The **chosen** few

Standardizing products across many physician offices is a challenge, but no cause for panic

Most supply chain executives know the challenges of standardizing medical-surgical products and equipment within an acute-care hospital's four walls. It's not easy.

Now try standardizing across those 15 physician practices your health system acquired last year. And the 10 additional ones acquired earlier this year.

"Don't panic," says Jon Manitta, director of purchasing and project manager for George Washington University Medical Faculty Associates, a practice with more than 700 physicians in Washington, D.C. "First and foremost, you have to be empathetic [with the practices]. If you try to attack supply chain with a mallet, you're going to want to downsize to a scalpel.

"The non-acute care environment is a different animal [from the hospital]," he continues. "People's expectations are different. The latitude they have had is usually different. It's a much more siloed environment. They often look at their practice groups as their own thing. They get very ingrained in how they do things. And they often attribute their success to the fact that they have that latitude."

Michael Cassaro, manager, Office of Strategic Sourcing for Atrius Health, Newton, Mass., says, "The majority of physicians are flexible when they understand the ramifications of their decisions on the organization's bottom line. They just need to be engaged early and see the data.

Jon Manitta

"The difficulty lies in the size and breadth of the organization," says Cassaro, whose practice is made up of 750 physicians representing more than 50 specialties in 29 locations in eastern Massachusetts. "Physicians with experience in small private practices may realize that every product they buy has an impact on their own pocket. That's not always as easy to see in a large organization."

Mass confusion

At first glance, executives brought up through the acute-care ranks might dismiss the supply chain ramifications of their newly acquired physician practices, given the relatively low volume. But often, as time goes on, they discover that failing to control purchasing and inventory leads to more expense, SKUs, waste and inefficiency than they anticipated. Those inefficiencies are often passed on to their distributors, who in turn must increase prices to recover their additional costs.

Twenty-four months ago, most supply chain executives didn't give much thought to their non-acute care charges, says Katie Udenberg, vice president of health systems for McKesson Medical-Surgical. After all, they often account for 5 percent or less of their overall system's spend.

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>
> **– Jon Manitta**

"But now, health systems are acquiring practices at an unprecedented rate," she says. "And if they are behind in developing standardization guidelines, it quickly becomes overwhelming to catch up. That's usually when they ask us for help. They know we have a template [for servicing non-acute care sites], and they ask us to tell them what they need and whether we can recommend a change in formulary."

At that point, the McKesson [Medical-Surgical] team is likely to ask one question, says Udenberg: Do the physicians in the newly acquired practices have an incentive to be cost-effective or not? "If they do, they are wide open to standardization," she says. "If they don't, they may want to stay with their preferences."

Michael Cassaro

Adding up to real money

It's a challenge with which Cassaro is familiar.

"We just met with a couple of our specialty chiefs yesterday and had this very discussion about product standardization," he says. "McKesson [Medical-Surgical] helped us put together 50 pages of data, showing how much we pay for products, how much we buy.

"We could see we buy 74 different types of gloves in something like 10 categories. We could easily get that down to 10 or 15. The savings from consolidating may not be that big, but we're finding that with every analysis, every category we go after, we can save anywhere from $20,000 to $25,000. You have so many categories that before you know it, you're at $300,000 savings."

Twenty-eight years ago, Cassaro joined what was to become Atrius Health as an electrical/mechanical coordinator in the real estate and property management division. Later, he assumed responsibility for facilities operations, materials management and procurement for Harvard Vanguard Medical Associates. In 2004, Harvard Vanguard and Dedham Medical Associates formed Atrius Health as its parent organization. Granite Medical Group joined in 2005, VNA Care Network in 2013 and VNA of Boston soon thereafter.

In 2015, the organization went through a reorganization, when Dedham Medical, Granite Medical and Harvard Vanguard merged to form one organization, with VNA Care as an integrated subsidiary.

"We had worked on standardization and other supply chain related improvements across our medical practices for many years," says Cassaro. "But the merger of the medical groups into Atrius Health in 2015, created more urgency and gave us the ability to do more things. It forced all three groups to look at things a little differently. Since then, it's been continual consolidation of contracts. It's a weekly thing. We take advantage of every opportunity we can."

