



Department of Veterans Affairs

# VA Supply Chain Transformation

**Presented by:**

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# Briefing Outline

- Overview of VA
- Why Supply Chain Transformation in VA?
- VA Supply Chain Initiatives
- VA SCM Modeling/Simulation Initiatives
- VA Logistics/Supply Chain Education Initiatives



# The Department of Veterans Affairs

- ❑ FY 2010 Procurement Spend: ~**\$24 billion**
- ❑ FY 2010 Discretionary Budget Authority: **\$48 billion**
- ❑ FY 2011 Budget: **\$124 billion**
- ❑ FY 2011 Discretionary Budget Authority: **\$53 billion**
- ❑ Contract Actions – **232,649 (FY 2009)**
- ❑ Certified Contracting Officers in VA – **1700+ (Feb. 2010)**
- ❑ Targeting **5,000 +** staff for Program/Project Management

- VA Employees: **310,000+**
- VHA National Health Networks: **21**
- VA Hospitals: **153 (6 VAMCs under construction)**
- VA Community Based Outpatient Clinics: **900+**
- VA Veterans Centers: **232**
- VBA Regional Offices: **57**
- VA National Cemeteries: **131**



# Why Supply Chain Transformation?

## Current Challenges

### Systems

- Supply chain functions, organizations and systems reside in separate silos
- There are 153 unique instances of the VA procurement software; codes are non-standard
- There are multiple VA contracting entities and a variety of contract types.
- No incentives for service providers to reduce costs
- Demand forecasting and planning is not systemic
- The acquisition process is not transparent to internal users or suppliers

### Stakeholders

- Per a recent survey, nearly half of internal customers are not satisfied with acquisition support
- Program managers or buyers view paperwork burden as too high/not justified and most have experience of acquisition packages being rejected months after submission
- Most VAMC managers do not have business management skills
- At forums, suppliers said they perceive the acquisition process to be unclear and not applied in a standard manner

### Outcomes

- Escalating annual spend on healthcare and related commodities reached \$28 billion in 2010<sup>1</sup>
- Purchase orders increased 18% from FY08 to FY10 – (4.7 million POs in FY10)<sup>1</sup>
- A high degree of “spend fragmentation” – VA has more than 30,000 suppliers and 210,993 contracts<sup>2</sup>
- In past five years, 35 VA OIG reports citing missed savings and improper management<sup>3</sup>
- Low utilization of national contracts and blanket purchase agreements<sup>4</sup>



# Supply Chain Management is a Key Driver of Organizational Performance

## Supply Chain is Directly Connected to Organization Value

**“Supply chain generally accounts for between 60% and 90% of all company costs.”**

– Supply Chain Council, 2010

**“A 2 percent improvement in supply chain process efficiency has 30 to 50 times the impact of a 2 percent improvement in efficiency for... IT... HR... Finance ... Sales...”**

– Supply Chain 2006 SCM Benchmark data on SCM cost for discrete & process industries

### The Supply Chain Impacts

- Improve customer service and response
- Optimize inventory flow, utilization, & productivity

- Best-in-class customer relationships
- Differentiated service capabilities

- Best-in-class strategic supplier partnerships
- Leverage of outsourcing of business processes
- Unique supply chain models

### The Knobs and Levers

Revenue

Expense

Working Capital

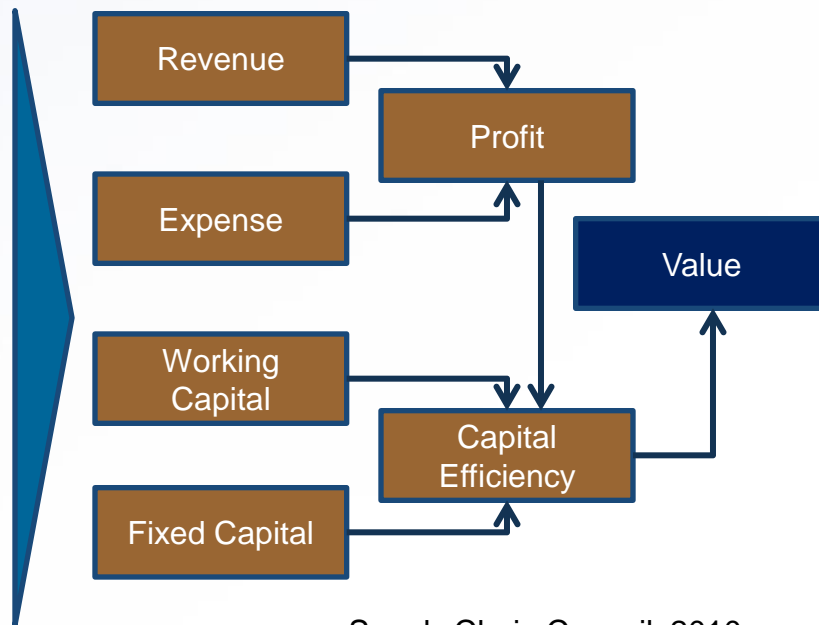
Fixed Capital

Profit

Capital Efficiency

### Program Value

Value



Supply Chain Council, 2010

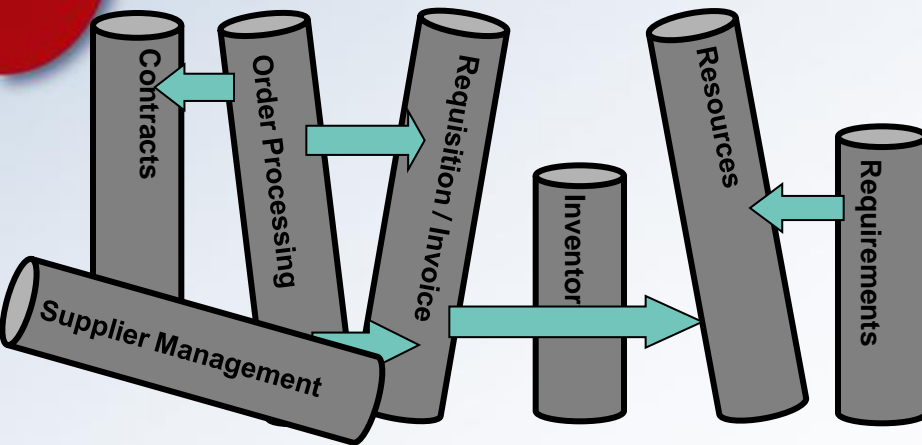
**“Most hospitals ... have an opportunity to reduce supply-chain expenses by as much as 15 percent through internal initiatives.”**

– Healthcare Financial Management, Jan 2004 by Robert N. Davis



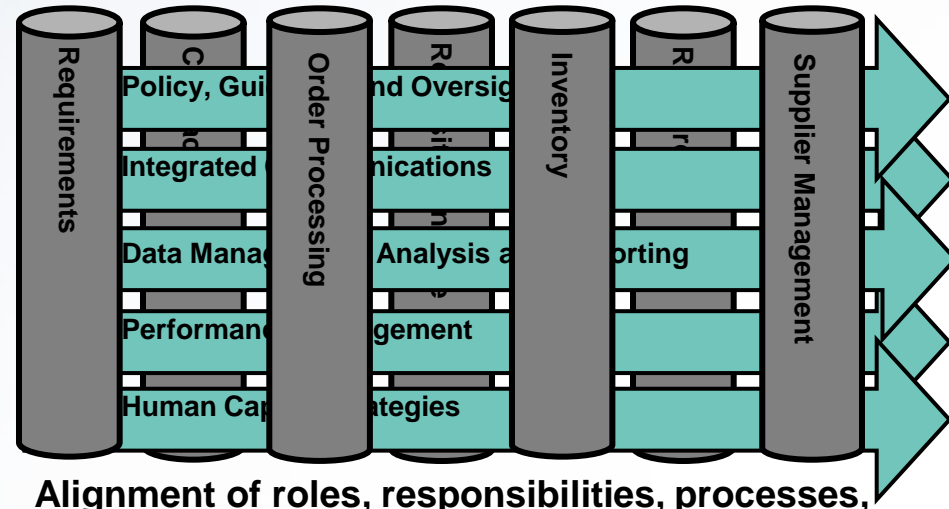
# VA Supply Chain is Functional but Not Aligned for Mission Efficiency

