

WSHMMA 2025 Conference

The business case for a Consolidated Service Center

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Agenda

- St. Luke's introduction
- Making a business case- Our journey
- Supply Chain/Pharmacy partnership & technology
- Standardization
- CSC Resiliency
- Lessons Learned



St. Luke's Health System

- 8 hospitals
- 350 clinics in ID / OR
- \$3.9B net revenue
- 18K FTEs
- Supply Chain
Ranked #21 by Gartner-
2025
- GHX Best 50



Source: St. Luke's. Used with its permission

Business Case Rationale

- \$141M 10-year proforma
- Disintermediation of distributors
- Increase Supply Chain and Pharmacy capabilities and synergies
- Met Gartner litmus: \$50M of supplies and a conducive geography
- Resiliency and standardization (more slides on this)

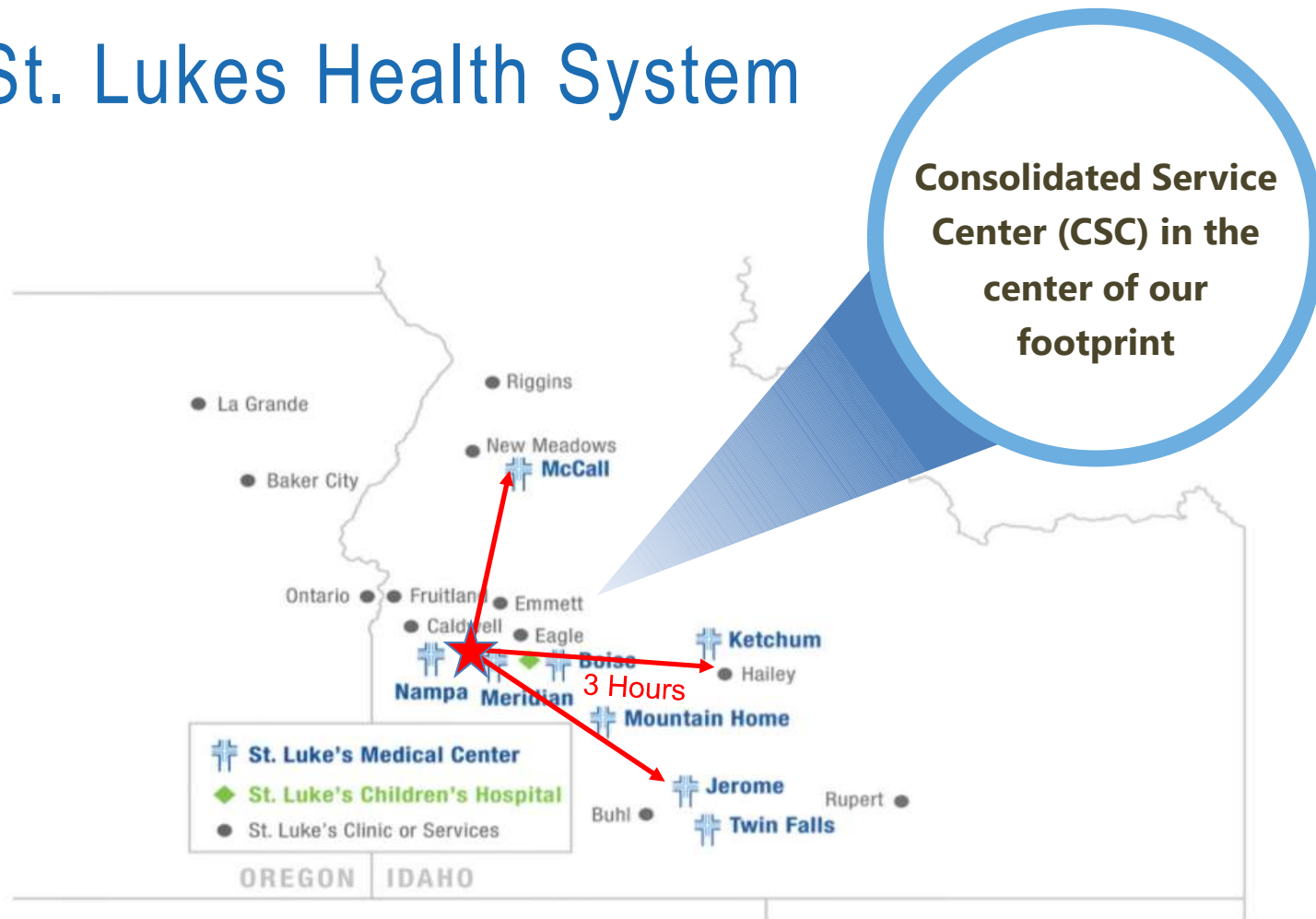


Sources: Gartner research: Make the Right CSC Decision for Your IDN's Supply Chain by Eric O'Daffer and John Johnson, refreshed 3/31/17

