

# IMPLEMENTING A COMPLEX DISTRIBUTION PROGRAM

by Doug Keeney

## Our System

FirstHealth of the Carolinas includes three hospitals located in North Carolina — one in Richmond County (Richmond Memorial) and one in Montgomery County (Montgomery Memorial), as well as the flagship Moore Regional in Pinehurst — with a total of 611 licensed beds. In our effort to offer a multi-disciplined continuum of care, we also provide extended patient services. We also have an insurance plan that specifically targets the vast numbers of uninsured patients in our coverage area. These integrated facilities and services make FirstHealth one of the nation's most comprehensive healthcare networks.

The three FirstHealth hospitals have an active medical staff of 257. More than 90 percent of these physicians are board certified in such specialties as cardiology, neurosurgery, orthopedics bariatric surgery and neonatology.

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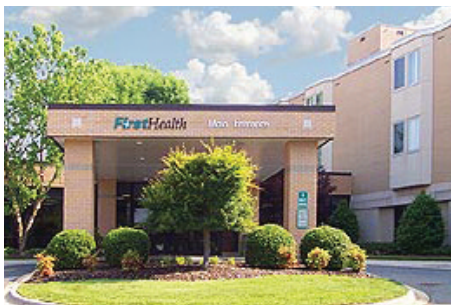


FirstHealth Moore Regional Hospital in Pinehurst, North Carolina is a 385-bed, acute care, not-for-profit hospital that serves as the referral center for a 15-county region in the Carolinas. It is the flagship hospital for FirstHealth of the Carolinas, the region's first comprehensive healthcare network.

## Our challenge

With three different hospitals, each possessing their own set of distribution needs, and an overall goal to reduce expenses, we had several different challenges we needed to address.

- First, we established a savings goal of 6-8 percent on our budget of approximately \$10 million in disposable medical and surgical supplies. Even before this current economic downturn, we had established a savings target due to rising prices coupled with declining reimbursements.
- Second, our hospitals each have their own distribution needs. Moore Regional receives their supplies in bulk, meaning they are delivered in boxes direct to the hospital's dock. Montgomery Memorial and Richmond Memorial utilize a combination of bulk and the lowest-unit-of-measure (LUM) method, which means the products are delivered in individually wrapped packaging direct to the nursing floors. We needed a distributor who could provide a combination of distribution services as we needed them.
- Third, we need a high level of service from our distribution partner, including on-site support, a broad product offering, innovation, on-time delivery and flexibility.



Montgomery Memorial Hospital (Troy, NC) provides traditional health services including acute care for both medical and surgical patients, outpatient surgical services, imaging and diagnostic services and an emergency department.



A 151-bed community hospital, FirstHealth Richmond Memorial (Rockingham, NC) serves the emergency, inpatient, outpatient and acute-care needs of Richmond County and the surrounding area.

### Healthcare system:

FirstHealth of the Carolinas

### Location:

North Carolina

### Size:

Three hospitals, a skilled nursing facility, three centers for the diagnosis and treatment of sleep disorders, three dental care clinics for underprivileged children, seven family care centers, six health and fitness centers, a Hospice program, a Home Health program and critical care transport, EMS and medical transport services.

### Challenge:

Implement three different distribution methods

## Why we chose Medline and their solutions

In 2007, our prime vendor became part of another company and could not provide the services we required. We began our search for a distribution partner who could help us achieve our goals. Medline had been providing some of our medical supplies since 2001, including our disposable surgical packs and gowns. We knew Medline manufactured quality disposable hospital supplies, but we did not realize Medline's full breadth of distribution services, clinical expertise and product offerings. After learning of Medline's extensive capabilities, we asked them for their ideas on how they would distribute products to our hospitals and reduce our supply costs.

We did not conduct a formal "request for proposal." We talked with Medline and other leading distributors about their ideas for our system and our unique distribution challenges. Medline responded with the most creative program and cost-effective method for distributing products to our facilities.

## COST SAVINGS

The fact that Medline manufactures its own products (many of them well-known national products such as *Aloetouch* gloves) and delivers them direct to our facilities is a savings and efficiency component the other distributors could not offer. Our agreement was that Medline would deliver a minimum of 7% savings when converting from our current products to the equivalent Medline brand products.

The next savings area was a reduction in our cost-plus distribution fees. This is the cost we are charged for distribution services of products to our facilities. Medline was able to guarantee a 1.5 percent reduction from our current fee.