Current State



- Redundant functions
- Out-of-sync processes
- Organizational disconnects

Desired Future State



Alignment of roles, responsibilities, processes, decision making & information flow:

- Policy, Guidance and Oversight
- Integrated Communications
- Data Management, Analysis and Reporting
- Performance Management
- Human Capital Strategies

Benefits of a coordinated supply chain include: *collaboration among units; reduced impacts of silos on performance; improved communications, decision making and role clarity; and improved performance against mission requirements*

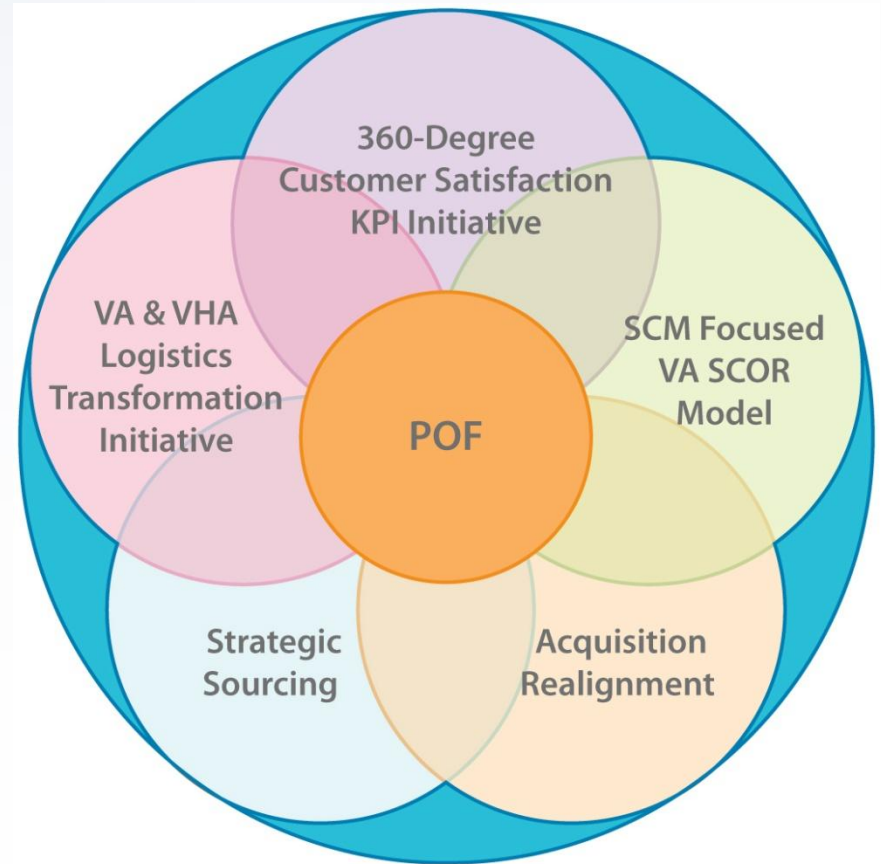


# VA Transformation Initiatives to Achieve VA “Perfect Order Fulfillment” (POF)

- **360° Customer Satisfaction KPI**
  - Internal Acquisition Customers
  - VA Supplier Outreach
- **VAVHA Logistics Transformation**
- **Strategic Sourcing/Acquisition**
- **Acquisition Realignment**
- **VA SCOR Model**

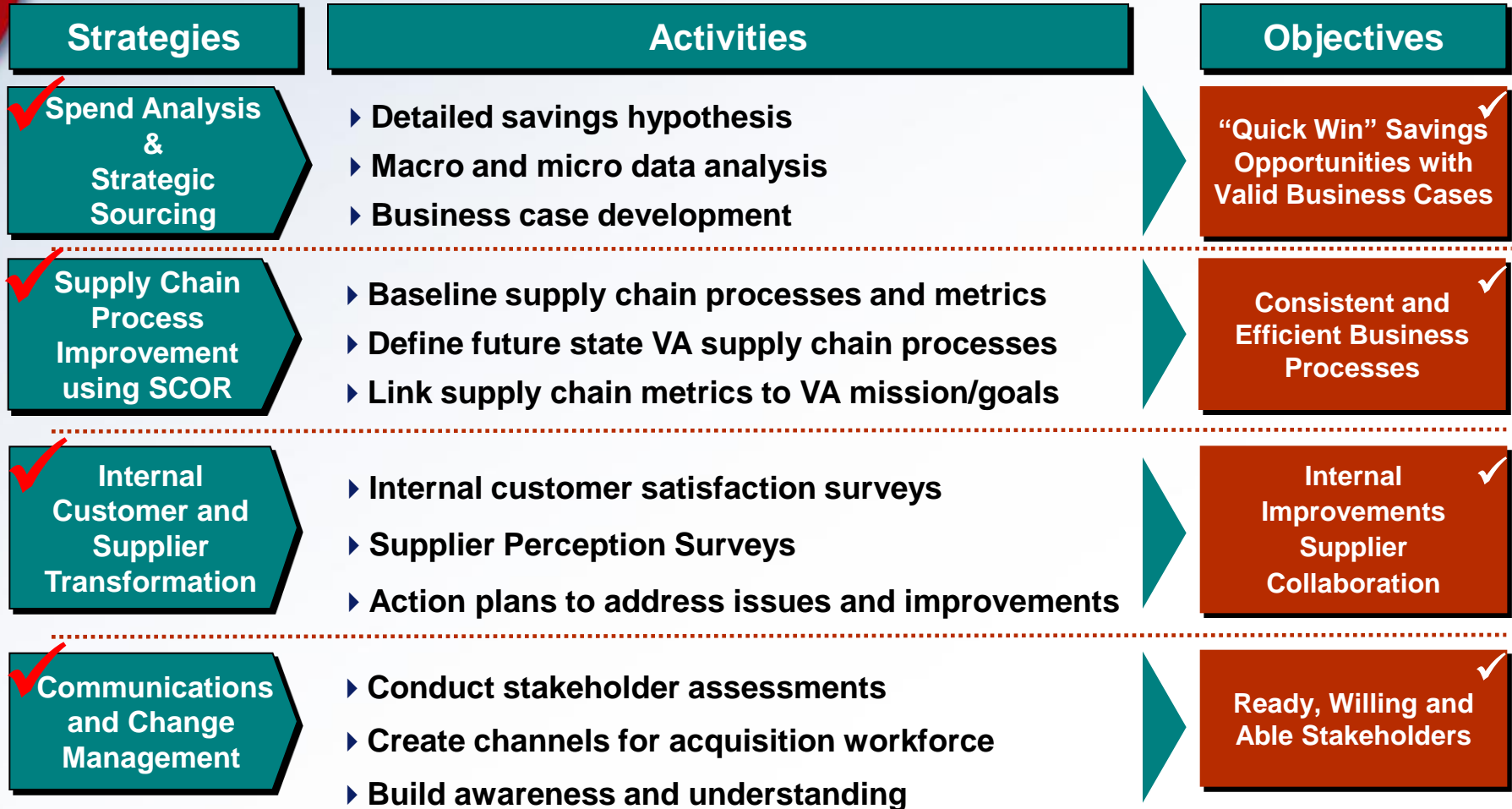
**POF: Providing the right item/service**

- ➔ At the right place
- ➔ At the right (or needed) time
- ➔ To meet the Veteran need
- ➔ Functioning properly
- ➔ At the “*right*” cost





# VA Supply Chain Transformation Near and Mid-Term Strategies





# VA Hypothesis-Driven Strategic Sourcing Methodology

## Strategic Sourcing: Value Analysis



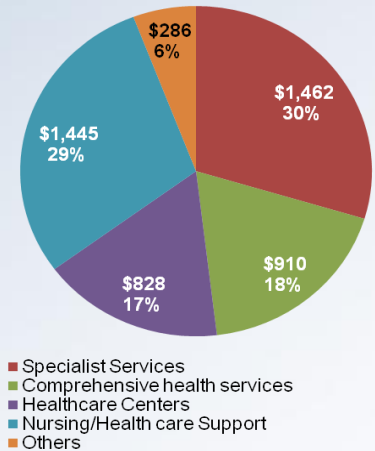
- 1. Scan Data Triggers:** Review spend data to identify large value items with savings opportunity.
- 2. Determine Savings Strategy:** Determine how the savings can be obtained.
- 3. Ease of Implementation:** Prioritize savings quick wins based on inventory on hand, contract dates, stakeholder buy-in and implementation period.
- 4. Validate Timing:** Determine key milestones to reach savings.
- 5. Leverage Initiative:** Develop strategies to leverage savings in other locations or with other products.



