



Health Care
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Healthcare Supply Chains

Top 5 Tips For Lower Cost and Higher Value™

About Us

Northstar Aligned LLC

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With over 27 years in the Healthcare supply chain business driving major transformation and improvement, we can help you find and implement optimization opportunities that will drive significant value immediately. Please reach out!



Healthcare Supply Chains are usually easy targets for Improvement!

Healthcare Supply Chains are regulated, have high quality requirements, high margins, and often require special handling, e.g. cold chain. As well, they are one of the most complex supply chains out there.

Areas of Improvement:

- Cost
- Inventory & Working Capital
- Service & Quality
- Sales or Revenue

How do you unlock that?



James Hickland's Top 5 Healthcare Supply Chain Optimization Tips

1. Target your Suppliers
2. Focus on Performance (with Customers in mind)
3. Visibility
4. Understand your Costs
5. Do it the same way everywhere

Where does the value come from?



Value Areas of the Top 5 Tips



Up to 25%
Internal staffing costs



Up to 8%
Freight utilization improvement



Up to 3 days
Inventory reduction



Up to 16%
Freight rate reduction



Up to 4%
Additional Charges



Up to 7%
Supplier consolidation and optimization

• *Inventory savings is shown in Days of Inventory (DIO) saved (indicative).*

• *Indicative percentage of total logistics costs for a company.*

Tip 1: Manage your Suppliers effectively

An easy place to start is by consolidating and managing your Supply Chain supplier base better.

Derived Value: Up to 7% improvement of your annual logistics costs year on year (YoY)



Areas of Focus

Supplier Consolidation and Contracting

- Maximize your volumes. Consolidate your warehouse and LSP suppliers through a few key parameters
- Build Win-Win contracts. Standardize your contracts, including terms, that builds a partnership more than a supplier relationship. Make it Gain share/ Pain share.
- Retender. This is to understand the market and keep your suppliers competitive. Better yet, build a fully open contract.

Supplier Performance & Continuous Improvement (CI)

- Measure on a regular cadence. Put in balanced scorecard of performance and run Monthly, Quarterly and Annual performance reviews.
- Measure the delta improvement. Is it changing over time – it should! If not, why not?
- Assess the CI program against the maturity of your SC.



Key Value Areas

Supplier Optimization

- Contractual continuous improvement increase
- Avoidance of freight invoice overpay
- Lower volume rates

Tip 2: Know and Target Performance

Define and drive a hierarchy of outcome-based SC measures meaningful to your Customers.

Derived Value: Up to 20% improvement of your annual logistics costs year on year (YoY)



Areas of Focus

Define, Measure, Benchmark

- Build an industry based tiered KPI model focusing on Cost, Cash, Service and Quality.
- KPIs should be comprehensive and measure your full supply chain if at all possible. Includes manufacturing, distribution, planning, forecasting, and finance processes.
- Use industry benchmarks including APICS, POBOS, and Gartner to assess and help set targets. You can have multiple SCs in a company and each may have different targets/focus.

Set and Drive Targets

- Set Targets at every level. In process measure performance will drive tip of the arrow outcomes measures such as Cost.
- Get highest level business support to enforce target setting and following at various parts of the SC.
- Ensure wide, as close to real time visibility of performance data to all staff and suppliers.



Key Value Areas

All Value Areas

- Comprehensive improvement.
- Expect up to 20% YoY improvement to cost, cash and service and internal staff costs.

Tip 3: Visibility - Where is your Inventory?

Knowing where your finished goods are in the SC at any given moment drives a wealth of optimization.

Derived Value: Up to 8% improvement of your annual logistics costs year on year and 3 DIO reduction (YoY)



Areas of Focus

Get your key data together (and right!)

- Build It. Invest in the basics with keeping your data in one place for analysis. This includes sku/product, manufacturing sites, distribution centers, shipping lanes, modes, suppliers, customers etc.

Build your analytical capability

- End to End. Needs to be from raw material supplier to customer, if at all possible. It will leverage internal systems and external data from your LSPs.
- Two options. – Build or Buy
 - If you build, think about leveraging software platforms designed for this, e.g. Kinaxis, Hivetracker etc.
 - If you buy – buy the service – from a 4PL such as K&N, DHL.



Key Value Areas

Freight Utilization Improvement

- Dynamic carrier selection
- Container utilization
- Avoidance of premium freight charges
- Avoidance of Demurrage
- Backhauls

Inventory Reduction

- Stock reduction through
 - Transit lead times reduction
 - Warehouse dwell time reduction
 - Warehouse safety stock reduction

Tip 4: Costs – What/Where is it happening?

It sounds basic, but so many companies don't understand how much and where their costs are.

Value: Up to 12% improvement of your annual logistics costs year on year (YoY)



Areas of Focus

Collect and Categorize

- Gather. Collect your Cost of Goods (CoGs) and Cost to Serve (CtS) financial data as often as possible.
- Categorize. Group into standard categories for benchmarking and further assessment.

Analyze and Transform

- Cost patterns. Look for when things are outside of the norm and benchmark both internally and externally.
- Dig in. Go to the lowest level of data (invoice) to understand where savings opportunities are. Many non-standard costs patterns will be seen.
- Transform. Kick off projects to standardize and remove waste.



Key Value Areas

All Value Areas

- Comprehensive improvement.
- Expect up to 12% YoY improvement to cost, cash, service and internal headcount savings.

Tip 5: Standardize, standardize, standardize

Without standard processes, you will never be truly efficient nor have high quality or service.

Value: Up to 15% improvement of your annual SC costs year on year (YoY)



Areas of Focus

Standardize the process

- Industry standards only! Use standard Supply Chain process frameworks like SCOR. Don't forget master data!
- Physical and Financial. Should standardize both.
- Roll out. Put in place standard processes across full SC. Enforce through top down sponsorship / performance targets.
- Include Suppliers and Customers.

Measure how standard it is

- Measure the performance of your in process steps and key output levers to see how well it is "sticking".
- Local, but think Global. Have local, regional and global performance that link together.
- Benchmark. Do it regularly, but take with a grain of salt.



Key Value Areas

All Value Areas

- Comprehensive improvement.
- Expect up to 15% YoY improvement to cost, cash, service and internal headcount savings.

Summary

There is a wealth of opportunity to improve the typical Healthcare Supply Chain.

How do you start?

- Just Move! Every day you wait is another lost sale, higher cost, and less profitable business.
- Start small and build. You don't have to do all 5 Top Tips at once to make an impact. Pick 1 and get started.
- Keep focused. Change requires a firm focus and unwavering support from the top...build that support now.
- Use the right resources and capabilities. Whether that is people or things such as industry frameworks, you don't have to start from scratch and do it all yourself.



Appendix



Case Study – Large Healthcare Company

A \$100 billion Healthcare company containing 3 distinct supply chains – Pharmaceutical, Consumer Goods and Vaccines went through a major supply chain modernization journey over the past 7 years resulting in two Gartner Top 25 Supply Chain honors.

They found themselves with a very diverse, non-standard and high cost supply chain that was very focused on mainly providing high service levels. They challenged themselves to strip out \$500+ million in cost and inventory in 5 years.

The tips mentioned in this presentation were all key in delivering the benefits mentioned above.





Thank you!

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