Reducing Supply Chain Costs

Putting Standards to Work
Your Host:

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Schaumburg, IL
Reducing Supply Chain Costs
Putting Standards to Work

Overview Of CHeS
Using The UNSPSC
Introduction To The GLN
Creating A Healthcare PDU
Questions and Answers
Reducing Supply Chain Costs
Putting Standards to Work

Coalition for Healthcare eStandards
Organized in 2001
Most of the Largest GPO’s
One eCommerce Exchanges
The DOD and VA
Additional Affiliate Members
Working Together to Adopt and Promote
Uniform Industry Data Standards
Reducing Supply Chain Costs
Putting Standards to Work

CHeS Mission

Provide leadership to the healthcare industry in the identification, definition, evaluation, adoption, and endorsement of standards that improve the accuracy and efficiency of the supply chain
Reducing Supply Chain Costs
Putting Standards to Work

CHeS’ Vision Statement

The Coalition’s vision is to accelerate the adoption, implementation and active usage of industry-wide data standards for improving the efficiencies throughout the healthcare supply chain.
CHeS Core Members

Amerinet

Consorta

Novation

MedAssets

Premier

Coalition for Healthcare eStandards
Reducing Supply Chain Costs
Putting Standards to Work

ChEeS Initiatives

International Product Classification (UNSPSC)

Global Supply Chain Identification (GLN)

Global Product Management (Product Data Utility-PDU)
Reducing Supply Chain Costs
Putting Standards to Work

Difficult Initiatives
Attempting To Building Consensus
Not Everyone Wants To Participate

For Success: Providers Must Demand The Use Of These Standards

Coalition for Healthcare eStandards
The UNSPSC

United Nations Standard Products and Services Code
The Problem: Product Classification

- Providers must manage ever-increasing costs of materials with limited resources.
- There are no standard product names, (outside of mandated generic drug names.)
- There was no industry standard product classification.
The Solution: Product Classification

An accurate, complete, global, open standard product classification schema, the UNSPSC.
The UNSPSC is:

The United Nations Standard Products and Services Code (UNSPSC™) is a global reference taxonomy for the efficient and accurate classification of products and services.
Medical Equipment and Accessories and Supplies

- Wound care products
- Sutures and related products
- Suture

**UNSPSC**

Marketing-oriented catalog content

<table>
<thead>
<tr>
<th>Cat No.</th>
<th>Product Name</th>
<th>Description</th>
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<tbody>
<tr>
<td>1714G</td>
<td>ETHILON Nylon Suture</td>
<td>A non-absorbable, sterile, surgical, monofilament suture composed of the long-chain, aliphatic polymers Nylong 6 and Nylong 6.6.</td>
</tr>
</tbody>
</table>
The UNSPSC is NOT:

- A source for uniquely identifying individual products to the brand, model, size, package quantity level. For that, see UPN.

- Standard product description.

- Clinical equivalency… but it does efficiently “bucket” products together.
The Benefits of Using the UNSPSC:

- Spend analysis requires structured data
- Quickly query P.O. history by UNSPSC code
- Support objective product standardization
- Reduce off contract spend
- Increase contract compliance
- Prepare for vendor negotiations
- Identify trends, be proactive, act strategically
Implementing the UNSPSC:

- Recommend leveraging a service
- Work with your MMIS vendor to support
- Ask your CHeS GPO for help
- At its most basic:
  - Add the 8-digit code to every item
  - Use dedicated or user-defined field
  - Query on code, or extract to desktop
It Works! Success Story

University Health Care System
Augusta, GA

- Tracked vendor market share by Commodity Code over time
- Empowered product standardization project
- Rapid payoff: new contract saves $600,000/year

<table>
<thead>
<tr>
<th>UNSPSC COMMODITY NAME</th>
<th>UNSPSC CODE</th>
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<td>CORONARY STENTS</td>
<td>42203401</td>
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<table>
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<td>Quantity</td>
<td>Market Share</td>
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<td>397</td>
<td>85%</td>
<td>390</td>
<td>88%</td>
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<tr>
<td>SUPPLIER 2</td>
<td>47</td>
<td>10%</td>
<td>35</td>
<td>8%</td>
</tr>
<tr>
<td>SUPPLIER 3</td>
<td>23</td>
<td>5%</td>
<td>18</td>
<td>4%</td>
</tr>
</tbody>
</table>
Global Supply Chain Identification

Coalition for Healthcare eStandards
Global Supply Chain Identification.

