



Healthcare System Physical Integration



Healthcare Transportation Research Initiative

A Survey of Healthcare Executives
Conducted by
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Not All Systems Are Poised for Success

Operational integration is a requirement for healthcare systems that plan to flourish in the future. Health systems have already taken the first big step toward integration through electronic health records, connecting patient data throughout their systems. The next logical step is to focus on physical integration.

Jamie Kowalski, a leading supply chain consultant who has been working with supply chain leaders of multi-facility healthcare providers and IDNs for many years, conducted a survey of 20 healthcare executives from large systems across the country. Its purpose was to provide insight into how some systems are and are not looking at healthcare transportation and physical integration of expanding health systems, and using those physical points of connection to deliver more integrated care. The results provide insights into many areas that should be the focus for supply chain leaders and health system executives.

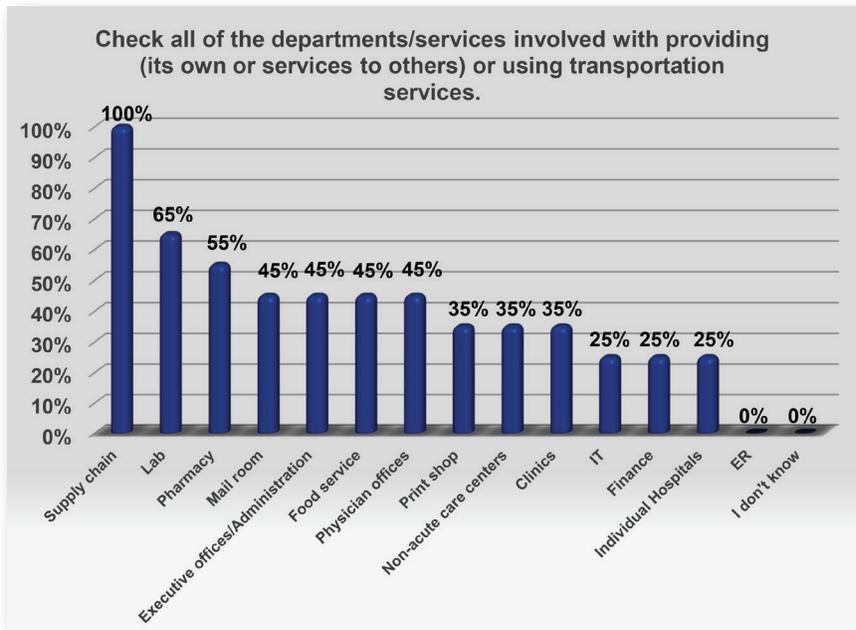
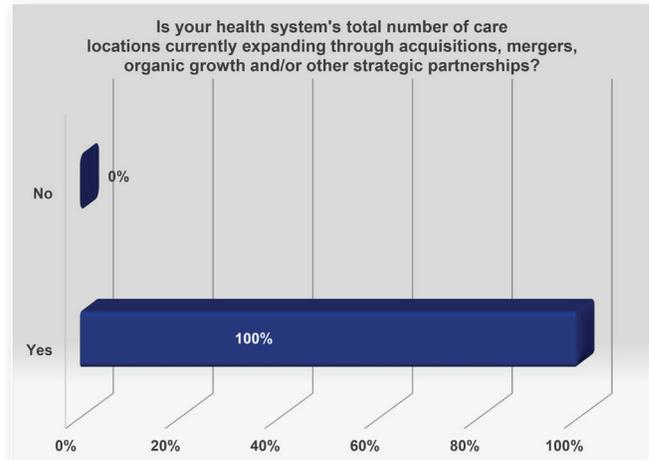
Transportation touches almost every point of care

When asked to “check all” of the departments/services involved with providing (its own or services to others) or using transportation services, survey respondents indicated transportation is needed by just about every area, from the lab, pharmacy and supply chain, to the print and mail shops, executive offices, food service, non-acute care centers and more. It is interesting to note that these respondents did not indicate that transportation touches the ER, although healthcare providers regularly share examples of how important it is for the ER to have supplies, equipment and other items on hand when needed. This may be because many systems outsource emergency room operations. Regardless, that’s a wide scope for healthcare transportation.

This report takes a closer look at what else supply chain leaders have to say about using transportation as an opportunity to better integrate their growing systems to their strategic advantage.

