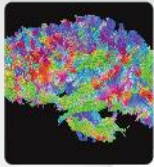




## **A Look Into UPMC**

David A. Hargraves, CMRP, C.P.M., MBA  
Vice President Clinical Supply Chain  
Vice President Operations, BioTronics Inc.

**March 26, 2014**  
**Phoenix, AZ**



## An Introduction to UPMC

# Our Mission

**UPMC's mission is to provide outstanding patient care and to shape tomorrow's health system through:**

- **Clinical innovation**
- **Biomedical and health services research**
- **Education**



# Where We Started → Where We Are Today

- In 25 years UPMC has gone from a three-hospital system to a \$10B Integrated Delivery and Finance System (IDFS)
- In last 8 years, Supply Chain has integrated 5 large hospitals into system
  - Passavant, Children's, Mercy, Hamot and now Altoona
- We also built 2 new hospitals
  - UPMC East & new Childrens





# A Strong Network of Hospitals, Outpatient Care, Pre- and Post-Acute Care, Home Care, and Rehabilitation Services

**22 Hospitals with 5000+ beds**



**9 UPMC Urgent Care locations  
and 3 Children's Express Care  
centers**



**UPMC Centers for Rehab  
Services with 51  
outpatient sites**



**UPMC Home Care  
483,000 visits**



**5,000+  
Credentialed MDs**



**UPMC Senior  
Communities  
18 facilities with  
2,400+ beds/units**



**10,300 STAT MedEvac  
transports**

# Where We Are Today: The Big Stats



- Largest employer in Pennsylvania, with nearly 60,000 employees
- More than 3,300 employed physicians
- More than 13,000 nurses & 1,600 residents
- 22 academic, community, and specialty hospitals and 400 outpatient sites
- Ongoing strategic affiliation with the University of Pittsburgh
  - Ranked among the top 10 recipients of NIH funding

# Where We Are Today: A Leader in Health Care IT

- 2013: Ranked #1 in InformationWeek 500 – top innovative companies

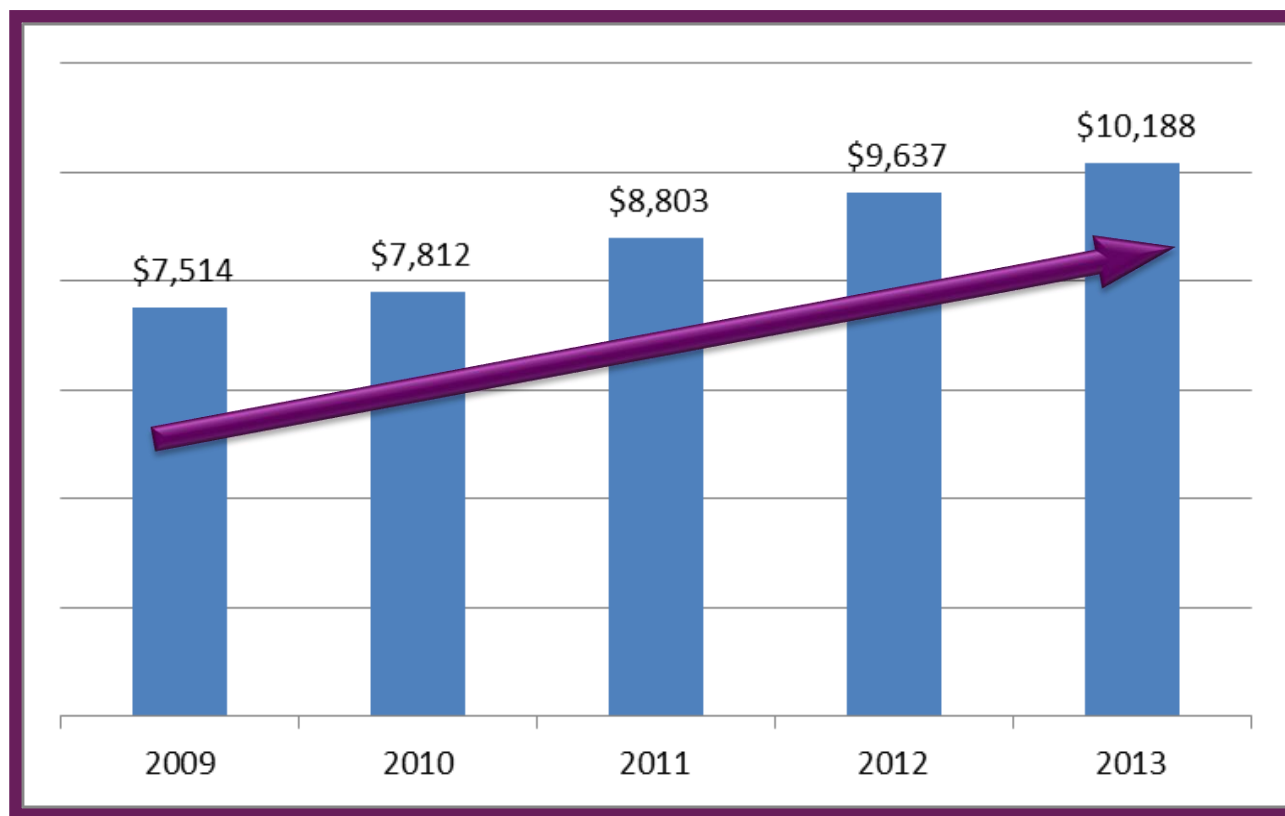


- Pioneer in developing and adopting technology to improve quality, safety, and efficiency
- \$1.5 billion investment over the past five years to support clinical excellence and create new models of care
  - Turning unstructured data into actionable information
  - Bringing personalized medicine to each patient