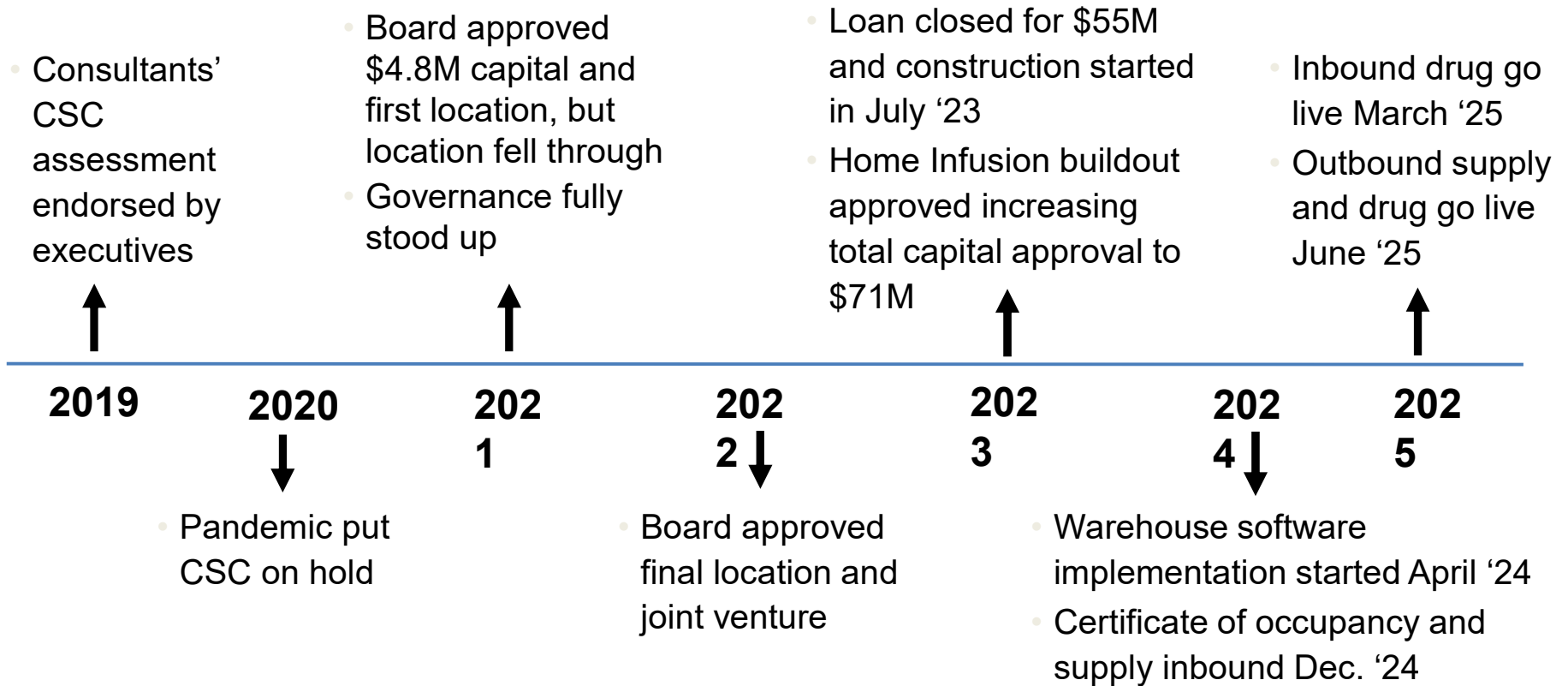
SLHS Change Management Narrative



St. Luke's Health System



St. Luke's CSC Timeline



Site visits for CSC strategy



Indiana University Health



Beaumont



2016

2017

2018

2019

2022

2023

2024

2025

We are very appreciative of these IDNs for their generosity

Consolidated Service Center (333K sq/ft)

Go-live dates:

- Inbound: Supplies Dec. 2024 and drugs March 2025
- Supply and drug outbound this summer.
- Final Hospital Go-Live, Monday 9/15!