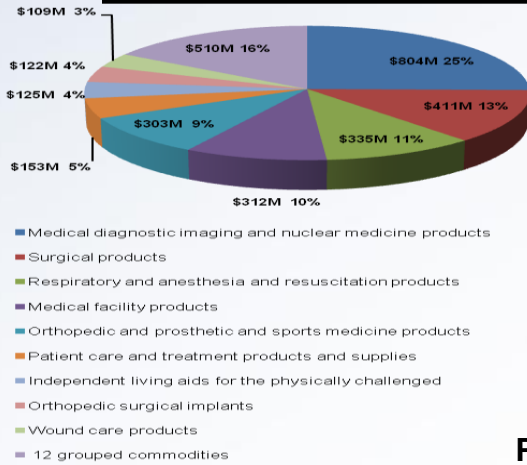
# Portfolio Teams Conduct Focused Macro & Micro Analysis

**EXAMPLE**

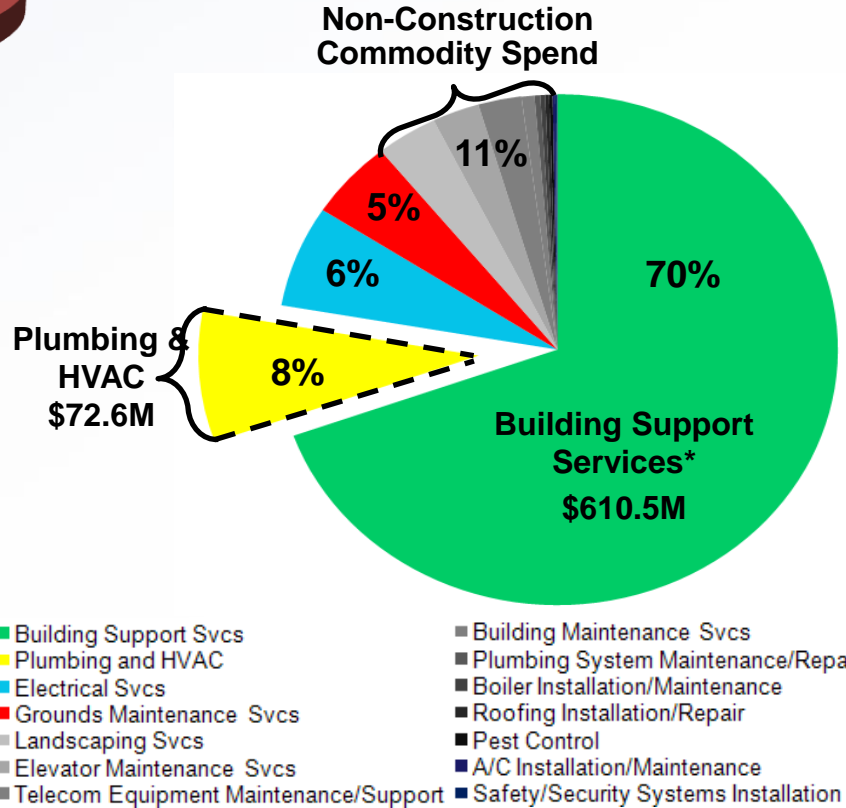
**HCS Portfolio**



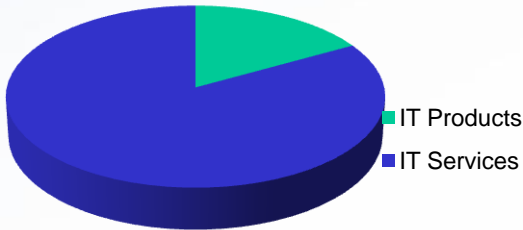
**Med/Surg Portfolio**



**CFM Portfolio**



**IT Portfolio**



IT Products = \$225,924,243  
 IT Services = \$1,111,368,394  
 Other = \$900,000,000

- Building Support Svcs
- Plumbing and HVAC
- Electrical Svcs
- Grounds Maintenance Svcs
- Landscaping Svcs
- Elevator Maintenance Svcs
- Telecom Equipment Maintenance/Support
- Building Maintenance Svcs
- Plumbing System Maintenance/Repair
- Boiler Installation/Maintenance
- Roofing Installation/Repair
- Pest Control
- A/C Installation/Maintenance
- Safety/Security Systems Installation



# Portfolio Teams Visit Field Locations to Develop Opportunities

## Locations visited

- ▶ VISION 22
  - West Los Angeles, Long Beach
- ▶ VISION 21
  - San Francisco, Palo Alto
- ▶ VISION 20
  - Seattle, Portland
- ▶ VISION 17
  - Dallas, Temple, San Antonio, Harlingen
- ▶ VISION 16
  - Houston, Biloxi, Jackson, Little Rock
- ▶ VISION 6
  - Richmond
- ▶ VISION 7
  - Atlanta, Augusta
- ▶ VISION 5
  - Washington, DC
- ▶ VISION 3
  - Bronx
- ▶ Acquisition Centers
  - NAC, Hines, IL
  - TAC, Eatontown, NJ
  - Austin TX Information Technology Center





# Teams Develop Supporting Business Cases

## EXAMPLE: Diagnostic Imaging Procedures

**EXAMPLE**

### Spend Analysis

	Average Cost FY09	# of unique patients	Total average cost
CTBody	\$501.97	462,059	\$231,941,106
CTNeuro	\$257.13	323,370	\$83,149,426
MRBody	\$541.03	161,751	\$87,512,928
MRNeuro	\$621.50	292,926	\$182,054,133
NucMed	\$1,052.44	276,436	\$290,931,303
<b>Total</b>		<b>1,516,542</b>	<b>\$875,588,896</b>

### Key Takeaways (Total Imaging)

- ▶ **\$ 875,588,896\*** was spent on diagnostic imaging and nuclear medicine procedures in FY09
- ▶ **If a 15-17%\*\* reduction in the number of procedures is realized, by using decision support tools, it is an annual ~\$130M - \$150M\*\* in cost avoidance**
- ▶ Since FY03 costs and patients for **contract imaging have increased ~25% annually\***
- ▶ Since FY05 **costs have increased on average ~11% and patients have increased on average of ~6% for procedures at the VA\***



### Business Case Summary

- ▶ Potential for **\$130M-150M\*** in annual cost avoidance
- ▶ Comprehensive lifecycle management
- ▶ Enhanced enterprise-wide planning and coordination for the acquisition of new equipment
- ▶ Greater clinician voice in developing requirements can improve patient care