# Where We are Today: Revenue Growth

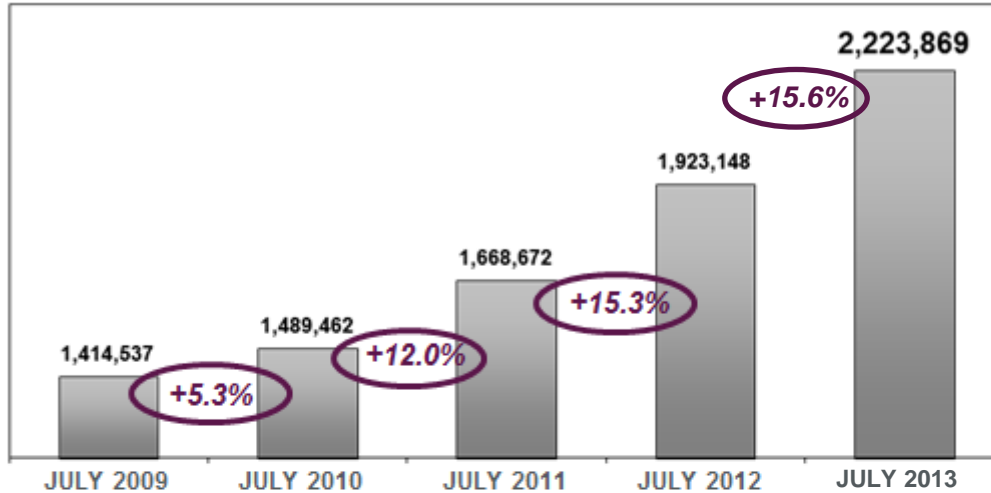
- Over \$10B Revenue
  - UPMC's operating revenue has increased by 36% since 2009
  - 8% compound annual growth rate allows UPMC to pursue various growth and community initiatives



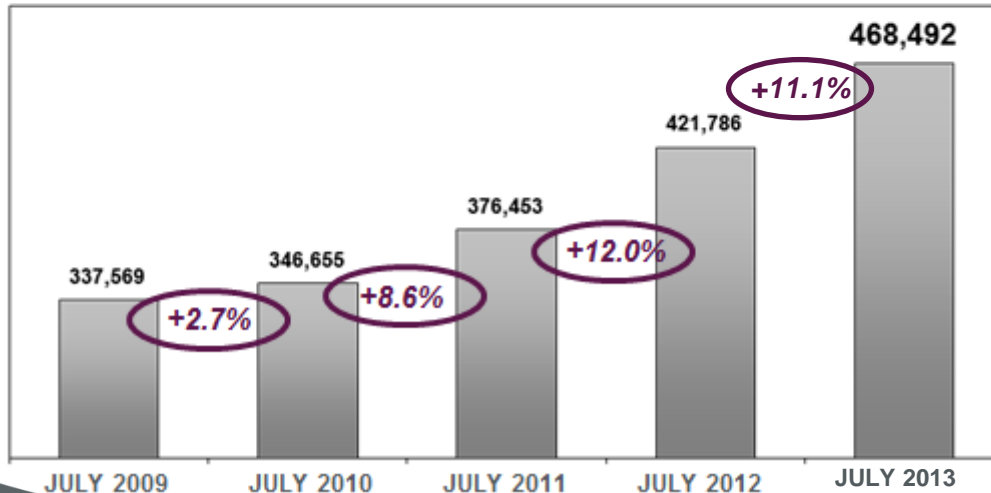


# Where We Are Today: UPMC Health Plan Growth

TOTAL UPMC INSURANCE DIVISION MEMBERSHIP



COMMERCIAL HEALTH MEMBERSHIP



- Membership growing at double-digit rates
- 1,411 new employer groups past year (+16%)
  - Retained 95% of existing businesses
- Over 2M Covered Lives

A plan for better health  
**STARTS WITH YOU.**

At UPMC Health Plan, our commitment to helping you live a long and healthy life is unparalleled and it shows. U.S. News & World Report and the National Committee for Quality Assurance named UPMC Health Plan the highest ranked plan in Pennsylvania and one of the top 20 health plans in the nation. Our focus on your health starts by providing access to our world-class network of over 90 hospitals and 7,000 doctors in the region. Services like the Pediatric Advice Line (PAL) with Children's Hospital and web-based tools to manage weight and other health risks are there for you day and night. Find out why more than ever, UPMC Health Plan is where you belong. Call 1-888-383-UPMC (3762) or visit [www.upmchealthplan.com](http://www.upmchealthplan.com).

**UPMC HEALTH PLAN**  
Where you belong.

Top Ranked Health Plan in Pennsylvania  
- U.S. News & World Report and NCQA

1-888-383-UPMC  
[www.upmchealthplan.com](http://www.upmchealthplan.com)

Leading the nation in  
**BREAST CANCER SCREENING.**

At UPMC Health Plan, we're committed to both prevention and treatment. We've been named No. 1 in breast cancer screening for two years and received the highest rating in overall prevention by the National Committee for Quality Assurance. We promote routine exams and screenings because we know they can prevent or delay the onset of debilitating conditions. Choose a health plan that's present & dedicated to you long before you need it. UPMC Health Plan. Where you belong. Call UPMC Health Plan at 1-888-383-UPMC (3762) for more information.

