

TRENDS

Materials managers ascend from basement to C-suite

By John Andrews, Contributing Editor

MATERIALS MANAGERS IN healthcare are undergoing a metamorphosis, and this situation presents both opportunities and trials.

On one side, the evolution of the profession represents advancement in stature, as MMs are finding a place at the table with senior executives and being recognized for their significance after years in the basement. On the other, the lofty new position presents a more complex set of demands, with a higher level of accountability.

"At many organizations, the role and importance of the materials manager is being recognized by the C-suite," said Sean Angert, managing director for Chicago-based Huron Consulting. "We're seeing materials managers



Angert

evolve into supply chain directors and executives. It is no longer about the purchasing function and what is paid for a widget, but how they are managing the overall supply budget."

Increasingly, Angert says, MMs are being assigned to handle non-traditional contracting areas, such as purchasing services, equipment maintenance, housekeeping and food contracts.

"This doesn't mean they own it all, but their expertise in contracts is much more recognized," he said. "As they gain more credibility with management, they are moving into broader support service areas."

Pam Poshefko, consulting manager at Chaddis Ford, Pa.-based IMA Consulting, adds that the MM function has become a much more strategic element to the hospital's financial goals.

"Their titles are changing – no longer are they VPs of materials; they are becoming chief resource officers," she said. "They need to be part of the short-term and long-term planning for the hospital, actively involved in the decision process for service lines and helping the C-suite align with physicians. They are becoming a more consultative group, serving as intermediaries between clinical and finance because they have the knowledge base of both groups."

In fact, the MMs' knowledge base is quite unique, Poshefko said, because they occupy the zone between the clinical and financial

departments.

"They are data managers, keeping track of purchasing and product utilization," she said. "They go to the clinicians and talk about controlling costs. They are raising awareness



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– Pete Allen

about cost containment. Now a chief resource officer must handle other aspects, such as gauging product performance, procedural benchmarking and OR preference cards for certain procedures. They also have the authority to make some decisions."

TALENT SCOUTS

These new demands are calling for individuals with a valuable skillset, and hospitals are going outside healthcare to find them, said Joe Greskoviak, president of spend and clinical resource management at Alpharetta, Ga.-based MedAssets.

"We're seeing folks brought in from outside the industry – namely chief resource officers from other business sectors," he said. "Hospitals are looking for someone who sits on the executive team to find greater opportunities in the health system."

To be sure, the materials management function is "dramatically different today," agreed Pete Allen, senior vice president of sourcing operations for Irving, Texas-based Novation.

"The sophistication required is so much more advanced than in years past," he said. "The pressures hospitals are under are causing them to invest heavily in supply chain, their second largest expense next to labor. The dynamic behind it is the need to reduce costs at facilities."

Mike Alkire, COO for Charlotte, N.C.-based Premier, says one of the most important new assignments for MMs is to look at product use protocols and help establish proper use levels. Their mission, he said, is to determine which clinical and cost evidence supports the use of particular products.

"Materials managers have become more

clinically attuned – we are seeing more clinicians as part of the team," Alkire said. "Physicians, nurses and pharmacists are all more involved in product selection and are working to drive standardization. They see

an opportunity to reel in costs and assure new innovations."

MARCHING ONWARD

Stepping onto a bigger stage also presents bigger challenges. Poshefko sees the inability to maintain a constant source of supplies as a major dilemma.

"They may have trouble getting some pharmaceuticals that aren't made anymore



Poshefko

because the profit isn't there," she said. "The economy now is so global that an earthquake in Japan or China can affect supply. They need assurance that the products they are getting are of good quality and they need price transparency from vendors and GPOs. Finally, they will have to do more with fewer people."

Angert adds that MMs will continue to be accountable for a budget they don't "own" and raise their profile as the ultimate authority on product use.

"In order to do that you have to be a strategic person and develop relationships across the board," he said.

Furthermore, MMs will have to become more involved with the cost issue, Angert said. "They don't have to lead it, but they must be at the table and know what is going on with utilization, efficacy and value," he said. "They must provide more knowledge and understanding about direct patient costs and overhead costs. They are the facilitators of the process." ■

For more on the supply chain, see bit.ly/hfn-supply.

Keys for cutting supply spending

At the Healthcare Financial Management Association's recent ANI conference in Orlando, Fla., representatives from Global Healthcare Exchange offered some ideas on how hospitals can reduce their supply spend immediately:

- Save an average \$12-\$27 per order by conducting purchasing electronically with as many trading partners as possible.
- Automate the procurement process, from the point of contracting to the point of payment, to streamline operations and boost efficiencies.
- Centralize purchasing across the organization to provide visibility into and control over as much supply spending as possible.
- Develop a master data management strategy, including the use of global industry data standards, to ensure that critical information is as up-to-date as possible and that there is "one source of truth" to feed clinical and financial IT systems.
- Understand the total cost of ownership of the supply chain: In addition to the price paid, consider the financial implications of procurement, logistics, inventory management, charge capture and reimbursement.
- Create visibility into both the total cost and efficacy of the products being used in patient care to determine the role supplies play in both cost and quality of the care.
- Focus on bringing more non-file and off-contract spending under contract, especially high-cost physician preference items.
- Save an estimated 1 percent to 3 percent in avoided overpayments by validating contract pricing and using the most up-to-date contract information.
- View the supply chain as a function that operates across the organization; establish partnerships with clinical and financial departments to achieve mutual objectives.
- Collaborate with trading partners to achieve mutual benefits. Share insights into what happens to products once they arrive at the facility and ask suppliers for insights into how to become a lower-cost customer.

Source: GHX 2011

New research offers tips on cutting supply chain costs

By Richard Pizzi, Editor

MONTREAL – A University of Cincinnati analysis of hospital supply chains – medicines, materials, devices and office supplies – reveals that the use of RFID technology can help hospitals cut as much as 18 percent in labor costs associated with resupplying.

The research, presented in June at the Institute for Operations Research and Management Science Healthcare Conference in Montreal,

has implications for affecting many significant costs associated with hospital supplies. On average, supplies and inventory account for 30 to 40 percent of an average hospital's budget, according to the research.

The presentation was part of a long-term research project involving analysis of supply chains at Cincinnati Children's Hospital and Medical Center, Sacre-Coeur Hospital in Montreal and the Hospital for Sick Children

in Toronto.

The UC study Storing and Dispensing Hospital Supplies to Nursing Wards – The RFID-Enabled, Two-Bin System, says hospitals have traditionally opted to resupply nursing stations at set periodic times or to resupply a particular item when that item runs low. With periodic resupply, if a critical need for an item is experienced due to unexpected demand, caregivers have to scramble, e.g. "steal" from other

stations to meet needs. In other words, demand has spiked, and a needed item isn't there because it isn't due to be replenished until a set time.

New RFID technology (radio-frequency identification) makes continuous replenishment – when an item runs low – easier. When an item runs low, a signal is sent to the store-room indicating that replenishment should be considered for that item. ■