

# Thomas Jefferson University Hospital's ongoing initiative to reduce non-labour expenses

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**Abstract** For health systems to survive or hoping to grow in the new healthcare era, a centralised strategic sourcing function is essential to maintaining and enhancing margin and ensuring the right new technologies are in the hands of clinicians. Sourcing cannot just be about price containment and contracting, it must focus on helping health systems grow through margin enhancement, pioneering the use of new technology and championing the advancement of care. Sourcing departments must become trusted partners of administrators and clinicians, and shed the reputation of being the department engaged only when a purchase order is needed or contract requires signature. Strategic sourcing begins with engagement of main departments and decision-makers within the institution, seeking to understand their needs and objectives and their associated dependencies on suppliers and third parties, and aligning the resource and activity of the sourcing team to support those needs. Success is based on the ability to implement a strong core of sourcing professionals who are empowered to identify, explore and lead product review and selection opportunities, and who follow a rigorous, comprehensive sourcing process that is focused on strategic business alignment, sourcing strategy development and execution and objective decision-making, all of which this paper will explore.

**KEYWORDS:** healthcare strategic sourcing, change management, programme management, procurement

## INTRODUCTION

While the for-profit world has been reaping the benefits of investing heavily in supply chain and procurement functions for more than a decade,<sup>1</sup> the healthcare industry has continued to rely on tactical purchasing functions (often called Materials Management) to maintain acceptable pricing through basic negotiations and leveraging group purchasing organisation (GPO) contracts. With the current and impending changes in reimbursement related to the Affordable Care Act, forwards-thinking hospital systems have begun investing<sup>1</sup> in strategic sourcing organisations in order to maintain margins and drive supply waste out of the system. At Jefferson Health, an investment in strategic sourcing has delivered more than US\$20m of annual cost savings to the organisation over the last three years, moving Jefferson from the 75th percentile in 2013 in the University HealthSystem Consortium (UHC) supply-cost-per-SIS-adjusted-discharge rankings to lower than the 25th percentile in 2015 from 40th to 5th place.<sup>2</sup> It has created a centralised supply and service management group seated

at the intersection of clinical, educational, research, administrative and operational functions, helping to drive better product selection, improved safety, reduced infections, higher vendor service levels, greater patient and clinician satisfaction and growth into new markets.

For health systems to survive or hoping to grow in the new healthcare era, a centralised strategic sourcing function is essential to maintaining and enhancing margins and ensuring the right new technologies are in the hands of clinicians. Sourcing cannot just be about price containment and contracting, it must focus on helping health systems grow through margin enhancement, pioneering the use of new technology and championing the advancement of care. Sourcing must become trusted partners of administrators and clinicians, and shed the reputation of being the department engaged only when a purchase order is needed or a contract requires signature.

So how is this accomplished? How does a sourcing function become growth accelerators

for the enterprise versus price-focused contract managers? How can a typical back-office department strengthen relationships between clinicians and their hospitals and help improve operational efficiency?

Success is based on the ability to implement a strong core of sourcing professionals who are empowered to identify, explore and lead product review and selection opportunities, and who follow a rigorous, comprehensive sourcing process that is focused on strategic business alignment, sourcing strategy development and execution and objective decision-making.

To begin, there needs to be administrative support to enable supply chain and/or the procurement group to begin acting as drivers of cost-saving initiatives within the hospital, and this paper will focus on the business case and demonstrate a model to support this vision.

## BACKGROUND

When physicians and other care providers are approached to work on 'savings' opportunities, there is a natural response to become defensive and protective of their current practice. How, then, are hospitals expected to reduce cost while maintaining clinician loyalty and delivering high quality of care to patients? Administration can mandate cost-reduction measures; supply chain and sourcing groups can work at a category level to negotiate pricing while minimising the change impact, but either in isolation or in parallel, neither will yield the results of a true partnership between clinicians and administration. At Jefferson Health, a collaborative sourcing model has been developed that pairs high-level engagement with central planning and clinical groups, mid-level administrative and department heads and the value analysis committees that receive all clinician-generated requests with a sourcing process that effectively manages the projects borne from these