**UPMC HEALTH PLAN**  
Where you belong.

This coverage plan may not cover all of your health care expenses. Read your UPMC Health Plan policy for details. UPMC Health Plan is not a health insurance company. It is a health plan. For more information, call 1-888-383-UPMC (3762).

**UPMC** LIFE  
CHANGING  
MEDICINE

# UPMC Supply Chain Environment: Yearly Purchases



- ✓ 956 Miles of rolled paper towels
- ✓ 11 Million minutes of audio conferencing
- ✓ 26 Million lbs municipal solid waste
- ✓ 33,739 lbs of ground coffee
- ✓ 8.1M Clorox wipes
- ✓ 84 Million exam gloves



- ✓ 2.2 Million alcohol prep pads
- ✓ 1.6 Million syringes used
- ✓ 4.1 Million isolation & cover gowns
- ✓ 542,523 lbs of poultry
- ✓ 31,035 Miles of toilet paper
- ✓ 6,400 Airline tickets





**UPMC Supply Chain Transformation**  
***“8 Years In, Almost There”***

# UPMC SCM Transformation: Shared Services

- Top Down Approach driven by Senior Leadership
- Standardization of systems and business processes
  - Quickly integrate merged hospitals / business groups to recognize economies of scale – systems and processes/policies.
- Corporate Services structure with centralized operations and support (IT, Finance, HR, Legal, Supply Chain, etc.)
  - Quickly merge similar operations into their respective corporate group/business.



U = YOU  
P = PEOPLE  
M = MUST  
C = COMPLY



# UPMC SCM Transformation: Start with a Vision

**“We must continually challenge existing paradigms and create new ways of delivering value in an ever changing healthcare landscape.”**

**J. Szilagy**



**Jim Szilagy**  
UPMC Chief Supply  
Chain Officer



# UPMC SCM Transformation: Imperatives

- Moved resources to more strategic activity
  - Automated transaction activity
  - Deployed “one place to buy” strategy
- Upgraded talent and improve skill sets
- Internalized Strategic Sourcing...GPO as a resource, not strategy
- Increased influence on non-traditional / new spend categories
- Deployed processes to manage new technology introduction
- Strong evidence & returns required for premium pricing
- Optimized the entire supply chain organization



**2006 TO 2013**

# UPMC Supply Chain Environment: Recent Recognition




**HEALTHCARE**  
**PURCHASING NEWS**  
2012 SCM Dept of Year



*IDN Summit 2011  
National Award Winner(s)  
for Efficiency & Innovation*

**UPMC** LIFE  
CHANGING  
MEDICINE

# UPMC Supply Chain Environment: At-A-Glance

- **Significant Spend**
  - >\$2B Spend under control
- **Self-Contracted**
  - ~85% under local agreements
- **Self Distributed**
  - **Consolidated Service Center**
    - 150k sq ft distribution facility
  - **HC Pharmacy**
    - Regional GPO
    - UPMC and Affiliated Hospitals
    - Outpatient Pharmacies
    - Cancer Centers
- **High Volume Shop**
  - 74,000+ invoices per month
  - 9,000+ purchase reqs/week
- **Technology Driven Automation**
  - ProdigioMarketplace
  - ProdigioXchange  ProdigioMarketplace
  - Voice Directed Picking
  - PeopleSoft & Oracle WMS
- **Fully Integrated Shared Services**
  - **Single point of contact for SCM**
  - **Evaluate, Contract, Purchase, Pay, Distribute, Repair, Replace**



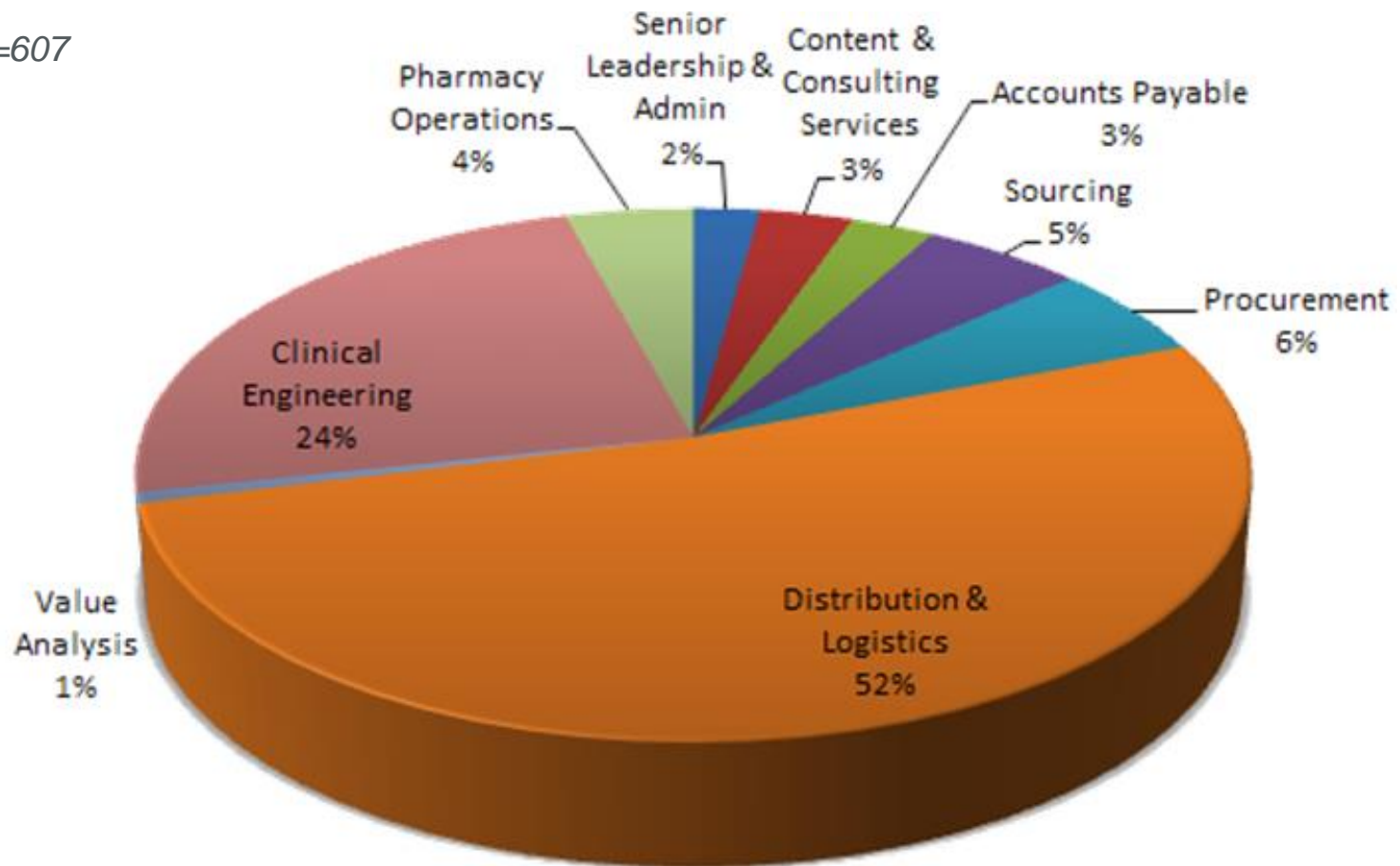
# UPMC Supply Chain Environment: Services