To give us an additional incentive to convert to Medline brand products where Medline products are equivalent—if not superior—to what we are currently using, Medline offered an annual rebate based on the ratio of Medline brand product versus non-Medline product we purchased. This means the more Medline

brand product we purchased, the higher our rebate. The goal is to purchase 40 percent Medline brand and 60 percent other national brand products within the first 18 months of the agreement. In future years, our goal would be to increase the ratio of Medline brand purchases.

## DISTRIBUTION PROGRAM

Based on the different product distribution needs of our hospitals, Medline proposed the following distribution plan:

- **Moore Regional** – Five days a week, Medline would deliver product from its Durham distribution facility about one hour away. The product would be delivered "in bulk," which means the product is contained in larger packaging and not broken down into individual items. From the dock, our supply staff would deliver it to the central store room and from there to patient floors as needed. Some of the products, such as gloves, would need to be delivered in lowest unit of measure – LUM – which means



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the hospital staff does not have to break the case packaging down to the smallest package for delivery to the floors; Medline would do that for us.

- **Montgomery Memorial** – Product for Montgomery is also delivered to Moore’s dock, where our distribution team will transport it to Montgomery, about 35 minutes away. As with Moore, Medline would deliver some of the products in LUM. This distribution method decreases the amount of supplies the hospital holds in stock so we do not have as much money tied up in inventory.
- **Richmond Memorial** – Medline would deliver products five days a week in LUM to the hospital dock using its own trucking fleet called MedTrans. The products would be delivered in totes (plastic containers) that the materials management staff could take directly to the patient floors for use that day.

#### **ON-SITE SERVICE**

Finally, Medline has a very strong and experienced sales force, customer service team and infrastructure to handle the needs of our health system. Medline assigned a local sales representative for our system. He is on site at one of our facilities no less than four days per week. He is almost like an employee of FirstHealth. He attends our monthly product review committee meetings,

conducts in-services on new product trials and evaluations, troubleshoots issues as they arise and presents new products and ideas to our staff.

Our sales rep not only manages our day-to-day business, he coordinates Medline’s team of product specialists and clinicians when the need arises for new products, product conversions, questions from staff, etc.

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## Results to date

We began our distribution partnership with Medline in January 2008. The goal was to be implementing the entire distribution program, including purchasing at least 40 percent of our products in the Medline brand, within 18 months.

We are right on schedule.

The following savings were achieved in the past year. There are no smoke and mirrors with these results. Medline and FirstHealth hold quarterly review meetings and analyze how we are progressing on achieving our goals.

Annual savings achieved with Medline			
Category	Purchases	Savings	% of Spend
2008 Medline Brand Spend	\$2,527,255	\$176,907	26.4%
2008 National Brand Spend (cost-plus reduction savings)	\$7,585,544	\$113,783	73.6%
2009 Anticipated Medline Brand Spend	\$4,002,000	\$103,232	40%
Medline Brand Rebate		\$120,000	
2009 Anticipated National Brand Spend (cost-plus reduction savings)	\$6,000,000	\$90,000	60%

**Regular, on-time deliveries** — One of the demands we had of our supply partner was on-time regular deliveries. Medline has met that criterion. Medline has a distribution center in Durham, North Carolina, just one hour away from our hospitals, to meet our demands. Medline also has its own fleet of trucks so they do not have to rely on third-party trucking companies to deliver our supplies where and when we need them.

## Future opportunities

- Medline currently has all of our sterile procedure trays. We are now looking at their supply management product called the Complete Delivery System (CDS) that includes all of our disposable perioperative supplies in one container, which could help in improving efficiency, staff productivity and standardization.
- Sahara super-absorbent OR table sheets, designed to keep the skin of surgical patients dry in an effort to reduce the risk of skin maceration. The table sheet is part of Medline's QuickSuite OR clean up kit developed to reduce patient-out-to-patient-in-time, which can eliminate overtime pay and increase the number of procedures per day, increasing revenue.
- Convert the remainder of our textile purchases to Medline, including scrubs, patient gowns, OR surgical gowns and bed linens.
- Convert janitorial supplies and paper products.
- Review diagnostic products to identify products for conversion.



**ABOUT THE AUTHOR** Doug Keeney has been in health care for more than 35 years. He has been with FirstHealth for 10 years in various materials management positions and was recently named executive director of materials management. He is responsible for purchasing, storeroom management, corporate courier, off-site laundry and sterile processing. Prior to working in materials management, Doug was a medic in the U.S. Air Force.