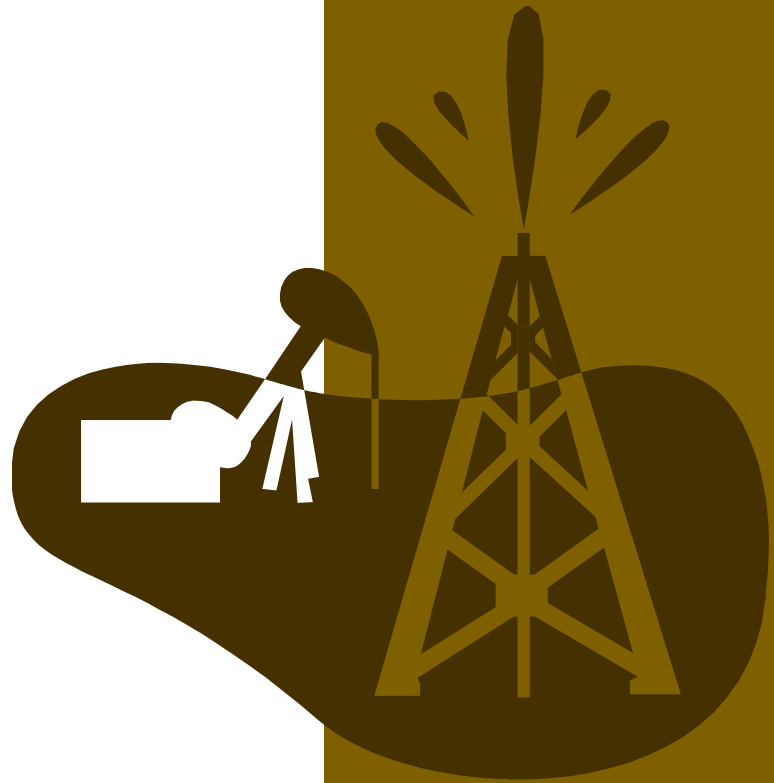


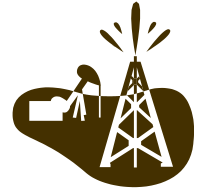
**SPECIAL REPORT**

# Supply Utilization Management

## **The Untapped Well**



Robert T. Yokl  
SVAH Solutions  
3/6/2016



## Letter from the Author

We wrote this special report since we believe that the healthcare marketplace is overlooking an untapped well for savings that can fill your healthcare organization's savings tank for many years to come.

A good analogy for you to understand this opportunity stems from where I live in Pennsylvania. Natural gas wells were non-existent a few years ago; however, with the discovery of the Marcellus Slate fields in upstate Pennsylvania, they are now omnipresent and pumping out 30.3 million cubic feet of natural gas per day.

Better yet, some experts believe that all of the slate deposits in the U.S., if tapped, could mean 100 years' worth of natural gas! *It's the same with supply utilization management.* There could be decades of savings for your healthcare organization if you tap into this new source of savings for your hospital, system, or IDN.

Do not overlook this new and better savings source, since it could mean millions in new supply chain expense savings for your healthcare organization.

Warmest Regards.

*Bob Yokl*

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## ***Where Are Your Next Big Savings Coming From?***

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Here is a question for you to answer honestly: Where are your next big savings coming from? If your answer is GPO contracts, *think again*. Your GPOs are struggling just to keep even with inflation, which was estimated to be 1.5% in 2014, since they have wrung the towel dry in savings from their vendors over the last three decades. *This is a dead end!*

If you have recently joined a regional GPO, they can help you with some contract savings now and in the future, *but these saving won't move the needle over the long term*.

If your answer is standardization, this job should have been substantially completed years ago; GPOs have facilitated this with sole source contracts. *This is a realized goal for most hospitals, systems, and IDNs*.



