

Health Care Industry

Making up for lost time: supply chain managers tend to be last-minute contributors to construction projects

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One of the few times supply chain management typically leaps into crisis mode has little to do with budget overruns, critical inventory stockouts, demanding clinicians or product delivery delays by the vendor.

The crisis occurs during a construction or renovation project and goes something like this. With the building shell erected and nearly complete, along with the internal power and communication network snaking around the skeletal framework, the project leaders contact supply chain management to start outfitting the rooms or campus with the necessary devices and equipment.

Unfortunately, supply chain management, with capable assists from equipment planners and the device and equipment vendor representatives, learns that only one loading dock was built, but clear on the other side of the facility, the doorways are too narrow, the surgical suites are too far away from sterile processing and the stainless steel sterilizing carts will be too close to the magnetic resonance imaging (MRI) units in diagnostic imaging.

Clearly, costly change orders and considerable redesign work will be issued, further delaying operations and patient access. This passes for efficiency.

Supply chain managers logically will contend that they should be recruited to participate much earlier in the construction or renovation process--as in close to the beginning if not on the ground floor from the get-go.

But the real question is how do they make that happen; that is, develop a convincing case for including and empowering supply chain management in any construction project? Who should make it happen? Who should be accountable and take responsibility if and when it doesn't?

When a facility expands or renovates what should supply chain management be contributing to the process? What steps should supply chain management take to ensure that the design, layout and equipment selections prepare the facility for future growth?

Out of sight

Frequently the aforementioned questions go unanswered, typically by choice as supply chain managers acknowledge and accept their lot. But experts concur that's a fundamental error.

"The biggest mistake made by supply chain managers is to assume that they do not or should not have a stake in the planning process of construction projects," said Michael Bohon, CPSM, CMRP, founding principal, HealthCare Solutions Bureau LLC, Show Low, AZ, and a former hospital supply chain manager. "They have grown too used to having the facilities or construction managers getting them involved at the very end when their input can have limited effect on the planning or design. They should not have to accept whatever is dealt to them by the architects and planners, but they will unless they become proactive as early as possible."

Ric Goodhue, CMRP, corporate director, equipment planning, at Charlotte-based Novant Health Inc., agreed.

"Too often, supply chain managers feel they have no input to construction projects," Goodhue said. "This may have been the case historically, [where] supply chain has not been a priority of many projects. However, that philosophy is changing dramatically. With ownership of inventory and with supply costs being an important element on the operations side, it is critical supply chain managers take more of a role in the storage and resupply of the same. The key is ensuring communication with the Design Team is two-way, flexible and collaborative. It is important the Design Team is aware of any changes to 'the standard' that may have architectural significance, which could result in increased costs to the project."

Much of that attitude hinges on the culture of the organization, according to Ken York, MBA, director, purchasing, Mountain States Health Alliance (MSHA), Johnson City, TN. Mountain States currently has two hospitals under construction and a third in the design phase. "Corporate purchasing was never really involved in our organization until recently," he added.

Supply chain's exclusion may be attributed to the perception of inventory ownership.

"The perception is that the owner buys the construction material," said William Alton, MSHA's assistant vice president, construction and facility management. "The General Contractor and their subcontractors buy construction-related material and major facility equipment."

Niklaus Fincher, vice president, purchased services sales & capital, VHA Inc., Irving, TX, noted that supply chain managers harbor several common misunderstandings about their participation in construction projects.

The first is assuming they will be automatically included as part of the project team, early enough to have a positive impact and avert problems or change orders.

"In some cases, the project team may view supply chain staff as simply order takers and disregard the potential value they could bring in development of the earliest versions of the project equipment and supply lists," Fincher said. "This can be particularly impactful if the

[healthcare organization] has developed any type of standardization programs that are administered by supply chain managers."

Still, supply chain managers should not take for granted that external equipment consultants and planners appreciate their involvement or advice, according to Fincher.

"On any project, time is money, and planners may use existing relationships with vendors and suppliers to keep the project moving along," he noted. "Having a supply chain manager influencing the development of the equipment list may be viewed by the planner as an intrusion on their project responsibilities.

