



IBM Watson Health™

## Caldwell Memorial Hospital

Using Lean transformation to  
streamline the supply chain

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## Overview

### The need

Caldwell Memorial Hospital wanted to streamline their supply chain

### The solution

Caldwell implemented Simpler's proprietary Physician Preference Items (PPI) Manager Tool to help standardize their overall supply chain process including inventory visibility, demand flow optimization and management of physician preference items

### The benefit

Identified annual savings of \$3.6M, reduced product costs by \$2.8M, identified distribution cost savings of \$421K and realized a \$366K savings in labor costs

**Simpler® Consulting was acquired by Truven Health Analytics®, part of the IBM Watson Health™ business in 2014. Truven Health Analytics was acquired by IBM in 2016 to help form a new business, Watson Health.**

Caldwell Memorial Hospital, located in Lenoir, NC, is a 110-bed not-for-profit community hospital and has been a part of the UNC Health Care System since 2013. They have 650 employees, including 50+ primary and speciality care physicians.

Leaders at Caldwell Memorial Hospital wanted to make sure that clinicians had easy access to the right item, in the right place, at the right time—at the lowest possible cost. And they knew from experience that Lean transformation would be the most effective way to get it done. The problem was, they didn't know where to start.

Luckily, they weren't going it alone. Six years prior, the hospital had enlisted Simpler Consulting to implement Lean management principles in other areas of the organization. Based on the improvements achieved during that time, the organization turned once again to its Simpler coaches for help streamlining its supply chain.

## Assessing the situation

An initial value targeting assessment helped Caldwell outline the challenges facing its supply chain and identify solutions that would help them reach a more desirable state.

Through quantitative and qualitative data collection and analysis, the team defined the scope of the project, determined targets for return on investment and developed a comprehensive business plan based on the Lean philosophy of reducing waste to maximize value.

The assessment revealed three key areas for Caldwell to target: inventory visibility, demand flow optimization and management of physician preference items.

Simpler's goal was to not only help drive substantial savings for Caldwell, but also make the team aware of how each individual affects the supply chain operation—and ultimately, the patients.

## Gaining clarity and control

To tackle both inventory visibility and distribution flow, Simpler introduced Caldwell to a Lean-based visual replenishment system that stocks supplies based on actual need rather than forecasted need. This offers Caldwell more transparency around items moving through the system—from requisition to the bedside.

The resulting consolidation of supplies and elimination of excess inventory led to an annualized \$2.62 million in savings over the 13 month initiative.

## Solution components

### Software

Supply Chain Management

Simpler Physician Preference Items (PPI)

Manager Tool

## Why Lean Supply Chain Management

Because supply chain management is the second highest expense after labor, we believe hospitals and health systems need a better way to save money and increase efficiency, while still maintaining high-quality standards and improving the patient experience. Lean management can help healthcare organizations meet the demands of a value-based system by creating competitive advantages during different stages of the supply chain, including product selection and sourcing to logistics and distribution.

Plus, by using Lean work to standardize the overall supply chain process, Caldwell identified another \$421,000 that could be saved on distribution costs, as well as \$366,000 from reducing the amount of time clinicians spent managing supplies.

## Reining in preference items

Simpler also wanted to help Caldwell understand how its supply chain costs were affected by the clinicians' utilization of assets. This included not just supplies, but everything from pharmacy and lab resources to room and board.

Simpler used their proprietary Physician Preference Items (PPI) Manager Tool to breakdown utilization by APR/DRG, physician, revenue center and intensity of service to show how the variation in items and resources requested by different physicians and inconsistency in use, can add up to a significant expense.

The PPI Manager Tool uncovered an additional \$4.1 million in cost savings opportunities for Caldwell by simply streamlining the number and variety of materials and resources used by clinicians.

## Looking ahead

As Caldwell Memorial Hospital continues to transform its supply chain using Lean techniques, new opportunities are being discovered for reducing costs, increasing operational efficiencies and helping improve the quality of patient care.

**Caldwell Memorial Hospital's supply chain struggled with multiple stock locations, excess and often incorrect inventory and lack of accountability for what was on the shelves.**

## Get connected

Send us an email at [info@simpler.com](mailto:info@simpler.com) or visit [simpler.com](http://simpler.com).

## About Simpler Consulting, part of the IBM Watson Health business

Simpler<sup>®</sup> Consulting, part of the IBM Watson Health<sup>™</sup> business, is a leading management consulting firm that helps organizations around the globe to improve performance through Lean transformations. Since 1996, Simpler has worked closely with clients to foster an organizational culture that continuously seeks out opportunities to make improvements, and to help stimulate business-impacting results. With its proprietary Simpler Business System<sup>®</sup>, Simpler has helped clients to implement Lean transformations across a wide range of industries.

Simpler Consulting was acquired by Truven Health Analytics<sup>®</sup> in 2014. Truven Health Analytics was acquired by IBM in 2016 to help form a new business, Watson Health. Watson Health aspires to improve lives and give hope by delivering innovation to address the world's most pressing health challenges.

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