Name	Service
BioTronics Inc.	Clinical Engineering
Prodigo Solutions	SCM Technology
Affiliation Program	Support of Non-UPMC Entities
HC Pharmacy	Pharmacy SCM Services
CPAK	Pharmacy Packaging Services
Pharmacy Operations	Robotic Packaging
Clinical Equipment	Specialty Bed & Equipment Distribution
Employee Transit	Transportation Services
Moving & Storage	Asset Optimization

Name	Service
Materials Management	Onsite Supply Optimization
Distribution	Warehouse Services
Sourcing & Contracting	Cost & Risk Management
Buying	Product & Service Acquisition
Consulting	Project Management
Systems Support	PeopleSoft Support
Accounts Payable	Funds Disbursement
Supplier Relations	Diversity & Local Growth
Value Analysis	Evaluate Clinical Efficacy w/ Costs

# UPMC's Supply Chain Environment: FTE Distribution

*n=607*





# AGENDA FOR SECOND HALF

## **Outline the strategy and operations for:**

- How UPMC chooses its preferred products
- How UPMC contracts for preferred products
- How UPMC Distributes those preferred products

## **Provide thoughts and comments on *hot* topics including:**

- Regional Aggregation
- Evolution of UPMC Supply Chain in era of reform
- Discussion: Effective ways for suppliers to work with UPMC

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# UPMC's Supply Chain Transformation: Process

## Reinvent Value Analysis

- Hired Clinicians to Manage Process
- Established Executive Oversight
- Mission is preservation and improvement of the quality of patient care while controlling costs and risks
- Key Tenets of Program
  - *“Balancing Consensus with Speed of Decision”*
  - *“Balancing Clinical Efficacy with Cost”*
  - *“Products Should Meet the Needs of the System, but Not Exceed The Needs”*



