



## **Outsourcing lead supply chain position better aligns savings incentives for IDN** CASE STUDY

### **McLaren Health Care in Michigan**

**It's difficult to serve two masters especially when each is a large, demanding organization with an eagle eye on bottom line results. But Kevin Hines has managed to do it successfully for almost 10 years.**

**Pictured: McLaren Health Care Vice President, Corporate Materials Management Kevin M. Hines (left) with Vice President, Medical Affairs Edwin Gullekson, M.D., in the integrated delivery network's corporate warehouse.**

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- Dennis Krzeminski, CFO, McLaren Health Care

Since July 1996 – shortly after the creation of Premier through the merger of three predecessor organizations – Hines has been head of the corporate materials management program for McLaren Health Care Corporation (MHC) in Flint, Mich., as a contracted Premier employee.

“We have the best of both worlds,” said Dennis Krzeminski, MHC’s chief financial officer. “Unlike me, who has just one

person to make happy, Kevin has two masters. For McLaren it’s a double set of checks and balances.

“The big thing is having the full backing of organization like Premier that is focused on delivering the best pricing, the best products and the best negotiations,” Krzeminski explained. “Having Kevin as an official member of our team speaks volumes for incentive alignment.”

Negotiating such a role is not easy. “Kevin has made it work for us and for Premier,” Krzeminski said. “Ninety-nine out of 100 McLaren employees with whom Kevin works have no idea he’s a Premier employee. He fits in. It’s been a huge success. But you can’t put just anyone in the position and expect it to work. It’s not a ‘plug and play’ position. It works because the individual makes it work.”

But Krzeminski said he cannot take credit for the concept; he inherited it when he joined the system three years ago. The idea was the brainchild of CEO Philip Incarnati who led the creation of the McLaren integrated delivery network.

“It’s why I came to McLaren,” Hines said. “McLaren’s CEO had the foresight to realize that materials management was going to be a key player going forward. My role today is much more than one of the guys in the basement processing POs. I’m an integral, strategic partner, and I really like that.”

With more than 1,700 beds, MHC is the largest fully integrated healthcare system in mid-Michigan and the fourth largest statewide. (It may soon get larger as it is in exclusive discussions to merge with 288-bed Mount Clemens (Mich.) General Hospital, a deal that could close this summer and take McLaren into the Detroit market.) MHC serves 22 counties, annually treating 60,000 inpatients, more than 1.7 million outpatients, and nearly 154,000 emergency patients. It consistently ranks among the nation’s top 25 integrated delivery networks.

As vice president of corporate materials management, Hines has ultimate responsibility for purchasing and distribution, and all related services and operations for the six-hospital system. His primary task is to drive cost



out of the system through standardization and contract compliance and utilization, with Premier contracts or a McLaren contract if Premier doesn't have one in a particular area.

"Being a Premier employee, I have access to all of what Premier brings. I understand how Premier works. I know where the expertise is and how to draw on it for cost savings," Hines said. "The training I receive from Premier in different aspects of materials management and the ability I have to access Premier resources puts me on the cutting edge – more than the typical materials management employee. I hear what's going on in all Premier hospitals, and I know what Premier Supply Chain Performance Improvement (SCPI) consultants are doing because I report through that area."

Premier created its outsourcing division in response to McLaren's interest. Premier places experienced materials executives in hospitals or health systems to manage supply chain operations on an interim or

longer term basis. Hines' is by far the division's longest running outsourced materials management contract.

Most are for a year or less, said Keith Ferguson, SCPI principal to whom Hines reports. "This is an intentional long-term contract. Being a Premier employee, he is more in tune with Premier contracts and can tap into lots of Premier resources on McLaren's behalf."

Other consultants have reviewed McLaren's supply chain – most recently about a year ago before MHC extended its Premier contract for another three years, Ferguson said, but they typically have not come back with opportunities that Kevin did not already know about."

Premier Regional Vice President Phil Battershell, who is responsible for MHC, echoes Ferguson's judgment. "The value McLaren sees is in Kevin's ability to be more fully integrated into Premier, therefore, he's more connected and with a few phone calls can get more,

perhaps better information. That's a tremendous benefit."

As to his challenge to drive contract penetration, utilization, and standardization, Hines said, it has taken a while build credibility and success.

Hines has had particular success is diagnostic imaging. At the time Premier was making its 2004 market-changing decision to contract solely with Philips and Siemens for diagnostic imaging equipment, McLaren and Premier had been working to standardize the mid-Michigan system's imaging equipment. Initially McLaren and Premier were working with GE on a purchase of about \$30 million in imaging equipment during the next three to five years.

Responding to Premier's lead, however, McLaren, which at the time was heavily penetrated with GE, decided to work instead with Philips. "We have formed a very advantageous strategic alliance with Philips – the only one in Michigan and one of the few in the country – all within Premier contracts," Hines said.

The process took almost 10 months. Hines worked with clinical directors and physicians to make it happen once they had agreed that standardization made sense. "Philips is an outstanding partner," he said. "Philips pricing under the Premier contract blew us away, especially with additional IDN commitment.