Health systems are expanding care locations

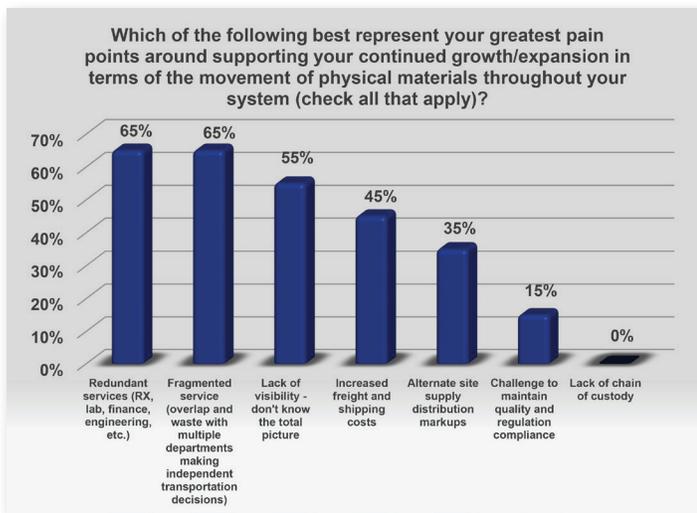
Given the rate of growth and mergers the healthcare industry has experienced in the past few years, not surprisingly, 100% of survey respondents indicated that their health systems are currently expanding their number of care locations, which is increasing the footprint of their enterprise and the distance between sites.



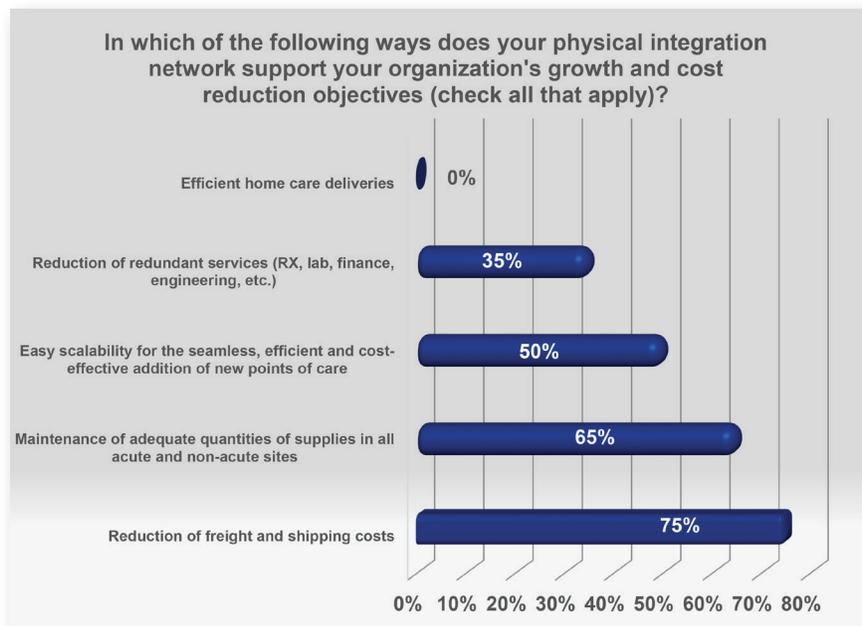
This finding is borne out by other recent studies, including one earlier this year from law firm Bass, Berry & Sims. In that study, Becker's Hospital Review reported Leigh Walton, an attorney at the firm, as saying, "Consolidation is driven by a desire to achieve economies of scale...The Affordable Care Act's rollout has accelerated development of this trend, as the law demands accountable care and cutting-edge technology at lower reimbursement rates."

The sweeping reimbursement changes under the ACA are clearly transforming the way the U.S. healthcare system works. As organizations strive to succeed under the ACA, where do they turn to achieve the economies of scale that Walton notes? Does physical integration hold the key?

