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Supply Chain Management Best Practice: Lessons for Healthcare Materials Management

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Supply Chain Management
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Supply Chain Management Best Practice: lessons for healthcare materials management

Edward Sweeney
Director of Learning, NITL

IHMMA AGM Dublin, September 2003

Agenda

- **Introduction to NITL**
- **What is SCM?**
- **SCM Excellence**
- **SCM in Ireland**
- **Some Health Service Issues**

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History of NITL

- Report “World Class to Serve the World”
- National Centre for Supply Chain Excellence
- Supported by the National Development Plan, managed by the Department of Enterprise, Trade and Employment, set up at the DIT
- April 1998

Mission Statement

NITL will support the achievement of competitive advantage in Irish firms by creating a fundamental new resource for logistics and supply chain efficiency.

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Customer Service 'Sets the Spec for Integrated SCM'

A diagram illustrating the relationship between customer service strategy and supply chain management. It features a large white arrow pointing from left to right. Inside the arrow's tail is a white box containing the text 'Market Driven Customer Service Strategy'. Inside the arrow's head is another white box containing the text 'Performance Specification for Integrated Supply Chain Management'. The background is a light blue gradient with a green bar at the bottom.

**Market Driven
Customer
Service
Strategy**

**Performance
Specification for
Integrated Supply
Chain Management**

What is Supply Chain Management?

A white circle with a thin black border containing the word 'Buy' in blue text.

Buy

A white circle with a thin black border containing the word 'Make' in blue text.

Make

A white circle with a thin black border containing the word 'Store' in blue text.

Store

A white circle with a thin black border containing the word 'Move' in blue text.

Move

A white circle with a thin black border containing the word 'Sell' in blue text.

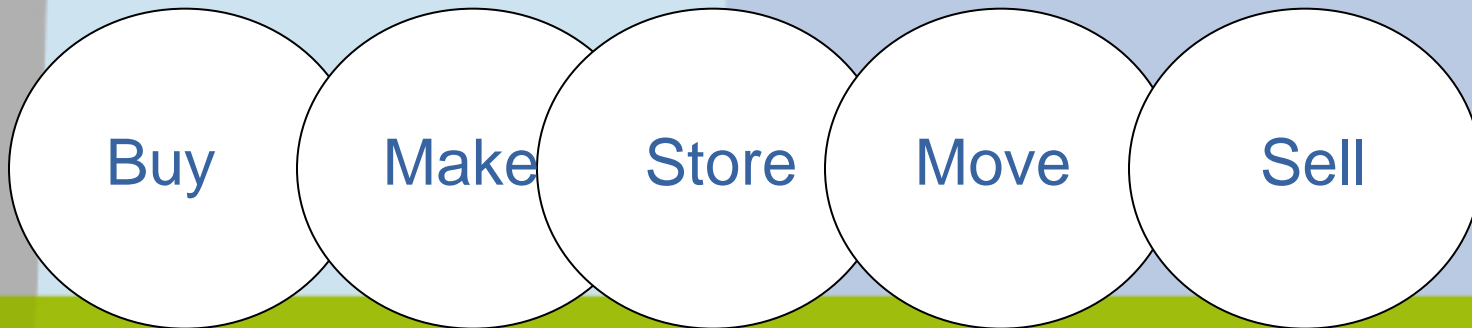
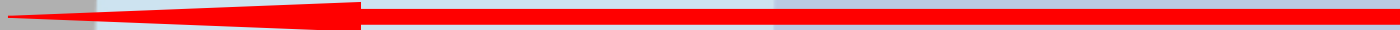
Sell

Traditionally these functions are managed in isolation and often operate at cross purposes.

What is Supply Chain Management?

Supply chain management integrates these functions by holistically managing the information, material and financial flows.