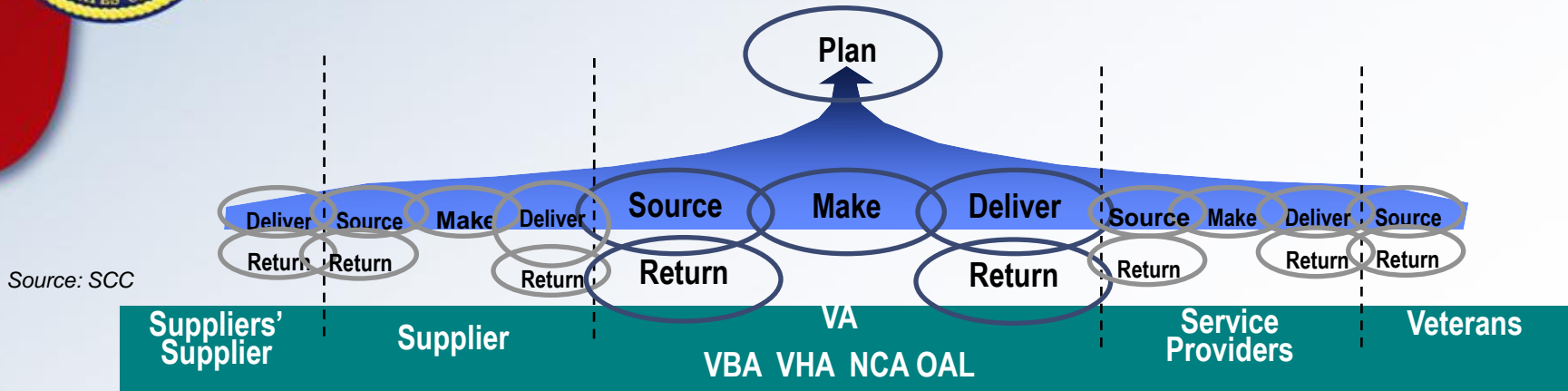
	Low	High
<b>Ben</b>	<b>\$100,000,000</b>	<b>\$145,000,000</b>
<b>Cost</b>	<b>\$7,111,660</b>	<b>\$7,111,660</b>
<b>Net Ben</b>	<b>\$92,888,340</b>	<b>\$137,888,340</b>
<b>ROI</b>	<b>13X</b>	<b>19X</b>

### Recommendation

- ▶ Establish a Program Management Office for Diagnostic Imaging and Nuclear Medicine
  - First initiative is implementation of a Radiology decision support capability that integrates with CPRS
  - Long term PMO benefits: Total Lifecycle Management (Total Ownership Cost), provides a single source for equipment acquisition management, supports VA goal of professionalizing the acquisition of workforce



# The Supply Chain Operations Reference (SCOR) Model Provides A Baseline



- ▶ SCOR takes the segments of a supply chain, identifies the players within each segment and the processes they perform, and then shows the interrelationships of these processes.
- ▶ There is a material flow, an information flow, and a cash flow associated with these processes.

## SCOR provides...

- ▶ Standard processes: Plan, Source, Make, Deliver, Return, Enable
- ▶ Standard metrics: Perfect Order Delivery, Supply-Chain Cost, etc.
- ▶ Best practices EDI, CPFR, etc.
- ▶ Pre-defined relationships among processes, metrics and practices

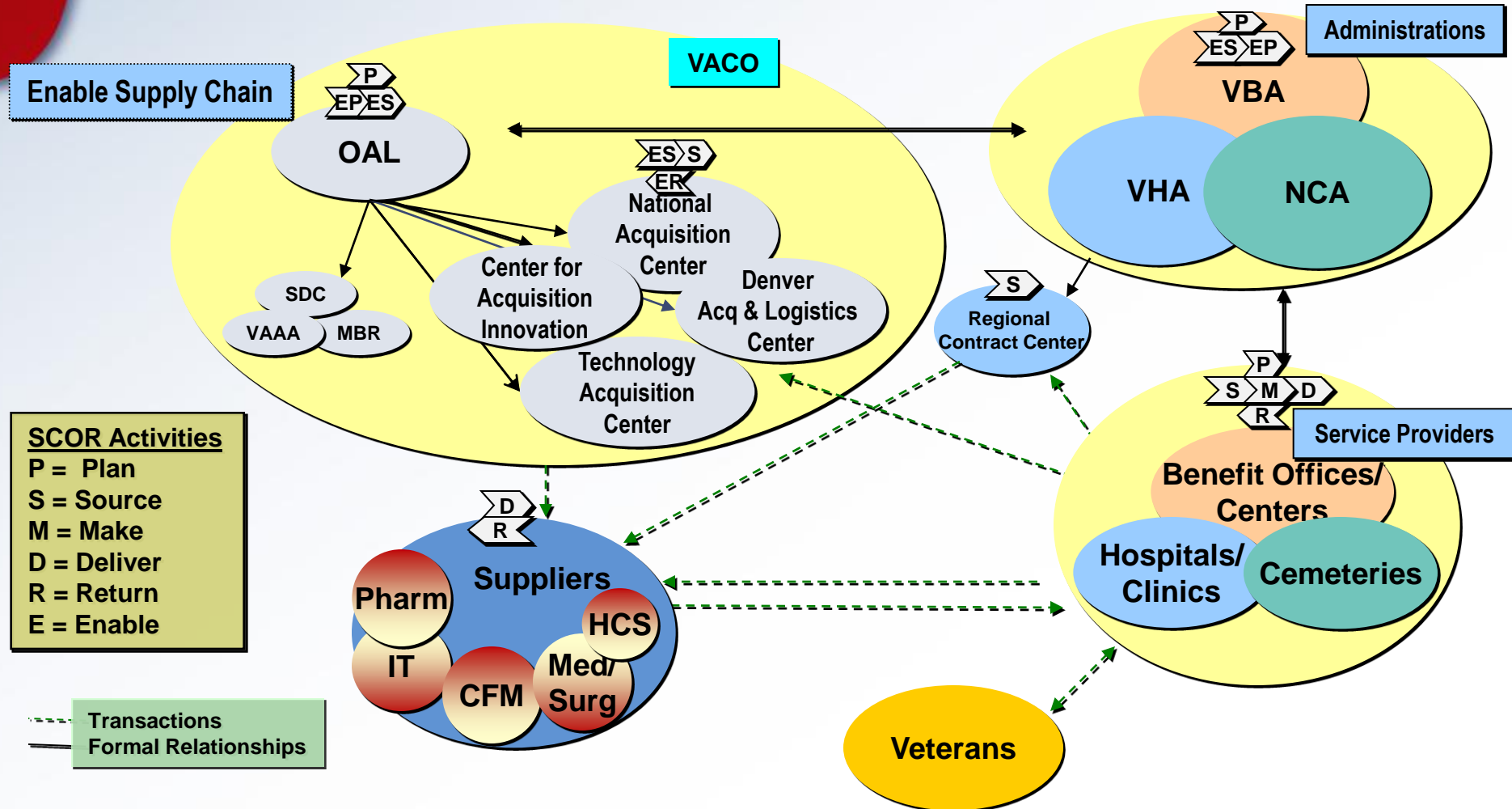


## SCOR allows...

- ▶ Common supply chain terminology that translates across industries and organizations, which permits:
  - Meaningful benchmarking with other organizations
  - Common metrics for performance assessment and comparison
  - Incorporation of industry best practices to improve supply chain performance



