

Bounty in the Bayou

Terrebonne General Medical Center Materials Management merits top honors in 2004

by Rick Dana Barlow

Deep in the heart of Bayou Country, about 60 miles south of New Orleans, a progressively minded materials management department at a mid-sized community hospital is bucking conventional thinking, solidifying a sense of community and pride within its ranks and steadily building credibility about its resourcefulness throughout the organization.

Reaching out to help various clinical and administrative areas become more fiscally sound

ment of the Year by *Healthcare Purchasing News*, outshining a number of worthy larger hospitals and integrated delivery networks (IDNs).

The overall strategic attitude and direction, and tactical decisions of the materials management department at the 314-bed Terrebonne General, which celebrates its 50th year of service in 2004, embodies the type of operation other organizations should strive to emulate.

From the onset, the department's goal to provide value to the organization by "streamlining processes via innovation and offering expertise in the area of cost control while maintaining a high level of quality services and products," may seem like lofty ambitions and meaningless hype. However, that's not

the case. If anything, it's actually a marketing-polished synopsis of their accomplishments-to-date and ongoing activities.

Among the success stories in the portfolio of Terrebonne General's materials management department are its efforts to automate processes, integrate its expertise throughout

the organization, preserve the organization's financial integrity and improve its departmental culture.

Online connections

Historically, the way Terrebonne General's materials management department conducted business with suppliers resembled the three ways most hospitals did it – via telephone, fax or electronic data interchange (EDI). While they found EDI to be the "most efficient and timely method for placing orders" they did run into some speed bumps along the way. They included tenuous procedures to establish and maintain EDI relationships with vendors, as well as the occasionally temperamental nature of the equipment needed for successful connectivity. Hence, the department was limited to conducting EDI with three primary vendors.

Two years ago, however, Terrebonne General hooked into online electronic commerce capabilities with an outfit that became part of the Global Healthcare Exchange (GHX). The department relied on GHX to handle the electronic connection issues and to provide access to a larger pool of participating vendors. Today, Terrebonne General conducts more business electronically with 47 vendors (and still growing), representing 24% of purchase orders (tripling previous activity), 55% of P.O. lines (more than doubling previous activity) and 15% of invoices (representing a new activity for them).

While critics may contend that this is nothing more than Internet-based and online-en-



and tackling tough projects with aplomb, the 22 staff members of **Terrebonne General Medical Center** (Houma, LA) clearly demonstrate why they reflect the profession's future course. For these reasons and their underlying philosophy they earned the title of **2004 Materials Management Depart-**

Fast Facts on Terrebonne General Medical Center

Licensed beds: 314

Employees: Nearly 1,500 (more than 170 registered physicians)

Services: Accredited by JCAHO for acute care with rehabilitation and skilled nursing units, psychiatric center, outpatient surgery center, emergency care, primary care, occupational health program, community outreach center

Materials Management

Director: Kary LeBlanc

Joined facility: 1999

Conduit to CEO: CFO (as of January 2003; previously, the vice president of ancillary services)

GPO affiliation: Premier Inc.

Annual purchasing volume: \$31 million (including \$9.5 million for cath lab, \$7.5 million for capital equipment and \$4.5 million for surgery)

Employees: 22

Department functions: Purchasing, central supply, receiving, design and printing, mail services, cath lab inventory management

Purchasing and contract management: Centralized with the exception of dietary and pharmacy

Annual operating expenses: \$2.3 million

Annual central supply revenue: \$11 million



Kary LeBlanc, Director Materials Management & Elaine Bayus, Central Supply Manager

abled EDI, Terrebonne General's materials management department doesn't blink because it has access to advanced electronic order management tools that is changing the way it conducts its business. Those tools include automated order confirmations via e-mail, automated order discrepancy e-mails about packaging, pricing and other necessary details, order tracking and contract verification via order confirmation.

Prior to its online foray, 90 percent of staff time was allocated to clerical duties. Currently, time spent dealing with order processing has dropped to 65 percent (and still falling) and that has enabled the department to increase its focus on strategic supply and contract management issues, according to Kary LeBlanc, director of materials management, who joined the facility in 1999. Those issues were cost containment initiatives that involved strategic sourcing decisions. For one product line, the department reduced annual costs in excess of \$34,000 by using the "most optimum purchasing channel," LeBlanc noted.