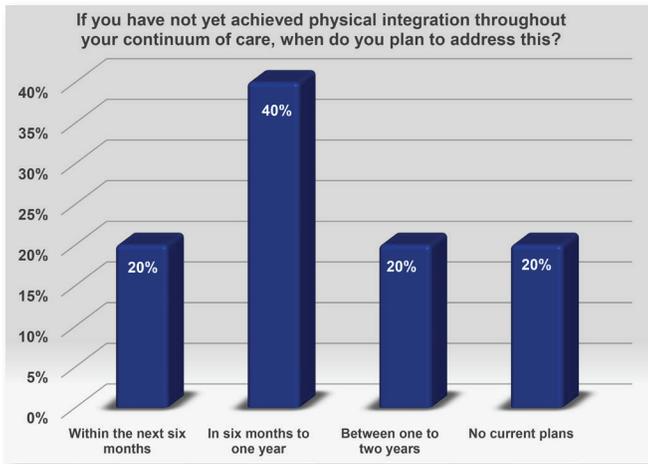
When asked about their greatest pain points around supporting continued growth/expansion in terms of the movement of physical materials, respondents cited redundant services, such as lab, pharmacy, finance, etc.; fragmented service that causes overlap and waste; and lack of visibility not knowing the total picture as the problem areas related to the transportation operations in their systems.



While respondents clearly feel pain around their healthcare transportation operation, they also see the value it brings to the organization as a whole, as indicated by their response to the question, "In which ways does your physical integration network support your organization's growth and cost reduction objectives?" Respondents most cited "the reduction of freight and shipping costs; maintenance of adequate quantities of supplies in all acute and non-acute sites and easy scalability for the seamless, efficient and cost-effective addition of new points of care."

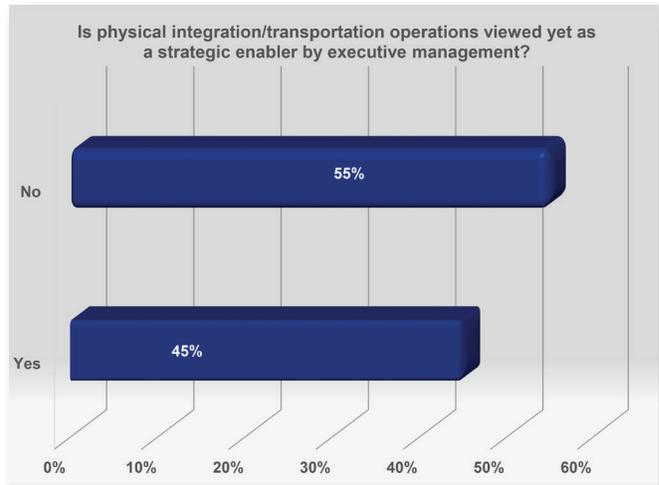


“What I find very interesting about these results is that they are very consistent with what we are seeing more and more in the marketplace; forward-thinking healthcare executives are now making the connection between transportation and organizational growth and success,” said Kowalski. “That doesn’t surprise us at all, given that healthcare transportation touches/impacts nearly every facility and department within a health system, and has the potential to add great value when optimized.”



When asked the question, “If you have not yet achieved physical integration throughout your continuum of care, when do you plan to address this?” 80% of respondents indicated that they would be addressing it within the next two years. The other 20% indicated that their organization had no current plans to address physical integration.

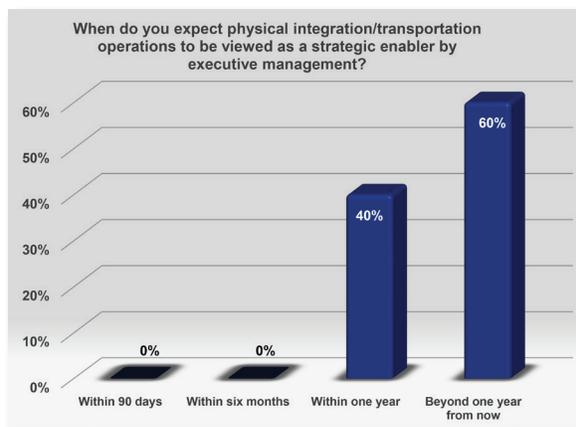
If 100% of supply chain leaders surveyed indicated that their organizations are growing and respondents clearly see the value that physical integration can add to their organization, why isn’t physical integration a near-term priority for everyone? The answer may be lack of visibility.



Not all executive leadership is on board

Survey respondents were fairly evenly split when asked if physical integration was viewed as a strategic enabler by executive management. However, when asked to choose a timeline for when executive management would view physical integration as a strategic enabler, 40% indicated it would happen within one year, while 60% thought the time horizon was “beyond one year from now.” No respondents indicated that it would happen 6 months or sooner.