# UPMC Value Analysis Teams

Anatomical Pathology

Anesthesia

Beds

Cardiology and EP

Central Sterile

Chemistry

Critical Care

Dialysis

Dietary

Environmental Services

ET

Fleet Maintenance

GI

Hematology

Infection Control

IV Therapy

Linen

MACC

Microbiology

MIS

Neonatal

Ophthalmology

Orthopedics

Patient Care

PCA

Pediatric

Peripheral and Vascular

Phlebotomy

Plant Maintenance

Regional Anesthesia

Rehab PT-OT

Reprocessing

Respiratory Therapy

Spinal

Surgical Services

Telecom Operations

TIPAC

Trauma

# UPMC's Value Analysis Process

## *Define Opportunity & Form Team*





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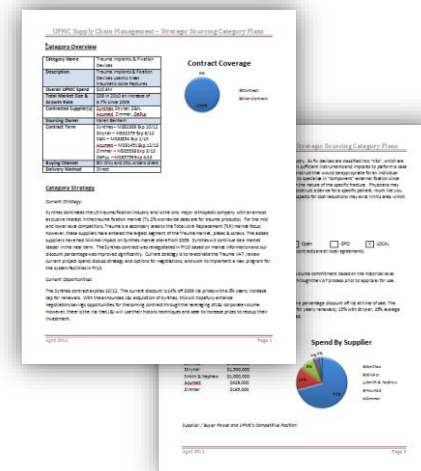
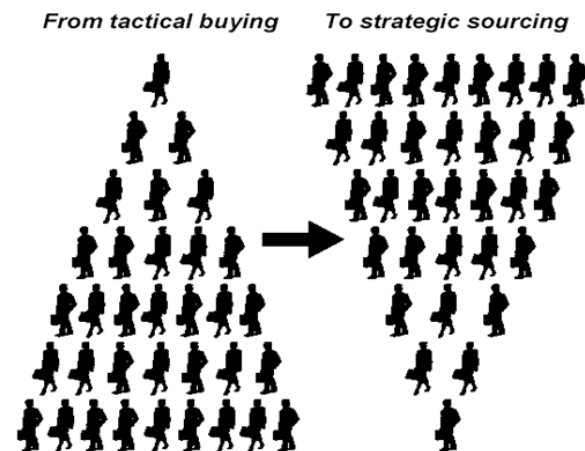
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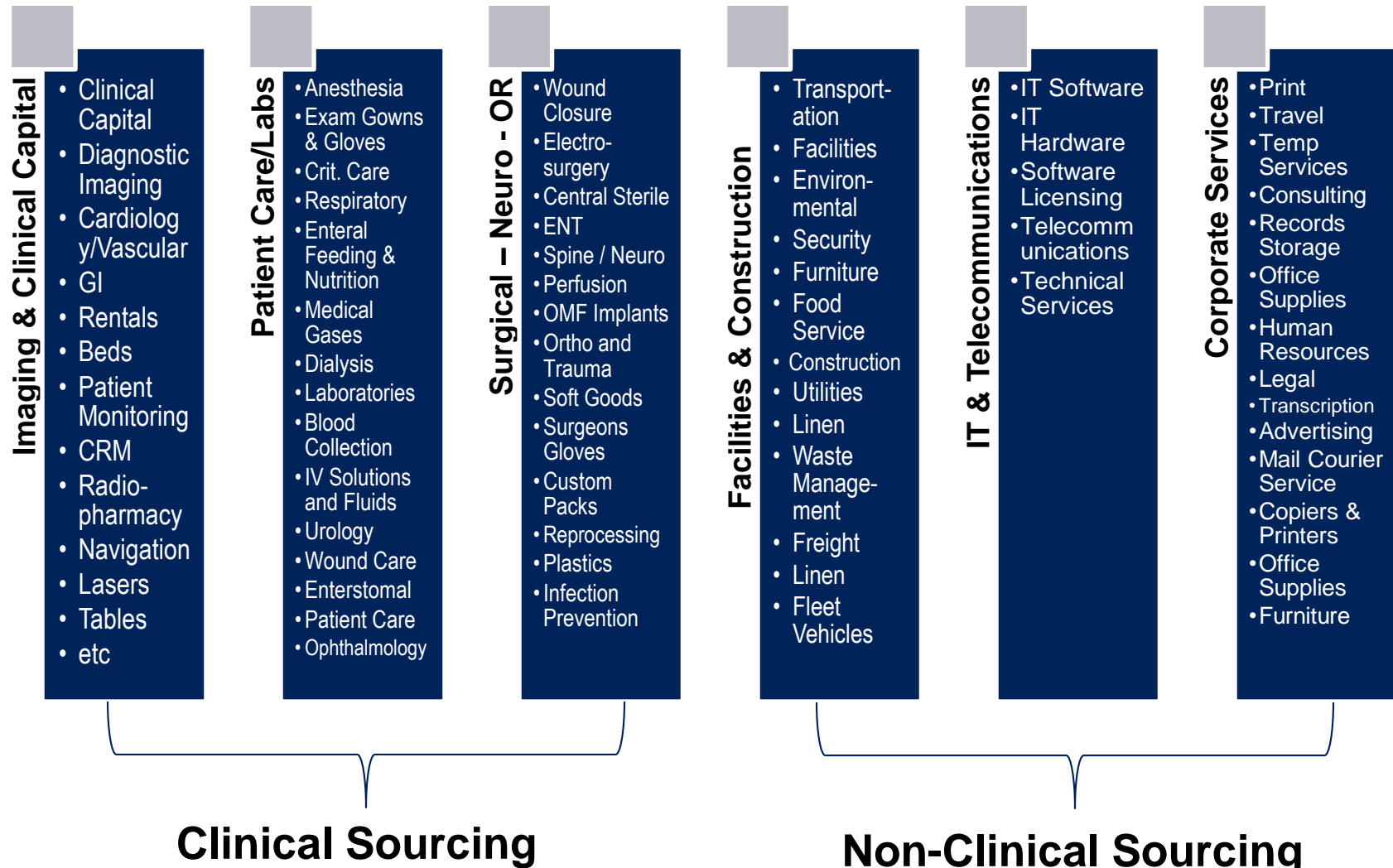
## UPMC's Supply Chain Transformation : Self-Contracting

## Internalize Strategic Sourcing

- Use Automation to move FTEs from tactical to strategic work
- Best ROI comes from Sourcing...10:1
- UPMC locally contracts for *all* strategic PPI categories using our paper
- Supports Value Analysis program
- Category plans document current/future sourcing strategy...UPMC's strategy.
- Self-Contracting drives more value than self-distribution; both drive compliance.



# Strategic Sourcing – Integrated Category Teams



# UPMC's Supply Chain Transformation : Self-Contracting

## SELF-CONTRACTING = LOWER COSTS

- Critical Clauses/Sections Include:
  - Affiliate
  - Market Competition
  - Best Price
  - New Product Introduction / New Releases – Clinical
  - E-Commerce Business Process Requirements
- Recent Examples:
  - Orthopaedic Revisions – Entirely New Strategy
  - Cardiac Rhythm Management – New Product Introduction
  - Drug Eluting Stents – Best Price & Market Competition
  - Blood Products – Unprecedented “shared risk” contract



# UPMC's Supply Chain Transformation : Self-Contracting

## SELF-CONTRACTING = LOWER RISK

- Critical Clauses/Sections Include:
  - Unavailable Product(s)/Cost to Cover
  - Criminal Background Check; Drug Testing
  - Product Recalls
  - Right to Reject
  - Right to Audit
- Recent Examples:
  - Non-performing Sterilizer – Right to Reject
  - Abdominal Binder – Cost to Cover
  - Transportation Supplier – Right to Audit