"By using GHX, we're able to more easily direct purchases where we find they're more cost effective for us," he told *HPN*. "In some cases, that means moving to a manufacturer-direct distribution program from using a distributor. For example, we redirected \$700,000 of supplies from one vendor to another by using GHX for savings. We're trying to be very selective in picking and choosing the companies we work with this way. It's a touchy and delicate balance we have to maintain. If I pull too much from one distributor it may affect service levels for other orders I receive from them. We look at what makes the most sense for us."

For Terrebonne General, strategic sourcing means leveraging business with various business partners to reduce costs. "You have to align yourself with the right vendor to get the right product," LeBlanc said. "You source products appropriately through the most optimal channel of distribution – whether that's through a distributor, manufacturer or another third-party. It's optimizing the way you get products through the supply chain."

Departmental efforts to use electronic ordering and invoicing also helped accounts payable to reorganize its processes and reduce the number of full-time equivalents (FTEs) by one AP clerk through attrition, according to LeBlanc.

Sticker shock

Back in 2002, Terrebonne General relied on the cumbersome and labor-intensive sticker method for charging patients for nursing-related supplies.

Employees and volunteers spent about 19 hours per week affixing approximately 570,000 stickers annually to products before placing them on shelves in central supply and pharmacy. CS technicians and pharmacy staffers manually counted some 15,000 items at 19 different stocking locations every day. They entered those counts into an electronic handheld unit and then downloaded the data into the McKesson STAR materials management information system, which generated pick lists to replenish PAR levels.

When a nurse used a product on a patient he or she would place the product sticker on that patient's charge sheet. Each day, CS techs collected the charge sheets and manually keyed or scanned each item by patient into the STAR billing system, an effort that occupied another 18 hours per week.

Despite valiant efforts to keep track of usage, Terrebonne General's materials management department found that the hospital was generating on average \$1 million worth of missing charges per year.

LeBlanc's team evaluated a number of software solutions before picking the electronic point-of-use inventory system by PAR Excellence Systems. They replaced the stickers and charge cards with buttons and probes. Nurses now record product usage per patient by touching a patient's name on a display board that is interfaced with the hospital's computer system first with a probe and then touching the item button with that probe. After docking the probe, patient records and inventory levels are electronically updated for billing and replenishment.

The result: Lost charges have plunged to roughly \$240,000 a year on average so far, CS staffers decreased by 25 percent with the elimination of 1.6 FTEs from the payroll, and the nurses rave about their neatly organized supply areas that feel like Wal-Mart. Although CS now only counts each stocking location once a month for department reconciliation, new construction and reorganization added eight more locations to their routine, a service increase of 42%.

LeBlanc noted that PAR Excellence's turnkey system cost the hospital about \$200,000 from start-to-finish, including all interfaces with existing systems and training. "We estimated

an ROI, primarily in terms of labor reduction, at a year and a half," he said. "We've basically reached that point now." Cost reductions from here on out simply represent "icing" on the bottom line, he added.

Materials management also relied on the PAR Excellence system to manage the high-volume, high-use commodity items in the storeroom that nurses did not charge directly to patients, such as gloves, needles and syringes. Prior to the point-of-use system, nurses oversaw their own inventory levels, typically calling for overstocking to minimize shortages, stockouts and the time needed to monitor and reorder supplies.

LeBlanc's team installed racks and bins in the nursing department stockrooms and the hospital storeroom, assuming full responsibility for managing storeroom inventory in each location so nursing could devote themselves to patient care.

While the nurses loved it, materials management suffered through some serious growing pains. "We underestimated the amount of work we would take on to help the nurses so we had to restructure our own operations to succeed," he said. "But I would do it again. We're seeing the benefits now."

STAR-crossed

After LeBlanc arrived at Terrebonne General in 1999 the materials management department began exploring solutions for an "automation hole" they had with online requisitioning. They found that their STAR MMIS mod-

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Joshua Faucheux, Cath Lab Inventory



Lorraine Coleman, Receiving



Chris Weaver, Receiving



Vicky Klingman, Design & Printing



Sheila Patterson, Mail services

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Tina Authement, CS

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ule lacked certain functions they needed, limited their capabilities to search and to service certain order types and simply wasn't very user-friendly for the purchasing staff.