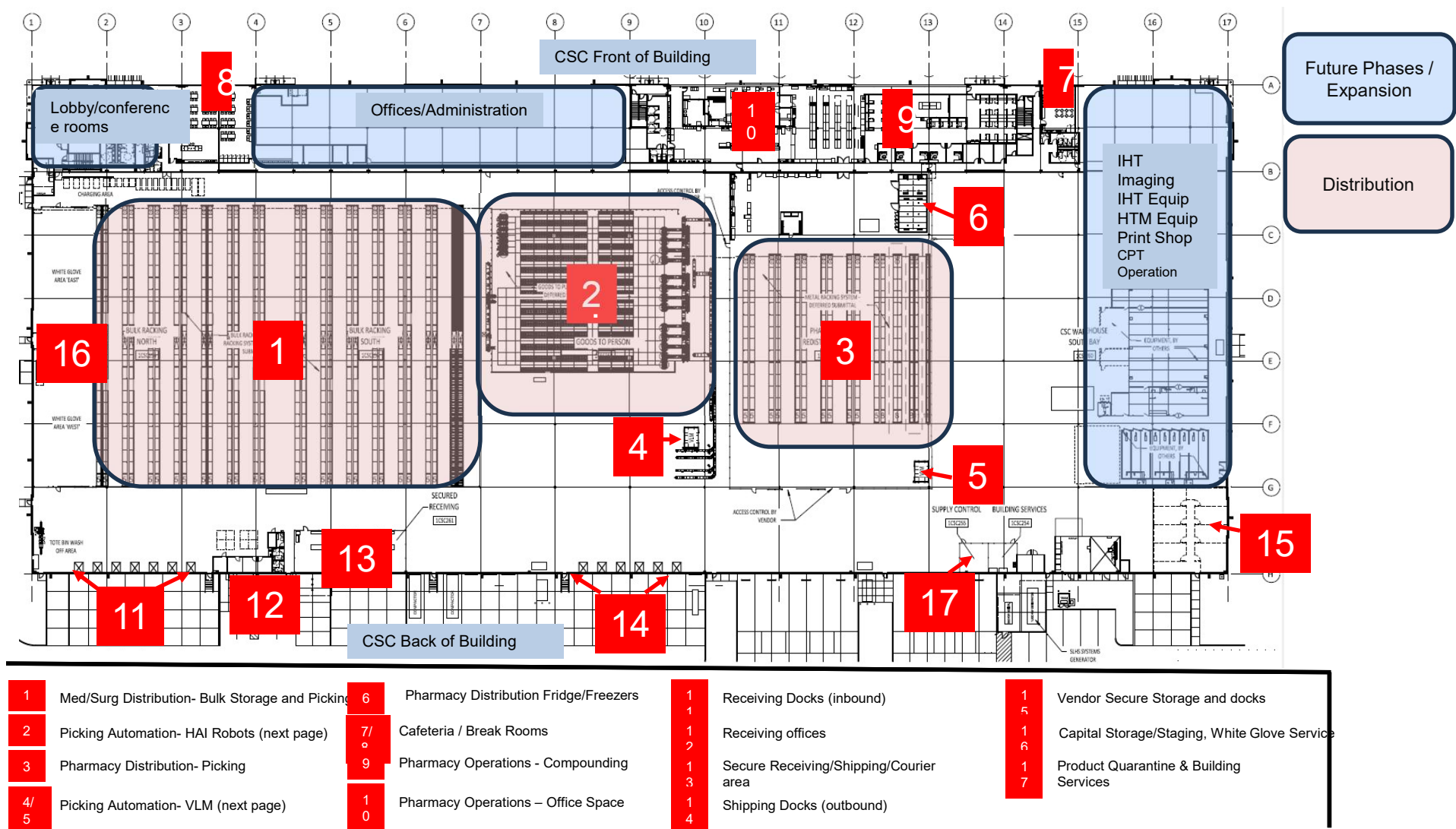
Phase 1:

- Supply distribution and equipment staging
- Pharmacy redistribution, home infusion, clean room, repackaging, 503A compounding, and office space

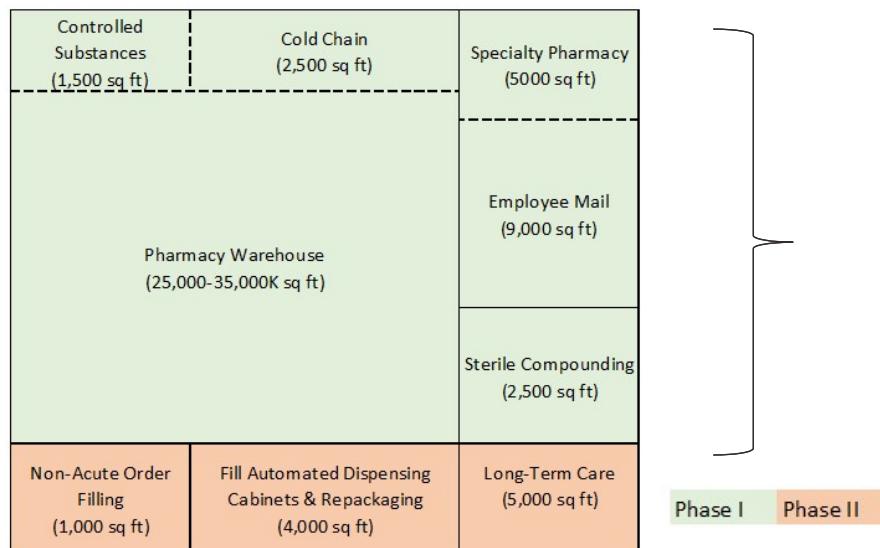
Next phases:

- Pharmacy mail order, specialty, and central fill
- IHT imaging, biomed/scope repair, and print shop
- Consignment, parts depot, lobby, and more office space





Initial Pharmacy Business Case Facility Design



- The recommended total square footage is 45,000 - 60,000 square feet. St. Luke's is targeting 58,000
- Some shared functions, such as packaging and mailing for Specialty and Mail Pharmacies can be shared
- Recommending that the facility growth will be done in two phases
- Technology for repackaging, and low UOM products will be based on distribution model standardization

CSC innovation partners

- 10 partners for WMS integration
- 28 robots and 2 vertical lift modules
- Automated tote management system
- Pharmacy neutral 340B inventory model
- Clarium for disruptions and substitutes