A new president and CEO, Steven Strongwater, M.D., brought with him some familiarity and experience in supply chain. "He has engaged all of the executive leadership in the future of Atrius Health and he has identified the pillars of success the organization needs to achieve," says Cassaro. "That creates a very different

Resources brought to bear

"Today's market requires a true partnership between our customer and us," says Ross Biddle, vice president of corporate accounts, McKesson Medical-Surgical. "It takes both parties working together, to help achieve the goals outlined by the customer."

Biddle oversees a team of directors that covers the entire United States for the non-acute care market. They focus on the larger customers and organizations not owned by a health system, but which have similar requirements that a health system may have for their non-acute care clinics, he says. Examples: large independent multispecialty groups, MSOs, IPAs and ACOs.

"It is no longer just about selling product A at X price, but more about the delivery of resources that can impact the bottom line for the customer, including supply needs, laboratory, Rx, e-commerce, accounts payable and revenue cycle management, to name a few. With these things covered, the customer can focus on giving the highest level of care to their patients."

Standardization

Standardization and consolidation have been around for years, but they can be especially challenging for an organization acquiring physician clinics, says Biddle.

"Clinics come with their own processes and products, which they have used for years. Working together with the customer, we identify the opportunities to streamline and drive efficiencies, by reducing the number of SKUs that the customer uses. Therefore, we can deliver savings for the customer and McKesson. We are also able to maximize the GPO contract tiers, local vendor contracts, and private brand options, generating additional savings for the customer."

"We have always managed the inventory for our customer to reduce back order situations, but having a reduced number of SKUs for a customer brings it to another level."

Consolidating and leveraging volume helps drive cost out of the system, he adds. "By standardizing products, we are able to manage inventory levels better by focusing on the correct product mix. Managing 3,000 SKUs for a customer is a lot different than 1,500. We have always managed the inventory for our customer to reduce back order situations, but having a reduced number of SKUs for a customer brings it to another level."

landscape for our efforts to standardize and consolidate, and to help lower our organizational expenses.

"Having a CEO with that kind of knowledge and experience is a bonus for a supply chain manager."

Data and discipline

McKesson Medical-Surgical brought data and disciplined analysis to the Atrius Health supply chain, says Cassaro. Their Six Sigma approach fit well with the practice's lean methodology, which it had been employing for years. Atrius Health's vice president of performance excellence, a Six Sigma master black belt and lean sensei himself, has been involved in all meetings with McKesson Medical-Surgical.

"We use Six Sigma and lean when looking at a problem," says Cassaro. "We don't jump to a solution, we walk it through. It's a process, going step by step, but if you have the patience to do it and do it right, it has real value. You're often surprised to find things you didn't even know about, now displaying themselves.

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"Because McKesson [Medical-Surgical] has a dedicated team to directly support Atrius Health, we receive immediate attention, response and support, whether it is about our day-to-day volume of purchases or the data needed for further analysis," he continues. "My entire procurement team has direct access to their support every day, and the ease of that process makes our jobs easier. They have provided detailed reports that lay out options very clearly, and we are using that data with our individual meetings with physicians as we seek their support in the changes we need to make.

"McKesson [Medical-Surgical] has taken the lead role on the high volume of products we source from them," says Cassaro. "Our GPO, Premier/Yankee Alliance, has supported their efforts and worked with my team on various other opportunities. Our next step is to work with the physician group on true physician preferred products."

Suture is an example. "It's such a controversial item, but we have an opportunity to save a great deal of money by switching to another manufacturer."

In the year ahead, Atrius Health, working with McKesson Medical Surgical, will consolidate agreements as they come to term, Cassaro says. "We have significant product changes in store, and we will move a high volume of current purchases to McKesson Brands products. We also are looking at options to move additional volume to them, as in some cases we are buying similar products from multiple suppliers, therefore impacting our tier-level price points."

A rep makes a difference

For Jon Manitta, McKesson Medical-Surgical brought data, analysis and an outstanding account executive – Ray Milauskas.