# Current VA Supply Chain Organizational Relationships

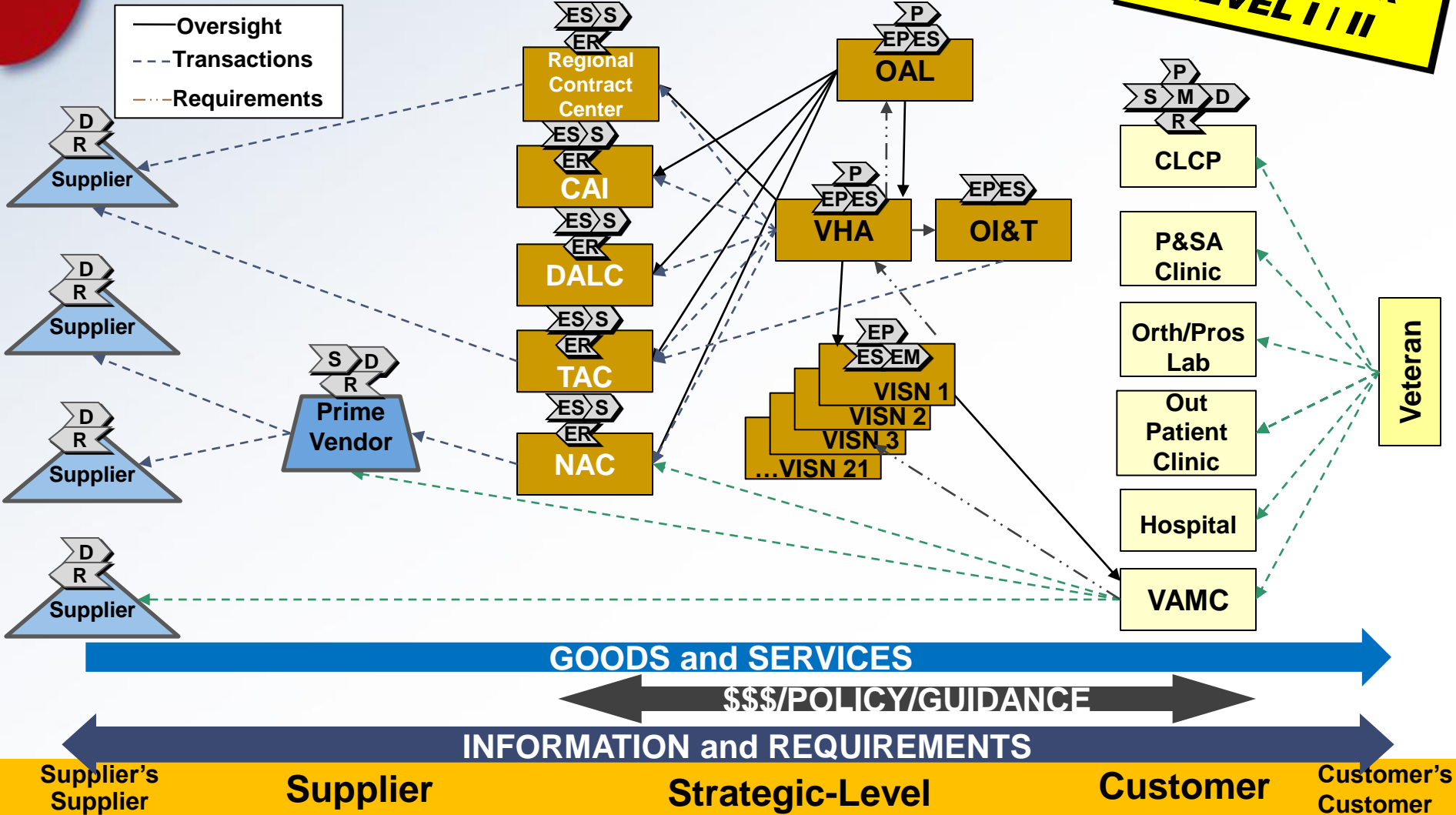




# SCOR - VA Medical/Surgical Supply Chain

(with SCOR activity indicators)

**DRAFT SCOR LEVEL I / II**





# VA Supplier Relationship “Voice of the Customer” Initiatives

- Regional Supplier Relationship Forums
- Federal Supply Schedule Forums
- Supplier Perception Survey
- VA Industry Advisory Group



## VA Supplier Relationship Transformation Forums Since August 2009

- ❑ Washington, DC – August 2009
- ❑ New Brunswick, NJ – August 2010
- ❑ Long Beach, CA – August 2010
- ❑ Chicago, IL – October 2010 (2 – SRT & FSS)
- ❑ Tampa, FL – May 2011
- ❑ Washington, DC – June 2011 (Construction & Fac)
- ❑ San Francisco, CA – September 2011
- ❑ Chicago, IL – October 2011\* (2 days)
- ❑ Houston, TX – November 2011\*

➤ \* Planned Forums



# VA Supplier Relationship Transformation Forums - *What We Did*

- ❑ Small facilitated breakout group sessions
- ❑ Discussed what does and does not work with VA's acquisition process
- ❑ Forum attendees were separated into industry groups
  - Building, Construction, Design, and Engineering
  - Medical Equipment and Supplies
  - Pharmaceuticals
  - Information Technology Management
  - Business Management and Administrative Services



# VA Supplier Relationship Transformation Forums - *What We Heard*

<b>Theme</b>	<b>Key Points from Suppliers</b>
<b>Communications</b>	Communication and transparency surrounding the acquisitions process need improvement, both internally and externally.
<b>Customer Service</b>	Suppliers would like to see enhancements to the level and quality of acquisition support they receive – e.g., calls returned, modifications addressed in a timely manner.
<b>Team Work</b>	Suppliers would like to be provided with clear definitions of the roles and responsibilities of the contracting officer, the Contracting Officer's Technical Representative, and the Program Manager in order to better differentiate among them.
<b>Contracting Process</b>	Suppliers want to provide VA with expertise during the Requests for Information process to ensure VA is using the correct contract type and definition of requirements in order to give VA the best price and delivery timeline.
<b>Performance</b>	Suppliers would like a system to be in place for them to offer feedback on requirements and the contract process.



# VA Federal Supply Schedule (FSS) Forum - *What We Did*

- ❑ 2 day FSS Forum with 191 participants
- ❑ Discussed what does and does not work with VA FSS process and the re-engineered business processes at the National Acquisition Center (NAC)
- ❑ Small facilitated breakout group sessions based on the following schedules
  - 621I - Professional and Allied Healthcare Staffing Services
  - 651B - Drugs, Pharmaceuticals, and Hematology Related Products
  - 65IIA - Medical Equipment and Supplies
  - 65IIC - Dental Equipment and Supplies
  - 65VII - In-vitro Diagnostics, Reagents, Test Kits and Test Sets



# VA Federal Supply Schedule (FSS) Forum - *What We Heard*

Theme	Key Points from Suppliers
<b>Communications</b>	<p>Communicating with VA proves to be a continuous problem and quality of communications has only declined since the business process changes at the NAC</p> <ul style="list-style-type: none"><li>- Suppliers do not know whom to contact for various needs</li><li>- There is a need for a single, responsive VA Point of Contact</li></ul>
<b>Customer Service</b>	<p>Suppliers would like to see enhancements to the level and quality of acquisition support they receive – e.g., calls returned, modifications addressed in a timely manner.</p>
<b>Contracting Workforce</b>	<p>Contracting workforce needs training on policies, legislation, processes, prioritization, and scenarios</p>
<b>Contracting Process</b>	<p>Delays have increased in the past year, including contract modifications, getting on a schedule, and other tasks within the acquisition process</p>
<b>Awards</b>	<p>Suppliers are left in the dark when it comes to information regarding whether work was awarded, to whom, and for what price</p>



# VA Supplier Relationship Webinars

## December 2009 Webinar

- 325 Attendees – all commodity areas
- Opening and closing remarks by VA Deputy Secretary
- Overview by VA CAO and SPE

## February 2011 Webinar

- 934 Attendees – all commodity areas
- Opening and closing remarks by VA Deputy Secretary
- Overview by VA CAO and SPE