Annette Walker & Nicole Millien, CS



Marjorie Upshaw, CS

LeBlanc's team evaluated various third-party software enhancement packages as well as competitive systems for a potential system upgrade. Rather than upgrade to a more costly MMIS package, LeBlanc opted to "home grow" the module with the assistance of a local third-party programmer. They spent \$9,000 instead of \$50,000 for an upgraded online requisitioning module that fully auto-



Kathy Rolands, CS



Catina Burton & Jean Spath, Purchasing

mated the way the entire organization places orders with materials management.

"After doing our due diligence, it was very difficult for me to cost-justify investing in a new system because the ROI wasn't where we needed it to be," he said. "So we developed an ad hoc reporting system that feeds into STAR. We've enhanced the efficiencies in STAR instead of cost justifying the need for a new system. STAR does the basics and isn't too flashy. But this was our attempt to enhance the basics and add a little flash without paying a lot for it."

Today, more than 75 departments with more than 240 individual users order products online using customized templates in a Windows-based environment for non-stock supplies (both catalogued and non-catalogued special requests), storeroom supplies, office supplies and print shop forms. Order authorizations occur via e-mail, and requisitioning departments can track order status and other searchable activities online, all of which is uploaded into STAR for processing via interface.

Materials management already is developing additional functionality that will enable managers, directors and vice presidents to monitor spending by department and expense account as needed through special management reports generated by the system. "They will be able to see what's happening in real time as opposed to reading reports that highlighted the previous month's activities," he added.

The automation activities represented "tremendous" wins for the materials management department by eliminating work and gaining access to more useful information, LeBlanc noted. "It promoted materials management as wanting to make end users' jobs easier and gave us credibility."

Expanding expertise

By late 2002, materials management had developed a reputation for identifying and controlling costs within the organization. As a result, LeBlanc's boss at the time, the vice president of ancillary services (LeBlanc now reports to the CFO), and the director of the cath lab approached him with a challenge.

Phenomenal growth in cath lab procedural volume also translated into ballooning inventory levels deemed too difficult to manage by a cath lab staff focused on treating patients. With a \$9.5 million annual supply budget (more than twice the size of the operating room's) the cath lab faced a lack of accountability, automation, management expertise and time as it related to inventory.

"The cath lab staff were handling patients and in their spare time they

were managing inventory, which wasn't their expertise," LeBlanc said. "Nobody was managing it full time. We all sat down and did some number crunching, looking at orders, existing inventory, obsolete inventory and so forth."

Ironically, LeBlanc noted, two departments with smaller supply budgets – the OR and respiratory care – each had a dedicated inventory coordinator on staff. So LeBlanc and the cath lab director mutually decided to hire an inventory coordinator that would report to LeBlanc. The inventory coordinators in the other two areas reported to their particular departmental directors. Both LeBlanc and the cath lab director interviewed candidates before agreeing on one person.

After a year on the job, the cath lab inventory coordinator reduced obsolete inventory by 85%, express delivery charges by 69% and on-hand inventory by 10%, netting for the department nearly \$163,000 in savings. The coordinator also implemented a perpetual inventory management system in the cath lab and will be focusing on patient charging and reimbursement next, according to LeBlanc.

"Our overall strategy is to integrate our services throughout the organization and use our expertise in other areas of the facility," he said. "We need to make sure that clinicians are managing patient care and not managing inventory." LeBlanc added that he hopes to approach pathology and radiology in the near future and potentially assume responsibility for the O.R. and respiratory care, too. "We would like to become more effective for those departments because we can offer a lot of backup and stability," he said.

Starting this year, materials management has had to accommodate a new 85,000-square-foot addition to the hospital that houses several new cath labs, emergency room, pathology, pharmacy, a heart infusion center and IT. A new 100,000-square-foot women's health center opens in the summer of 2005. LeBlanc's team, which occupies the first and second floors of the oldest building in the hospital, continues to make supply chain preparations. Unfortunately, the dock is on the first floor while purchasing and receiving are upstairs. Although it's not as efficient a set-up as he'd like, LeBlanc's not complaining too loudly. "At least we're not in the basement because here in Louisiana we'd be in two feet of water."