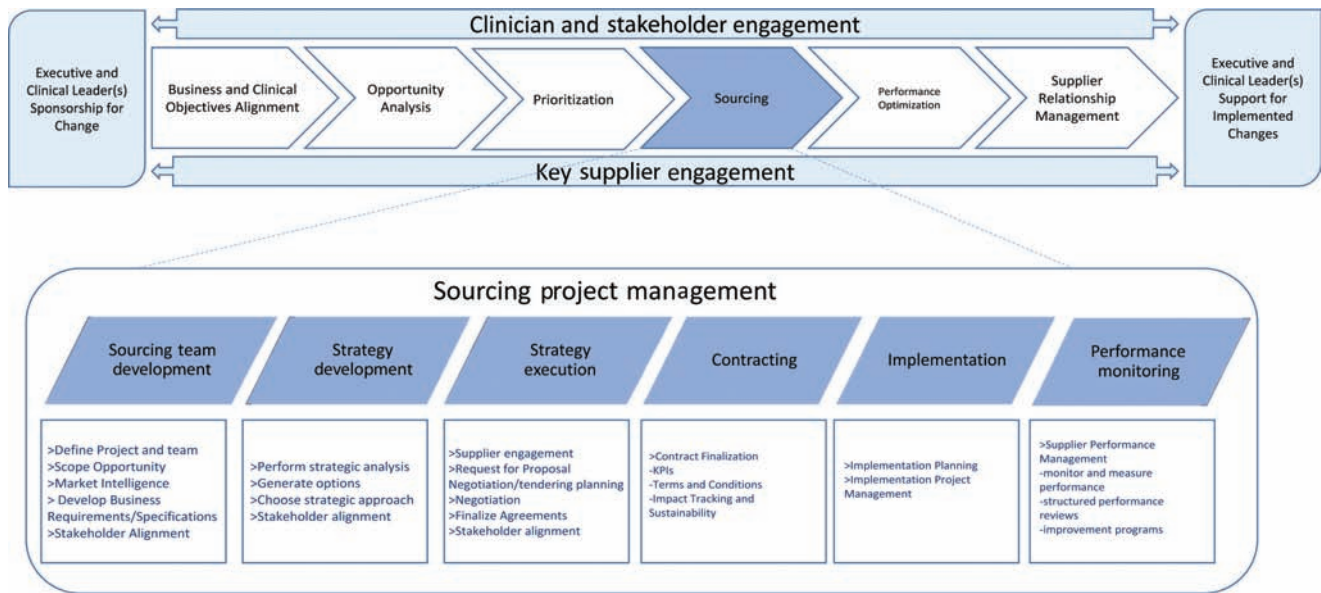
opportunities. What follows is an in-depth review of the model that has led to Jefferson's savings and clinical/supply chain partnership.

An important component of Jefferson's three-year supply chain strategic plan was to build a more robust strategic sourcing team, recruiting talent not only from healthcare, but also from industries with leading sourcing practices. With the expectation that such an investment in talent would reap a generous return (non-labour expense reduction) on the investment, Jefferson's administration was supportive, as long as the transition was headcount-neutral. With one-time investments in process improvement and technology in its logistics division, supply chain was able to redeploy five positions from its logistics operations to the sourcing organisation build-up.

## STRATEGIC BUSINESS ALIGNMENT

Strategic sourcing begins with engagement of crucial departments and decision-makers within the institution, seeking to understand their needs and objectives and their associated dependencies on suppliers and third parties, and aligning the resource and activity of the sourcing team to support those needs (Figure 1). With the core needs of internal customers being served and served well, relationships begin to flourish that lead to the discussion and organic discovery of opportunities that deliver real improvement.

Discussions need to focus on three main factors: (1) outcome improvement and technology advancement, (2) optimised service and quality and (3) margin enhancement. In order to gain the cultural and institutional buy-in to cost prudence, clinicians and administrators who may be in the position of influencing clinicians need to know that there will be real, tangible, measurable and observable benefits to their support.



**Figure 1:** Strategic sourcing model for healthcare

### Margin enhancement

In every decision or recommendation, the question must be asked, how will this help the system grow and, very importantly, are there any hidden or opportunity costs to what we are doing? If growth is not an option, then, at the very least, will margin be maintained?

Margin can be enhanced in three ways:

- Maintain revenue, drive costs down.
- Increase revenue, drive costs down.
- Increase revenue, costs go up.

This last method might seem completely perverse and anathema to a supply chain professional, but all three methods boil down to one real question: Are we widening the difference between revenue and expenses? The old way of doing things was Supply A versus Supply B, and if a cost increase would be realised, it became very difficult to bring in new technology. While there needs to be rigorous controls around cost-additive changes, working with physicians to explore revenue-positive, cost-additive products helps to build trust by demonstrating that sourcing and the administration are not focused solely

on taking things away from them, but on providing products that improve care or contribute to growth. By incurring higher expenses, are we utilising supplies that are improving the hospital's profile? Attracting surgeons? Improving care? Increasing reimbursement?

While strategic sourcing will focus most of its resources on driving costs down, exploring these other possibilities helps gain the trust of internal customers and demonstrates to suppliers a willingness to be objective.

### In action

Jefferson is often the recipient of some of the most complex surgical cases in the region for our more robust, profitable service lines. One particular service line seemed to be consistently measured to have high pricing despite the fact that we had been successful in driving US\$2m out of the cost of these services over several years' time. The reason for this had to do with the marketplace and the implants themselves. The cost of the implants continued to trend down, so Jefferson was always a step behind best

pricing. Therefore, a decision was made to move from a model that had proven successful to a more structured model that was aggressive enough to sustain low pricing even if the market shifted down again. The surgeons in this service line have never agreed to reduce the number of vendors in this space (12) previously. They felt that due to the complexity of the cases they perform, they required all of the options for their patients. It was Jefferson's goal to give them the implants they needed to perform these complex cases and still remain cost conscious. To do this, all vendors had to meet pricing set forth in a request for proposal (RFP). It was during the several rounds of the RFP that we asked the vendors to not only agree to the pricing, but 'enhance' any offering if we were successful in shifting market share. Knowing it had been impossible in the past, we were very transparent with the vendors that the offers should be aggressive so any argument to not accept the proposal would be difficult. We received a few offers that would have been difficult to achieve, but one that would get us best pricing and award the vendor by shifting market share. Strategic sourcing had several meetings with surgeons to gain approval for this approach. It took months of meetings and conversations, but in the end, it was agreed that the previously impenetrable market share could be shifted. This additional value boosted the savings by 30 per cent and was a great example of strategic sourcing's ability to reduce cost and maintain revenue.

