

The Need for Change Agents

Well, it finally happened. America's automotive industry has imploded – or darn near it. I must admit that it has taken much longer than I expected.

In the mid 80's I was trained in a Japanese manufacturing process named Kaizen (adopted by Lexus, Toyota and Nissan). Frankly, from that point forward, I knew that the American automotive industry was in a heap of trouble unless they drastically improved their supply chain operations, thereby improving the quality of cars – but they haven't. In 1991 I bought my first Japanese car, and I have never looked back. I'm not happy about this, in fact I'm painfully disappointed, but like most consumers I want the best value for my money.

I began my health care career in the late 80's. I entered the industry as an entry level sales person selling devices to operating rooms in Detroit, Michigan. Prior to that, my entire work experience and knowledge was in manufacturing and supply chain operations. I'll never forget my first time entering an operating room. As I looked around, I remember muttering to myself, "Wow look at all the inefficiencies!" I then turned to my manager, saying "Someday health care is going to be in a heap of trouble." At that time the health care reimbursement structure was fee for service. Everyone was quite complacent and truly believed it would never change. I had many discussions and/or debates around this issue —and lost most of them.

Today our health care supply chain is in need of repair, if not a full overhaul. Unfortunately and understandably this diagnosis has left stakeholders in a state of discomfort. Of course, this situation has evolved over time, with one of the key contributing factor being misaligned incentives.

Whenever I'm asked to describe the current economic structure of health care, I reply with the following synopsis: The delivery of medical care, especially in hospitals, is operated in a socialistic system, deeply funded by the federal government and heavily dominated by not-for-profit entities. Almost all other stakeholders (non care providers) are competing in a capitalistic market, highly infiltrated by for-profit, public traded companies.

According to accepted industry research estimates as much as 35% of total supply chain costs can be attributed to inefficiencies. While supply costs, especially among technologically advanced products continue to escalate, reimbursements continue to shrink. The number of providers that are either currently in critical financial trouble or have filed bankruptcy continues to grow.

How can hospitals continue to compete and survive within this market dynamic? And, how do they gain control of this situation? I believe it's safe to say that continuing to do business as usual is no longer an option. Let me go on record by saying "The results of this condition, if not given serious attention, could be catastrophic". This must stop for the sake American people.

So which solutions are viable?

Hospitals and health systems possess the power to drive out inefficiencies from the supply chain if they're willing to align with one another, mandate universal product codes from all supplies, and embrace effective and efficient supply chain applications. Gaining control of all spend categories, having appropriate supply chain management and clinical staffing, and being equipped with real-time accurate data allows hospitals and health systems to become an unstoppable force for change. Armed with such attributes and information, hospitals and health systems could demand and get more from manufacturers, distributors, and GPOs. They would also be positioned with the necessary information to receive appropriate reimbursements for the delivery of care – imagine that! Achieving these successes is a critical industry imperative, considering hospitals and health systems are the backbone (and many times the safety nets) of America's health care delivery system.

Unfortunately it is clear that the time is fast-approaching for some form of government intervention. What we really need is provider intervention! Senior executives of hospital and health systems must take a sincere interest in fully understanding their supply chain operations, supporting and upgrading the individuals within the supply chain organization. After all supply chain operations are the second leading cost to a hospitals operating budget, and is no different to most other industries. Executives like Jack Welch, Bill Gates, Michael Dell, Sam Walton, etc. were and/or are actively focused on their supply chain for improved quality and margin improvements.

A shift in focus would likely lead to better aligned incentives among all stakeholders, give providers more time to focus on eliminating inefficiencies, and most importantly, improve patient safety and the quality of care. We have the ability to develop the lowest cost, highest quality care delivery models worldwide - all of which could fundamentally alter current economic and business models of all stakeholders. After all, isn't this why we all work in this great industry?

I encourage each and everyone of us to put aside our self interest, work cohesively on doing the right things, focus on the end game of providing high quality care at the lowest possible cost, in the most timely manner – by focusing on our supply chains we'll all become change agents.

- Greg Firestone

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