### **21<sup>st</sup> Century Reality Check**

Our goal here isn't to paint a bleak picture, but to give you a 21<sup>st</sup> century reality check so you realize that new sources of savings are necessary, beyond price and standardization, to keep your savings flowing over the

long term, and to encourage you to add supply utilization to your savings arsenal to up your savings game.

For instance, one of our clients upped his savings game by saving \$1,324,000 in price, contract, and tier management, but get this...he also saved \$1,572,386 in supply utilization savings (or 119% more) over this same period. Do you see how supply utilization can make a big impact on your bottom line results?

**“My goal here isn’t to paint a bleak picture, but to give you a 21<sup>st</sup> century reality check”**

### **If Not Now, When?**

We are hearing from the marketplace that most supply chain professionals agree that supply utilization management is important, but few are doing anything about it. They are still chasing after price and standardization savings. *This is unfortunate, misguided, and counterproductive!*

Here's why! While controlling price and standardization will always be mission-critical functions to any and all supply chain managers, these tip-of-

**“The preponderance of your product, service, and technology life cycle costs, or 63%, is in your in-use costs.”**

the-iceberg savings represent only about 37% of your total cost of acquisition to disposition. The preponderance of your product, service, and technology life cycle costs, or 63%, is in your in-use costs or how your commodities are employed by staff in your healthcare organization.

For instance, you might have the best price at the highest tier GPO contract for exam gloves, but if your clinicians are wasting gloves at a rate of 5.6 per patient day, when 3.2 is an acceptable standard, you aren't saving money; you are losing money every day, every week, and every year.

That's why we are encouraging you to step up to the plate now to reduce the utilization misalignments in your supply stream which could be in the range of 7% to 15%.

## Need to Evolve

All organizations and disciplines need to evolve over time or they decline and then finally disappear. There is a saying in healthcare that it takes 20 years for a new idea to take hold. It has been 16 years since we introduced the concept of supply utilization management into the healthcare marketplace, so we are getting close to the end game. Doesn't it make sense for you to jump on the bandwagon before it leaves you behind?



Change is necessary for growth, maturity, and enlightenment so we can meet the challenges of every new age. In healthcare, everything is changing dramatically with the new Affordable Care Act (ACA), so supply chain management must change if it is to be viable in the 21<sup>st</sup> century. We as supply chain professionals can either meet these new challenges brought about by the ACA head-on or stagnate. *There is no in-between!*

For over 100 years, healthcare supply chain managers have focused in on price and standardization to rein in their healthcare organization's costs. Then about 25 years ago, supply chain directors took a big leap forward in cost and quality evaluations with value analysis teams.

