THE CHALLENGE
According to a recent USA Today article, “Each of the nation’s 5,700 hospitals must cut $2.6 million a year on average in costs in the next 10 years to meet the demands of proposed healthcare reform.” Given how much waste and inaccuracies currently exist in healthcare, improving and re-engineering current processes using improvement methodologies and techniques is crucial.

No other area provides more opportunity for savings than the supply chain, which can represent up to 50 percent of a healthcare provider’s budget. Savings can be realized through both lower costs of acquisition and lower operating costs. An optimized supply chain can help a facility stay lean, manage costs and respond to fluctuations on demand.

Recognizing the importance of supply chain, Intermountain Healthcare elevated its strategic importance to their organization and has been recognized as the #3 healthcare supply chain organization in the country by Gartner. Senior leadership committed resources to bring in skilled and talented people as part of their supply chain organization, while also centralizing reporting relationships, and involving and earning the trust of all stakeholders including clinicians and physicians. Intermountain also implemented a fact and data driven approach, and most importantly, fostered a commitment to innovation, excellence and growth.

But as good as their supply chain organization is, there is always room for improvement. Through an audit performed by a third party company, it was revealed that Intermountain’s pricing for products in the medical/surgical commodity categories was not as competitive as they had initially anticipated. The audit showed that Intermountain could decrease costs in these areas by at least 10 percent by increasing their purchase volume commitment to certain suppliers and standardizing products and suppliers. These findings also aligned with several of Intermountain’s other high level goals, including to achieve better pricing for long term prosperity, the ability to reduce variation and acquire high quality clinical items, and to assist in consistent patient outcomes.

“By standardizing and eliminating inefficiencies and redundancies in supplies, we are better able to commit to and contract with suppliers to negotiate improved rates,” said Trent Gee, senior sourcing manager for Intermountain Healthcare. “We don’t want to miss out on opportunities to operate more efficiently. The Intermountain way of doing things relies on using the best available data and industry best practices to guide our decisions.”
THE SOLUTION
Intermountain created a board level goal to align internal stakeholders around product standardization. This ensured that performance criteria is tracked and reimbursement to executives is directly tied to supporting standardization goals. They also invested $1.2 million in new resources to accelerate and deliver the initiative.

Intermountain partnered with Intalere to ensure that these resources and efforts can be made available to other qualified health organizations as well as help put the plan in motion. Over the past several years, the two organizations had sought to redefine the traditional provider-GPO relationship which had previously been built mainly around just contracts and procurement. They have been able to evolve the relationship in a collaborative, innovative manner that has resulted in achieving millions in supply expense reduction as well as bringing Intermountain the increased bandwidth to undertake projects that would have required the addition of full-time resources. The relationship has maximized value for both organizations through:

• Collaborating together with resources and projects aligned to support strategic objectives for both organizations.
• Leveraging the strengths of both organizations to provide added resources.
• Using data to reduce variation.
• Developing a communication and integration model that is flexible, focused on strategy and tactics, but also leaves room for innovation.
• Learning how data analytics and an information-rich environment support cost/quality initiatives and the implementation of best practices.

The organizations worked together to define this initial effort of commodity standardization. They have also defined new categories to be standardized which will be released each quarter. This will build the savings and continue to deliver value for years to come.

The benefits of standardization to Intermountain include:

• More than 7 percent reduction in SKUs ordered, stocked and managed at the facilities.
• Better supplier engagement due to commitment.

For Intalere, the Intermountain commitment magnified their ability to negotiate more favorable terms with suppliers, which could be shared and built upon further by participation of other members. “Based on Intermountain’s success with the program, we envisioned expanding access to the portfolio to other acute care facilities who can benefit by getting the same pricing that larger facilities are receiving. It creates a win for all involved,” said Joe Tibbs, vice president of sales operations for Intalere, who works closely with Intermountain.

Initial standardization goals were set for 2015 in terms of categories and commitment level, with a plan to expand categories of participation as the program moved forward. Not only did Intermountain expect to save nearly $3 million through implementation of the program, but the larger goal was actually three-fold, to push the initiative past just a cost reduction initiative. “Obviously, the committed nature of the program would enable significant cost savings,” said Gee. “But beyond that, the program requirements enable standardization, which in turn enables improvements in supply chain effectiveness. Further, the reduction of product variation facilitates reduction of clinical variation.”

THE OUTCOME
The initial implementation of the project, brought $2.78 million in savings, or a 10 percent reduction in costs. SKUs were also reduced by 497, bringing further cost reduction in inventory management and process improvement. The partners then set to work adding categories and further reducing SKUs.

“This is a prime example of how, in sharing our goals, we also came up with ideas for new areas of collaboration, consolidation and building more volume that we could then share with others,” said Richard Bagley, director of strategic sourcing for Intermountain Healthcare.

This success blossomed into the Intermountain Committed Contract Program (iCCP), a provider-led GPO-supported committed offering which is now available to acute care hospitals and integrated delivery networks throughout the country. Intermountain’s clinical and key end user teams decide the selected products and supplier partners for products and supplies in the general medical and surgical categories in the program. The program requires participants to maintain 80 percent commitment to the program and 80 percent commitment to contracted categories.
Success Story Supply Chain Solutions

The overarching objective of iCCP is taking the focus off mere commodities and elevating the supply chain to a strategic driver of change, not only bringing validated cost reduction of at least 10 percent, but also:

• Process improvement.
• Standardization and elimination of variation.
• Review and validation of high quality clinical items to assist in consistent patient outcomes.
• Establishment of guidelines, processes and governance.

In the initial phases of launch, the iCCP, which now consists of 55 contracts, has demonstrated an average of 15 percent savings in cost studies completed for more than two dozen Intalere members. Several have officially signed on to the program as charter participants and are already reaping the cost-savings benefits.

“This type of collaboration, led by data, strategic alignment and flexibility will help to drive improvement and long-term sustainability for healthcare organizations facing the new era of healthcare,” said Bagley. “The future value of programs such as this is the opportunity and ability to share this model with other healthcare providers.”

The Intermountain Committed Contract Portfolio can benefit your facility through:

• Validated cost reduction of 10 percent.
• Standardization and elimination of variation.
• Reviewed and validated high quality clinical items to assist in consistent patient outcomes.
• Process improvement.
• Consultative assistance in establishing program, processes and governance.