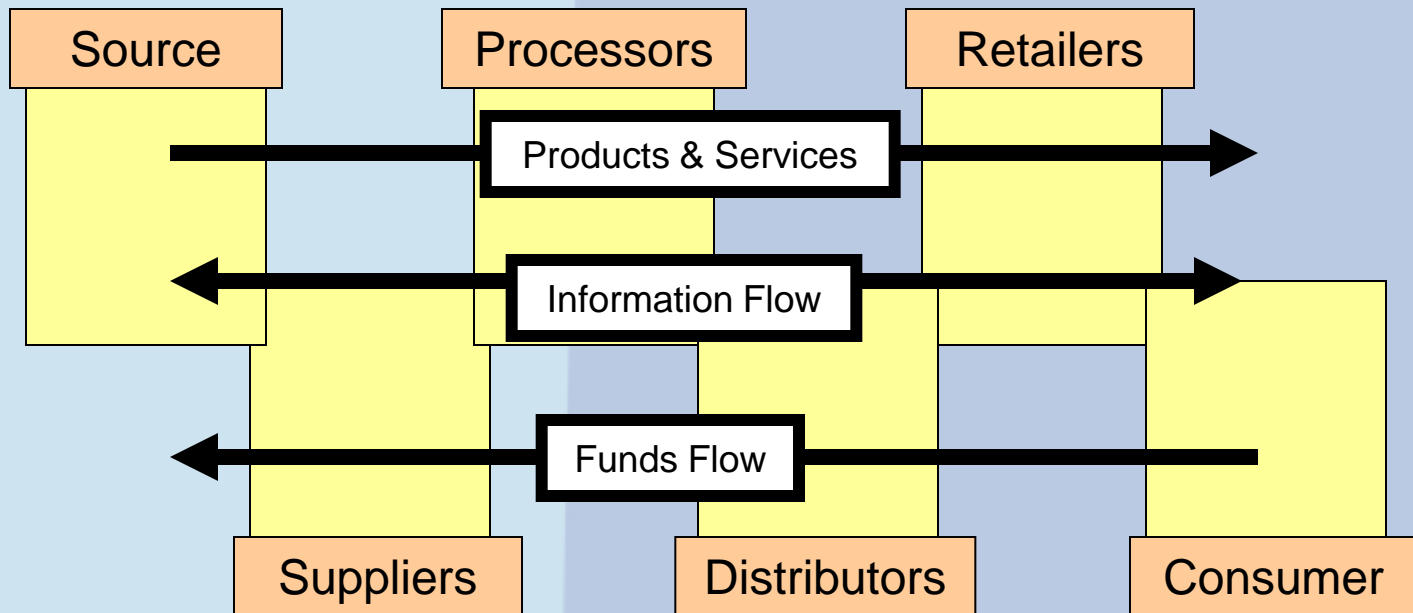
Information and Money



Information and Materials



Supply Chain Philosophy



A product reaches the final consumer through a chain of companies which will typically include suppliers, processors, distributors and retailers.

The Weakest Link

- **Without the right companies across the supply chain to work with, a company will never achieve true competitive advantage. In other words**
- **The supply chain is only as strong as its weakest link.**

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Why is SCM Important?

“Effective supply chain management can cut costs, improve service and enhance revenues and that’s just the beginning” Prof. P. Metz, MIT

MIT Survey: Implementation of ‘supply chain management’ in US resulted in:

50% reduction in inventory

40% improvement in on-time deliveries

27% reduction in order cycle time

Nine-fold reduction in out of stocks

Key Characteristics of Excellent SCM

- **Integration of supply chain activities**
 - sales forecasting; procurement; inbound transportation; production planning; inventory management; warehousing; outbound transport; customer service; sales order processing
- **SCM a senior management function**
- **Identification and measurement of customer service**
 - customer service 'sets the spec' for SC design
- **Integration of supply chain information**
- **Establishment and measurement of supply chain KPI's**

Improved Financial Performance Measures the Success of SCM

A diagram consisting of two white rectangular boxes with black outlines. The left box contains the text 'Optimum Supply Chain Cost & Investment'. A large white arrow points from the right side of this box to the right box. The right box contains the text 'Financial Impact of Effective Supply Chain Management'. The background is a light blue gradient with a green bar at the bottom.

**Optimum
Supply Chain
Cost &
Investment**

**Financial Impact of
Effective Supply
Chain Management**

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SCM in Ireland: importance

- Potential operational benefits (supply chain economics and customer service)
- Open economy (imports/exports proportion of GDP)
- Transport only one, and not most important cost, therefore location not a significant disadvantage
- Relatively small companies can be a part of a global supply chain
- Can manage 'virtual' supply chains from Ireland

SCM in Ireland: current situation

- **Less than 20% have a formal logistics position and in less than 4% is it at Board Level**
- **Less than 50% measure customer service formally and those have very limited measurements**
- **Companies score low in relation to having the latest supply chain IT and having them integrated across the supply chain**
- **Few companies had clearly defined SCM KPI's**
 - **35% did not know their total supply chain costs**
 - **60% had not reviewed their transport costs in the last 6 months**
 - **over 40% admitted holding obsolete inventory**

Some Underlying Causes

- Inefficiencies are often built into the supply chain
- Communication structures ineffective
- Exchange of information poor
- Culture inappropriate
- Excessive reliance on forecasting and stockholding
- Managing problems, rather than eliminating their causes

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Some Health Service Issues

- **The role of MM in the evolving organisational structures;**
- **The need for a strategy which reflects the diversity of products and services in use;**
- **The need for greater efficiencies and utilisation of capital intensive equipment;**
- **The need for greater information visibility, particularly in relation to inventory levels through the supply chain;**
- **The effective use of IT as a key enabler in the integration process;**

Some Health Service Issues (continued)

- Knowledge management and the effective use of existing expertise;
- The evolving role of outsourcing, not as a “magic solution” but as a potential element in the overall strategic mix;
- The management of relationships with key external bodies; and
- The need for senior materials management staff to perform their increasingly challenging role as initiators and implementers of supply chain change.

Concluding Comments

- Ireland moving into 2nd Generation SCM
 - SCM moving “up the value hierarchy”
 - Increasing strategic importance of SCM in the health service
 - Knowledge and skills implications
 - NITL *Learning*



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