## Update on VA “Voice of The Customer” Initiatives

## Overview of VA Education Initiatives

## Update on VA HCA Action Plans

## Live Question & Answer Session & “Tweeting”



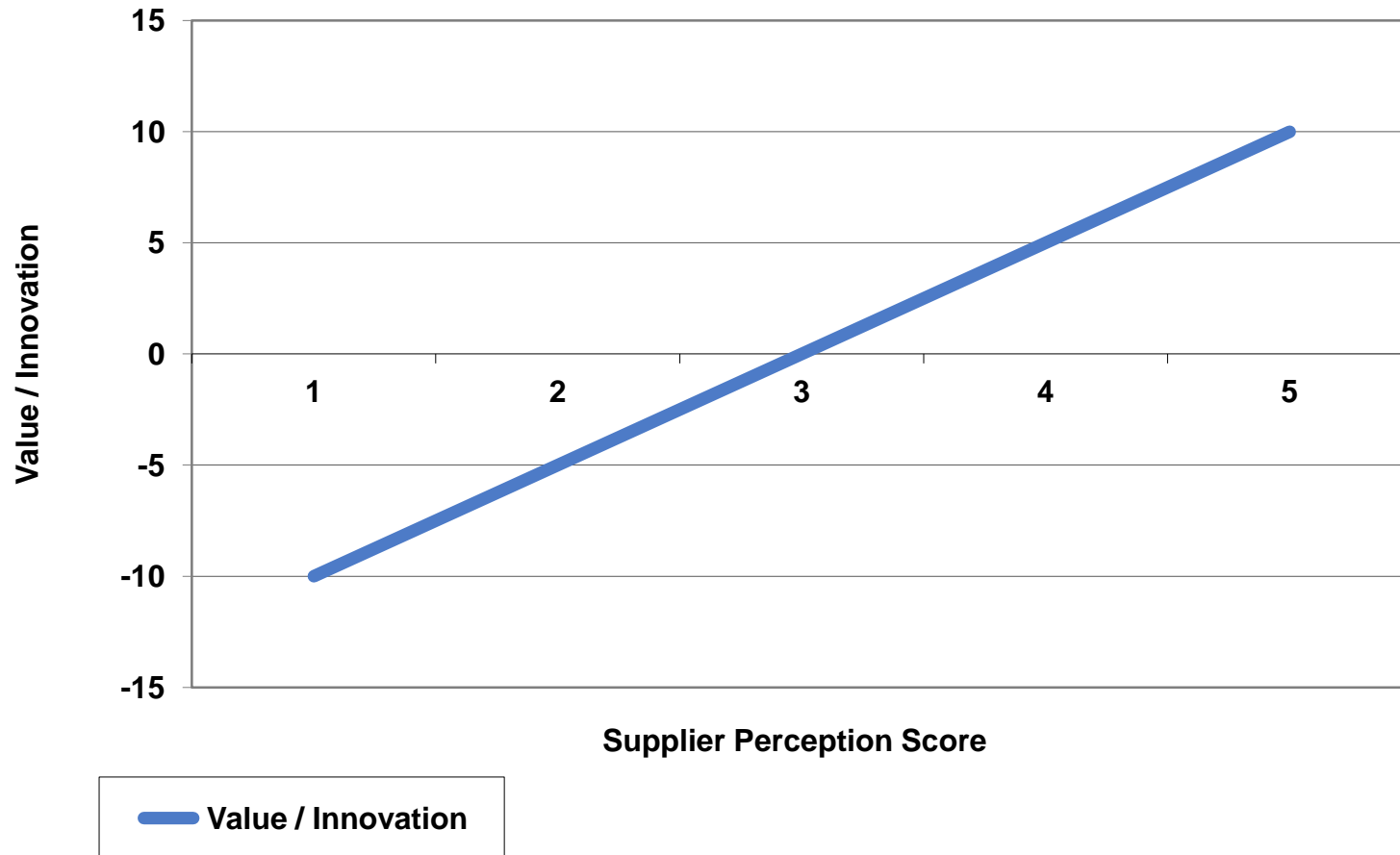
# VA Supplier Perception Survey

- Developed at Department of Supply Chain Management, Eli Broad Graduate School of Business, Michigan State University
- Perception Survey based on 5-point Likert Scale
- 32 Standard Questions with Open Comment Areas
- Required OMB Approval (Paperwork Reduction Act)
- Administered on a Semi-Annual Basis
- Data and Analysis Provided by Michigan State University
- Focused on Improving “Supplier Perception Score” (SPS)



