

Building Healthcare Supply Chain Success: **Getting Started with an Operational Partner**

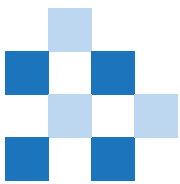


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Executive Summary

As health systems face increasing demands for agility and cost-effective operations, supply chain organizations are navigating a landscape of competing priorities and frequent supply disruptions. A well-defined supply chain strategy, coupled with strong supplier partnerships and a reliable operational labor partner, can empower teams to expand their scope of services, enhance agility, and improve financial flexibility.

This article discusses advancing the business case for an operational supply chain partner into a practical set of guidelines for execution. Transitioning large hospital labor operations can be a daunting challenge, but when paired with a well-defined methodology and effective change management strategies, this shift presents a valuable opportunity to drive lasting improvements within supply chain operations.



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CONSIDERATIONS FOR OPERATIONS PARTNERS

As a healthcare system embraces the value drivers and business case for partnering with a third-party operations and materials management provider, a clear focus on execution is essential to defining the path forward. Selecting a partner involves more than creating a list of desired outcomes and issuing an RFP; it requires a deep understanding of current operations and a forward-looking vision of an ideal operating model.

Without a clear understanding of the precise role of the operations partner and the roles of the health system's supply chain team, the engagement process can become confusing and unsatisfactory. To establish a successful partnership, consider the following operational facets when engaging prospective partners:

Defining Responsibilities

When partnering with a supply chain operations provider, establishing a **clear Statement of Work (SOW)** is critical to building a solid and effective partnership. The SOW should strike a balance between specificity and flexibility: it must be detailed enough to align with standard operating procedures (SOPs) yet adaptable enough to allow the operational partner to define task execution based on industry best practices. The goal is to ensure that the operational partner has the ability to achieve the defined business objectives while maintaining operational efficiency and innovation.

Healthcare executives should thoroughly analyze their current operations to identify the responsibilities that a third-party partner will execute. Additionally, the SOW should be supported by a collaboration framework that provides process, clinical, and technological support to enable these responsibilities to be effectively carried out.

The following areas can often be effectively supported by an operations partner:

- Inventory and Materials Management
- Clinical and Lab Supply Replenishment
- OR Perioperative Supply Delivery and Support
- Surgical Case Cart Picking
- Loading Dock Management (including receiving and package delivery)
- Outbound Package Processing and Shipping
- Compressed Gas Management
- Mail Processing and Delivery
- Durable Medical Device Management and Delivery
- Linen Process Support and Delivery
- Transportation and Sleep Surface Equipment Support



By clearly defining these categories and aligning them with the SOW, healthcare systems can ensure both accountability and operational success in their partnership with a third-party supply chain operations provider.

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Refining Policies and SLAs

When engaging a third-party operational service partner, healthcare systems must ensure the assignment of responsibilities is accompanied by clear **Policies and Service Level Agreements (SLAs)**. While the Statement of Work (SOW) outlines overarching responsibilities, it often lacks the specific details needed for daily operations. Without these critical guiding documents, confusion and disagreements can arise, particularly between the operations partner and clinical teams.

Although Policies and SLAs may not be essential during the initial discussions with a third-party partner, they are critical to long-term success and should be incorporated into the planning process. Developing these documents requires collaboration between the healthcare system and the operational partner, ensuring alignment on expectations and accountability.

The **Operations Partner** operates with a standard delivery timeframe of 24 hours, as it aligns with practices used for other clients.

The **Lab Staff** expects the samples to be delivered within 2 hours of receipt to meet clinical requirements.

Without a clear policy defining product handling procedures and an SLA outlining timelines and delivery expectations, this misalignment becomes a source of conflict. Establishing these documents early can eliminate ambiguity, ensuring smooth operations and strong collaboration between the partner and healthcare teams.

Exploring Suitable Labor Models

Establishing an effective labor model is a critical joint responsibility between healthcare systems and their operational partners. This requires a thorough analysis of factors such as shift schedules, worker numbers, productivity levels, task allocation, and the hierarchy of supervision and accountability. There is no universal labor model; each facility must tailor its approach based on financial considerations, acuity levels, hours of operation, service level expectations, and projected labor standards.