### Technology

- A logical extension of the growth discussion, what are we doing to put the best tools in the hands of our clinicians? Are we making decisions with the big picture in mind?
- How are we building, maintaining and leveraging relationships with clinicians to ensure their needs are being met and their wishes are vetted rather than dismissed?

- Historically, Jefferson was not as willing to entertain new technology without price neutrality over the predicate device. This, however, was changed when we started listening more closely to our clinicians regarding their needs and the scope of the larger opportunity that was presented. If a new technology has an immediate negative financial impact to our case costs, we must ask ourselves the following questions:

1. Does this product/device solve a problem that our organisation has?
  - a. Will it reduce infection?
  - b. Increase patient satisfaction?
  - c. Reduce length of stay?
2. How is our reimbursement for this service? Can our case costs sustain this increase and still be profitable?
3. What other services can the adoption of this technology drive in the growth of our organisation?
4. How is our relationship with the requesting physician(s)? Are there other areas for cost improvement in this service that could be leveraged to fund this technology?

### In action

A great example of how we use these 'guided' questions to get us to the right decision was when Jefferson was presented with a new technology that was FDA approved but not available at other institutions in our area. The original request for technology was denied due to cost over our current technology; however, after speaking to the requesting physician, researching reimbursement and gaining a greater understanding for the stream of patients that this technology would provide, we made it available. For instance, the data we looked at was taking the Philadelphia region's population of approximately 1.5 million<sup>3</sup> and making the assumption that the national average for the treatable disease state is the same in the



city of Philadelphia; it would mean that approximately 465,000 patients could have the potential of seeking new treatment. Of the 465,000 who could seek this new treatment, all would have to have at least four diagnostic tests to validate they were a candidate for the technology. And then only a portion, 93,000, may be eligible. To be realistic, we did not expect that we would see 465,000 new patients flood into Jefferson, but we were optimistic that this technology had the potential to draw patients from other institutions that were not yet providing it. It was in changing our thought process of 'how' we evaluate products or implants that aided the growth in positive relationships with our clinicians.

It is also important to understand that as healthcare changes and is driven by consumerism, hospitals must further consider the possibility that not having technology available can cost a patient encounter.

### Optimised service

1. What can we do, supply chain and suppliers, to advance both of these causes? And in so doing, ensure that the day-to-day service being provided to our stakeholders is the best that it can be?
2. This information is valuable to us both — it allows us to assess the capabilities and measure how a vendor is meeting our needs . . . and it allows our vendors to stay ahead of service and relationship issues that may disrupt or jeopardise future business. When issues are allowed to fester, trust erodes. When trust erodes, relationships ultimately dissolve, or degrade to become transactional and often adversarial.
3. We can also ask, how do we get out of this bid/buy/bid/buy cycle? Are there things we can do to evaluate the potential of new products before we are on opposite sides of the fence?

This level of discussion is only possible once trust has been gained and relationships

have been built through a collaborative sourcing approach.

### In action

In 2014 Jefferson was presented with an opportunity to move to a little known supplier for physician preference implants. The annual saving was nearly US\$1m and too large not to pursue. Our physicians preferred the current vendor and the current vendor's products, so a move away was going to be difficult. We evaluated the product, and it was not considered to be clinically acceptable; however, it opened the doors for other vendors who could potentially provide us with clinically acceptable products to be evaluated as well. We subsequently went to bid, incentivising the current vendor to address the disparity in pricing over their competition. They were faced with losing millions of dollars in business because they had priced themselves out of the market. It was not easy and did not happen overnight, but after engaging with our physicians, we were able to drive US\$1.6m in savings from the project, allow our physicians to continue to use what they preferred and aided in our institution gaining a corporate alliance with the vendor's parent company.

With this newly found partnership, a framework for continuous performance improvement and cost savings review was established, and a commitment to transparency was made by both sides.

### OPPORTUNITY ANALYSIS

While business alignment is the foundation upon which sustainable sourcing efforts originate, meaningful change-focused projects are derived by continuously scanning internally and externally for opportunities to reduce cost, improve service and keep pace with changes in the marketplace, including technological advancements and progress by competitors. There are three primary channels for discovery:

**Centrally identified** — Contracts that are naturally coming to term should be analysed for opportunity, be it price reduction, service-level enhancement or alternatives.