# UPMC's Supply Chain Transformation : Self-Contracting

- **Price Focused GPO Contracts are Fine for Some Areas**
  - GPO contracts broadly do not address risk mitigation
  - GPO contracts do deliver a “good” price on many products
  - GPO's deliver value to **Supplier** when restrict Provider's choice
  - GPO's deliver value to **Provider** when allow freedom of choice
  - Who's strategy are you implementing with GPO contracts?
- **Self Contracting is Resource Intensive**
  - Sufficient staff to cover largest / most critical spend
  - Contract Agent = 2x-3x Salary of tactical Buyer
  - Standardized and pre-approved clause library
  - Integration into financial and reporting systems
  - Months to negotiate a local; minutes to use GPO



# GPO Power is waning /diminishing.

- GPO power has risen and fallen over last decade or so.
- IDN self contracting, self distribution, and regional purchasing coalitions have all hurt their ability to drive change/drive market share...but hasn't necessarily driven down the admin fees that they collect.
- **What is a GPO's Value Proposition to YOU?**
- GPOs no longer able to give Providers a guarantee of the "best price" from their suppliers because they let hospitals self contract (directly or through a regional consortium)
- **What happens to the GPO power as providers continue to consolidate, will it increase or decrease?**

# Should You Support Local Contracting?

- Hospitals self contract because WHERE they deliver compliance (market share) to the suppliers they deserve to be incented/rewarded
- Question is, **should you support local contracting or should you support the GPOs?**
  - Hint: GPO's don't actually buy *anything*
- What does it take to drive compliance?
  - Geographic region might matter
  - Physician relationship with administration matters
  - Aptitude/skill/maturity of IDN supply chain absolutely matters
  - Teeth matter...you will be challenged, how will you respond?



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# UPMC's Supply Chain Transformation : Self-Distribution



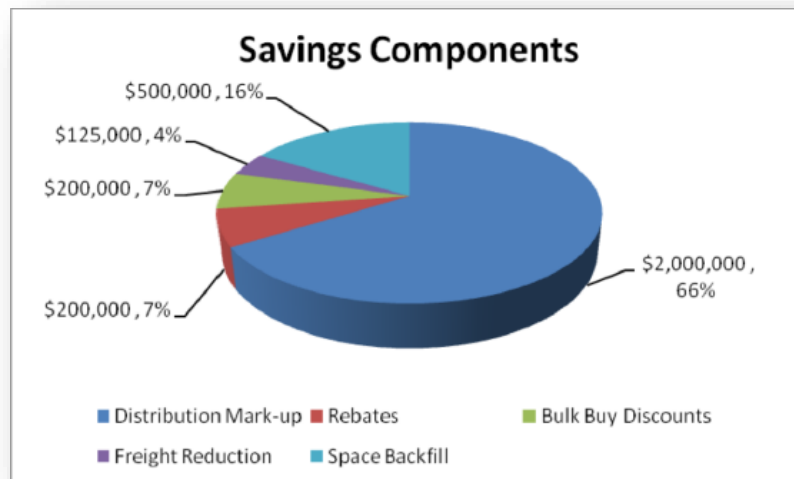
**\$10M On Hand Inventory**  
**148,000 Square Feet**  
**24 x 5 Operation**  
**3,700+ SKUS**  
**16 Turns**  
**94%+ Fill Rate**  
**All LUM to Dept**  
**Full Cross-docking**  
**Voice-directed picking**  
**Supports ~750 PAR locations**



# UPMC's Supply Chain Transformation : Self-Distribution

## Self-Distribution Drives Savings

- Increases service capacity
- Supports future demand
- Supports affiliate / growth strategy
- Removes 3<sup>rd</sup> party costs
- Reduces waste
- Increases compliance
- **Over \$1.1M annual net savings**



# UPMC's Supply Chain Transformation : Self-Distribution

## Self-Distribution Drives Compliance

**My eMarketplace**

SEARCH | FAVORITES | CART | CHECKOUT HISTORY | SPECIAL REQUEST | SUPPLIER WEBSITES | ADVANCED SEARCH | QUICK ORDER | PROFILE | ALERTS

**View My Cart**

# Items: 2  
Total: \$12.56

**EXPRESS CHECKOUT**

Refine My Results...

Search Term:

- Catheter (150)
- Alliance Medical (10)
- Jelco IV (3)

Filter My Results:

Category:

- Item Master [260]
- Med Surgical [150]
- IT Supplies [10]

Supplier(s):

- North [100]
- Grainger [147]
- Alliance Med [12]
- Hardware Guy [1]

Tags:

- Most Popular [100]
- Inventory Item [147]

Home : Medical Surgical Supplies : Catheters : Item Details [Return to Search Results](#)

**JELCO® IV Catheter**  
Item #: 0926 | See More Alliance Medical Products

JELCO® I.V. Catheter is the leading standard short peripheral I.V. catheter. The FEP polymer construction and J-point needle design allow clinicians to easily feel the vein entry. Radiopaque, striped or wing hub.

UNSPSC: 2132152005  
Customer ID: 00060001234502  
Vendor: Alliance Medical Inc.  
Vendor ID: 56482

Price: \$ 1.40 **Add to Cart**  
Quantity:  [Add to Favorites](#)  
UOM: EA

**INV**  
Inventory Item

**STOCK ITEM**

More Images

**Customer Reviews** **Related Products** **Replacement Products** **Documents** **Specifications**

5 Star [38]  
4 Star [30]  
3 Star [37]  
2 Star [36]  
1 Star [38]

Overall Rating: 3.3 [Guidelines](#)

Thinking of getting this product? Find out what others have to say about it. Read the Customer Reviews and make an informed purchase.