Why this is important.
Why this is important.

Hospitals

- Do not always get correct prices from their suppliers
- Have higher labor expenses
- Receive incomplete purchase reports from suppliers and their GPO
Why this is important.

Hospitals
- Do not always get correct prices from their suppliers
- Have higher labor expenses
- Receive incomplete purchase reports from suppliers and their GPO

Manufacturers and Distributors
- Struggle with contract eligibility = leads to customer dissatisfaction
- Have higher labor expenses
- Must operate inaccurate chargeback and rebate processes
Why this is important.

Hospitals

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- Have higher labor expenses
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Manufacturers and Distributors

- Struggle with contract eligibility = leads to customer dissatisfaction
- Have higher labor expenses
- Must operate inaccurate chargeback and rebate processes

Alliances and GPOs

- Receive incomplete supplier reports
- Have higher labor expenses
- Slow implementation of contract pricing
Customer Identification is

One globally unique number for each location.
Customers use their number(s) to identify themselves with All Suppliers
The Problem.

No Customer Identification Standard.
Suppliers use their numbers to identify themselves on documents supporting shipping and billing.

…and related transactions.
No Customer Identification Standard.

A Hospital
One Delivery Point

Mfgr

Distributor

GPO

Mfgr

Supplier

Supplier
No Customer Identification Standard.

A Hospital
One Delivery Point

Dist: 2315-32Y

Supplier: 323

Supplier: 3R35

GPO: 453

Mfr: B342-985-3

Mfr: 9438

Process is very complicated, very manual, and an error could easily occur.
No Customer Identification Standard.

- Rx: 2421435
  Lab: 624353
- Dist: 2315-32Y
  Office: 1002-3
- Food: 3421633
  MRO: 633
- Supplier: 323
- Supplier: 50
- Supplier: 3R35
  Supplier: E5-35
- Supplier: 2827
  Supplier: 899
- Supplier: Y654
- Supplier: 9871-3
  Supplier: 24P9
- Rx Distributor
- Lab Distributor
- Office Prod Distributor
- Mfgr: B342-985-3
- Mfgr: 9438
- Mfgr: 8235
- Mfgr: 97210
- Mfgr: T-234
- Mfgr: 01924
- Mfgr
- Mfgr
- Mfgr
- Mfgr
- Mfgr
- Mfgr
- Mfgr
- Mfgr

A Hospital
One Delivery Point
No Customer Identification Standard.

Labor expense is required to manage all these proprietary numbers.
No Customer Identification Standard.

Example:
• A Hospital with only one delivery point
• Belongs to just one GPO
• Buys products from just 1 Distributor who has just 1 manufacturer relationship

...A Linear View of the Supply Chain
The Healthcare Supply Chain

GPO → Membership Alignment → MFGR

DIST or Supplier

MFGR → Eligibility & Pricing → MFGR

HOSP

MFGR → Acquisition → DIST or Supplier

MFGR

MFGR → Rebate Processing → DIST

MFGR → Reporting → GPO

DIST or Supplier

One Hospital Delivery Point
The Healthcare Supply Chain

One Hospital Delivery Point

There are 3 different numbers and 6 conversions where errors can occur.