# Supplier Perception Survey

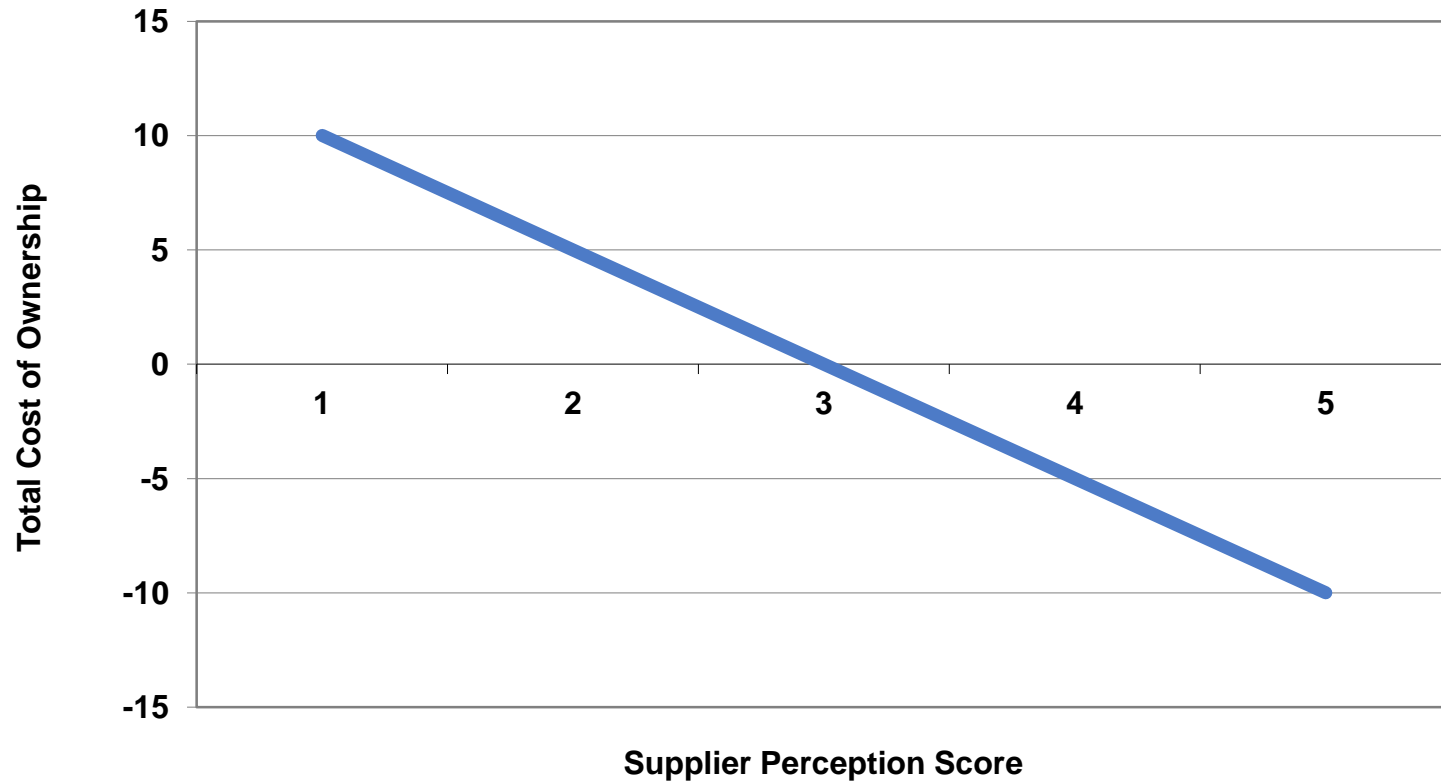
## SPS Impact on Value / Innovation





# Supplier Perception Survey

## SPS Impact on TCO

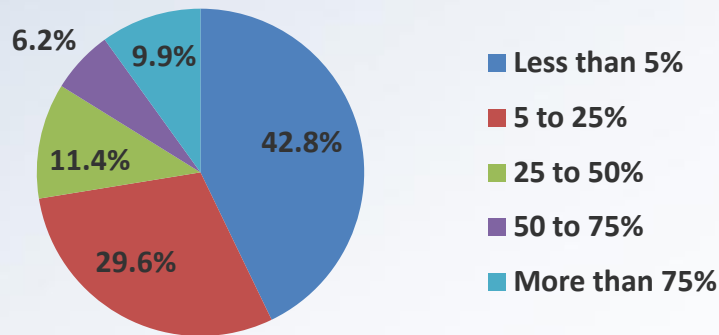




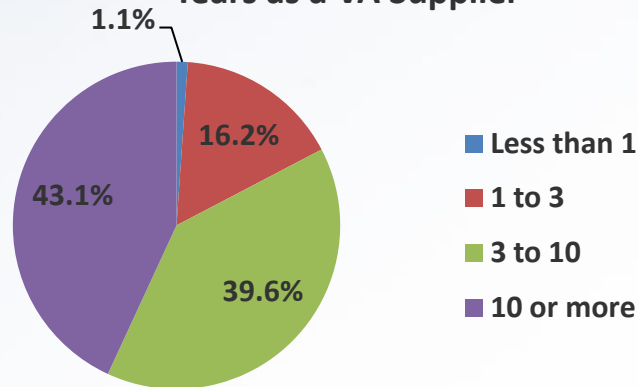
# Supplier Perception Survey

## Selected Respondent Demographics

VA as a % of Supplier Revenue

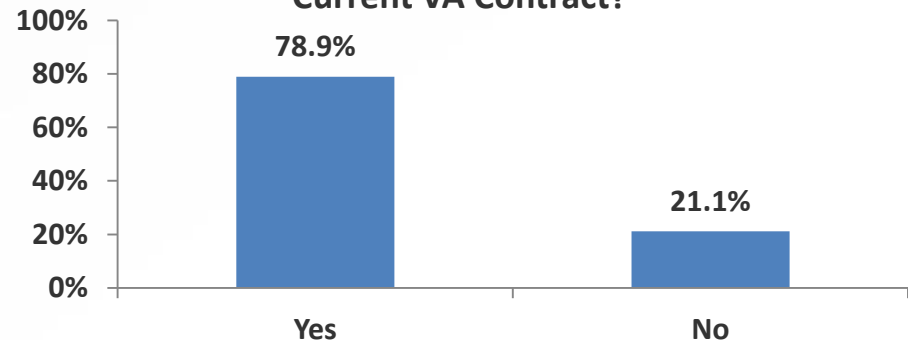


Years as a VA Supplier



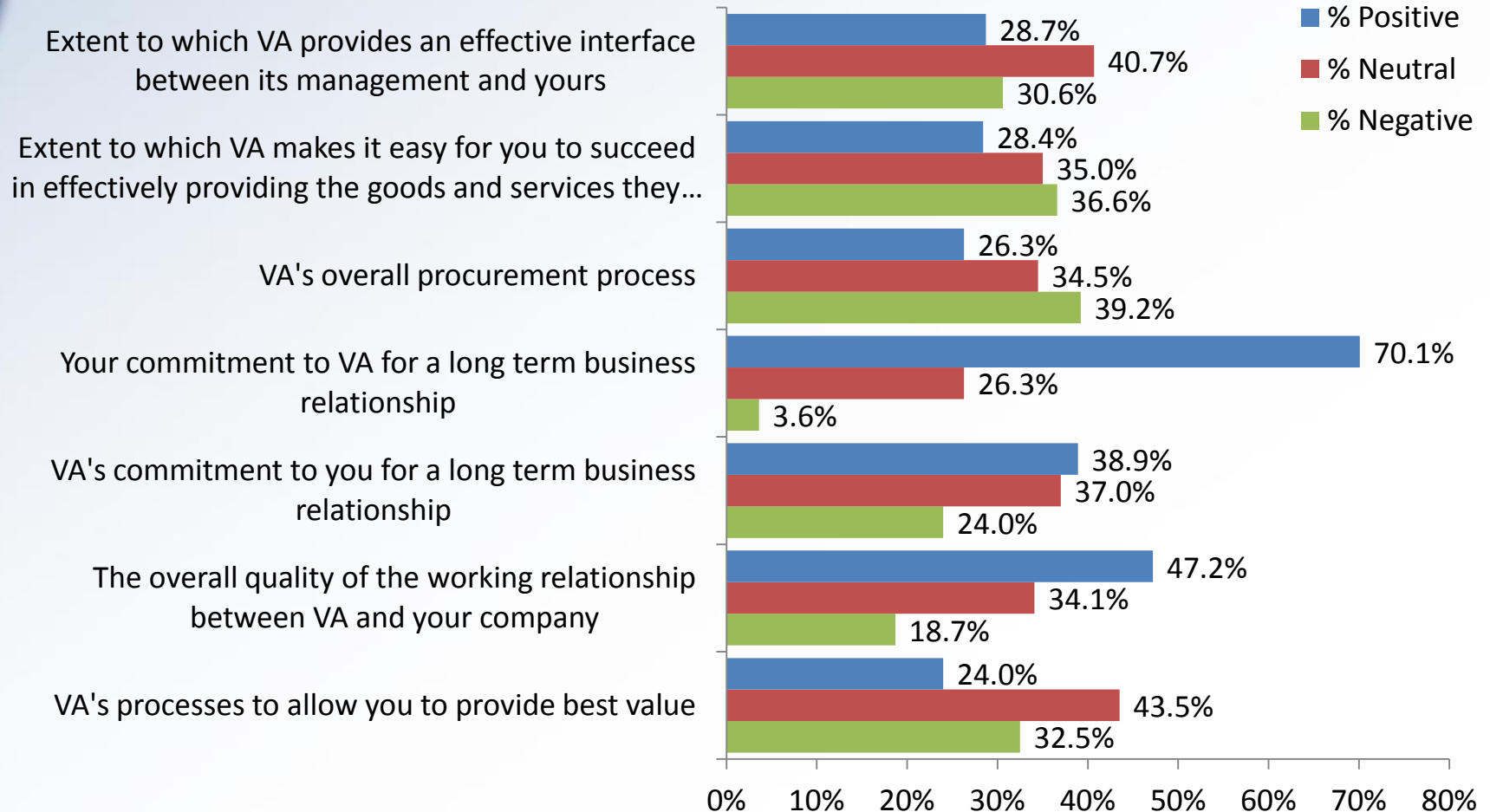
- For nearly 43% of respondents, VA accounts for less than 5% of their revenue.
- 42.1% of respondents have done business with VA for 10 or more years.
- Nearly 8 out of 10 respondents have a current contract with VA.

Current VA Contract?





# VA Supplier Perception Survey Overarching Satisfaction Ratings





# VA Supplier Perception Survey

## Highest Rated Dimensions

Question	2 <sup>nd</sup> Survey	Initial Survey
Your commitment to VA for a long term business relationship	4.04 (656)	4.0
VA's record in honoring contract payment terms	3.62 (641)	3.55
VA's integrity	3.55(664)	3.47
The overall quality of the working relationship between VA and your company	3.5 (660)	3.42
VA's emphasis on quality and commitment to continuous improvement	3.29 (619)	3.2

- ❑ Four questions were rated 3.5 and higher while during initial survey only two questions were rated 3.5 and higher
- ❑ Key indicators of trust between VA and suppliers going up



# VA Supplier Perception Survey

## Lowest Rated Dimensions

Question	2 <sup>nd</sup> Survey	Initial Survey
VA's concern for your profitability	2.78 (591)	2.8
VA's ability to present "one face" in your dealings across multiple functions	2.87 (619)	2.75
VA's effectiveness in sharing risk, reducing your need to build risk into your pricing	2.88 (549)	2.81
VA's effectiveness in focusing on Total Cost of Ownership	2.89 (530)	2.85
VA's processes allow you to provide best value	2.93 (629)	2.85

- ❑ 10 of the 32 questions received an average rating of under 3.0 on a 5.0 satisfaction scale. This is an improvement from 17 questions that received below 3.0 in the first survey.
- ❑ It is a positive sign that 2.78 is the lowest average rating received, which again is better than the 2.75 rating received in the first survey.