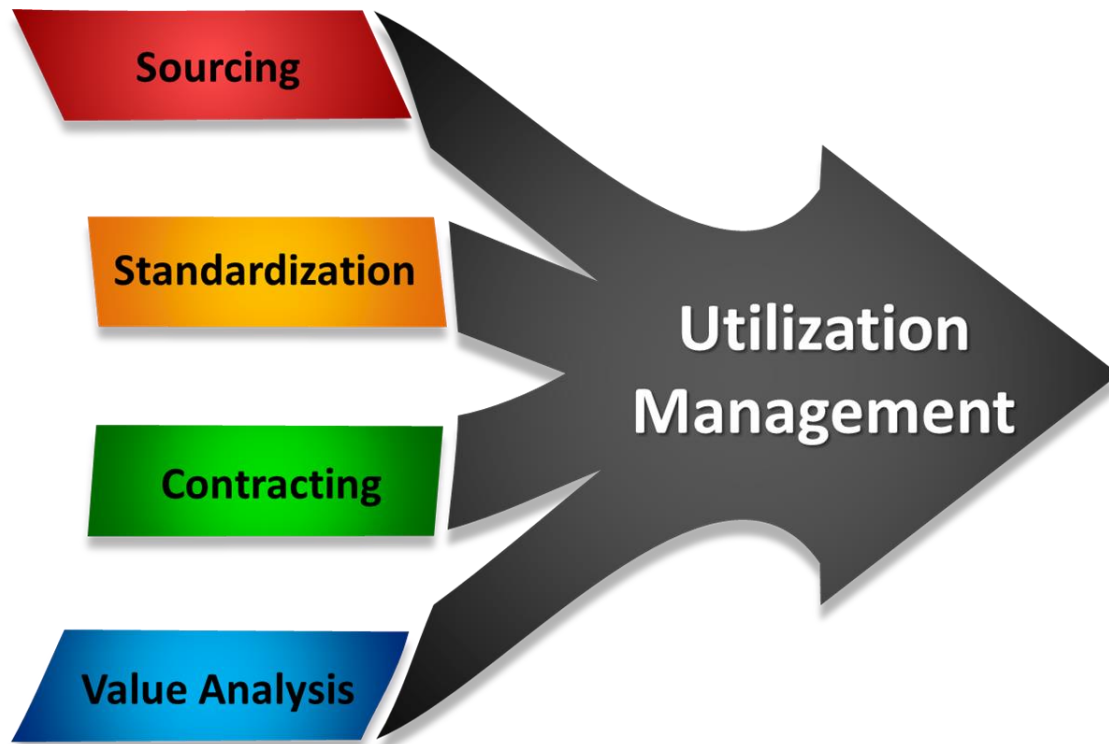
This new methodology enabled supply chain professionals to effectively manage the cost and quality of the products, services, and technologies we were buying. The thinking at the time was that we as a profession were able to control all cost and quality issues related to the supply chain expenses that were possible to control with our supply chain management efforts.

*Unfortunately, this hypothesis was wrong!*

## **Change is the Natural Course of Doing Business**



What we discovered over 16 years ago is that there is more to supply chain expense management than price, standardization, and value analysis. The component that is missing from most healthcare organizations' savings strategies is utilization management.



By definition, **utilization management** is control of the wasteful and inefficient consumption, misuse, misapplication, or value mismatches in the products, services, or technologies you are buying. It's all those things that happen when you hand over these commodities to your customers. *Anything can happen and usually does*, such as:

- \$200,000 wasted in a hospital due to not buying a secondary I.V. set for one year. They didn't realize they needed one...

**“Anything can happen and usually does.”**



- \$725,000 in telecommunications savings when a hospital system reduced the number of services and phones in their healthcare system.



- \$625,000 saved by centralizing and then outsourcing all transcription services in a hospital that had 18 outside contractors, plus in-house staff too!

**The bottom line:** Your in-use life cycle cost is approximately 63% of any product, service, or technology's purchase price. That's why supply utilization management is even more critical than the price you pay for a commodity.

### New Ideas, New Savings



Just like value analysis, when this idea caught on it gave supply chain managers a new savings and quality arrow in their quiver. Now, we are presenting to you an equally powerful untapped well of savings that is still a virgin territory at any and all healthcare organizations. We can make this bold statement, since we have surveyed hundreds of hospitals, systems, and IDNs over the last 16 years and hadn't found one that had supply utilization under control. *By the way, we are talking about 7% to 15% in*

*new savings opportunities that go right to your healthcare organization's bottom line.*

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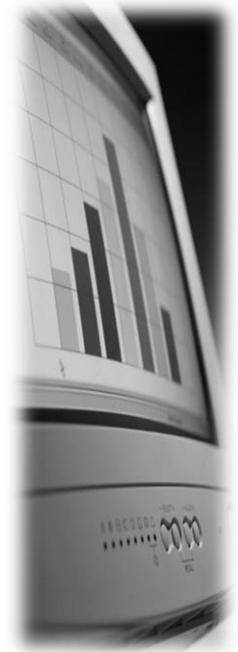
## **Evidence-Based Value Analysis**

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In supply chain circles, the buzz words today are *evidence-based value analysis*, in essence, proof that a product, service or technology works as advertised or a lower cost alternative is available for your hospital.