Example: The 4x4 Labor Model

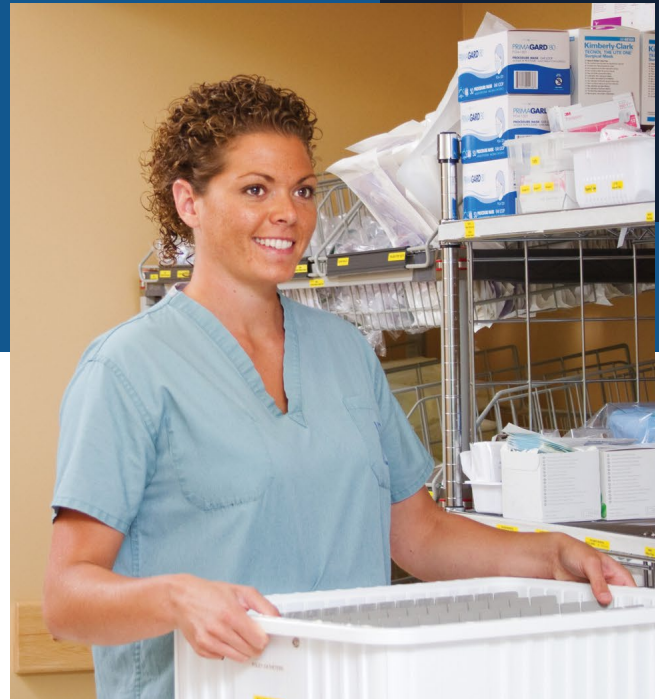
Facilities struggling to adequately staff and train weekend workers may benefit from creative labor solutions, such as the **4x4 labor model**. This model employs a four-day work week, with one shift covering Sunday through Wednesday and another covering Wednesday through Saturday. The overlap on Wednesdays creates opportunities for:

Project Execution

Allocating additional labor for large or time-intensive projects.

Training and Education

Providing staff development without disrupting daily operations.



This 4x4 labor model approach minimizes the complexities associated with staff rotations, absenteeism, and reliance on part-time staff, resulting in a more stable and efficient workforce.

Labor standards are essential for determining the staffing requirements necessary to operate effectively. For example, a detailed analysis may reveal that a receiving staff member can process, validate, and deliver an average of **15 receipt line items per hour**. Using this metric, along with data on package volumes, operational hours, and delivery SLAs, supply chain leaders can accurately forecast labor demand and optimize staffing levels.

By combining thoughtful labor modeling with robust labor standards, healthcare systems can achieve operational efficiency while meeting service level expectations.

Establishing Appropriate KPIs and Incentives

With clearly defined responsibilities and a projected labor model in place, the next critical step is to define **success criteria**. Healthcare executives must quantify current operations to establish a baseline and define a target operating model. This model should include both contractual elements and an agreed-upon strategy for implementation. Success must be measured through **Key Performance Indicators (KPIs)** and also qualified through customer satisfaction metrics to ensure alignment with organizational goals.

Example: Defining Success Metrics

A health system operating an internal storeroom and PAR replenishment services aims to achieve:

- **95% Fill Rate** for all products requested by clinical units.
- **Inventory Variance** of less than 1% of the total product value moved.
- **Storeroom Inventory Turn Rate** between 16 and 22 times annually.

A health system operating an internal storeroom and PAR replenishment services aims to achieve:

- **Stretch Incentive:** A bonus for maintaining a **98% Fill Rate** for three consecutive months.
- **Penalties:** Service levels below **92% Fill Rate** trigger corresponding financial penalties.
- **Customer Satisfaction Surveys:** Conducted quarterly, with a target of achieving at least **80% net positive feedback**.

By establishing measurable KPIs alongside qualitative assessments like customer satisfaction, healthcare systems can ensure accountability and drive continuous improvement in supply chain operations.