The George Washington University Medical Faculty Associates (MFA) is the largest, independent, physician-led practice group in the metropolitan Washington, D.C., area. The practice has more than 700 doctors in 51 medical specialties caring for patients. MFA operates a 316,000-sq.-ft. facility treating an average of 4,500 patients a day, and 50 to 60 other sites of care.

Though MFA is an independent, physician-led practice, it has a close relationship with George Washington University Hospital and serves as a teaching facility for it. Many of its doctors are also on staff at the medical school. That said, the supply chain programs of MFA, the hospital and the medical school are separate and distinct.

> "When you standardize, you actually raise the quality of care, because of the predictability factor."
>
> **– Jon Manitta**

Manitta joined the practice 16 years ago, when it occupied just one location. He has worked closely with McKesson Medical-Surgical and Milauskas for 15 of those years.

"Ray has been an integral part of the quality of our relationship," he says. "We know we have solid footing with an account executive who is intimate with the account, very active, and a good partner, always ready when I need him. He is one of those guys who never says he can't do something. In this business, that speaks volumes."

McKesson Medical-Surgical delivers products to all sites – including the main facility – in low unit of measure, according to Manitta. "We don't have a warehouse," he says. "We don't have the space. Every space has been converted to either practice areas or administrative.

"With the careful work of Ray and other people at McKesson [Medical-Surgical], we have developed an internal inventory and bar code system. We have

reorder points for each department. I am notified if there is overbuying, or if anything in the purchasing cycle changes drastically.

"It has taken years to fine tune our system, so we keep adequate supplies on the shelves without overstocking. And we're still in the process of doing that with Six Sigma initiatives."

Wired for standardization

Standardization is extremely important for MFA. "We have a fairly large number of SKUs, and we are constantly trying to tailor that," Manitta says. "It's important for budgeting, forecasting, cost control and quality of care. And when you standardize, you actually raise the quality of care, because of the predictability factor. A doctor may argue you're taking away some creativity, but if you look at the data, you can see you're improving quality of care.

"With McKesson [Medical-Surgical]'s help and a vetting process with our clinicians, we have gone to many standard McKesson Brands products," he continues. "We don't force anything on them. Instead, we offer them for evaluation and testing in everyday clinical use."

Manitta admits he is "wired" for standardization. "As we grew, it dawned on me that standardization would be a good practice. It just made sense, starting with one location, then two, then six, then 30, 40 and 50.

"When I broached the subject with McKesson [Medical-Surgical], they already had all kinds of metrics and tools to help us do that. It would have been very hard for me to coalesce our purchasing data off our invoices, and not everything is recorded on purchase orders. But once I had the data in hand, I could see what we looked like on paper."

The distributor helped Manitta substitute and consolidate products. "They had the data, the product selection and the willingness to get their hands dirty and actively go to the physicians and say, 'We'd like you to try this product.' We're actively doing that now."

The process is easier because of the trust Milauskas has built with MFA's doctors and staff over the years. "You have to have trust," says Manitta. "Ray

> "We could see we buy 74 different types of gloves in something like 10 categories."
>
> **– Michael Cassaro**

had established these relationships, and he had my sanctioning as well. So when he approached people, it didn't smack of salesmanship. People didn't go into a panic mode. My phone didn't ring off the hook.

"You put all that together, and you have the open-mindedness you need from clinicians to start standardization."

Working with McKesson Medical-Surgical, Manitta and his staff began working on exam room supplies, many of which were fairly easy to standardize. But some were trickier. "One kind of table paper might work in urgent care or the department of medicine, but not in the bariatric center," he says. "Those are things that would

More SKUs? More cost.

Where there is a plethora of products, there is inventory…and cost.

"Inventory is a burden on working capital," says Sam David, vice president of corporate operations, McKesson Medical-Surgical. His team is responsible for operationalizing corporate initiatives, including major process improvement projects in the company's distribution network.

"But when we talk about carrying costs, it's more than just the cost of capital. People forget there are costs in spoilage and damage, and the cost of providing customers visibility into what's in stock, and providing them more product selection."