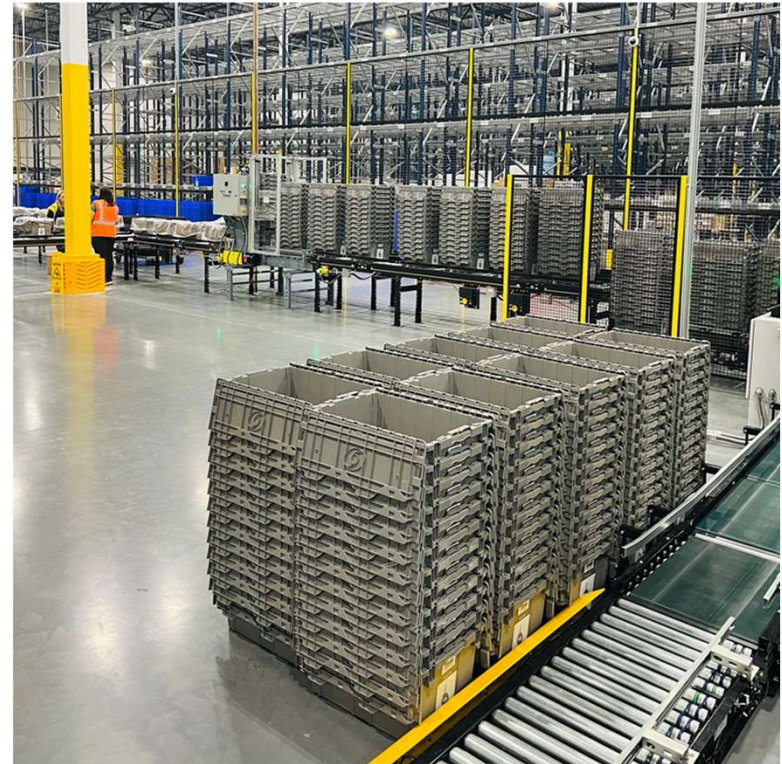
Vertical Lift Module (VLM)

- Additional Pick Capabilities
 - Slow moving items
 - Non-standard shapes that don't qualify for auto-mation
- Security for sensitive or high-value items
- Consigned inventory
 - Implants
 - H&V
- 22 Trays, managing at least 100 items per tray



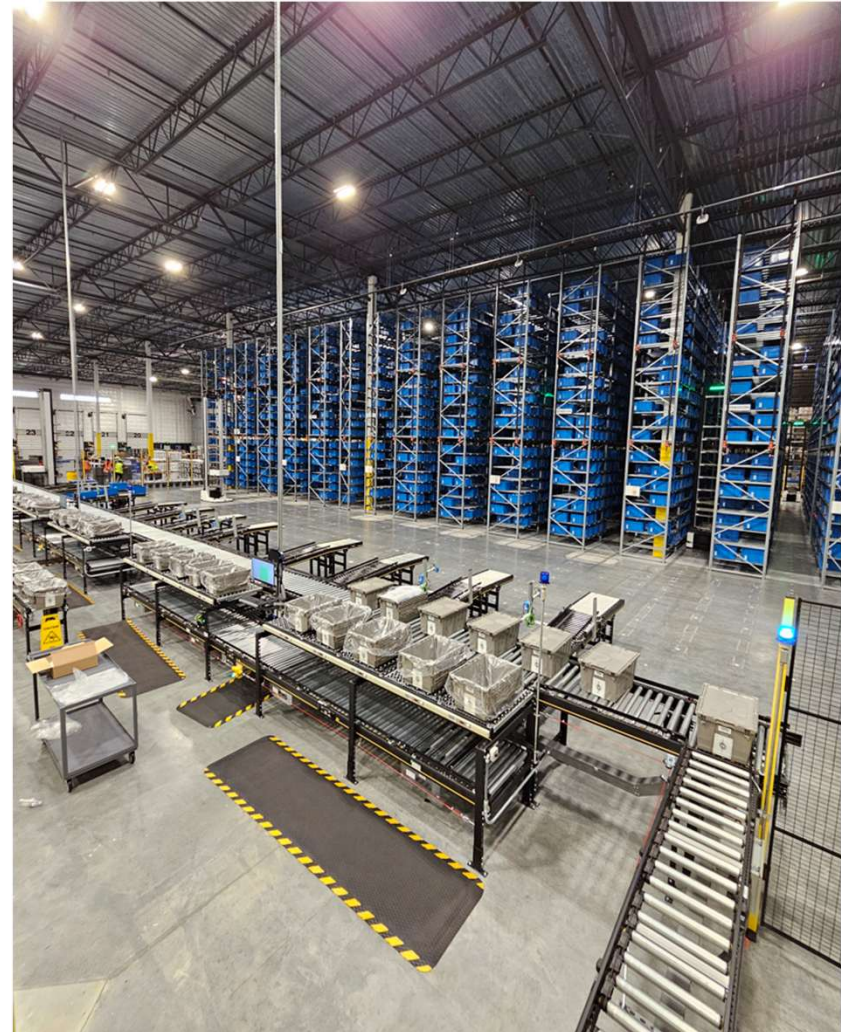
Conveyance Automation

- Efficiently manages empty totes and complete, fulfilled totes
- Integrates between robotics and VLM
- Currently handles about 2,500 totes/day
- Lifts and de-stacks totes. Saving 2 FTE and workforce injuries
- Automatically applies tote labels for sortation and final destination



ASRS Robotic Picking

- 28 Robots
- 17K Bins can be divided into 69K items
- 3 pick stations that can handle a tote presentation pick rate of 212/picker
- Automatically stores/optimizes
- Automatically retrieves
- Utilized for slow to medium velocity items

