 10 federally qualified health centers reported having electronic health records systems in 2013, up from 30% in 2009. The Commonwealth Fund, 2014

Roughly 5.4 million Americans previously lacking health insurance have received coverage since state and federal exchanges opened. The Urban Institute, 2014

Approximately four million people of the nation’s 30 million uninsured will have to pay penalties in 2016 for lacking health coverage. CBO, 2014

Demand trends

Routine vaccinations of children born between 1994 and 2013 will prevent 322 million illnesses, 21 million hospitalizations, and 732,000 deaths. CDC, 2014

Approximately 86% of ER doctors expect visits to rise over the next three years. American College of Emergency Physicians, 2014

Approximately 400,000 preventable patient deaths occur each year, more than four times the rate in 1999. Journal of Patient Safety, 2014
Find your strategic vision and own it

It’s easier to lead from the front. When our Chief Experience Officer position was created, I had no playbook to guide me except knowing that I needed to make patient-centered relationships a priority. Being on the front lines of patient care helped me understand customer pain points and set my strategic priorities. Lead with the mindset of ‘How does this impact our patients?’—or customers, for that matter—and success will follow.

You can’t execute without vision. All businesses must understand their mission before putting action plans into place. Ours is putting the patient first, so we’re constantly asking ourselves, ‘What are we doing to address the three P’s—Process, People, and Patients?’ When everyone has a clear understanding of why they come to work every day, it becomes much easier to execute upon and accomplish your objectives.

It’s okay to walk away from good ideas. New endeavors, such as developing a Patient Experience strategy, can sometimes require experimenting with pilot programs to address underperforming areas. People can get emotionally attached to good ideas, however, that can end up taking you in the wrong direction. There is nothing wrong with shifting gears and undoing what you’ve started if necessary. The key is staying focused on what you’re ultimately trying to achieve before pushing forward.

Reputations come from unlikely places. A company’s brand should project a positive image that extends beyond the front doors of its buildings. For example, our parking garage associates may not be direct Cleveland Clinic employees, but our patients don’t always realize that. This is important since any interaction—no matter how big or small—can factor into a patient’s overall care experience and level of satisfaction, which will ultimately reflect back upon us.

Distance is relative. Customer inclusiveness is vital to our Patient Experience strategy, and we constantly look for new ways to bring more patients into the fold. There are plenty of opportunities to grow distance health services beyond building more physical locations, such as through social media or with health service kiosks that connect remotely to physicians. Healthcare’s future will reward those who can engage a wide variety of patient populations in as many ways as possible.

Your partners should reflect your purpose. If you can help me achieve my goals, then I will want to do business with you. An ideal supply chain partner is one that understands our vision—that all good ideas must be patient-centered—and that we own this philosophy. The best suppliers frequently ask themselves, ‘How can we make our people look and act more like our customers?’ and can identify those characteristics from top to bottom.

“Lead with the mindset of ‘How does this impact our patients?’ and success will follow.”

Dr. James Merlino, author of the new book Service Fanatics: How to Build Superior Patient Experience The Cleveland Clinic Way, is facilitating the Patient Experience Summit at HIDA’s 2014 Streamlining Healthcare Conference, September 30-October 2, Chicago, to explain how providers are making healthcare safer, more effective, and patient-friendly.
Congress lends support to competitive bidding review

Members of both the House and Senate have been vocal recently with concerns regarding the Centers for Medicare & Medicaid Services’ (CMS’s) plan to further expand Medicare’s Competitive Bidding Program for Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS). In July, CMS announced it will recompete supplier contracts awarded under Round 2 of the program, with bidding commencing this winter and new contracts beginning July 1, 2016.

While the Office of Inspector General (OIG) is currently conducting a number of studies looking into aspects of the program’s second round, a more comprehensive analysis is needed to ensure the program is not unduly impacting senior health. Earlier this spring, 39 Senators signed on to a bipartisan letter urging CMS to delay further expansion of the program until the OIG finishes its current examination. Specifically, the letter urges CMS to allow the OIG to complete its current investigation on competitive bidding licensure problems and verification of Round Two single payment amounts.

Members of the House have also written their own bipartisan letter, gathering 138 signers to stress the importance and need for a thorough OIG review. The letter includes a list of items needing analysis, such as how CMS enforces supplier responsibilities and the impact on beneficiary health. The letter also includes language that directs the OIG to assess any changes in products and treatment patterns of enteral nutrition patients residing in skilled nursing facilities, nursing facilities, and intermediate care facilities.

Both the House and Senate have asked CMS to give ample time to review the OIG results before implementing Round 2 of Competitive Bidding nationwide in 2016. Expect investigation results to be released in the coming months.