So far savings are about \$700,000 on total spending of about \$10 million. "We're in





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year two of a three-year agreement. The savings are considerable, just on the acquisition side; there will be more down the road on the service side.”

Krzeminski said he is “especially proud of our Philips contract. We have standardized imaging equipment across the system in a unique customer partnership with Philips. It’s a real homerun on the cost side.”

Picking up on the success of the imaging standardization, McLaren is now working on several equipment initiatives. “Our goal is to standardize equipment throughout the corporation in all locations. We get better acquisition pricing, then better prices for on-going supplies and down the road better prices for servicing, a real plus,” Hines said. McLaren either trains its own service employees or utilizes six-hospital service contracts. “Six

hospitals using the same equipment gives us tremendous leverage,” he said.

Hines is particularly proud of McLaren’s accomplishments in the clinical lab. “For years it has been an area materials management has not been able to penetrate. We started last summer with a standardization initiative for immuno assay and chemistry equipment. The biggest costs are capital and reagents,” he said.

McLaren worked through Premier contracts as it had in diagnostic imaging to standardize hospital lab equipment for the next five years. Beckman Coulter is the winning contracted supplier.

“Nobody in materials management really understood the lab. First, we had to understand their needs before they could be outlined in an RFP,” he explained. “Often, reagent and capital costs are bundled so they are hidden. You don’t know what’s going into the cost until it’s pulled apart. Once we start replacing equipment, we will be able to realize great savings on the reagents and service. We project saving a million dollars on the reagent side.”

Hines and his McLaren colleagues are also working with their pharmacies, another area where materials management traditionally has had little or no input or impact. The initiative again is to standardize and drive costs from system.

“We’re taking much of the same approach we did in the lab. First of all we’re building trust, then we’ll identify opportunities.” Hines said. “Right now the clinical folks are working with physicians to get approval to standardize drugs system wide. We have to remember that the only one who truly welcomes change is a wet baby.”

Hines’ newest initiative is facilities. The four largest McLaren hospitals have \$160 million in construction planned in renovations and expansions. Leadership wants to standardize equipment and purchase under Premier contracts. “This is a huge challenge because many contractors have their own suppliers and deals set. We just want to get Premier contracted suppliers a chance to get on the bid list.”

The corporate cardiology team also has identified cardiac devices as another opportunity and is building physician support for standardization. “This is a marathon, not a sprint. Success happens over time,” Hines said. “We build on our successes each time. We had average success with orthopedic devices, but we are better positioned for next time. We keep at it. It begins to add up.”

Hines noted that new technology eats away at savings. The doctors want to use the latest technology and it generally costs more. One of the things McLaren is trying to do under Hines’s leadership is to understand what new technology is coming in the

next six to 12 months and have discussions up front with physicians.

“If a new hip implant is coming on the market in the next six months, we want to be working with clinical people and physicians today so there are no surprises,” he said. “We’d like to come to agreement about prices before the new device hits door. We don’t want to get pinned into a corner.”

To that end, Hines and his staff have begun a new orthopedics technology newsletter and meet quarterly with providers and clinical directors, hospital CEOs and CFOs. “We’re having proactive conversations. We want to build collaborative partnerships to mitigate adversarial relationships.”

As for his role, Hines says that the way McLaren is organized is recognition that materials management is an integral part of the success of a hospital. “Supplies are the number two expense behind labor. Materials management personnel must position themselves as strategic assets and proactive facilitators rather than order processors. It took a while to get my mind around the concept. This is not a fire drill. It’s an on-going process.”

Hines was also quick to point out that he alone is not responsible for the successes of the McLaren materials unit. “I have an incredibly talented and dedicated materials team as well as strong working relationships with MHC clinical directors and staff,” he said. It is truly a team effort starting



at the top and weaving through the total organization.”

CFO Krzeminski agrees. “Working together with other McLaren employees, Kevin and his team have had tremendous successes in consolidating and standardizing products and equipment, in pricing, in vendor relationships, in continuity and in seamlessness in working with our various subsidiaries. That has not always been easy because our corporation came together at different times. He’s done an excellent job working with the various egos involved.”

Krzeminski is particularly pleased with the way Hines has been able to drive standardization. “He’s been nothing short of extraordinary in getting all to agree on a vendor or a product they’ve never used before. He gets them to the table to talk.”

Unfortunately, Krzeminski said, eliminating outliers and fostering standardization is an ongoing

challenge because incentives are not aligned. “Once a contract is done, it’s never done. The leakage is almost daily and begins as soon as the contract is signed. For a number of big ticket items in cath labs and operating rooms, physician preference leads the charge,” he said. “We have to overcome their egos, bridge the gaps and cultivate them. What the doctor wants to purchase he’s not writing check for. We are! But we want to keep him happy.”

McLaren’s chief financial officer recommends the contracted chief supply chain position to other systems. “I invite anyone who’s interested in the concept to visit us here in Flint, to see it for themselves, to talk with frontline employees. I invite them to kick the tires and ask questions.”

“Kevin might not like it but he has two bosses, two organizations to please. That gives him added incentive,” Krzeminski said.



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