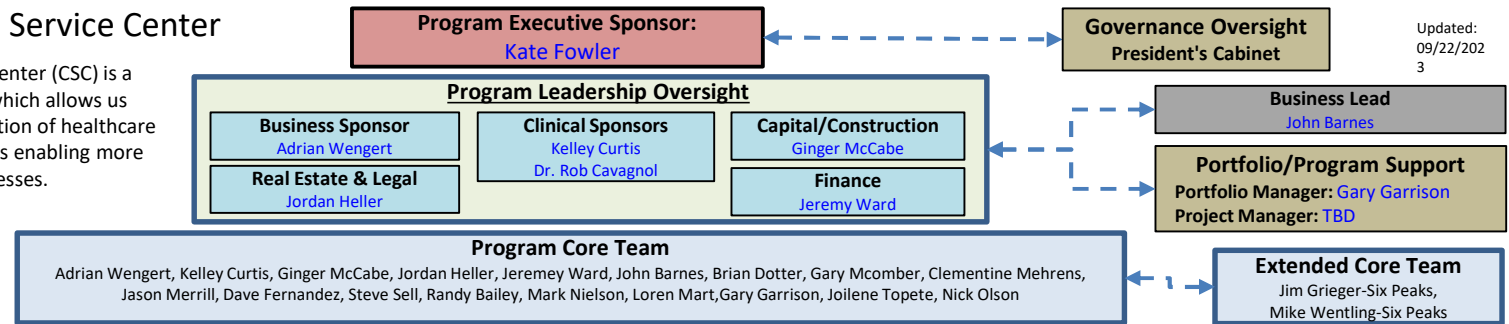


Initiative: Consolidated Service Center

Objective: The Consolidated Service Center (CSC) is a St. Luke's owned distribution facility which allows us to control the acquisition and distribution of healthcare supplies and other non-clinical services enabling more efficient ordering and fulfillment processes.

Program/Project Connections

Institute and Service Line Planning
Surgical and Procedural Services
Value Analysis Framework



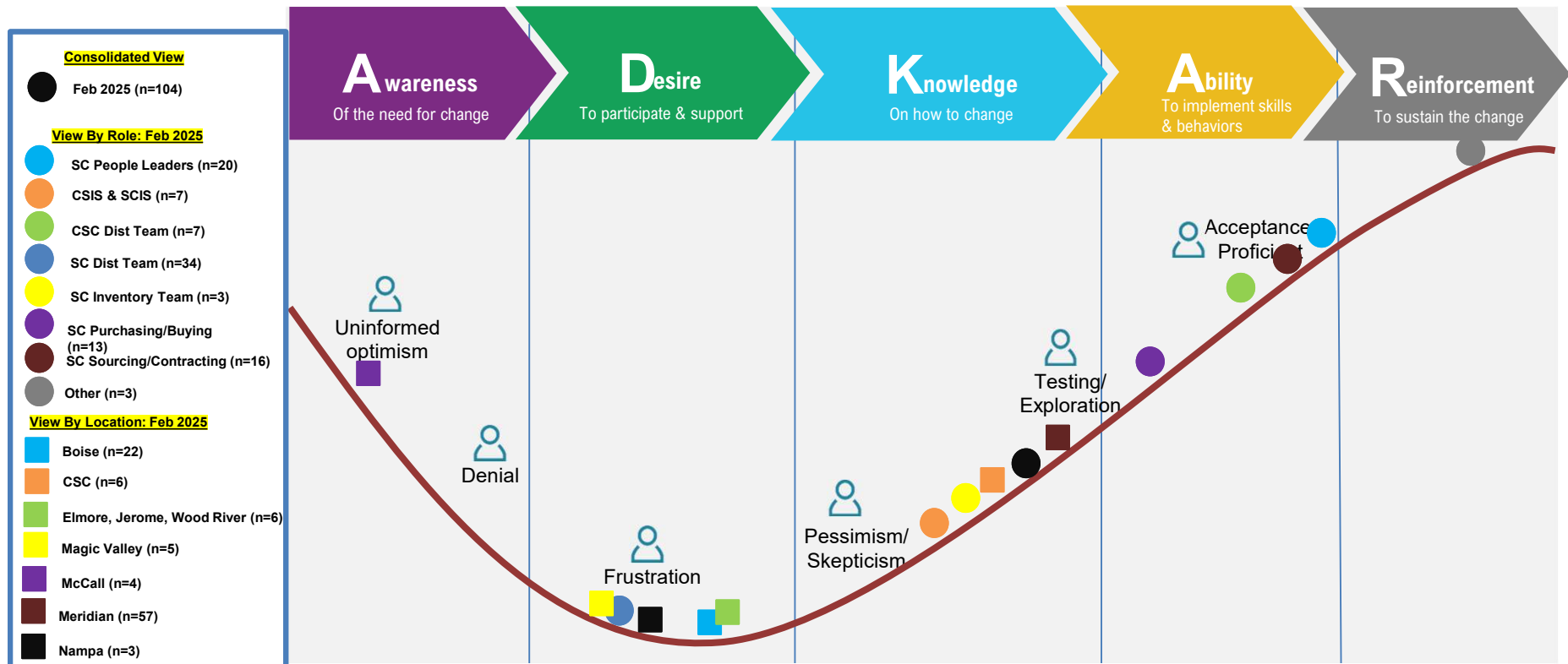
Updated:
09/22/202
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Program Projects