“What this tells me is that we, as an industry, need to do more to help executive leadership understand the value that physical integration can have if viewed and deployed as a strategic enabler,” says Kowalski. “Without that visibility, it is not surprising that it’s not on their near-term radar.”



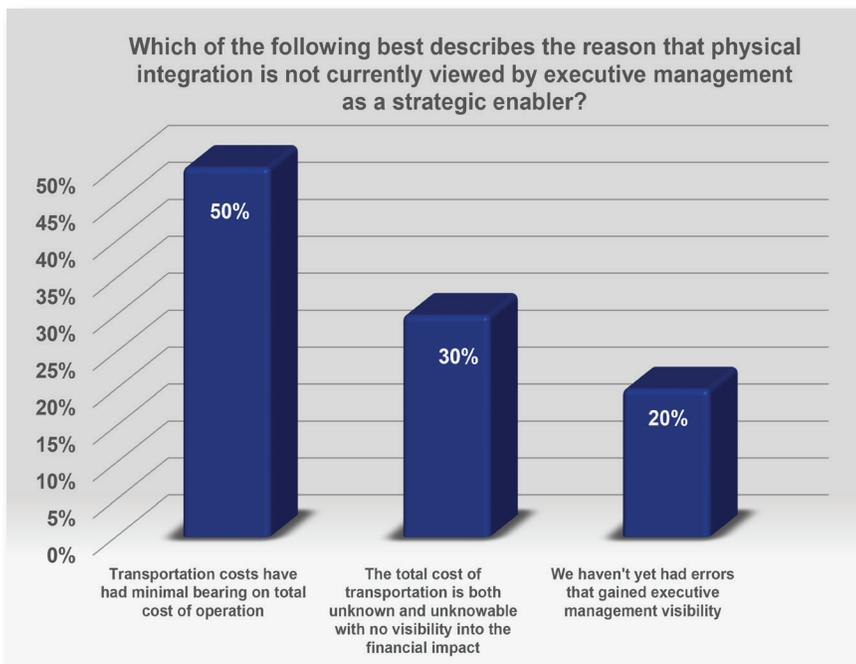
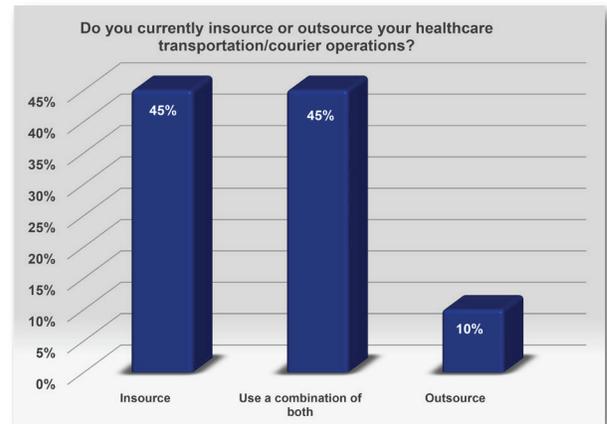
Understanding why executive leadership does not typically view transportation operations as a strategic enabler is a good first step to changing the status quo. When asked the question, "Which of the following best describes the reason":

- **50%** said cost of transportation operations has had minimal bearing on total cost of operation
- **30%** said the cost of transportation is unknown and unknowable, with no visibility into the financial impact
- **20%** said "we haven't yet had errors that gained management visibility"

"There is still a knowledge gap regarding the strategic benefit and physical integration framework that a Healthcare Transportation Network can provide," notes Bonni Kaplan DeWoskin, vice president of marketing for MedSpeed. "While the majority of respondents said the direct cost of transportation has minimal impact on the total cost of operation, what they are missing is that transportation does have a large impact on the total cost of ownership of operations in general." Kaplan DeWoskin continued, "The fact that 30% of respondents indicate their transportation cost is unknown or unknowable is problematic, but in our experience, that is not unusual."

Are there benefits to outsourcing healthcare transportation?