However, what we have discovered is that there is no better evidence than your own **empirical or observed data**. This involves the accumulative effect of seeing data that consistently points to an anomaly in a product, service, or technology's supply streams as compared to your peers' or your own historical data.

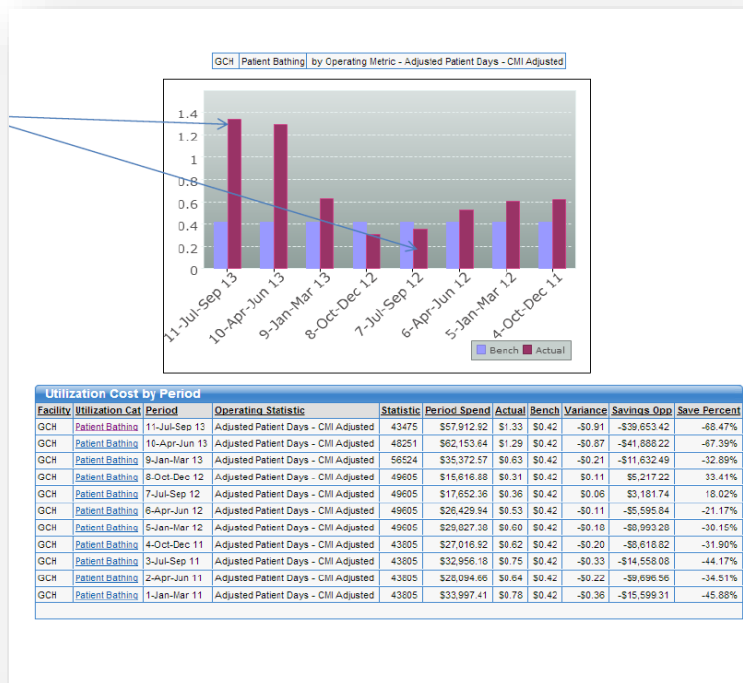
This could be that you are using 10x your peers' usage of examination gloves or you observe an increase of 27% in your examination glove usage in just one quarter without any increase in your census. We see this as reliable, evidence-based proof that you have an opportunity to save money or improve quality.



The beauty of this evidenced-based information is that it can be obtained from your own MMIS system, once it is married to your own operating statistics. We recommend that you update this information on a quarterly basis for best results.

In Figure 1 we show a patient bathing system’s cost per adjusted patient day that increased over the last three quarters by as much as 260%.

**Figure 1: Patient Bathing System Evidence-Based Data**



You don’t need to be a mathematician to realize that something has changed with this product’s usage and that this needs to be investigated. In our

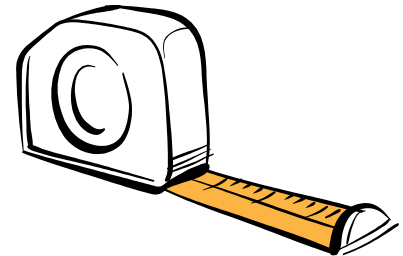
opinion, this data is undisputable evidence or proof that is as reliable as any original research study that you might find on the internet or purchase from a third party to build a case for change.

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## ***Everyone Needs Benchmarks***

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If you weren't aware of it, benchmarking is your key to becoming the BEST OF THE BEST in supply chain expense management. No longer can you guess where your savings reside; you need to know with **clarity** and **certainty** every year where savings are hidden for the following three reasons:



- **No one has the UNLIMITED RESOURCES** to search for savings that might never result in realizable savings.
- **No one has the VISIBILITY that is necessary** to ferret out savings that are hidden from their view.
- **No one has the TIME that is required** to uncover where your next savings opportunities are coming from.

Yet, all of these negatives can become positives, with the right benchmarking system. Benchmarking, if done artfully and scientifically, can solve the challenges of not having unlimited resources, total visibility, and time constraints because it pinpoints with *near* certainty where your best savings opportunities reside.