Proposed Sunshine Act changes questioned by industry

CMS has released four new proposals amending portions of its Physician Payments Sunshine Act, the law that seeks to improve transparency regarding financial relationships between providers and healthcare suppliers. Two proposals in particular could potentially increase compliance and operational costs for companies that manufacture, market, or distribute medical devices and supplies.

The first would require companies to include the marketed name for a drug, device, biologic, or medical supply associated with a provider payment, instead of having the option to provide the marketed name, therapeutic area, or product category. CMS is also proposing that companies report stock, stock options, or any other ownership interest that provides value to physicians in distinct categories, rather than lumping them together as one reported item, which is currently required.

While these changes further CMS’s attempt to create more transparency around physician-manufacturer relationships, some device makers consider them unnecessary.

The proposals are open for comment through early September, and final rules would take effect January 1, 2015, if implemented.
Joe Dudas is a man on a mission. For several years, Mayo Clinic’s Vice Chair of Category Management—along with Cardinal Health—has been a strong proponent of the GS1 system’s standards adoption within the healthcare industry.

But healthcare is unique, with fragmented markets and a lack of infrastructure to integrate the multiple clinical data and inventory management systems currently in use. “There is so much information out there that physicians want, with real potential to be game-changing,” says Dudas. “But right now, it’s not accessible or understandable for a variety of reasons.”

Mayo Clinic was already automating much of its supply chain prior to its GS1 collaboration with Cardinal. Since implementing GLN standards, however, its realized benefits have multiplied. “Our pricing accuracy is currently very high,” Dudas notes. “We’ve eliminated location identification errors, minimized potential losses of discount eligibility, and avoided tier qualification and rebate disputes.”

In 2010, Mayo Clinic joined four other health systems to form the Healthcare Transformation Group to share best practices and drive needed positive change across the supply chain. Their first initiative: promote GS1 standards adoption as a transformative and necessary process for healthcare providers. Not surprisingly, all five members are consistently ranked among Gartner, Inc.’s annual Healthcare Supply Chain Top 25 organizations leading the way in transforming the healthcare value chain.

Dudas is quick to point out, however, that this investment serves a broader purpose. “Providers often ask, ‘What is the ROI for adopting GS1 standards?’ but that’s the wrong question to ask. If you’re implementing GS1 standards with no intention of addressing other operations areas, like staff and technology, you may end up adding more costs to your supply chain. But if you use industry data standards to enable process improvements and efficiencies, it will more than pay for itself.”

The GS1 system is the most widely used supply chain standards system in the world. It seeks to improve supply chain efficiency across markets, such as retail, grocery, and healthcare.

**GS1 System foundational standards:**

- **Global Trade Item Number® (GTIN)®**: 14-digit codes assigned to individually manufactured products and different packaging configurations.
- **Global Location Number (GLN)**: 13-digit codes used to identify healthcare supplier and provider locations.
- **Global Data Synchronization Network® (GDSN)®**: A certified data pools network that enables supply chain product data synchronization and standardization between partners.

“**If you use industry data standards to enable process improvements and efficiencies, it will more than pay for itself.**”

—Joe Dudas, Vice Chair, Category Management, Mayo Clinic
The price is right

Distributors work behind the scenes to ensure pricing accuracy

Pricing discrepancies can lead to increased operating costs for providers, manufacturers, and distributors. But price alignment is a challenge in this era of complex, multi-tier contracts between manufacturers, group purchasing organizations, and provider organizations.
That’s why the role of the distributor in managing pricing is more important than ever. Distributors have dedicated teams working behind the scenes to ensure that customers get the products they need at the prices they negotiate. “The more time we spend with our manufacturer-partners ensuring clarity in contracting processes, the more accurate pricing is for our customers,” says Matt Gillard, Director, Contract Administration, Owens & Minor.

“We also work closely with our customers to improve pricing accuracy,” says Gillard. “We’re constantly reviewing pricing information received from manufacturers and communicating with our customers to ensure it aligns with their expectations.”

Anne-Marie Johnson, Vice President, Administration, for healthcare distributor Claflin Company, says her company follows similar practices. “Bringing together all the right people and getting them on the same page allows distributors to grease the wheels of progress across departments and partners,” she adds. “When we all are moving in one direction on contracting, everyone’s job becomes that much easier.”

**Keys to getting it right**

Distributor contract administration experts recommend three crucial practices for better contract management:

**Start early:** “I would say the most important initiative we can work on as an industry is improving the timeliness of the contract information we receive,” says Johnson. “Buy a desk calendar if you have to. It sounds simple, but trading partners should always know and be prepared for when contracts are going to expire.” Distributors have to load contract information into their systems to ensure customers receive everything they need, when they need it, and for the correct price. Starting early on contract negotiations is a winning strategy.