Project:	Real Estate, Deal Design, & Site Plan - Workstream	CSC Construction	CSC Fit Out (Upfit & Configuration)	Supply Chain	Pharmacy	Operating Technologies and Analytics	Operational Workflows & Health System Readiness
Executive Sponsor:	Jordan Heller	Ginger McCabe	Adrian Wengert / Kelley Curtis (Ginger McCabe-Support "as needed")	Adrian Wengert	Kelley Curtis	Adrian Wengert/Kelley Curtis	Adrian Wengert / Kelley Curtis
Business Sponsor or Lead:	Adrian Wengert	John Barnes	John Barnes / Brian Dotter	Jason Merrill	Brian Dotter	John Barnes/Brian Dotter	John Barnes / Brian Dotter
Project Manager:	Dave Fernandez	Randy Bailey	Lisa Steele	MaryAnn Frattarole	Mark Nielsen	Loren Mart/Mark Nielsen	Lisa Steele
CSC Consulting	Six Peaks	Six Peaks	Six Peaks	Six Peaks	Six Peaks/Visante	Six Peaks, Karen Cleveland	Six Peaks
Finance BP	Nick Olson	Nick Olson	Nick Olson	Nick Olson	Nick Olson	Nick Olson	Nick Olson
Primary Teams:	Real Estate, Legal, Construction & Design, Supply Chain, OCIE, Finance, Capital	Supply Chain PDC Facilities Six Peaks Construction & Construction vendor	Supply Chain Pharmacy Six Peaks PDC Facilities Asset vendors	Supply Chain Legal (LSAs) Service Lines (SKU standardization) Six Peaks	Pharmacy Six Peaks OCIE Supply Chain	IHT Supply Chain Finance (AP and Treasury) Data & Analytics Six Peaks Application vendor	Supply Chain Pharmacy IHT Six Peaks Revenue Cycle
Scope:	- Deal Design - Negotiation - Planning - JV Oversight Design - Scope	- Developer sourcing - Site construction - Certificate of Occupancy - Regulatory permit application - Regulatory permit approval - Budget - Coordination with JV Partners and report to Core Team - Staffing	- Site layout design - Asset sourcing and install	- Architecture design - Item and supplier onboarding - Business Operations Process - Change Management and Communications - Master Data Management - Staffing	- Architecture design - Item and supplier onboarding - Analytics and reporting - Business Operations Process - Change Management and Communications - Staffing	- Application sourcing - Cyber Security review - Architecture design - Application implementation - Interface build - Analytics and reporting - Master Data Management - Business Operations Change Management and Communications	- Design operational workflows, Policy and Procedures for Health System Readiness - hospital process are ready for the integration of the CSC

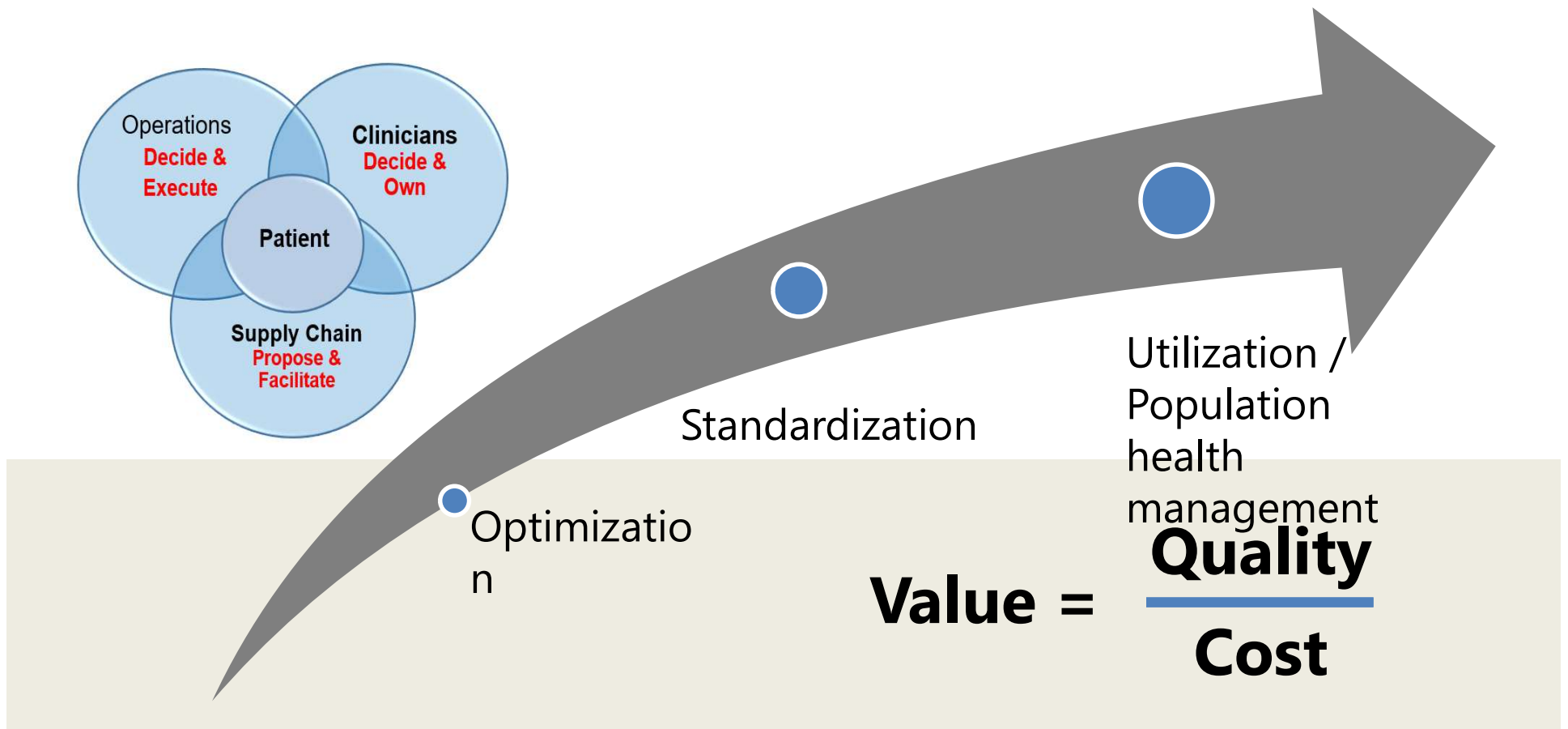
Where is SCM on the CSC Change Curve?