ENSURING SUPPLY CHAIN TEAM PARTNERSHIP AND COLLABORATION

Successful supply chain operations rely on the seamless collaboration of multiple teams, from procurement and contracting to technicians replenishing products in patient rooms. While implementing an operations partner primarily addresses the roles and accountability of the contracted supplier, effective planning must also account for the contributions required from tangential teams to support both implementation and ongoing operations.

To ensure success, it is essential to designate key contacts from relevant departments and clearly define their roles in setting up and maintaining operational responsibilities. Key areas of coordination include:

- **HR Department:** Workforce planning, staffing policies, and compliance with organizational labor standards.
- **Information Systems:** Training, access management, and provision of necessary hardware to support operations.
- **Physical Facilities and Security:** Coordination for facility access, security protocols, and infrastructure support.
- **Master Data and Inventory Management:** Ensuring accurate and up-to-date data for inventory control and operational efficiency.
- **Reporting and Analytics:** Development and maintenance of dashboards, performance reports, and operational metrics.
- **Product Decisions and Evaluations:** Establishing clear procedures for product evaluations, conversions, and substitution policies.
- **Regulatory and Procedural Considerations:** Ensuring compliance with procedural standards and regulatory requirements.

By fostering collaboration and clearly defining responsibilities across these areas, healthcare systems can create a supportive environment that enables their operations partner to thrive, ensuring both immediate and long-term success.

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UNDERSTANDING AND MANAGING THE RISKS AND BARRIERS

Every business case must evaluate the risks associated with implementing change, weighing the consequences of maintaining the status quo against the potential failures during a service transition. These risks can be categorized into four key areas:

Recognition and Support from Financial, Clinical, and Human Resources

Clear and Comprehensive Strategy or Work Definition and Transition

Effective Foundational Technology and Data

Accountable Supply Chain Leaders

Building Organizational Support: Supply chain executives must secure strong support from financial and clinical leaders when proposing a transition to an operations labor partner. This change must be presented as an acknowledged and supported pathway by **Human Resources Management**. Additionally, considerations for **collective bargaining agreements** and unionized workforces must be carefully addressed, weighing potential opposition and existing contracts. Identifying stakeholders from each of these areas is critical to guiding and supporting the transition team.

Legal and Contractual Risks: While the risks and challenges for transitioning a workforce are core to this document, further risks may be uncovered by working with inside Legal Counsel. Engaging an operations partner introduces significant potential liability for the healthcare system, stemming from the Master Services Contract, Statement of Work (SOW), and accountability for operational outcomes. Rigorous vetting of the agreement terms—through collaboration with legal experts—should be prioritized early in the process to mitigate these risks and establish a sound contractual foundation.

Technology and System Risks: The effectiveness of ERP and materials management applications, as well as the availability of supporting hardware, can significantly impact the success of an operational transition. Poorly performing systems or hardware shortages often lead to process workarounds that undermine efficiency and unravel tightly coordinated operations. Compliance with well-documented and comprehensive system procedures is a critical factor in ensuring operational stability.

Leadership and Accountability: The success of any operational transition depends on the support of strong leadership at the middle and upper management levels. Without aligned 1:1 counterparts between healthcare executives and third-party partner leadership, lines of accountability can become blurred, undermining the SOW and jeopardizing the execution of operational responsibilities. Clear accountability and active management are essential to ensuring a seamless transition and ongoing operational success.