A2342 11121434
GPO Membership Alignment MFGR

4123144243 11121434
DIST or Supplier MFGR

4123144243
HOSP Acquisition

11121434 4123144243
MFGR Rebate Processing DIST or Supplier

11121434 4123144243
MFGR Reporting A2342

4123144243
DIST or Supplier GPO A2342

GPO
The Healthcare Supply Chain

One Hospital Delivery Point

GPO Name
GPO Address
GPO COT
GPO Hierarchy

or Supplier

4123144243
HOSP
Acquisition

Not Equal
4123144243
DIST

Dist Name
Ship to Address
Mfgr Tier
Assignment

Not Equal

11121434
MFGR
Rebate Processing

11121434
MFGR

A2342
GPO

11121434
or Supplier

GPO Name
Mfgr Name
Mfgr Address
Unknown COT
Unknown Hierarchy

Eligibility & Pricing

Acquisition

Mfgr Tier
Assignment

A2342
GPO

or Supplier

4123144243
HOSP
Acquisition

Not Equal
4123144243
DIST

Dist Name
Ship to Address
Mfgr Tier
Assignment

Not Equal

11121434
MFGR
Rebate Processing

11121434
MFGR

A2342
GPO

11121434
or Supplier

GPO Name
Mfgr Name
Mfgr Address
Unknown COT
Unknown Hierarchy

Eligibility & Pricing

Acquisition

Mfgr Tier
Assignment

A2342
GPO

or Supplier

4123144243
HOSP
Acquisition

Not Equal
4123144243
DIST

Dist Name
Ship to Address
Mfgr Tier
Assignment

Not Equal

11121434
MFGR
Rebate Processing

11121434
MFGR
A real example....
Why do we need Customer Numbers?

- Process customer orders
- Communicate with customers
- Communicate with trading partners
- Rebate Process
- Transmit electronic orders
- Measure/Track/Analyze Sales
- Pay our Sales Force
- Demand planning/forecasting
- Recalls
Identifying customers

- St. Michaels
- St Michaels
- St. Michael’s
- Saint Michaels
- 100084547
- JAOE
- CA2053
- 50003000431
- Etc.

An Actual Hospital

Many definitions of the Customer from GPOs

Coalition for Healthcare eStandards
Identifying customers

CA2053

1000014082
1000014769
1000042141
1000118699

134278003
374633036
475307001
515097002

2104372
2104379
2108919

120080
BL2710312
046026900075
046028103030
10002503
10002504
10002506
20005659
20005660
20005662
20005664
20005666
20005669
20005670
20005671
21010126

08900A

08501882
08511881

50003000305
50003000306
50003000308
50003000309
50003000312
50003000313
50003000314
50003000315
50003000316
50003000330
50003000366
50003000406
50003000422
50003000426
50003000431
50003000432
50003000433
50003000440
50003000442
50003000453
50003000456
50003000468
50003000472
50003000473
50003000476
50003000477
50003000480
50003000482

93 Total
Identifying customers

- **3 Different Numbers**
  - 120080
  - BL2710312
  - 046026900075
  - 046028103030
  - 10002503
  - 10002504
  - 10002506
  - 20005659
  - 20005660
  - 20005662
  - 20005664
  - 20005666
  - 20005669

- **4 Different Numbers**
  - 134278003
  - 08900A
  - 08501882
  - 08511881

- **16 Different Numbers**
  - 1000014082
  - 1000014769
  - 100042141
  - 1000118699

- **4 Numbers**
  - CA2053
  - JGGG
  - JAOE
  - PREMIER

- **4 Numbers**
  - Novation

- **2 Different Numbers**
  - BD

- **2 Different Numbers**
  - Invacare

- **93 Different Numbers**
  - Cardinal Health
  - McKesson
  - OMDirect
  - 50003000422
  - 50003000426
  - 50003000431
  - 50003000432
  - 50003000433
  - 50003000440
  - 50003000442
  - 50003000453
  - 50003000456
  - 50003000468
  - 50003000472
  - 50003000473
  - 50003000482
  - 93 Total
Why we are interested in GLN:

1. Eliminate customer pricing errors
2. Enhanced trading partner relationships
3. Reduced administrative costs
The Problem.
No Customer Identification Standard.

The Solution.
The Global Location Number (GLN)
Global Location Number.
or GLN.
Use A Globally Accepted Customer Identification Standard.

Like a Social Security Number...

Coalition for Healthcare eStandards
GLN’s are widely used.

...23 industries in US.

...98 countries.