As of February 28, 2025

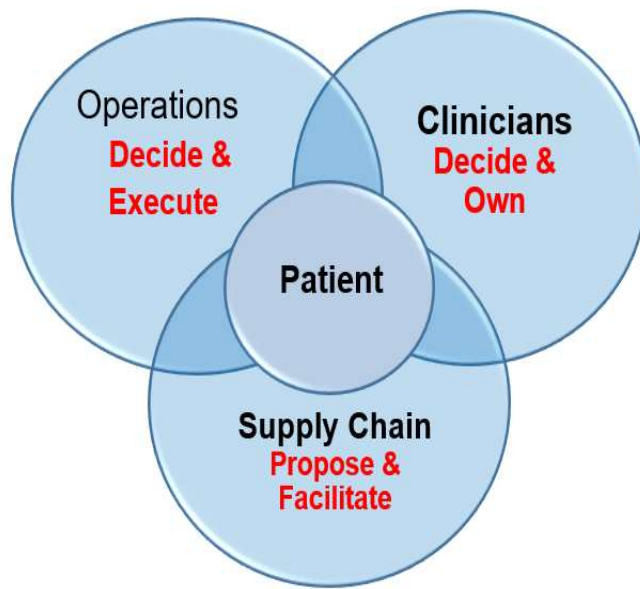


Disclaimer: The assessment of the change curve is conducted by the Change Management Business Partner and is based on a combination of quantitative and qualitative data received. It reflects professional experience and judgment to help leaders and managers understand how individuals are responding to personal change due to the CSC and what support may be needed to move forward. This assessment is not a definitive scientific measurement but serves as a guiding tool for decision-making.

Historical standardization framework lense



Historical Standardization Challenges



- St. Luke's use of the "Influence Model" to encourage standardization instead of requiring it effectively made follow through by physicians optional
- Financial benefits from standardization weren't enough to compel lasting change
- Data issues
- Supply Chain didn't have the bandwidth to overcome supplier and physician resistance to standardization

CSC Standardization Rationale

- Supply and drug standardization is a long-desired goal by St. Luke's executives
- The CSC is a control mechanism to foster standardization
- CSC proforma assumes standardization or full \$141M proforma won't be achieved
- As a result:
 - Supply Chain Medical Director position was approved in CSC proforma
 - Executives are now stipulating standardization requirements to physicians



Historical Clinical Supply Standardization

10 YEARS AGO:

- Hired spine surgeon to lead Supply Chain
- Implemented influence model
- Hired 3 RNs
- Marketed early wins
- Heavy focus on cost savings
- Success wasn't scalable without sufficient governance

NOW WITH THE CSC:

- Made CSC approval dependent on standardization so no choice but to succeed
- Hired Medical Director
- Implemented Advisory Council governance to require standardization
- Change management
- Scalable

Standardization Governance

- Clinical Supply Standardization Advisory Council implemented
- Led by Supply Chain Medical Director and vice president
- Mandate from executives to drive product, supplier and service standardization while improving clinical integration
 - Expectations set on minimum standardization to achieve; physicians still decide on which supplier to standardize to
- Comprised of 3 top physician leaders, supply chain, service line, nursing, operations, insurance plan, analytics, etc.
- Symbiosis between CSC and standardization governance:
 - Business case, benefits reporting, change management and risk infrastructure