**Adopt standards:** “The more we can work as an industry to move toward accepting and adopting standards, the faster we can leverage the tools and processes that use these standards and drive supply chain efficiencies,” says Gillard. Standards like Global Location Numbers allow all parties to identify healthcare locations the same way, reducing confusion related to customer identification.

**Communicate:** “The more communication that occurs and the more all parties are engaged in the pricing process, the better the outcome,” Gillard adds. Most distributors agree that when providers are actively engaged in contracting and other supply chain processes, it’s a best practice for both improved pricing accuracy and overall business. Providers should get involved and ask questions that help clarify contract accuracy, rather than simply defer to their distributor-partners to solve potential problems.
Distributor-manufacturer relationships become increasingly valuable

More than ever, healthcare suppliers are realizing the benefits of close alignment with distributor partners rather than going directly to providers with their products:

Gerry LoDuca, President, DUKAL Corporation, sees working with distributors as a clear-cut advantage for business. “Our company is really dedicated to developing and building a product line,” he says. “The logistical part of our business—warehousing and shipping—I don’t necessarily look at as a profit center. Distributors, on the other hand, are focused on that as their core business. They’re able to do it better than we do.” Distributors can often secure better shipping rates than manufacturers due to higher volumes of product delivery. Allowing partners to focus on inherent strengths ultimately leads to greater supply chain efficiencies.
PARTNERSHIPS IMPROVE RESPONSIVENESS TO CUSTOMER NEEDS.

Healthcare changes in recent years have brought a complexity to the delivery system, says Joe Grispo, Chief Sales Officer, B. Braun Medical, Inc. “It’s gotten more complicated as far as how customers want to receive deliveries. They may want everything they get coming on one truck and it is becoming increasingly difficult to satisfy that need.”

Distributors, on average, carry several weeks of inventory specific to the needs of their customers and are well-equipped for complex deliveries. This is also a significant advantage in times of trouble or shortage, since distributors can absorb disruptions in the manufacturing/release process or from natural disasters.

COMBINED SALES FORCES EXPAND SUPPLIER DEPTH, BREADTH.

The sheer volume of an added distributor sales force with direct, daily provider contact is of great value to manufacturers, but suppliers are mutually valuable due to their deep product knowledge and expertise, says Dick Moorman, Vice President, Distributor Relations, Medical Products and Services, Midmark. “Our core competencies revolve around understanding the clinical space and the work that is done in that space. A distributor sales force that asks the right questions at the end-user level can uncover concerns various buyers have and be a real asset to us when introducing our team to those customers.”

“Distributor partners can deliver our products in a more cost-effective manner,” says Becker. “If our customers receive great service, have improved delivery quality to ancillary sites, and can save money in the process, that reflects positively back on us.”

“Many manufacturers are highly specialized with the products they supply, yet customers don’t necessarily want to spend time with individual sales reps representing niche products. “We can leverage our distributor’s full portfolio and offer our customers a broader, more complete solution,” says Dana Becker, Director, Sales and Corporate Accounts, Horiba Medical. “We also can leverage the strong relationships they build with providers by being a visible presence on a daily basis.”

“As with any relationship, a distributor-manufacturer partnership requires an element of trust as there are challenges or possibilities for misunderstanding. But when it works in the way in which it is originally envisioned, it is one that is mutually beneficial and sustainable for both partners involved.”
In 2013, the Drug Quality and Security Act established for the first time ever a national prescription drug traceability system that enhances patient safety and supply chain integrity. Getting a national solution to replace the patchwork of competing and overlapping state pedigree laws is a significant victory for distributors, manufacturers, and patients alike.
The Food and Drug Administration (FDA) is now tasked with the responsibility of implementing and enforcing the traceability law over the next several years. Healthcare distributors are taking a proactive role to ensure a smooth rollout takes place and that customers understand and are well prepared to take advantage of this important legislation.

**Snapshot**

**The Drug Quality and Security Act**

- Provides a national uniform solution that pre-empts the patchwork of state pedigree laws.
- Requires pharmaceutical manufacturers to provide transaction information, transaction history, and transaction statement details to initial purchasers in a single document—paper or electronic.
- Establishes national licensure standards for pharmaceutical wholesalers that ensures uniformity in all 50 states. The bill outlines key requirements, such as background checks, physical inspections, bonding requirements, and fingerprinting.

**Setting the stage**

Medical surgical distributors were involved in early track and trace legislation discussions, making sure customer interests were well represented. “Distributors long recognized the need to replace inconsistent state requirements that were costly, inefficient, and left the pharmaceutical supply chain’s integrity at risk,” says Linda Rouse O’Neill, Vice President, Government Affairs, HIDA. “Politics and policy finally aligned so this issue could move forward in Congress.”