To prove my point, here are some real-world experiences of a few of our clients who have signed up for our benchmarking service:

*What makes  
the difference  
in  
benchmarking  
is attention to  
detail!*

- 391-bed hospital saved \$262,000 on wound care products.
- 381-bed children's hospital saved \$525,000 on lab reference testing.
- Three-hospital system saved over \$100,000 in oxygen sensors.

These are just three examples out of hundreds we could cite in which our clients have saved millions with our benchmarks and continue to do so.

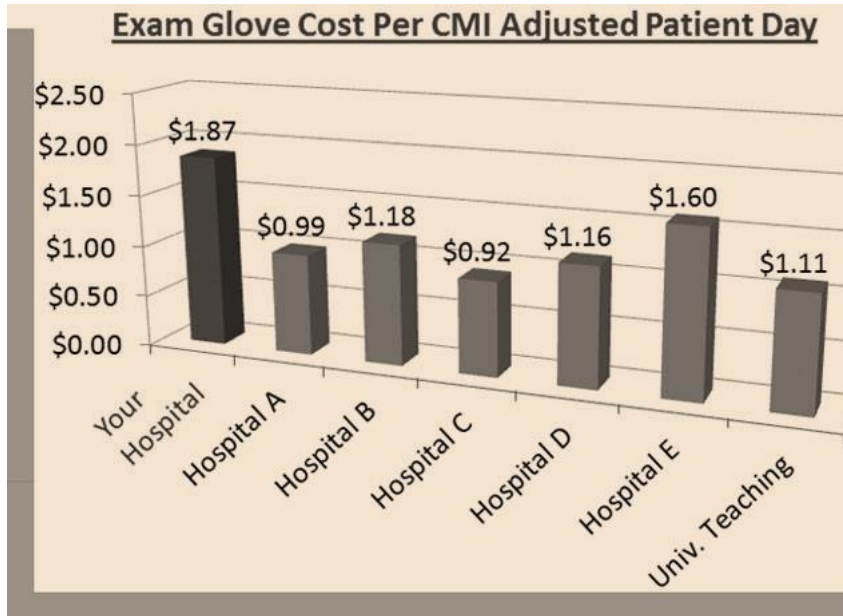
I know you have been disappointed in the past by benchmarking companies who have dropped the ball by providing you with either wrong or inaccurate

benchmarks that have led you on a wild goose chase, or worse yet, embarrassed you.

Well, we have experienced this too! That's why we only use benchmarks from our own client cohort since we know their healthcare organizations in detail. This enables us to provide accurate and reliable apple to apple benchmark comparisons. This is the step that is missing in most benchmarking companies; knowing their benchmark partners' operating characteristics. *What makes the difference in benchmarking is attention to detail!*

The most important benchmarks, as we like to say, are at the ground level or SKU. This is because they are ACTIONABLE! For instance, in Figure 2 we show peer benchmarks for a typical hospital's exam glove usage, even a teaching hospital for comparison purposes. This is the kind of competitive intelligence you need to have for your healthcare organization each and every quarter to make an impact on your bottom line.

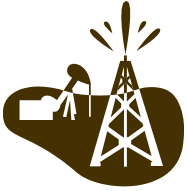
**Figure 2: Exam Glove Peer Benchmarking Chart**



**“To avoid slippage in your savings projections, make sure you audit all of your savings gains”**

Now that you know the importance of benchmarking, can you really afford not to have this kind of evidenced-based information at your fingertips in the new healthcare economy live and work in?