Through stakeholder engagement and business alignment (committees, administration and department-head relationships), evolving demands may drive changes in product requirements that present opportunities to explore alternate products or leverage greater volume.

Market scanning and benchmarking uncovers additional possibilities.

Spend analytics that identify chief suppliers by category and at an institutional level, consolidation opportunities, pricing variables and a range of opportunities.

**Customer driven** — Clinicians and business managers across the enterprise have needs that develop throughout the year. The products and services they are exposed to through their own network generate requests for new products. Those products that offer potential benefits add to the opportunity pipeline.

**Supplier generated** — Through supplier relationship management, unique opportunities may be presented or generated through conversation, marrying the needs of the buying organisation with the interests and goals of suppliers.

## PRIORITISATION

These three sources of opportunity (centrally identified, customer driven and supplier generated) need to be vetted and prioritised in order to maximise the return on the effort that will support each, and in order to scale appropriately to the amount of internal resources available to manage each resulting project. To do this, one must take a portfolio management approach to prioritising opportunities. All potential projects are fed into a pipeline based on contract life cycles, internal discovery and market intelligence.

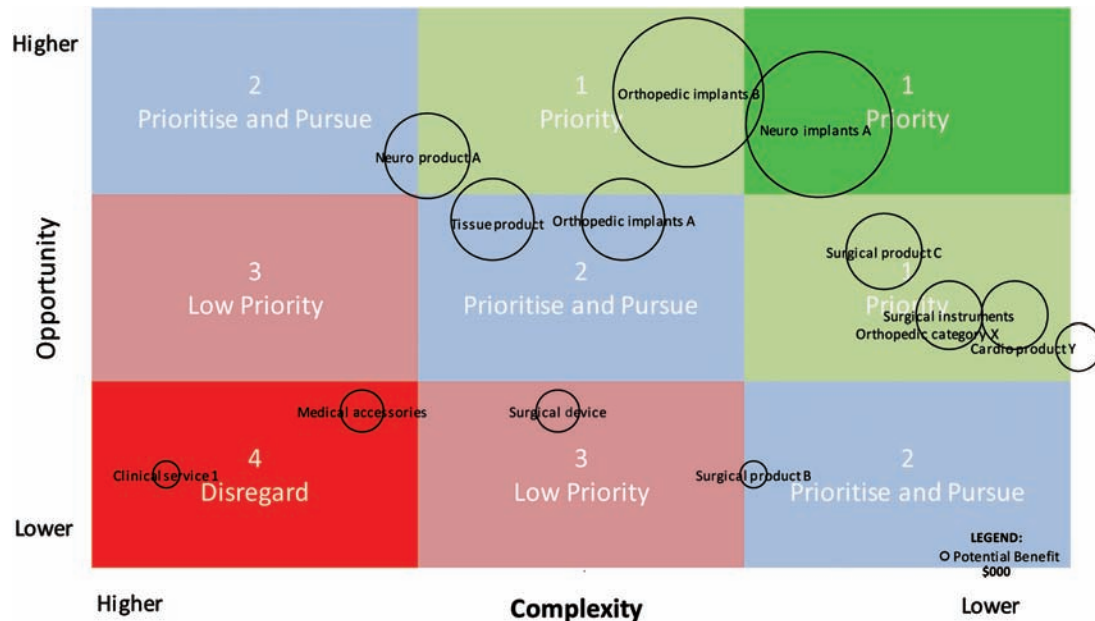
Each project is then assessed based on the following criteria:

1. Value — What benefits will the institution see from this effort? It is best to quantify value, if possible.
2. Internal complexity — How difficult will it be to organise an effort, rally support, gain commitment of stakeholders, evaluate potential new products, etc.
3. External complexity — How broad or narrow is the supply base? Are the products/services in scope commodity or proprietary? What is the level of qualified competition in this market? Are there strong preferences or supplier relationships in place that would thwart any change efforts?
4. Risk of change — What is the learning curve associated with a new product? Who will be impacted? What is the likelihood of failure?
5. Risk of inaction — If no change is made, will a current practice continue, will a product continue to be used, or will an issue go unresolved that would cause harm to the hospital or patients?

Each factor from 2 to 5 is scored (higher being better) and plotted along the  $x$ -axis of a chart. The value is plotted along the  $y$ -axis. Those projects floating to the top right are prioritised over those lower and farther to the left. See Figure 2.

These opportunities are then reviewed with the associated stakeholders to ensure alignment with the priorities, and this time can be taken to identify champions and sponsors for each of the projects.

Once the opportunities are prioritised and support from the department is gained, execution of the initiatives becomes paramount in the long-term success and sustainability of the sourcing programme. Missteps and poorly run projects will push away clinicians, and poorly planned and communicated efforts will breed distrust.



**Figure 2:** Sourcing prioritisation matrix

Only by carefully selecting those projects worth working on and then expertly executing sourcing strategies in those categories will the clinical community be swayed to become believers in the joint strategic sourcing model.