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If it costs the distributor something, it will cost the provider something too.

"If the provider hasn't standardized, we can't aggregate enough demand, which makes it harder to keep product in stock for those times when they need it," he says. "It's a shared cost."

Standardization, on the other hand, helps the entire supply chain. "The distributor doesn't have to build bigger warehouses; I don't have to carry 30,000 items. The manufacturer can plan better if the demand is [more predictable]. The costs we take out of the supply chain help us push savings to the end user.

Minimizing the number of SKUs will lower a distributor's cost-to-service, as well as allow them to better use their working capital to ensure the appropriate inventory levels to meet market demand.

"But [providers] need to look at standardization as an ongoing activity. It's not a one-time event. It takes discipline. Your customers may not want a different type of glove, but it's worth the effort."

seemingly appear straightforward, but they require attention to detail."

More difficult are those items that doctors touch, e.g., needles, suture, cutting instruments. "We've been patient and have offered them multiple choices," says Manitta. "And when we show them the price delta, we have good folks who are budget-minded."

Borrowing on Six Sigma, Manitta has selected a value review committee to vet new products and technologies. "We are taking what we already have been doing, fine tuning it into a process and putting it into writing. By doing so, I can train and inform my staff better as to how we approach product selection. It gives them something tangible to look at."

"I often tell people, 'This job has been interesting and challenging.' I've gotten education along the way from folks like Ray and McKesson Medical-Surgical Field Vice President Fran Fay, who are experts in the field. They have provided the information and tools I need. I take those tools and tailor them to what MFA needs."

"If you try to attack supply chain with a mallet, you're going to want to downsize to a scalpel."

– Jon Manitta

Green gloves or pink?

Cassaro and Manitta operate solely in the non-acute care supply chain; hence, they bring plenty of experience to that sector. Their acute-care counterparts, that is, those whose health systems have acquired some physician practices and other offsite facilities, face a unique set of challenges.

"When [acute-care supply chain executives] reach out to us, they usually are in a heavy acquisition mode, or they have just started to get into it," says Udenberg. "They might feel their hospital supply chain is locked down in terms of contract compliance and a standard formulary, but when they acquire these outside entities – and for my team, that usually means physicians' clinics or surgery centers – they find that each one comes with its own personality and desired formulary. And a lot of times, that doesn't match with that of the hospital."

For example, whereas the hospital might have standardized on a couple of gloves, a doctors office might want to get some green gloves for St. Patrick's Day or pink ones for Breast Cancer Awareness Month. The hospital may have standardized on one brand of suture, while the doctors prefer another brand in their offices. Nor are all the products used in the physician office found in the acute-care hospital. In fact, Udenberg estimates that only 10 to 20 percent of the products in use in the non acute care sites typically jibe with the hospital's formulary. "If we can get that to 55 or 60 percent, that's a phenomenal thing."

"This is where McKesson [Medical-Surgical] and the health system team shine," she continues. "We can take away the confusion, so [the supply chain team] knows where the starting point is. We have analytics that can take the history from the acquired sites and come back with, 'Based on your contracts and the data you've provided us, here's how we can funnel your products. Here are the products that meet your contracting patterns, and here are some items the practices are buying that should be converted,' both from a clinical and financial standpoint."

Standardization is a perpetual process

If there is one lesson that Cassaro, Manitta and the people with whom they work on distribution have learned, it is this: "It's a perpetual process," says Udenberg. Just at the point one believes they have it under control, new products, processes and technologies emerge, she says, "We're always looking five years out or so."

Says Cassaro, "In the past, you would make a change, walk away and think it's one and done. Later, you find things have slipped; you didn't hold the gains. What we're trying to do is put something in place that's more permanent – a living, breathing process that will continually evolve and that we will continue to work on with our partners.

"The best way to approach it is to let the physicians know we are partners with them. It's not about dismantling what they have, but about showing them solutions that will keep quality care where they want it to be but also help the organization's bottom line. That's the toughest part – getting people to understand that we're all in this together.

"These are smart folks," he says, speaking of clinical caregivers. "When you give them a reasonable solution, more often than not, they will take it."