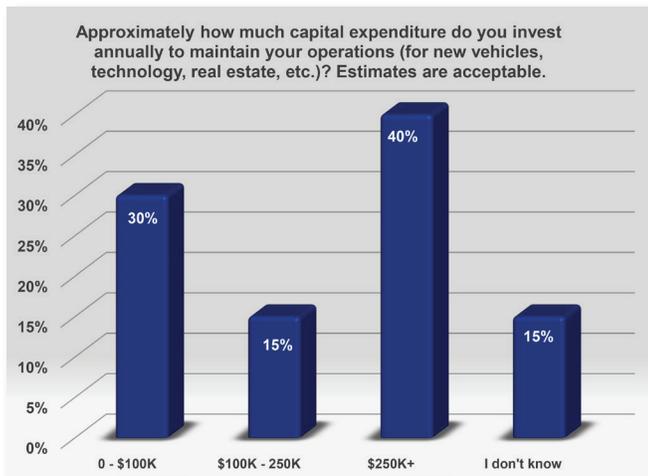
In companies across industries, there is a clear shift to focusing on expertise. Leading consumer product companies like Proctor & Gamble are shedding business units that are not core to their business. Likewise, hospitals are outsourcing functions like food service and emergency room management in order to focus on their core business.



Thus far, however, few healthcare organizations have realized the benefit of outsourcing transportation. While 45% of survey respondents indicated that they used a combination of insourced and outsourced transportation, only 10% of respondents fully outsource their systems' transportation, and another 45% completely insource transportation. Given the growing shift to specialization, expect to see a change in those numbers in the coming years.

Another indicator of the benefits of outsourcing is the opportunity for redeployment of capital. When survey respondents were asked to estimate how much capital was invested annually to maintain transportation operations (for new vehicles, technology, real estate, etc.), 40% responded that they spent over \$250K and 15% said they “didn’t know.”

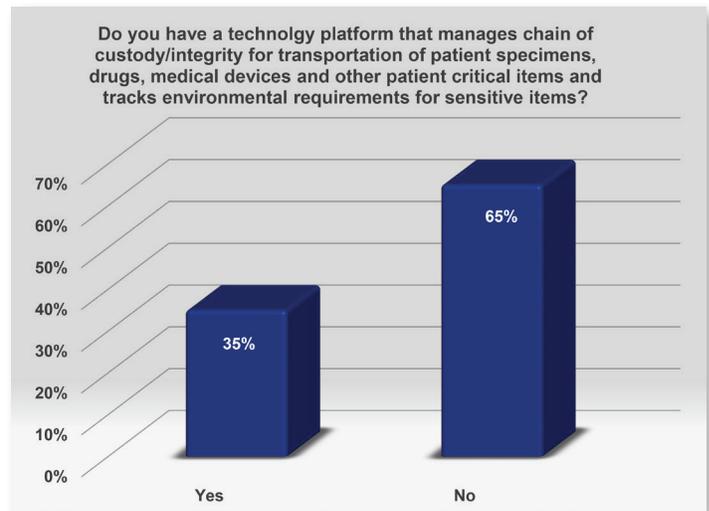
“As we saw with unknown transportation costs, there were also survey respondents who don’t have a clear sight line into their capital expenditures (current or expected future requirements) for transportation operations,” Kowalski says. “The number of those spending over \$250K, combined with those who don’t even know what their capital expenditure spending is, builds a strong case for much greater focus on management and the outsourcing healthcare transportation alternative. This will free up capital, obtain needed accuracy in budgeting and improve the efficiency of the resources used for transportation.”



Specialization generates better risk management

When asked whether their organization had a technology platform to manage chain of custody/integrity of transportation of patient specimens, pharmaceuticals, medical devices and other patient critical items, as well as the environmental requirements for sensitive items, the majority (65%) said “no.”

Kaplan DeWoskin notes, “This lack of chain of custody poses a serious risk to organizations because there are myriad potentially hidden costs as well as the very real risk exposure for an organization. In this day and age where risk management is of utmost importance, organizations must truly consider the cost/benefit risks of moving items throughout their systems without tracking technology.”



Changing the focus from a cost center to a strategic asset

Historically, transportation has been an “under-the-radar” operation for health systems. This position is not completely unreasonable given that the focus of a health system is the direct delivery of clinical care.

In those instances where transportation had been noted or highlighted, it was often treated as a cost center to which new value can only be added through direct cost reduction. Given the relatively low overall cost of transportation compared to other expenses, this approach caps value creation at a low level. By treating transportation as a commodity, health systems experience unintended consequences around service deficiencies, unpredictability, lack of management oversight and subsequent performance gaps.