Already own this product? Share your own experience and help others make a decision by writing a Customer Review.

# NO COMPLIANCE = NO SAVINGS

UPMC **LIFE CHANGING MEDICINE**



# UPMC's Supply Chain Transformation : Self-Distribution

- **Many Reasons to Drive Self Distribution**

- Lower Costs
- Satisfy Power / Ego
- Risk Mitigation / Continuity of Supply

- **Self Distribution is Resource Intense**

- Significant start up costs (capital & labor)
- Outside area of expertise for most Providers
- Need for ROI varies with reason behind decision

- **Self-Contracting eases Self Distribution; Not Required**

- Local contracts more often contain distribution friendly terms (fill rate, rebate structure, fast pay discounts, etc) not contained in GPO contracts
- Can still do self-distribution with many GPO contracts



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# Rate of Provider Consolidation is Increasing

**“Only 13% of hospitals surveyed in 2012 intend to maintain independence from alignment with other hospitals or systems.”**

Strafford presentation that contains data from: Media Intelligence, M&A: Hospitals Take Hold, January 2012

# Provider Consolidation Has Many Faces

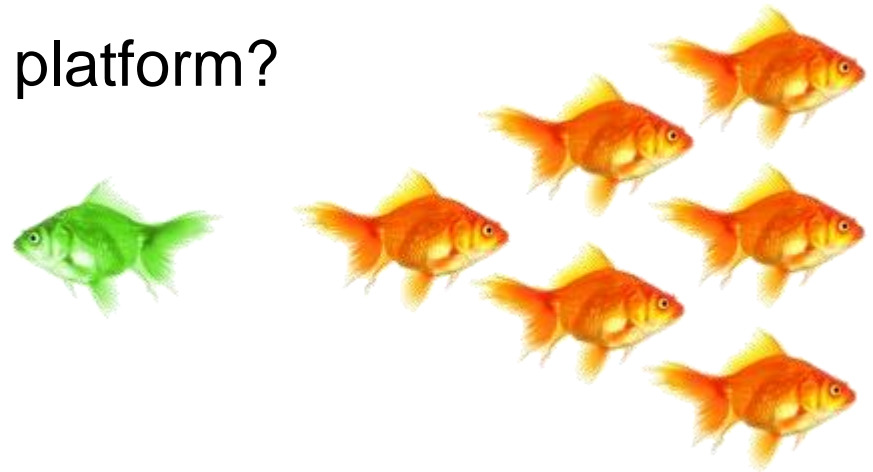
AFFILIATIONS	JOINT VENTURE	JOINT OPERATING AGREEMENT	MERGER	ACQUISITION
<ul style="list-style-type: none"> <li>• Most flexible form of consolidation, though option of a weak vs. strong affiliation exists</li> <li>• Utilized to increase footprint, gain economy of scale, create referrals, supplement an already successful set of services, exchange best practices</li> <li>• Do not necessarily change management or governance</li> </ul>	<ul style="list-style-type: none"> <li>• A mildly flexible arrangement</li> <li>• Used to create something new (limited inpatient or outpatient activity, service, purpose) that may be overwhelming to do solo</li> <li>• Shared governance between two hospitals</li> <li>• Contains some form of profit/risk sharing.</li> </ul>	<ul style="list-style-type: none"> <li>• Virtual Mergers, where assets may separate but services are coordinated</li> <li>• New overarching governing board is created but hospitals maintain independent boards as well</li> <li>• May borrow for capital investments as one organization</li> <li>• Similar to a joint venture, but larger. Extends past just a specific service or activity</li> </ul>	<ul style="list-style-type: none"> <li>• Mutual decision of two companies to combine</li> <li>• Leadership may be a combination of the two hospitals or from an outside source</li> <li>• Hospital's absorb each other's assets and debts</li> <li>• Goal is to increase economy of scale, improve quality, increase market share</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase of one hospital by another</li> <li>• Usually smaller acquired by larger, but not always</li> <li>• Goals: increase market share, footprint, acquire additional services, financial stability</li> <li>• Hospitals may continue to function semi-independently or make transformational changes to match buying hospital</li> </ul>

Source: "What Hospital Executives Should be Considering in Hospital Mergers and Acquisitions"  
DHG Healthcare Winter 2013

# Is your IDN Integrated or Loosely Affiliated?

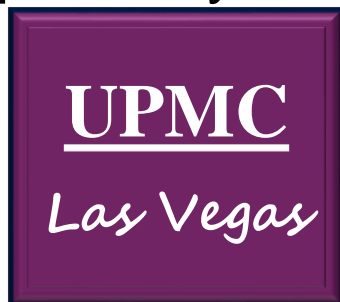
**Integration Drives Compliance. What are some ways you can tell if a given large IDN or new mega-system is integrated or not? Can deliver market share to you or not?**

- Single ERP system / buying platform?
- Single SCM organization?
- Self distributed?
- Self contracted?
- More than one GPO?
- More than one contract connection per spend category?
- What did they do with the last couple facilities they integrated? Did any products convert?



# Does Geography Support Today's IDN Compliance?

- One reason for UPMC's success in driving compliance is our close proximity to our key stakeholders/clinicians.
- UPMC has 61% market share in Allegheny County. We primarily serve only Western Pennsylvania. But what if...?