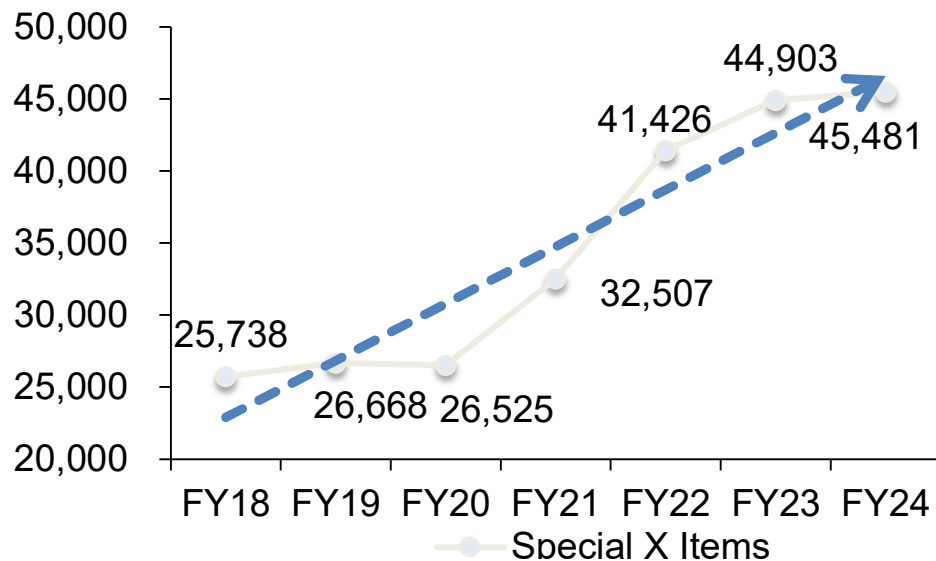
Supply Standardization Benefits

- Reduces irrational variation
- Greater product familiarity by clinicians
- Regulatory, contracting and charge capture benefits
- Reduces ordering complexity for our 1,700 requesters Instructions for Use (IFUs)
- Fewer contracts for Legal, Information Technology/Cyber and Supply Chain to manage
- Efficiencies in fulfilment, deliveries and shelf stocking



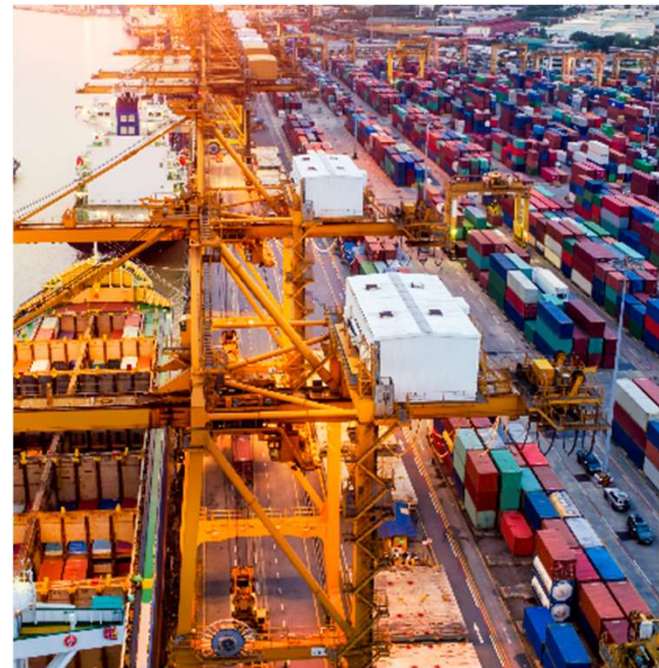
Recent Non-standard Special Item Spike

Driven by the pandemic and an increase in manufacturer backorders



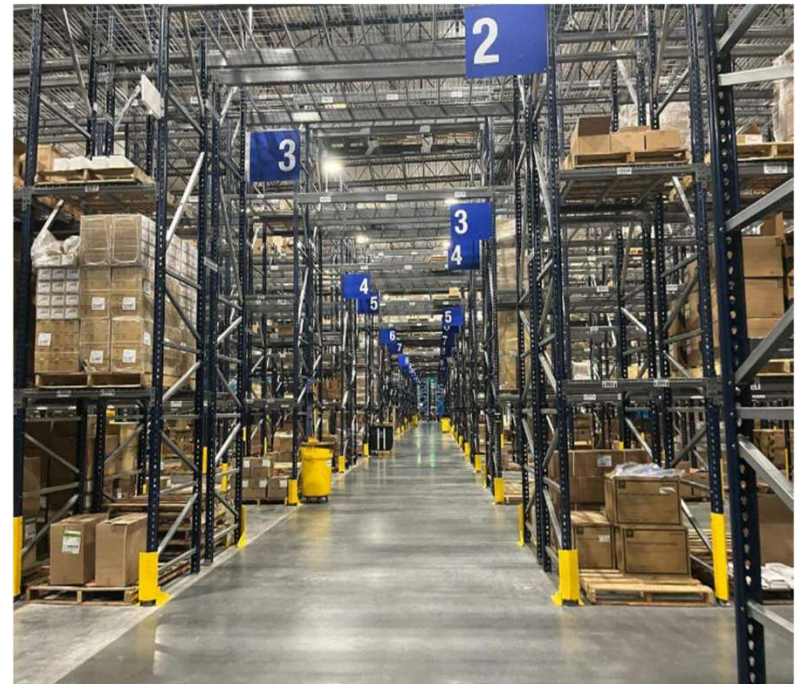
Gartner's Resiliency Best Practices

- Build a risk strategy and implement risk management initiatives
 - For St. Luke's, our CSC drives our risk strategy
- Implement trading partner communication on potential disruptions for planning purposes
- Prioritize sourcing suppliers based on demonstrated resiliency competencies
- Advance data analytics strategy to enhance data quality, demand planning and data visualizations



CSC Resiliency Rationale

- Additional investment in increasing Supply Chain and Pharmacy capabilities
- Pandemic and higher backorders/substitutes necessitate more space for buffer stock and bulk buys
- Counterintuitively, the pandemic increased the criticality of deeper partnerships with fewer strategic suppliers
 - Which can then be further monetized with logistics services agreements (LSAs)



Key Takeaways

- Consider developing a CSC as a critical component of your organization's strategy for financial benefit, direct supplier relationships, consolidation of services, standardization and resiliency strategies
- Invest in finding the right third party providers with experience and match your culture
- Engaging physicians on supply and drug standardization benefits beyond cost savings