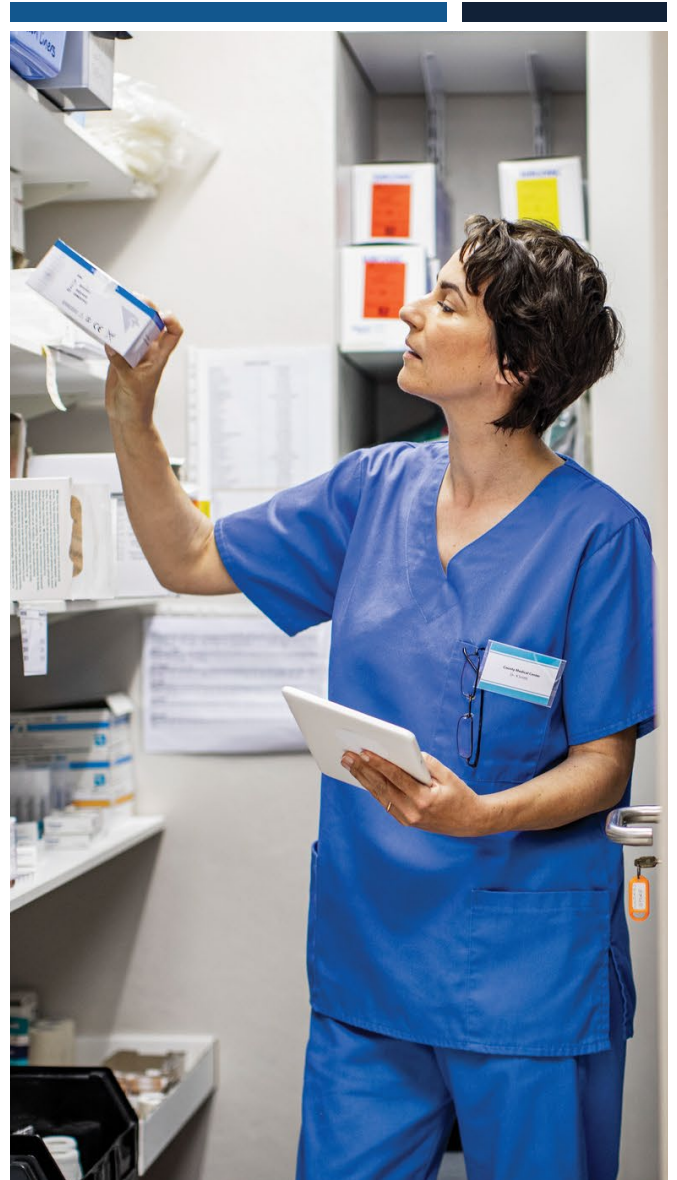
REFLECTING AND LAUNCHING CHANGE IN SUPPLY CHAIN OPERATIONS

As the healthcare landscape evolves, the demand for mature, agile, and effective supply chain operations continues to grow. Healthcare executives must evaluate their current operations to determine whether a supply chain operations and materials management partner is the right solution to achieve the health system's operational goals. These partners can enhance supply chain teams by introducing additional capabilities and industry best practices all while reducing administrative burdens and staffing overhead. Furthermore, an operations partner offers flexibility in financial models and staffing, enabling organizations to rapidly scale operations up or down as needed with minimal disruption.

Launching an operational change with a third-party partner can be a challenging transition. Building a firm foundation rooted in clear expectations and a strong vision for how operations should function will set a healthcare organization on the right path from the outset. This foundation creates a shared understanding with any partner and helps ensure alignment.

Conflicts with partners often arise when healthcare executives and senior leaders lack a full understanding of how operations should be managed, the daily challenges faced by the team, or when the operations partner is not given the appropriate guidance or support to meet the hospital's expectations.

By establishing informed and well-defined foundational elements, healthcare organizations can pave the way for a successful, mutually beneficial partnership.



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About the Author

Peter Schemm has dedicated the past 13 years at a major academic medical center, where he most recently served as the AVP of Supply Chain Services and Logistics Operations. During his tenure with Supply Chain, Peter oversaw the operations of the hospital's Services and Logistics Center, Materials Management, Central Sterile Processing, Procurement, as well as Technology Systems and Analytics.

A strong advocate for supply chain transformation within the healthcare industry, Peter has fostered strategic partnerships with leading suppliers and technology providers, including Canon Business Process Services, Medline, Par Excellence, Qlik, Coupa, and Workday. Peter also served as the Global Sourcing Services Owner at GlaxoSmithKline, where he played a key role in optimizing sourcing strategies. He also implemented supply chain solutions across various industries during his time with Deloitte Consulting. Peter holds a Master of Engineering degree from Lehigh University.

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