*I don't think so...*



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## Why You Need To Control Your Gains

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Now that we have talked about how to save more money with better utilization management and value analysis analytics, I would like to talk about why you need to control your gains. Every supply chain professional saves money every day, week, month, and year. *My question to you is, do these savings STICK?*

It's been our observation working with hundreds of hospitals, systems, and IDNs that only 37% of savings that are reported as saved really happen! By this I mean, when we track reported savings for our clients we often (13% of



the time) find that through poor in-servicing, inadequate communications, fragmented vendor coordination, misuse, misapplication, or value mismatches, the savings never occur.

This is an epidemic in healthcare supply chain management circles and can create mistrust with your senior management when they find out this is going on right before their eyes. I remember a supply chain manager telling me about his CFO calling him to his office to explain why he wasn't seeing hundreds of thousands of dollars in savings in I.V. sets that he was told were being implemented. The supply chain manager immediately began investigating why these savings weren't



occurring. What his investigation revealed was that his new GPO I.V. contract had been implemented, but his nursing staff was now buying the highest priced I.V. sets on the contract, thereby, negating the huge savings he projected to his CFO. *Don't let this happen to you!*

To avoid slippage in your savings projections, make sure you audit all of your savings gains at least quarterly to ensure that they stick the first time.

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### ***Walk the Talk***

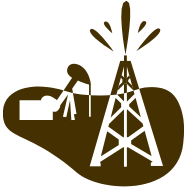
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I just spoke to a sales representative from a national healthcare manufacturer who told me that every conference he attends he hears attendees talking about attacking their utilization misalignments, but when he offers these same individuals a free utilization study on his product line they REFUSE his offer. What is going on here?

We find that many times people, even supply chain professionals, don't want others to know that they aren't on top of their game - so they fake it. Don't make this same mistake! Your utilization savings are real, plentiful, and achievable without too much stress if you decide it is a priority to make these savings a reality!

A good place to start your utilization studies is with an ABC analysis (sort your highest to lowest annual spend by dollar amount) of your annual purchases. Then, develop a metric using your hospital's operating statistics (e.g., patient days, discharges, tests, procedures, etc.) that correlates with the product/activity you are trying to measure. For example, if you wanted to measure your examination glove utilization for one year you would divide your patient days into the dollars of examination gloves you use annually. A typical answer to this equation would be \$1.33 per patient day. You then need to benchmark this metric with a peer organization, which will result in a metric of about \$0.42 per patient day. Hypothetically, you would have a negative variance of \$0.91. This would lead you to the conclusion that you have a utilization misalignment with your examination gloves which can then be delegated to your value analysis team for investigation. This might seem like a lot of work, but by using a spreadsheet for your calculations this chore becomes manageable.

The exercise we just performed is the basis for value analysis analytics, or as we like to call it, THE NEW SCIENCE OF SAVINGS where we use statistics, activity-based costing, and fact-based data to identify new utilization savings opportunities. No longer can we guess where our savings beyond price reside, we must know with certainty, since we have limited resources to do this hard work.



## Optimize Your Savings (Case Study)

It's getting harder and harder for healthcare organizations to squeeze the last dollar out of their supply spend with price and standardization strategies and tactics alone. That's why, 32 months ago, the materials management department of the 391-bed Enloe Medical Center (EMC), Chico, California, decided to attack their utilization costs (i.e., wasteful and inefficient consumption, misuse, misapplication, misappropriation, and value mismatches in their supply streams).

EMC's materials management leadership felt it was clear that this was where their next biggest savings opportunity resided. Just as important, EMC materials management believed that they were the best prepared department to make these new

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savings happen since they were well positioned to be in a leadership, facilitator, and change agent role to bring the right people together to ask the

right questions that would reveal the utilization misalignments in their hospital.

### **Spirit of Collaboration**

To get this new endeavor off the ground, EMC signed up for our Utilizer® Dashboard subscription service. This service provided the necessary specialized value analytics to pinpoint the best areas to focus on for EMC's workgroups. Almost immediately, an incredible spirit of collaboration began taking place as "value-based thinking" took root throughout the organization. This teamwork started with an alignment between materials management, quality management, infection control, physicians, clinicians, and executive management, and led to value-based decision making, problem-solving, and a learning process that still exists after 32 months.