Hornet's nest

Because Terrebonne is a public, non-profit facility, the process for disposing obsolete and surplus equipment tends to be rather bureaucratic and lengthy. Regulatory restraints dictated that approval by the Board of Commissioners and a legal bidding process was needed to discard excess equipment. Unfortunately, the facility also lacked a formal pro-

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Steve Bickford, CS



Deanna McCue,
Purchasing



Calvin Banks, CS



Debbie Hebert,
Purchasing



Peggy Lapeyre,
Purchasing

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cess for tracking and managing this equipment inside the facility, which led to unnecessary equipment build-ups. Materials management saw the potential for developing goodwill with the community from donations and generating revenue from selling equipment to remarketers.

Until that point, engineering was responsible for managing excess equipment. Communication breakdowns between engineering and accounting resulted in inaccurate records for asset management.

LeBlanc approached his new boss, the CFO, and suggested to her that materials management streamline the process. She agreed and LeBlanc assembled a committee comprising members from materials management, engineering, accounting, information technology and biomed. They met for a year and worked with the hospital's legal counsel to establish a policy and procedures.

"We had a process in place for many years that we had to revamp," he said. But he conceded that early on he was kicking himself because the project was overwhelming and "a hornet's nest."

In the end, LeBlanc's team assumed overall control of the process, implementing a database shared by engineering and accounting. Materials management tracks the migration of excess equipment to biomed for repairs and redeployment to other departments for reuse, to charities and commu-

nity organizations for donation and to equipment remarketers for sale. Materials management sends out monthly e-mail reports with details. Engineering retains responsibility for physically moving equipment around.

"Engineering is focused on keeping the facility running rather than dealing with these logistical issues," LeBlanc said. "And it made sense for us to manage this process because we already handle products coming into the facility so we might as well handle equipment going out." In fact, excess equipment in the warehouse now turns over every three months.

"We feel we turned a negative into a positive by changing a process that was somewhat inefficient into something effective for the organization," he said.

Missing link

When LeBlanc arrived at Terrebonne he saw that the facility's product evaluation committee was a loosely organized exercise limited in scope to the quantity and type of supplies it covered. In short, LeBlanc noted, it had no teeth. "Physicians didn't show up," he said. "We had poor attendance and participation." Several departments, including the cath lab, surgery and pathology, were exempt from it, and the committee couldn't effectively tackle physician preference products.

So LeBlanc recommended to senior management that they develop several committees focused on strategic areas to emphasize patient care and product quality, product standardization, product utilization, patient safety, training, education, implementation, contract compliance and cost effectiveness. They created four product analysis committees consisting of 10 members each that focused on O.R./anesthesia, nursing, non-medical products and ancillary products (e.g., cardiology, lab, radiology and respiratory). Materials management facilitated the process. Two committees (O.R./anesthesia and ancillary products) each have three physicians on board.

"We looked for key physicians to recruit to make it happen," he said, referring to his boss at the time. "We personally met with each one of them in their offices and invited them to participate. Some were challenging and difficult to work. We convinced them we were trying to understand their needs and wants and emphasized we were focusing on quality, standardization and utilization. We didn't position it as a cost-reduction initiative.

"You have to let the clinical staff know that their input is valued so much that they're part of the process," he added. "They do have a voice."

During the last three years-to-date, the committees excised nearly \$2.8 million in "hard dol-

lar product and supply cost reductions" that stemmed from more than 200 individual projects.

Self-preservation

In addition to helping other departments improve and succeed for the benefit of the organization and patients, LeBlanc's team takes care of itself, too.

For the past 18 months, the materials management department has developed an employee-driven committee that meets monthly to create programs and social events to forge professional bonds and promote cohesiveness, interaction and unity of mind.

One example is the "You for a Day Program." Essentially a role-reversal exercise, the program invited staffers with close working relationships to switch jobs with one another for two days to gain a better understanding of the other's tasks. "Ultimately, it's human nature for people to work together and become critical of one another's performance," LeBlanc said. "But this program represented a very big morale boost. Some staff members learned what happens after products leave their area for other areas. Those products just don't go into that black hole."

The effort also represents a handy cross-training exercise that reinforces the staff's usefulness to senior administration should budget cuts become necessary down the road. Although that wasn't the original intent, it may be a helpful byproduct, LeBlanc admitted with a chuckle.

"We're making this a place where people want to work," he added. "And it's a way for us to deflect some of the stresses we experience during the day. We don't let it fall apart either. We rotate members every six months to prevent a group of bobble heads from sitting around the table."