"Some planners may have relationships with suppliers, which include financial incentives to include their equipment/products in projects," he continued. "This revenue source for the planner could be threatened by a supply chain manager who is steering the project away from the planner's recommendations."

Instead, supply chain managers should view these construction projects as a convenient opportunity to review their own internal operations and make the necessary changes--however major or minor--in what and how they do business, recommended James Dickow, director, supply chain management, facilities and operations consulting, Lerch Bates Inc., Mequon, WI.

By supply chain management getting involved as early as the design and planning stages they'll have a better understanding of the cost per square foot of their facility, which can justify operational redesign efforts, he added.

But architects don't necessarily take that into account. "Most times architects simply replicate what's being done now for the new building," Dickow said. "They'll ask how a department does things rather than how they could do them more efficiently or with less space. They don't ask about changing what they do."

Many projects merely hamstring supply chain managers to issuing purchase orders after all the planning is completed or to doing some negotiations with suppliers that usually and already earned commitments from other project team members, according to Fincher. "This basically ties the hands of the supply chain team," he said. "In my experience in dealing with supply chain managers, their chief complaints about projects are that they are brought in too late to have an impact or that commitments have been made by other project team members who may not have been authorized to do so, but nevertheless have tied supply chain manager's hands."

Bohon reiterated the arm's length relationship. "Typically the supply chain managers are on the outside looking in at best," he said. "Why? Because they have not taken the initiative to establish themselves as a valuable contributor to the process. Supply chain managers do need to be careful to not try to take on duties and responsibilities that they have no experience with, including negotiating with contractors. If a supply chain manager is not comfortable with his/her knowledge and experience, they should rely initially on specialized consultants and use the opportunity to work with them to expand their horizons in this increasingly important area for the future.

Line of sight

So how can supply chain managers bust through these artificial barriers? Much of the solution involves attitude.

"They have to be proactive and want to be involved and force themselves into the decision-making environment, depending on the organization and the criticality of the project," Dickow said matter-of-factly. "If you're at a for-profit hospital, for example, you're part of it whether you like it or not." Teaching hospitals and community hospitals may have different standards, he added.

Bohon urged supply chain managers to "talk to those in their organization that are responsible for the five- and 10-year capital planning process to determine what projects are on the schedule and which of them would be affected by or would affect the supply chain. Then start to build the case for their early involvement including during the visioning sessions."

Supply chain managers can bring a big-picture, system-wide focus into the planning, according to York, a key caveat for sustainable growth and longevity.

"[They can] communicate the value and knowledge of the system rather than a more narrowed focus of business owners for a specific facility only," York said. "For example, the leadership may be focused on a particular piece of technology for the newly built facility and getting the best possible price for that technology, instead of having a broader view that eventually that technology will go into all of your facilities and try to orchestrate an [integrated delivery network] agreement for the system over a multi-year term and leverage the entire system's size and volume to drive deeper discounts and more value-adds."

That's how it works at Novant, according to Goodhue. "Our equipment planners work in collaboration with the supply chain manager to identify opportunities for reducing the cost of projects, including utilization of standardized products where the healthcare organization can leverage the volumes of a project to decrease cost," he said. "In addition, minimizing the use of customized products ties directly into reducing costs as does the use of refurbished or remanufactured products. This is a major shift in philosophy and directly connected to the economy's current status and the focus on reducing patient healthcare costs without compromising quality and patient satisfaction."

Supply chain managers should establish their position and value to the project and get on board as early as possible. "Although their direct involvement may be limited in the beginning, being sensitive to the progress is essential," Goodhue continued. "Supply chain managers have to stay connected to the inner workings of their organization to ensure they remain current of what is happening. They cannot operate in a silo. Communication with the construction or facility management department is critical. Showing their value in a constructive way that contributes to reducing the cost of a project will directly influence the supply chain manager's acceptance as a key member of the design team."

Fincher offered an eight-step approach that should spotlight supply chain management's relevant contributions:

1. Be organizationally curious and learn about impending, or potential projects, as early as possible.
2. Don't wait to be asked to join a project team. Ask for a seat at the table.
3. Contact peers or colleagues who have worked on successful projects and ask for advice or follow their example.
4. Research similar projects and document lessons learned.
5. Provide the project team, including equipment planners, with supply chain information that can positively impact the project, in terms of reducing the cost or preventing change orders.
6. Sell yourself and the potential benefits to having you on the project team.
7. Point out your expertise on decisions that will have a long term positive impact after the project is finished and the consultants have left.
8. Leverage your GPO to see what expertise they can provide to support your role on the project.