286,000 Companies already participate.
The Healthcare Supply Chain

GLN: 0123456789012
The Healthcare Supply Chain

0123456789012

GPO

MFGR

DIST
or Supplier

HOSP

MFGR

DIST
or Supplier

0123456789012

MFGR

GPO

DIST
or Supplier

GLN Registry

One Hospital Delivery Point
The Healthcare Supply Chain

GLN Registry

1 Name
1 Address
1 Class of Trade
1 Organizational Hierarchy

One Hospital Delivery Point

0123456789012

GPO

MFGR

DIST

HOSP

MFGR

DIST

MFGR

DIST

GPO

M

0123456789012

Name
Address
Class of Trade
Organizational Hierarchy

GLN

Re

gistry

Re

gistry

GLN

GPO

MFGR

DIST

or Supplier

or Supplier

or Supplier
What this means for...

and ALL OTHER SUPPLIERS
Our earlier real example

Does a 1 Time Setup of 93
- Names
- Addresses
- Classes of Trade
- Organizational Hierarchy

93 GLNs
Our earlier real example
Our earlier real example
Its time to get started.
Its ready now.
GLN Benefits for Hospitals.

Benefit 1: Labor savings. Fewer numbers.

Benefit 2: Exact definition of each location. Enables price/contract eligibility accuracy.

Benefit 3: Faster access to GPO pricing. A common definition of each location.

Benefit 4: More complete & accurate supplier reporting. No confusion about who is/is not a member.
GLN Benefits for Mfgrs and Distributors.

Benefit 1: Labor Savings
   Simplified GPO Membership Maintenance

Benefit 2: Accurate Eligibility Management for GPO Contracts
   Hospitals Have Faster Access to Contract Pricing
   (HIDA estimates it takes manufacturers 120 days to assign a price)
   Builds Better Trust between Manufacturers and Distributors

Benefit 3: Streamlined Chargeback and Rebate Processing
   Less Time Researching Distributor Sales
   Better Cash flow: Less $$ in Unresolved Sales Accounts

Benefit 4: More Efficient Payment and Reporting Processes
   Less Time Researching Distributor Sales
   **Eliminates DEA** as basis for RX sales reporting (now illegal)

Benefit 5: Improved Sales Force Compensation Processes
   Improved Morale: Faster Credit for Sales Success
GLN Benefits for GPOs.

**Benefit 1:** The entire HCO organization is known to GPO.

**Benefit 2:** Faster member participation on GPO contracts.

**Benefit 3:** Complete supplier reporting.
We hope you will support the GLN rollout

The sooner we begin, the sooner we get there!

Hospitals and Suppliers have been very supportive

The GLN Registry is already operational and being used

Your CHeS member alliance is in the process of getting GLNs assigned for every member
PRODUCT DATA
UTILITY

Coalition for Healthcare eStandards
Why are Standards Needed?

Standards are required in order to achieve supply chain e-COLLABORATION

1. Common data standards
2. Single item registry
3. Item synchronization
4. Collaborative transaction management
5. Collaborative supply chain management
6. Collaborative sales & promotion planning
7. Collaborative insight & product development

Benefits

Source: A. T. Kearney for GMA -FMI
# Universal Product Number (UPN) & Data Synchronization

## DoD Manufacturer Names for Kendall

<table>
<thead>
<tr>
<th>Mfg Name</th>
<th># Mfg Items</th>
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<tbody>
<tr>
<td>KENDAL HEALTHCARE PRODUCTS</td>
<td>1</td>
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<tr>
<td>KENDAL LTP</td>
<td>1</td>
</tr>
<tr>
<td>KENDALL</td>
<td>1</td>
</tr>
<tr>
<td>KENDALL COMPANY</td>
<td>2</td>
</tr>
<tr>
<td>KENDALL COMPANY LP</td>
<td>3340</td>
</tr>
<tr>
<td>KENDALL HEALTHCARE</td>
<td>172</td>
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<tr>
<td>KENDALL HEALTHCARE CO</td>
<td>43</td>
</tr>
<tr>
<td>KENDALL HEALTHCARE COMPANY</td>
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<tr>
<td>KENDALL HEALTHCARE PROD CO</td>
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Universal Product Number (UPN) & Data Synchronization

Industry Distributor Numbers for 3M Product #8630

Allegiance - M8630
Owens & Minor - 4509008630
BBMC-Colonial - 045098630
BBMC-Durr - 081048
Kreisers - MINN8630
Midwest - TM-8630
Pacific - 3/M8630
UnitedUMS - 001880

Nearly every hospital has a different Product ID for 3M 8630!
# Universal Product Number (UPN) & Data Synchronization