Strategic matters

LeBlanc laughingly scoffs at the notion that materials management professionals tend to be regarded as more technical than strategic so they're not invited to the senior management table. "Over half to three-quarters of my job is strategic," he said. "The nature of my job is technical but I have to be strategic in order to leverage business with vendors, to time business decisions and projects properly, to recruit physicians and department heads.

"We're really sales people," he continued. "Sales people sell to us and if we find it useful to our organization we sell it to the end user. It's trying to find the right time to persuade the right person or committee to make the right decisions."

That's why LeBlanc envisions materials management moving out of middle management and up the administrative ladder to wield a bigger stick. "We're trying to protect the fi-

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nancial integrity of the organization," he said. "Working with clinicians, we have the buying expertise to preserve our organization."

That's how materials management promotes itself throughout the organization.

"We're a service department but we're a resource center, too," he continued. "We're not just kicking boxes around. We can help you crunch numbers and streamline budgets. We're a resource and a knowledge base for our facility. We're either going to give them an answer or point them in the right direction."

LeBlanc indicated that materials management enjoys tremendous support of Terrebonne General's board, senior management and administrative staff, as well as functional autonomy. "They recognize the value we bring to the organization," he said, "but I still have to do my due diligence when I ask for more resources. I operate better in an environment where I have been given the ball to run with. Sometimes I just need to hold the ball tighter and run a little harder."

"In today's world with reimbursement struggles, low profit margins and cost increases, supplies represent the second largest expense after labor so the pressure is on

for us to deliver. It's a huge task for us. You may feel like you've exhausted your options but that's when you have to dig a little deeper."

LeBlanc's words of wisdom

On materials management relating to patients:

"Do a role reversal and apply the supply chain model to patient care. In the supply chain, manufacturers sell to distributors who deliver to the hospital. Think of materials management as the manufacturer, nurses as the distributors and the patients in the hospital role. If the patients can't get the products they need they'll suffer. We don't directly interact with patients but if those bins are empty you'll hear about it. You're definitely making or breaking how your facility interacts with patients."

On group purchasing organizations:

"It's easy to point the finger. But GPOs have their place and role in bringing value to the marketplace. But they don't always have the silver bullet you need to cut costs. The obligation is on each of us to give them information and not just criticize what they're trying to do. If you learn of a better contract price outside of your GPO, share that information with your GPO. Don't complain about it. Don't be so critical. Help them work for you rather than hold

your cards close to your vest. Use them as an asset and not as a liability. GPOs are feeling pressure from their members to reinvent themselves. However, they continue to be a channel for us to obtain better pricing and gain access to certain programs. Cookie-cutter programs don't work. Some GPO contracts might work for our facility. Others won't. I try to find the right fit for my facility." **HPN**

Best of the Field, 1986-2000

For 14 years *Healthcare Purchasing News* recognized and honored materials management leaders, focusing on department directors and key executives. This year, for the first time in *HPN's* 27-year history, we launch the first annual "Materials Management Department of the Year" award, which acknowledges the dedicated team effort required for effective supply chain management. We salute those men and women we've profiled in the past.

HPN's Materials Manager of the Year/Materials Management Leadership Award recipients:

2000: Vicki Doss, regional director of materials management, Central California Division, Adventist Health, Bakersfield, CA

1999: Brett Still, CPM, MBA, director, regional materials management, Providence Health System-Portland (OR)

1998: Brenda Meares, manager, procurement services, WakeMed, Raleigh, NC

1997: Timothy K. Glennon, vice president and corporate procurement officer, Staten Island (NY) University Hospital

1996: Sara M. "Sally" Bird, deputy director, Directorate of Medical Materiel, Defense Personnel Support Center, Defense Logistics Agency, Philadelphia

1995: John Gialanella, director of materiel services, the University of Michigan Medical Center, Ann Arbor, MI

1994: James Francis, vice president of materiel services, BJC Health System, St. Louis

1993: T. Tod Timmel, Genesee Hospital, Rochester, NY

1992: Stuart Wasilewski, director of materials management, Rockford (IL) Memorial Hospital

1991: Robert Simpson, Neponset Valley Health System, Norwood, MA

1990: George Malik, Philadelphia-Lankenau Hospital

1989: Douglas Carr, Nanaimo (BC) Regional General Hospital, Canada

1988: James Gandy, Baptist Medical Center, Jacksonville, FL

1987: Peter Mike, Tucson (AZ) Medical Center

1986: Lee Boergadine, Yale-New Haven (CT) Hospital

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