- **The further dispersed geographically an IDN's facilities are, the less likely they are to implement self-distribution.** Self-contracting is unrelated to geography.
- **As IDN's grow beyond their home region, will they be able to support the same compliance levels as today?**

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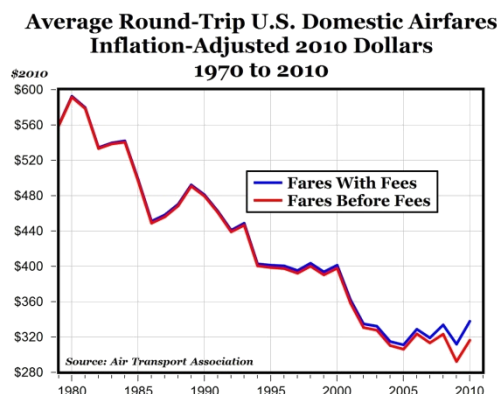
# Standardization increases risk and increases costs in the long term. Right?

- What if all the mega-IDNs of the future control 80% of the beds in the US?
- What if majority standardize to the same supplier for a given product. What does this do to the other couple suppliers?
  - Increases risk of supply continuity failure (recall)
  - Short Term Failure to supply = loss of revenue on both parties
  - Long Term Failure to supply = reduced patient outcomes / death?
- To be successful in long-term, Providers need to create and support a competitive landscape in their supply categories



# Compliance & Volume Stifles Innovation?

- How many big companies *continually* drive innovation?



- **Sustained competition drives marketplace innovation and lowers costs to the consumer.**
- But what are we headed for in healthcare?
  - How many of our supply markets are already an oligopoly?
  - How many of those markets are trending towards fewer competitors rather than more?

# Dual Source Strategy Drives Innovation?

- ☐ Excellent
- ☐ Very good
- ☐ Good
- ☐ Average
- ☒ Poor



- Large IDNs will get larger
- Large IDNs will drive more standardization
- Large IDNs will use ever fewer suppliers

- A few suppliers will get larger and take more market share
- Once a supplier captures 40-50% market share they start to exhibit “bad supplier” behaviors:
  - forcing price increases, raising margins, innovating less, consuming smaller competitors, getting lazy, getting arrogant, etc.
- To drive competition and innovation, large IDNs should dual-source ...but suppliers penalize providers who do this
- Sole Source/High Compliance strategy is BAD long term for our industry and for patients. Stifles innovation raises costs

# Providers Will Further Embrace Agnosticism

## The decline of Physician Influence on Product Selection?

Unprecedented need to reduce costs = new conversations between administration and physicians = more open to change

- Pedicle Screws
- CRM Devices
- Emergence of generic implant companies
- Hospitals going into manufacturing



## Agnostic Data Systems are Required (big Data)

- Requirement of dual-source categories; need increasing
- Agnostic data drives better outcomes analysis
- Better outcomes analysis drives more business your way?

# Traditional Sales Practices Will Be Challenged

- **Customer Segmentation Practices Will be Challenged**
  - Mega-IDNs will bring atypical ownership structures which will challenge current pricing practices.
  - Affiliates, non-owned facilities, hybrids, acute care, primary care, alternative care, etc. Class of trade issues, etc.
  - They won't care. One price. Same or better service.
- **Supplier Staffing Models Will be Challenged**
  - What is role of “salesperson” in a mega-IDN?
  - Where does “sale” occur?
  - OEM discussions on reducing costs by reducing sales reps
- **Unprecedented Requests to Cancel Contracts**



# Suppliers Will Go “At Risk” Frequently & Substantially

- **Move from “OR” to “AND”** – Must reduce costs *and* improve outcomes *and* increase patient satisfaction
- **No Evidence = No evaluation.**
- As mega-IDNs emerge, grow, and standardize, **barriers to change increase dramatically.**
- Will need mega savings *and* mega improvements in patient care for anyone to change. **Bigger players=Bigger game**
- Suppliers can **reduce barriers to change by going “At Risk”**:
  - Performance Outcomes
  - Conversion Costs / Trial Costs
  - Guarantee Reduced Utilization, etc.



# UPMC SCM Transformation: The Path Forward

- Automate transaction activity to deliver more value with less resources
- Product selections no longer based on Physician preference
- **Increasingly fund SCM with external revenue sources**
- **Support Non-UPMC healthcare providers (Affiliations)**
- **Significantly limit the introduction of new technologies**
- **Fewer total suppliers** – Choose winners & losers
- **Fewer total product options**; Drive spend to products that deliver superior outcomes at same or lower cost; eliminate unnecessary waste
- Engage in strategic and collaborative relationships with a few suppliers
- Reduce practice variation/consumption by service line
- **Drive to optimize intersection of Cost, Quality and Outcomes**





# THANK YOU



UPMC LIFE  
CHANGING  
MEDICINE

# What does the future with supplier and provider consolidation hold for distributors?

- Distributors have it tough. They are battered from all sides.
- Distributors have to be friends with EVERYONE and meet everyone's needs but:
  - **Distributor as a Distributor** puts them at odds with IDN desire to self distribute
  - **Distributor as a manufacturer** (private label) puts them at odds with the same device manufacturers that are their bread & butter
  - **Distributor as Salesperson** (selling GPO or OEM products) might put them at odds with IDN that wants them to be strictly a service provider
  - So where do distributors go to NOT be in trouble with someone?
    - **Distributor as 3PL to an OEM**
    - **Distributor being purchased by or purchasing a GPO**
    - **Consolidate w/other distributors and try to regain control**