## Industry Unit of Measure Errors

<table>
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<tr>
<th>Mfr</th>
<th>Part #</th>
<th>DOD</th>
<th>Prime Vendor 1</th>
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<td></td>
<td>Case SUP Qty</td>
<td>Case UOM</td>
<td>Case SUP Qty</td>
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<tr>
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<td>1222-1N</td>
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<td>CA</td>
<td>1080</td>
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<td>3M</td>
<td>512</td>
<td>100</td>
<td>CA</td>
<td>2000</td>
</tr>
<tr>
<td>BD</td>
<td>305903</td>
<td>500</td>
<td>CA</td>
<td>400</td>
</tr>
</tbody>
</table>

*Data Entered by Manufacturer

10% of Packaging Data Provided to DOD by Manufacturers are Wrong or Incomplete!
Universal Product Number (UPN) & Data Synchronization

What is a Product Data Utility?

The Product Data Utility concept is modeled after common utilities that exist for other types of commodities and services.

**Definition:** A Common Utility is a business organization and system that provides an essential commodity or service to a community.

**Characteristics:**
- Network With Multiple Connectivity Points
- Controls & Standards
- Scalable Input & Delivery
- Community Governance
NOTE: Aggregators can represent data or trading partner aggregators, including exchanges.
Item synchronization pilot between Procter & Gamble and their customer H.E. Butt

- 75% reduction in invoice deductions due to invoice pricing and product delivery discrepancies
- 30% improvement in the number of accurate purchase orders received
- 80% improvement in "speed to retail" for new items, price changes, and promotions (reduced the average time required to communicate and execute changes from 10 days to 2 days)

Procter and Gamble expects to:

- Eliminate 30,000 to 50,000 hours per year in unnecessary transcription work
- Reduce stock-out incidence by 10%
- Reduce the time required for new item introduction by 80% (in U.S. alone)
- Save a minimum of $25M a year.
Universal Product Number (UPN) & Data Synchronization – Other Industries

Wal-Mart Data Synch w/Procter and Gamble resulted in:
- Reduction in data maintenance time from 15-30 days down to 1 day
- 98% up-to-date synchronization
- 15% market share (up from 5% in the early weeks of a new item introduction)

In the food industry, Sara Lee reported:
- 59% reduction in cost mismatches after the initial 90 days of their price synchronization pilot
- Item mismatches were eliminated
- Short pays down 86%
- Over pays down 81%
- Errors resolved in 2 days versus 10-30 days
Universal Product Number (UPN) & Data Synchronization – Other Industries

Electrical industry saved 1.75% of sales through error reduction and improved efficiency. Electrical industry distributors saved .75% of sales annually.

CPG Manufacturers increased new product market share by 5-15%.

CPG Retailers increased sales by 6% due to product visibility.

Electrical industry manufacturers saved 1% of sales annually.

Procter & Gamble saved $3 million in admin costs devoted to manual information synchronization.
Universal Product Number (UPN) & Data Synchronization –

How does Data Synch affect Hospitals?

- Requests do not match supply chain data
- Logistics Systems not “classification” oriented
  - Item descriptions not clinician friendly
  - Difficult for materiel managers to match requests to most available items
  - Systems not integrated: Operating Room Management, Physician Order-Entry, etc.
- Products not available in Customers’ systems
- Customers can not find desired products
- Customers try to buy obsolete products
- Pricing Errors
- Shipping Errors
PDU Value to Providers:

- Reduced product cost through improved contract compliance
- Identification of non-contract/contract opportunities
- Increased transaction accuracy for ordering through bill payment
- Improved accuracy in product sourcing
- Increase in patient safety due to accuracy of product information
- Rapid access to information on new, discontinued, replacement, and recalled products
- Accurate info. to generate usable barcodes
Next Steps:

- Gain Commitment/Consensus from Supply Chain Members
- PDU Implementation Team
  - Seeking Resource/Members from Across the Supply Chain to Commit to Tailoring and Implementing the Proposed Milestones
- Facilitate Contractor Selection
- Build/Pilot/Launch PDU
- Develop Marketing Strategy
Current Industry Data
Synchronization Partners

Owens & Minor
BD
Premier
Consorta
Comergergent
GHX
SAIC
Coalition for Healthcare eStandards
Health Care eBusiness Collaborative
Comments and Questions