Among the lessons learned early by EMC was that it was critical to have executive management support at the outset. Dedicated program coordination from an individual fluent in the exercise of relational power

helped to clear the way when obstacles, dead ends, or impediments stood in the way of work teams' success. It was also important to add a number of "critical thinkers" to workgroups. "We found that we didn't need workgroup members to be subject matter experts for them to greatly contribute to our investigations," stated Alan Weintraub, Chief Supply Officer. As a result, he added, "We were able to have more objectivity from these unbiased participants than typical process owners, who too often are just trying to protect their turf. Best of all, our department heads and managers have now accepted our utilization management program as the way we do business."

### **New Mindset**

Alan found that one of the keys to success at the outset of the utilization management program was to create a "new mindset" for materials management staff, physicians, clinicians, and department heads to spur them into action.

Alan called this mindset “value-based thinking,” or taking an “inquisitive approach as to why we do the things we do in our hospital,” as well as focusing on outcomes, not activity. “It was especially important for our program coordinator to realize that it was okay for her to challenge the organization’s long held assumptions regarding the value of what we were buying, doing, and spending on any given commodity.”

This mindset brought about immediate financial and qualitative results on one of his first projects – wound care. Instead of signing off on a new GPO contract being offered, Alan decided on the value-based approach of taking a floor-to-ceiling look at their wound care program in an attempt to reduce pressure ulcer rates. During the course of the initiative, Alan’s team reviewed the use of patient transfer devices, skin care and incontinent care products, ultrasorb pads, the bed-making process, and transport team training. Consequently, EMC reduced their pressure ulcer rate by 10%, while reducing their wound care supply spend by \$262,000 annually.

## Measure and Observe

Another big challenge Alan encountered was how and where to uncover the best utilization savings opportunities with the best return on investment. Alan solved this dilemma with our Utilizer® Dashboard, mentioned earlier, that quickly measured and identified his utilization misalignments in tandem with MMIS reports, new technology requests, and other benchmarking tools.

Another utilization project that Alan addressed was Ventilator Associated Pneumonia (VAP) products. His materials management staff worked with his quality workgroup to investigate product utilization. Initially, the workgroup established EMC was utilizing standard oral kits, hi/lo ET tubes, q72 hour closed suction kits, and tape as part of ventilator care. After the workgroup observed how these products were being employed and evaluated their functionality, numerous changes and upgrades were made to their VAP product mix which resulted in a \$45,000 annual supply increase. However, their incidences of VAP were reduced to zero over the

next ten months vs. 16 cases the prior year at an average cost per VAP incident of \$40,000. The workgroup estimated that \$640,000 (16 prior incidences per year x \$40,000) in cost avoidance was directly attributed to this project.

### **Integrate to Save**

Alan stated that the same “value-based thinking” philosophy is integrated into the optimization of GPO contracts, strategic sourcing and contracting efforts, and his new technology assessment process, since he believes these functions all correlate in some way to supply expense management responsibilities. For that reason, Alan employs the same program coordinator to manage utilization management projects, uses the same project reporting system to track all of their savings, and employs the same utilization management methodology to make all of their savings happen. To this end, over the last 32 months EMC has saved \$3,045,226 (Figure 1) by amalgamating all of their supply chain savings initiatives under one roof, so to speak.



**Figure 1: 32-Month Savings Scorecard**

<b>Utilization Management</b>	<b>\$1,572,386</b>
<b>Price/Contract/Tier Management</b>	<b>\$1,324,000</b>
<b>Cost Avoidance: New Technology Denials</b>	<b>\$1,031,000</b>
<b>Less: New Technology Approvals</b>	<b>\$882,160</b>
<b>Total:</b>	<b>\$3,045,226</b>

In retrospect, EMC’s decision to embrace the new discipline of utilization management was and is a great leap forward in EMC’s cost management/containment strategies and tactics. It has showed us the way to go deeper and broader into supply streams to identify and then eliminate the wasteful and inefficient practices that have seeped into our supply chain over many years.