Executing a sourcing strategy entails turning an opportunity into an implemented and sustainable solution. This is achieved by utilising a six-step sourcing project management process. We will focus on the first three, which require the most organisational management and internal influencing.

## SOURCING PROJECT MANAGEMENT

Through regular engagement of stakeholders, relationships are built and opportunities are discovered. Stakeholder engagement is similarly critical to the success of sourcing projects that are borne from this model. At the relationship level, stakeholders include department heads, budget holders and principal decision-makers; on a project level, this expands

to include subject matter experts, end users and a representative group of those who will be impacted or have an interest in the outcome of the project, and will often include IT, legal and finance. Once a project has been prioritised for advancement, it should go through the following stages.

### Stage 1: Sourcing team development

The sourcing manager or project lead aligns a sponsor or champion who is of sufficient authority so as to navigate executive influence over the project and help manage any outside forces. With the authority of the sponsor, power is given to the sourcing team to proceed with the project and draw on the resources that inevitably will be committed to the endeavour. To secure sponsorship, a business case or opportunity analysis must be presented. The most effective format for this is a three-point executive summary of the current state, the targeted or desired outcome, and proposal to deliver the potential identified in the gap between current condition and target.



The sourcing manager will also identify the main players who will form the core sourcing team. This sourcing project team should consist of an important decision-maker who is a direct beneficiary of the outcome, one or two other experts familiar with the product or service, a technical lead and anyone else designated as subject matter experts.

With information that is known, a kick-off meeting is held to review the current condition. A summary document should be presented that provides foundational information about the current state. This document will be utilised and evolve throughout the project as more information is known and curated.

Figure 3 is an example of a basic kick-off document.

The team's primary focus at this stage is three-fold:

1. Decide what is in and out of scope of the project. Develop the business requirements and general specification that will serve as the foundation for the RFP.
2. Identify all constituents who will be impacted by the project. Decide what

needs to be communicated to each of these groups through various stages of the process.

3. Develop a comprehensive sourcing action plan that clearly identifies roles, responsibilities and essential milestones necessary to execute the project (see Figure 4).

Once a reasonable assemblage of project scope and stakeholders is complete, a communication is appropriate to announce the formation of the team and the purpose of the project, to inform constituents of the impending activity and to prepare them for any activity that may require their input. It is also important to discuss supplier engagement, directing anyone contacted by suppliers to defer to the principal members of the project team. This is critical for ensuring consistent messaging throughout the process, avoiding any misunderstandings and resulting delays and maintaining leverage.

## Stage 2: Strategy creation

With the formation of the sourcing team, the development of the basic specification, the

Category/Project	Orthopedic Category X		Project Owner(s):	Steven E
Suppliers	Annual Spend - TJUH	Annual Spend - AMH	Contract Expirations	Executive Summary
Supplier A	\$ 3,440,700.58	\$ 1,099,392.00	new contracts 2018	Recently renewed contracts. Requested XX% off of 2015 list of Most vendors agreed and contracts have been established.
Supplier B	\$ 755,617.31	\$ 103,879.00	new contracts 2018	
Supplier C	\$ 147,684.73	\$ -	new contracts 2018	Additional incentive to move market share to Supplier A worth an additional \$XXX per year
Supplier D	\$ 104,549.74	\$ 1,274,861.00	new contracts 2018	
Supplier E	\$ 169,165.00	\$ 73,490.00	new contracts 2018	
Near-term Opportunities				
Option		Benefits		Risks
Drive marke share to primary vendor				
Seeks further discounts through shelf-price model				
Long-term Opportunities				
Procurement Levers				
Price Reduction	primary	Dr. P	Financial Impact	
Vendor Consolidation	primary	Dr. R	Projected Savings Opportunity	
Utilization Improvement	phase 2	John C	initial savings of 45% off of list was \$XXXX	
Alternative		Dr. R	additional savings of \$YYYY for transition to Supplier A	
Demand Management		Maritza S	Potential Cost to Change	
Vendor Relationship Management	primary	Monica Y		
Product Specification Change		Shane F		
		Marie M		
Sourcing Strategy Proposal		Project Sponsors & Champions	Implementation Considerations	Benefit Delivery and Implementation
		Dr. K		--Estimated Timeframe