Follow the money

Supply chain managers can demonstrate their relevance to a construction project by focusing primarily on one aspect.

"By saving a lot of money," Dickow said. "Usually, it's through space." If the supply chain manager were to improve operations enough to reduce a particular function's need for space by several thousand square feet that can be translated into actual dollars, he added. Then that space can be used for something else, such as a revenue-generating operation, which the supply chain manager would be wise to suggest.

York urged supply chain managers to provide documentation of successes that shows dollars saved. "In today's economic environment every penny counts especially with the cuts we are all facing," he added.

Alton further noted that supply chain management can "ensure contractor purchases adhere to organizational standards."

That's the hallmark of MSHA's organization. "By having a centralized corporate purchasing department we are very engaged with the direction of our system from a supply chain standpoint," York said. "We have developed strong clinical relationships through our Value Analysis Teams where system standards are set and supported thus enabling us to better support

our direction through standardization and maximize cost savings through the creation of IDN agreements, bulk buys and leveraging potential future buys as much as possible."

Fincher indicated that supply chain managers primarily should focus their efforts on cost reduction and efficiency. In fact, their participation should not slow the project down or increase its cost, which can make the difference between being viewed as a "wise collaborator" or an "adversary," he said.

"[Supply chain managers] need to make themselves knowledgeable about the inner workings of a construction project," Goodhue said. "I've seen and worked with individuals who attempt to force themselves into a project, only to find out that what they've forced into a project just didn't work, which added costs to the project. On the other hand, I've worked with supply chain managers that keep an open, flexible relationship with construction staff--and that includes equipment planners, architects, etc.--that focuses on gaining an understanding of the needs associated with a construction project [as well as] the differences between standardization of items."

Concluded Bohon: "Sadly the best way to demonstrate the positive effect they can have on the planning is to show what the negatives will be if they are not involved."

Dickow offered one example of a project where the kitchen was separated from the cafeteria and on a different floor. "The supply chain manager may not be the dietary manager but at least they can talk about logistics and flow and what makes sense."

Defining roles

Whether they handle equipment purchasing, negotiation and management to clinical facilitation and product standardization, the supply chain manager can choose from a variety of roles to play in a construction project.

Among the more typical roles, supply chain managers also can "facilitate the meetings that will develop the planning for tractions and design that include supply logistics," Bohon indicated.

"They need to understand that although everyone wants to save dollars, price cannot always dictate purchasing decisions," Goodhue noted. "Instead, they need to work with the members of the design team to understand the application an individual item or piece of equipment. Construction projects require more than just having an item to plug into an empty space. If the supply chain managers work collaboratively with the rest of the design team, they can have more of an impact through understanding what the construction [project] needs, including plans, installation schedules and delivery requirements, which are all part of the process as much as contract negotiations are.

"We've been very fortunate at Novant," he continued. "The equipment planners serve as the primary communication point from the construction side of a project and work collaboratively with the supply chain manager to identify opportunities for utilization of standardized products currently under contract, as well as identifying new products for standardization."

Supply chain role modeling

Per VHA's Nik Fincher, here's how supply chain managers can contribute to construction projects

1. Make sure supply chain considerations are integrated into planning and decisions.
2. Avoid or prevent cost overruns due to ineffective negotiations.
3. Make sure standardization is a primary consideration in item specifications.
4. Ensure budget projections are accurate and leverage GPO pricing where appropriate.
5. Track project materials and equipment/supply spend.
6. Look for opportunities to aggregate project spend by supplier or category.
7. Inform project team of existing purchasing contracts (either GPO or custom).
8. Leverage relationship with GPO to gain access to project and/or supplier expertise. (GPO's typically have national best practice benchmarks)
9. Control supplier interaction with clinical staff and project consultants.
10. Participate in the development of the project plan and timing for issuing POs.
11. Develop logistics and transition plan for movement, delivery and installation of goods, materials and equipment.
12. Act as the main communications conduit for various team meetings and team members.

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