# Supplier Perception Survey Analysis

- ❑ Favorable ratings are extremely encouraging.
- ❑ Key areas for VA to work on:
  - Poor consistent interface – “**Single Face**” to industry
  - Understanding and appreciation for:
    - Open, collaborative cost management
    - Strategic cost elimination (Total Cost of Ownership)



# Supplier Relationship Transformation Transformational Objectives

- Clear, Timely Communication
- Accountability for Customer Service
- Teamwork and Collaboration
- Contract Process Improvements
- Professionalism and Excellence



# VA Supplier Relationship Transformation Ongoing Actions

- ❑ Focused HCA Action Plans - 2 Key Themes
  - *Communications training*
  - *Customer service training*
- ❑ Real-time internal & external customer feedback mechanism
  - *Virtual Office of Acquisition*
  - *Social Media (Facebook, Twitter, BLOG)*
- ❑ VA Innovation Initiative (VAI2) – internal & external
  - *VA 16 Major Initiatives*
  - *BAA for Key Requirements*
- ❑ VA Industry Advisory Group – Michigan State University
- ❑ FY2012 and Beyond
  - *Forums*
  - *Webinars*
  - *Surveys*
  - *Industry-focused Working Groups*



# VA Industry Advisory Group

- ❑ Coordinated through the Ambit Group and Michigan State University Eli Broad School of Business
- ❑ Comprised of a variety of business sizes and types (24 companies)
- ❑ IAG Goals
  - Be relevant for VA senior management.
  - Share best practices & success stories
  - Provide structured suggestions to enable better supplier relations
- ❑ Initial meeting held July 22, 2011
- ❑ Future focus areas
  - Relationship formation
  - Transform VA and industry culture
  - Standardization



# VA Supply Chain Transformation Requires Total Stakeholder Engagement

## VA Service Providers

1. Program Managers
2. Clinical staff
3. Facility management & local IT support
4. Central Business Office (CBO)
5. Facilities Directors and CFOs
6. VISN Clinical Directors and CFOs
7. VHA DUSHOM & Senior Clinicians

## Suppliers/Partners

1. Suppliers – Health-care services
2. Suppliers – Med/Surg equipment
3. Suppliers – Information Technology
4. Suppliers – Construction and Maintenance
5. Suppliers – All material & services
6. General Services Agency (GSA)
7. Small Businesses, VOSBs and SDVOSBs

## VA Acquisition Workforce

1. Contracting Officers and Managers
2. Chief Logistic Officers
3. Material Managers
4. National & Regional acquisition centers (NAC/TAC/CAI/DALC)
5. Regional VBA Office Procurement Managers
6. Office of Information & Technology (OI&T)

## External Stakeholders

1. Affiliated medical schools
2. Veteran Service Organizations (VSOs)
3. Office of Management and Budget (OMB)
4. Congress
5. Watchdog groups
6. Media

## VA Leadership

1. SECVA, DEPSECVA, SRG/SMC
2. OALC Leadership & Portfolio Managers
3. VHA PLO
4. VBA & NCA Logistics



# Supply Chain Modeling and Simulation

- VA Supply Chain Game
- VA Strategic Sourcing Game

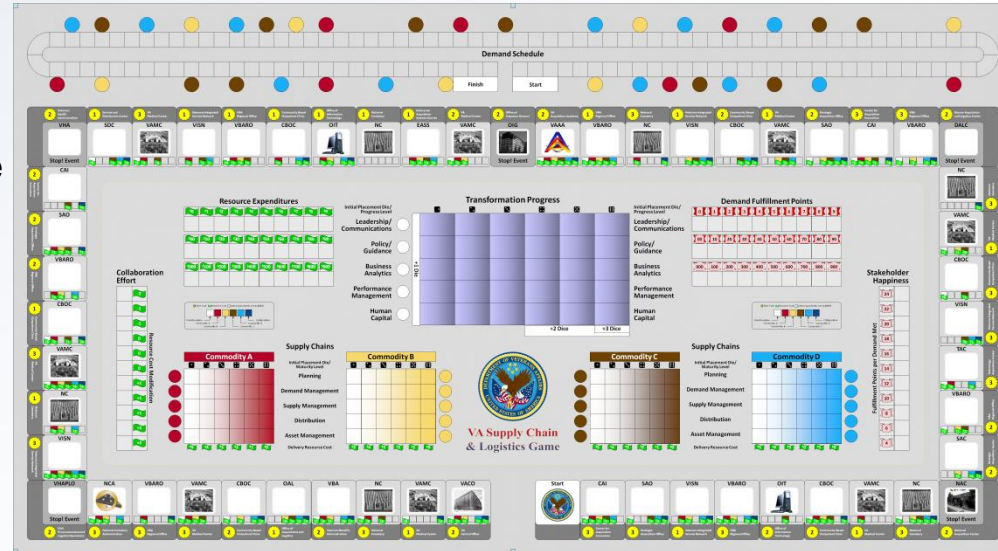


# VA Supply Chain Game

## Designed to orient leaders to the implications of strategic supply chain management decisions

### Description

- ❑ A game on coordinating supply chain functions - starting in the middle of someone else's mess.
- ❑ The players are supposed to fulfill commodity demand as it comes due. They have the option of working directly on a single commodity or, by transforming operations, improving all the commodities at once.
- ❑ The board shows demand forecast across a planning horizon in time-based increments. There are multiple actors representing segments of VA that can move independently in each turn to improve some aspect of operations or to fulfill demand.
- ❑ The game ends when the facilitator says, "Time up" and the winning team has the most points. Points are gained by fulfilling demand and they're maximized by making stakeholders happy. Points are lost by using resources.



- ▶ Learning Curve
  - 15 minutes
- ▶ Number of Players
  - Solitaire or Team play
- ▶ Playing Time
  - 1 hour
- ▶ Support
  - Requires a facilitator, or players who have played before



# Logistics/Supply Chain Education

## ☐ **VA KnowNet-2**

- Interactive Web-Portal access
- VA Threaded/interactive Personal Property Desk Reference
- 700 VA Property Managers Registered to Date
- VA Catalog 3 (Section V) – Category Stock Numbers (CSNs)
- VA Specific Logistics Training Courses
- Other initiatives (CoP, best practices, links, etc.)

## ☐ **School of Logistics & Supply Chain Management**

- Authorization for FY2012
- Logistics Workforce Competency Assessment
- Competency Mapping
- Resident & Distance Learning Course Development



# Log/SCM Chain Education – Academic Offerings

- ❑ Michigan State University, E. Lansing MI
  - Supply Chain Logistics Management
  - Purchasing and Supply Chain Management
  - MS SCM and Certificate Programs
- ❑ Arizona State University – Phoenix AZ
  - MS SCM and Certificate Programs
  - MBA Supply Chain Student Research Opportunities
  - Institute for Supply Management (ISM) affiliation
- ❑ UNC Chapel Hill – Institute for Defense & Business
  - Advanced Program in Logistics & Technology (LOGTECH Advanced)
  - Logistics for The 21<sup>st</sup> Century (Log21)
  - Life Cycle Executive Leadership Program (LCELP)
  - Logistics Cooperation for Stabilization and Reconstruction (LCSR)
  - LOGTECH MBA
- ❑ Naval Postgraduate School, Monterrey CA
  - Logistics 101 Operations Management Course



# Long-Term: Logistics Career - FAC-L

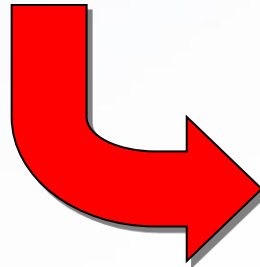
## VA FAC-L Level 1

Logistics workforce that can provide the full range of logistics support and capabilities at a facility, organizational, and entity level throughout the VA.



## VA FAC-L Level 2

Logistics workforce that can provide technical and supervisory levels of support spanning the full range of logistics capabilities at facility, network, regional, administration, and central office levels throughout the VA.



## VA FAC-L Level 3

Supply chain & logistics workforce that can provide operational and strategic supervisory and planning support spanning the full range of supply chain management at regional, network, administration, and central office levels throughout the VA



# QUESTIONS?

➤ **Vincent Pontani**

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- **202-429-7139**