**Figure 3:** Example Sourcing Project Opportunity executive summary

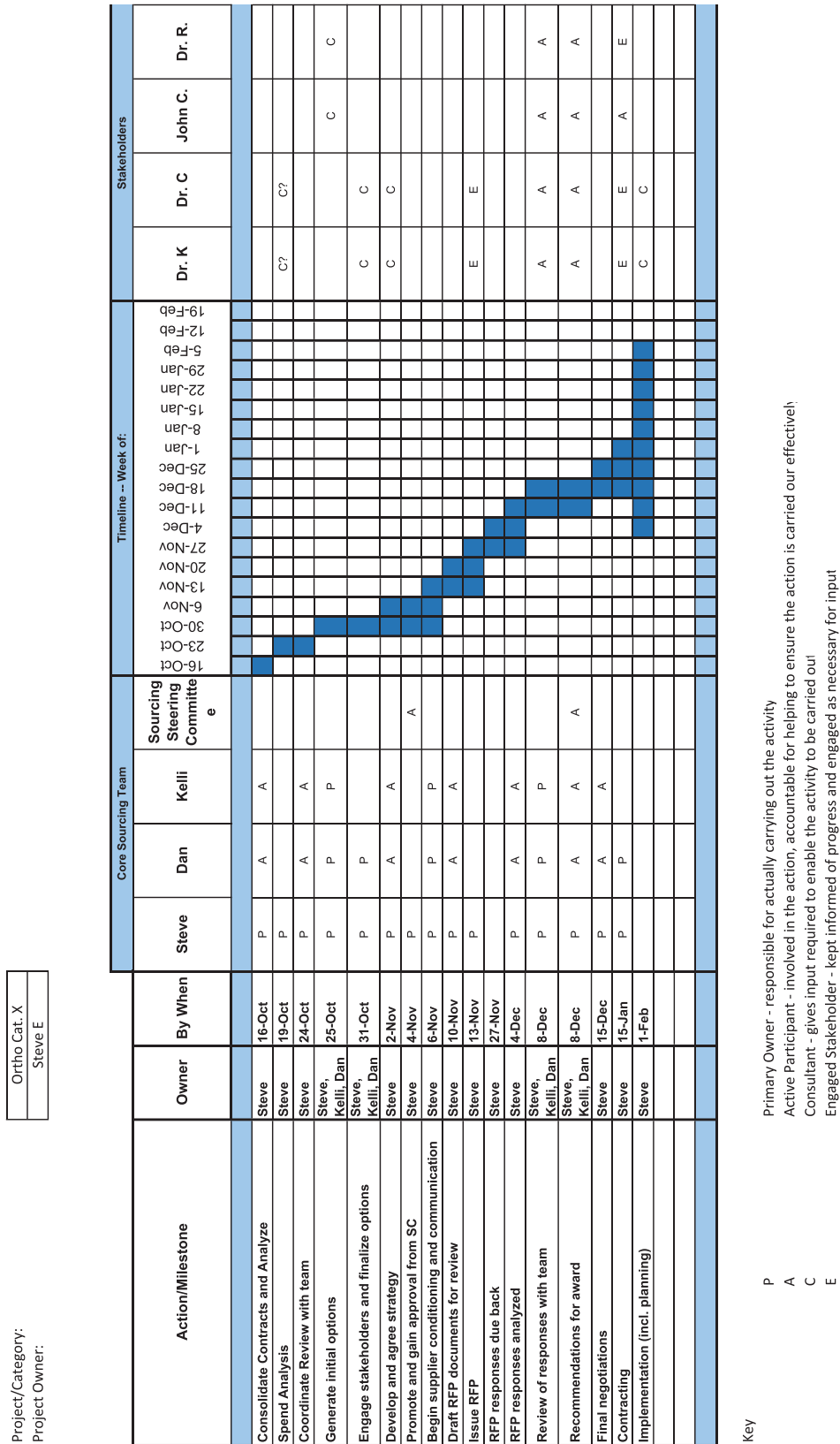


Figure 4: Example sourcing action plan

definition of the scope of the project and the outline of primary stakeholders, members can proceed with additional data collection and analysis with the goal of developing options for sourcing strategies. This includes in-depth market research beyond what was done to assess the opportunity to understand trends in the marketplace, supplier development, internal trends that impact future utilisation or demand for products and solicitation of input from primary stakeholders. If the user base for a product is large, then additional surveys or internal requests for information may be conducted to ensure all inputs to the project are known.

Options can be identified at any point, and additional data will ensure a thorough examination of each of the options. To accomplish this, a simple comparison table can be utilised to rate each option based on various considerations. Factors to consider include the following:

1. Potential value
2. Probability of success
3. Cost of change
4. Internal difficulty
5. External forces that may affect the outcome
6. Risk of action
7. Risk of inaction

After options are reviewed and viable options are selected, the project summary used to kick off the project should be updated. This provides additional context when putting forwards options for recommendation, and provides an executive summary to the project sponsor and any chief stakeholders that need to be consulted before pursuing any of the recommendations.

When estimating financial value, there are many levers or methods by which cost can be reduced or margin enhanced. If there are other benefits related to improvement in care through better outcomes, patient satisfaction, reduced infections, etc., or those benefits are the primary driver behind a change, a

quantitative analysis should be performed to deliver the right input that will enable a true value-based decision that incorporates all financial and clinical considerations.