Just as important, it has provided us with a new guiding philosophy, a proven methodology, and various tenets to follow in our search for best value products, services, and technologies. Since price savings are slowly

disappearing, we see utilization management as the equalizer which ensures that our supply chain savings keep flowing for many years to come.

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### ***Up Your Savings Game***

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Closing out this special report, I would like to emphasize that *cost is our enemy and we must always be on the attack*. However, in this new healthcare economy we live and work in, the old ways of doing business (i.e., price, standardization, group buys, custom contracts, GPOs, etc.) are becoming less effective. Therefore, we must up our savings game with new strategies and techniques to keep our savings machine humming.

Utilization management is the new shiny object that you need to focus on to increase your savings yield by as much as 119%, as Enloe did in our case study. Yes, it will take a little more work for you and your staff, but the results are well worth it!

If you decide not to add this new and better methodology to your savings arsenal, I can tell you with certainty that your well will run dry of savings sooner than you think.

Take this advice for what it is worth, but remember, nothing stays the same forever....

**Come join our community of users who are already achieving success with our Utilizer® Dashboard software**

# **Get Ready To Impress Your Boss With Even Better Savings Numbers!**

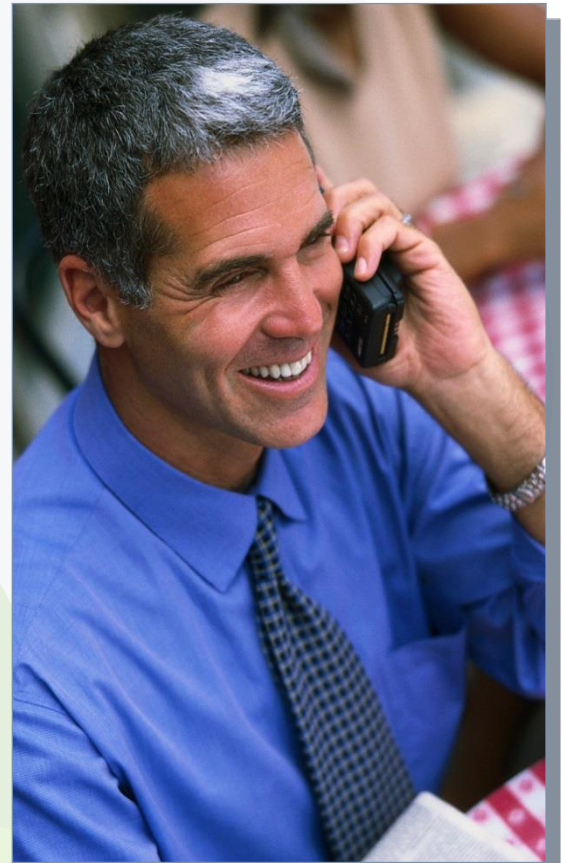
Dear Colleague:

For more than two decades now, SVAH has been helping healthcare organizations, who have hit the wall on their price savings, to restart their savings engines with a powerful two-pronged new approach: *utilization and demand management!*

After signing on to our Utilizer® Dashboard subscription service, our clients have quickly discovered that their utilization and demand management savings far exceed their price savings by as much as 26:1. This approach has turned around scores of supply chain departments that were formally scratching for savings and now have become virtual saving machines.

Here's how it works...

No matter how many GPOs you belong to or how skilled you are at negotiating your custom contracts, at some point you will hit the wall on price savings. That's why you need new savings sources (beyond price) to pick up the slack. Our Utilizer® Dashboard could be the answer you are looking for to jump start your savings.



Sign up for a “test drive” today at  
[www.utilizerdashboard.com](http://www.utilizerdashboard.com)