However, when viewed through the lens of a strategic asset rather than as a commodity, a Healthcare Transportation Network can provide meaningful, long-term returns.

Healthcare transportation as a transformative asset

Below are some examples from MedSpeed that outline the breadth of benefits that different healthcare systems have reaped as a direct result of implementing a professional-grade Healthcare Transportation Network, and achieving it through outsourcing. It is important to note that these savings are value-added savings that are in addition to any savings achieved directly from transportation costs.

Partnership for Centralized Mail and Print Services

Savings: \$1,200,000

A large, geographically diverse health system in the Northeast had redundant print and mail operations at multiple locations. The system was aware of the redundancy, but had no clear insight into the cost of the waste and overlap. Additionally, the client was concerned about the risk of fines due to non-compliance with increased HIPAA regulations. MedSpeed partnered with a national print and document management company to develop a document processing center in the MedSpeed transportation hub facility that centralized functions, including a single mail room and single third-party printer. As a result, the system was able to move all print, mail and other supplies and materials within the network at a very low to no increase to marginal cost. Additionally, they lowered print costs and postage rates and ensured that the critical HIPAA regulations were met.

Intra-Network Third-Party Shipment Spend Reduction

Savings: \$40,000

A large health system in the Mid-Atlantic that recently partnered with MedSpeed had a large-volume intra-network spend with third-party shippers. During the implementation process, MedSpeed created Just Hub It! drop-off locations in each hospital for items that needed to be delivered to any serviced site within 24 hours. Information about how to use the MedSpeed online ordering system to print destination labels and “Just Hub It” at multiple drop-off locations was posted on the client’s internal employee website. As a result, the health system saw an immediate increase in the use of the scheduled system to deliver documents instead of sending them by third party shippers.

Improved Pharmacy Operations for Clinician Reduction, Reduced Inventory Levels & Development of a Central Compounding Pharmacy

Savings: \$400,000

Like many systems today, a large health system in the Midwest had operations spanning a broad geographic area with no infrastructure to physically connect the widespread facilities. These operations included 80 independently-operated retail pharmacies performing redundant tasks with no consistent method for sharing inventory. MedSpeed’s Healthcare Transportation Network provided the system with mechanisms to connect all of their locations, statewide, with next business day delivery. This resulted in three significant changes to the system’s pharmacy operations.

1. Staffing repositioning

Due to the sharing of pharmaceuticals, the system no longer needed pharmacists at all remote locations, saving an estimated \$100,000+ per year.

2. Inventory sharing and reduction

Prior to creating the transportation infrastructure, each pharmacy would place the minimum pharmaceutical order, use what was needed and shelve the remainder, often until the medication expired and was discarded. Once the Healthcare Transportation Network was operational, the pharmacies were able to effectively share that inventory, maintaining only the needed quantities, thus reducing the cost of expired drugs.

3. Development of a central compounding pharmacy

Because the Healthcare Transportation Network allowed everything to move around the entire system within the next business day, the system was able to build a central compounding pharmacy and deliver product confidently and reliably throughout the system, saving \$300,000+ in expensive, third-party compounding.

Conclusion

Smart healthcare systems recognize that intersite logistics can and should be elevated from a cost center to a strategic asset. Transportation, a very integral component of logistics, is far too often overlooked as a potential agent of change.

A centralized Healthcare Transportation Network provides an important framework for physical integration. By appropriately moving materials through the right channels at the right time, healthcare transportation done right enables healthcare systems to better leverage their transportation infrastructure/network to streamline other functions, drive down costs and improve patient outcomes. In addition, the intelligent use of transportation data can further maximize efficiencies by providing important visibility that can minimize the overutilization of resources.

Most notably, it is clear that, with points of care expanding within growing health systems, the role of transportation has evolved from what was once an ad hoc set of activities. The need for an infrastructure/platform for physical integration that provides easy scalability for efficient and cost-effective additions of new points of care; the reduction of freight and shipping costs and the maintenance of adequate quantities of supplies at all sites continues to grow.

As clear as this is, there is also a knowledge gap regarding the strategic benefit of a physical integration framework that a Healthcare Transportation Network can provide. This gap is reducing the visibility of healthcare transportation and physical integration's potential contributions to executive leadership. Bridging this gap creates an opportunity for supply chain executives to help their health systems advance in the evolution of becoming a more holistic entity.



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