Following are seven of the most common cost-related levers:

1. Price reduction — very simply, paying a lower price for a product. This includes consideration for out-of-pocket expenses related to a product, which could include capital equipment, service and warranty contracts, etc.
2. Vendor consolidation — reducing the number of suppliers who provide products in a category. This concentration of volume is often a principal driver of price reduction.
3. Utilisation improvement — Is the use of the product optimal, or are there practice changes that can reduce waste and lead to a smaller quantity needed for a given application? Are there any operational efficiencies to be gained? Does packaging lead to excess product usage that exceeds demand?
4. Alternative product — Are there products that are more effective, more efficient, safer and longer-lasting that can reduce the overall cost of ownership or care?
5. Demand management — implementing tools and/or processes that manage or control the amount or frequency of product usage
6. Product specification change — Is the right product in use for the right application? Are all of the requirements understood and are there features that could be eliminated or revised that would allow a change in product selection?
7. Supplier relationship management — While vendor relationship management is a topic worthy of its own discussion, fostering relationships with strategic suppliers can lead to additional value that includes additional price concessions, rebate agreements, corporate overlay incentives, plus value-adding services

focused on operational efficiency or product usage optimisation.

At this point, communication and stakeholder engagement are again paramount. It is crucial to secure the buy-in of primary stakeholders. Options selected may be very focused or could include the exploration of multiple scenarios, either of which could raise concerns among users of the products if they do not fully understand the goals of the project. Various communication channels can be used at this stage, and often e-mail is the least-effective method. Face-to-face discussions, however brief, have proven to be more effective at communicating the intent of the sourcing team. Relationships should be leveraged to deliver information by the person who is most trusted by the recipient of this information.

Suppliers can also be given advance notice that a project is about to begin, although this will depend on anticipated reaction of suppliers in the category. Some are respectful of the process, while others will seek to fragment the customer group and embolden the users they believe are passionate about their products.

With the orthopaedic implant project, a comprehensive summary was prepared by the sourcing manager, and it was the physician lead who was equipped with this summary to review with his colleagues. Given his relationships with his peers and his knowledge of the differences between the available products and suppliers, it was deemed most appropriate for him to prepare his colleagues for the process. In many categories, the sourcing lead is well positioned to manage this communication, but this role should default to the most trusted advocate, and may vary between stakeholder groups for a single project.

### **Stage 3: Strategy execution**

After the team has been formed, the options have been weighed and narrowed, business

requirements and specifications have been developed and approval has been gained from sponsors and stakeholders, it is time to formally engage suppliers. The need for planning, adherence to the process mapped during the strategy creation stage and clear communication with continued engagement of stakeholders are vital to continued success.

Keeping stakeholders informed ensures their alignment with the process. Letting suppliers know precisely what is expected of them with explicit instructions about the rules of engagement (while reinforcing these to a sufficient extent internally) maintains control over the process.

The initial vehicle for supplier engagement will typically be an RFP. What separates a good project from a transformational project are control, communication and management of suppliers and stakeholders. The major steps to drive breakthrough change include the following:

1. **Supplier conditioning** — In addition to instructing suppliers about the rules of engagement, this is the opportunity to emphasise what is truly needed, reinforce the goals of the organisation and focus attention on what value there is to be gained and lost with an unsuccessful approach. E-mails can be used to reinforce crucial messages, but nothing substitutes for face-to-face discussions. It is very important that messaging be clear and accurate to ensure that proposals meet expectations and to avoid any delays in review, analysis and recommendation for award.

### ***In action: 'May' versus 'will'***

While the title of this section is ambiguous, it is not a question of our own will, but a strategy that proves only a slight change in 'how' we deliver our messaging can change the entire outcome of a project.

Jefferson, by volume, was the number two implant hospital in the country in a large orthopaedic category<sup>4</sup>; however, our pricing was not reflective of our position in the market. We set out to engage our surgeons and to coordinate an approach for the project. After speaking with our physician champion and understanding the complexity of the physician's needs, a decision was made to standardise pricing across all vendors. Our physician champion was able to get his colleagues to agree that all vendors would either comply with the pricing set or risk suspension. Our draft communication to the vendors was originally 'you *may* be suspended if you do not comply'; however, because we had the support of our physicians behind us, we felt confident in changing the communication to 'you *will* be suspended if you do not comply'. That slight change in the communication clearly stated the rules of engagement. Since it was a very different approach for us, two vendors were not convinced that this was a viable threat and remained non-compliant after the deadline. These two vendors were suspended for six months with no ability to return, even if they became compliant subsequent to the suspension. While this was not the outcome we or our talented surgeons had hoped for, all agreed that it was the right thing to do, setting an important precedent with our supplier base by supporting strategic sourcing in this action. Because of our efforts, Jefferson was able to drive US\$750,000 out of our costs in this category.

2. Robust RFP — While seeking to avoid overwhelming suppliers with information and keeping proposals to manageable lengths that facilitate good reviews and analysis upon submission, an RFP should direct suppliers as to why this is important, what is expected of them and provide them with a basic set of requirements upon which they can base their proposals.

A good specification and clear direction supports consistency in responses and ensures a level-playing field.

Jefferson uses the RFP not only as an opportunity to secure best pricing, but to test the market for future cost savings and market share prospects. We design our RFPs with scenarios that are probable today and some scenarios that may be possible in the future. We believe that our open and honest discussion with our vendors regarding the scenarios aid in an understanding of opportunities we may be abandoning based on untested fears related to relationships with our clinicians.