Pam Scherrer, Director of Quality Assurance and Regulatory, MMS – A Medical Supply Company, emphasizes the importance of the work distributors accomplished prior to the traceability law’s passage and the ways it will improve supply chain integrity for providers. “We worked together to streamline recommended language and provide input from medical surgical distributors’ perspectives as the law was under consideration,” says Scherrer. “Our customers were very pleased, as were we, when the track and trace law passed. The new regulations provide standardization to our industry where it’s needed most and make customer sales easier.”

With the various forms and documents distributors used to receive from trading partners, it was sometimes difficult for providers to determine from where a prescription drug originated. Drug manufacturers are now responsible for providing comprehensive documents that include all necessary traceability information, simplifying this entire process and enhancing patient safety.

“Our Regulatory Department is already stressing to our suppliers that all necessary data and system requirements must be in place so we can receive and pass required transaction information for our customers’ benefit,” says Scherrer. Her team is focusing on three key areas with suppliers and provider customers that she thinks are essential for successful data exchange:

**Information accessibility:** “Ask and verify that providers can access transaction history information in a quick and easy way.” Distributors may provide data in either a single document, or through any combination of self-generated paper, electronic portal, or supplier-provided information on the product package.

**Compliance expertise:** “Manufacturers have to be 100% compliant with the new traceability law, and front line supply chain employees should be just as knowledgeable and aware of key tracing requirements and dates.” Starting January 1, 2015, suppliers must comply with applicable traceability requirements and engage with only “authorized trading partners.” (Authorized trading partners are defined in the law as having a valid license under State law or under the new federal licensure requirements when they take effect in 2017.)

**Open communication:** “We’re making sure our Customer Service and Account Managers are well-equipped to handle inquiries or related questions.” Through frequent communication, first points of contact can anticipate potential customer issues before they arise. It’s also important that there are open channels for directing unanswered questions to the proper people within your organization.

Thanks to the new track and trace law, compliance knowledge has become just as important as product knowledge in supply chain transactions. Distributors have anticipated this growing trend for several years and are well prepared and well positioned to help their customers benefit from these changes.
The 2013-2014 flu season was less severe than the prior year. The last week of December remains the most likely time to experience flu-like symptoms.

Physician offices remain the most common site for flu vaccination among adults (and children), but retail pharmacies grew in popularity year-over-year.

Manufacturers distributed a total of 134.5 million flu vaccine doses by the end of the 2013-2014 flu season, and project anywhere between 153-158 million distributed doses for the 2014-2015 season.

Providers most often purchase vaccine in multi-dose vials.
I think independent distributors are driven by an entrepreneurial spirit. We seek to address an issue or problem that national companies might not, work to grow market share by serving that issue, and stay true to our business in the face of pressures that come with scaled growth. We maintain our uniqueness by focusing very specifically on what we do and what we do best: We’re both distributors and service providers.

To me, our role within the healthcare supply chain is to find opportunities to innovate and run with it. For example, one big disruptor right now is consolidation. When physicians close their offices and become hospital employees, a separate buyer in the market is lost. But it’s actually a dual-edged sword because every time there’s market consolidation, players tend to break off and try new things. That’s where independent distributors thrive, because if you are willing to stay flexible and adapt to serve these individuals, that entrepreneurial spirit can lead to great success.

**Streamlining Healthcare:** You mentioned consolidation as a market disruptor. What other trends are impacting your business?

**Clock:** I’m an extended care distributor, meaning if you’re not a hospital or physician office, you’re my customer. Demographically, there are two significant trends influencing my business and the providers we serve. The obvious one that you hear the most is that the Baby Boomers are aging. The number of older people entering our healthcare system contrasted with the number of working-age, qualified individuals leaving the care system makes it difficult for providers to keep up. But distributors are the most efficient deliverers of care products and we must align ourselves with provider-partners to help ease this pressure within the new ACO/bundled payment/managed care environment.

In addition to that, babies are being born today who may not have survived 10 or 20 years ago. These individuals could have developmental problems and medical needs that follow them throughout their lives, but advances in medicine and medical-surgical products are allowing them to maintain fruitful, high quality lives. They are still heavy consumers of healthcare, however, and it’s imperative to collaborate with providers to keep them out of hospitals. Every opportunity I get to effectively and efficiently prove myself to my customers separates my business from all the other noise going on in healthcare.

**Streamlining Healthcare:** How are you differentiating yourself to help your customers?

**Clock:** Our customers have been forced to take Medicare cuts to pay for sequestration, the doc fix, and CMS’s competitive bidding program for durable medical equipment. They are looking for opportunities to save, but we’ve already squeezed the rock dry on lowering prices. It’s my job to educate customers to look at us as a resource to innovate and drive revenue in addition to savings.

**Clock Medical Supply** is a family-owned, regional distributor.

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