An example that happened recently was with another type of physician preference implant. For many years Jefferson attempted to convince our surgeons to entertain a prime vendor relationship for the two types of implants they used. The most vocal surgeon was opposed, and the others in the practice followed his lead. Only after establishing a positive relationship with the vocal surgeon were we able to 'ease' into an RFP process for a prime vendor agreement. The entire process hinged on the understanding that no changes would be made without explicit approval from the vocal surgeon champion. Jefferson positioned the RFP to give the vendors two choices: (1) pricing based on one 'bucket' of business or (2) pricing based on both 'buckets' of business or what would be equal to a prime vendor agreement. We were not sure how the RFPs would be returned, but were hopeful for additional value. We were not overly surprised when they were returned with no value for the one 'bucket' of business, but tremendous value for both. Although the champion was adamant that he was not willing to change, we presented him with the opportunity and allowed him the right to refuse it. Not only did the surgeon not refuse the proposal, he agreed to change product based on the value it presented to



the organisation. Strategic sourcing was able to accomplish what the Associate Chief Medical Officer and Administration could not do previously, get the surgeon to make the change.

3. Negotiation planning and negotiations — Securing internal alignment about the team's direction and agreeing messaging, assigning roles and responsibilities, understanding targets and base positions and having a well-crafted approach are critical to the continued drive towards a desirable outcome. Negotiation planning is a step that is often overlooked. While seasoned and experienced sourcing professionals and stakeholders may be gifted individual negotiators, these skills cannot be relied on exclusively for success. Too often teams go into negotiations without any cohesive plan.

It is always critical to the process to have several plans in rotation prior to negotiations. The negotiator must know the 'lay of land' with not only the vendor, but the service line and the physicians who use the items/service. It is not always possible to have only one negotiation and land at the best place for all parties; therefore, it can be the expectation that the first round of negotiations is more of a fact-finding and level-setting session. The other imperative is to establish a relationship with the vendor that breeds creativity. It is a great opportunity to understand what the vendor can provide from a corporate prospective, service or even education. Therefore, the total value of the proposal can be assessed and not just numbers on a page.

4. Final recommendation and award
  - a. Ensure all stakeholders understand what is being gained and what may be sacrificed.

- b. What changes will impact them
- c. Implementation planning
- d. Tracking and sustainability of gains

These factors can make or break the entire process previously outlined. Strategic sourcing has run several successful processes, and it only takes one misstep to halt or delay progress. Jefferson had experienced this when one of the main stakeholders failed to communicate with the physicians as they had agreed. The sales representative presented to the physician to begin an evaluation for which the physician was unaware. This caused more issues than a delay in the progress; it created mistrust with a physician for which a positive relationship was imperative. It also gave the false impression that strategic sourcing was not willing to consider the needs of the surgeon using the product. Strategic sourcing ultimately put the project on indefinite hold until we could mend the relationship with the physician. The good news story is that often, even a negative exposure with a physician can become an opportunity to begin to have a dialogue for which trust can be forged. In this case, the surgeon went on to aid us in negotiations with a vendor of choice for his service line for which Jefferson was able to negotiate a saving.

#### **Stages 4–6: Contracting, implementation and performance monitoring**

The work of the sourcing team does not end with the selection of a vendor. Contracts with real accountability need to be negotiated, and, in the case of a product change or introduction, a comprehensive implementation plan must be developed. Successful implementation of a new product or service is just as important as the process to select the right supplier. Many of the same principles related to stakeholder identification, engagement, communication

and planning apply. Once implemented, performance and compliance with the contract need to be monitored.

### Post-sourcing efforts

Following successful implementation strategic sourcing, product users and suppliers should work together beyond mere performance monitoring to optimise service and product utilisation, creating a self-sustaining feedback and improvement cycle that ensures all parties continue to benefit from the relationship. For select suppliers, relationships can be cultivated that cross product lines to explore synergies, efficiencies, help to more quickly resolve issues and identify potential avenues for both partners to grow together.

### CONCLUSION

Perched at the intersection of suppliers, clinicians and administration, sourcing and supply chain are poised to drive many of the changes that will be necessary to adapt to changing reimbursement structures, patient preferences and care models. As supply-related expenses account for 42 per cent<sup>5</sup> of costs for hospitals today and are projected to grow, managing costs will become more important than ever before, and will have to be done all while technology advances at an accelerating pace. With the reliance on supply utilisation during the course of care, effectively sourcing and managing supplies to ensure the best products are used in the right setting and in the right way will be critical

in the long-term health and growth of care providers.

Engaging administrators, service line leaders and clinicians, and seeking to align with their objectives and needs is the first, and often the most difficult, step in developing a true strategic sourcing function. This level of engagement can happen organically, but may require intervention and support of senior leadership. The talent to support the needs of the departments is also an important variable that must be assessed before an attempt is made to implement such a programme. With the right talent, the right executive support, and the processes to successfully execute the opportunities borne from this engagement, healthcare organisations will create an environment where change is embraced, financial prudence becomes embedded in the culture and clinical/administrative efforts to keep pace with technological advances in the marketplace align.

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