

Asset Management



Gain control over your inventory investment

By implementing McKesson's award-winning Asset Management program and adding discipline to the entire procurement process, pharmacies can:

- Free up pharmacy staff time for more productive tasks
- Capitalize on increased cash flow to fund other important investments
- Eliminate duplicate or obsolete inventory and reduce waste
- Smoothly incorporate McKesson technology to drive maximum inventory turns
- Achieve optimal contract item pull-through



Healthcare Distribution Management Association

An award-winning solution for your pharmacy

McKesson's proprietary Asset Management program received the 2004 iBusiness Solution Award from the Healthcare Distribution Management Association (HDMA). This prestigious award honors healthcare industry leaders for technology-enabled process improvements in the healthcare supply chain. Asset Management was chosen for its innovative use of technology with the potential to improve productivity, enhance the supply chain, and eliminate time and costs.

The pressure to manage costs and maximize pharmacy labor productivity is universal for inpatient, outpatient, and long-term care pharmacies. One significant area of opportunity that can be easy to overlook is inventory management. The typical health system pharmacy does not use calculated methods for determining when and how much to order. Consequently, the national average inventory turn rate is 10.2.*

By implementing McKesson's Asset Management program, health system pharmacies can effectively manage inventory costs, conserve time and working capital, and improve purchasing accuracy.

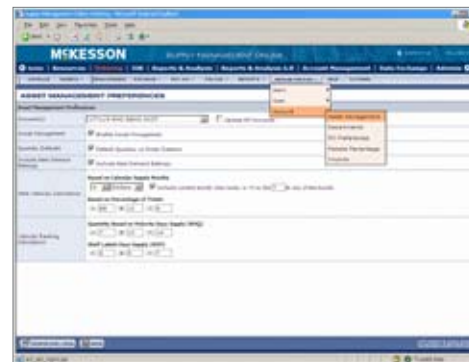
Take the guesswork out of inventory management

McKesson's exclusive Asset Management program is designed to help our customers derive the highest value from McKesson technology and draw upon our expertise in inventory and purchasing management. The program uses McKesson *Connect*, McKesson's online order management system, paired with Mobile Manager 100SM mobile computing to:

- Apply analytics to identify and focus buyers' time on "A items"
- Capitalize on purchase history trends to guide ordering
- Maximize contract compliance
- Minimize labor spent on ordering
- Streamline product receiving
- Rationalize distributor delivery frequency



McKesson's Mobile Manager 100 optimizes ordering



Activate Asset Management online using McKesson Connect

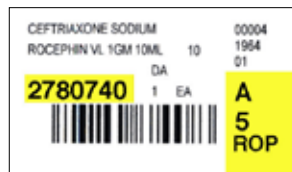
* The Value of eCommerce in the Healthcare Chain, Andersen, 2001



Asset Management experts at your service

Our account managers are Asset Management experts. They guide you through evaluating current purchasing processes, cycle times, and metrics. Together with your team, they will create an implementation plan and set Asset Management performance goals for your pharmacy. McKesson Account Managers are ready to help you:

- Assess your current inventory management and procurement processes
- Recommend specific McKesson technology tools, process changes, and buying behavior modifications
- Collaborate with each pharmacy's management team and purchasing staff to craft common goals for process redesign and technology implementation
- Develop a project plan with key milestones to monitor progress
- Ensure measurement systems are in place to track improvement
- Act as a change leadership resource for the director of pharmacy and pharmacy buyer to help drive meaningful, measurable, and satisfying process changes



Customized bar-coded shelf labels identify when to order

Is Asset Management right for your pharmacy?

McKesson's Asset Management program is ideal for organizations that:

- Are inpatient, outpatient, or long-term care provider pharmacies
- Have an annual drug spend of at least \$3 million
- Have current inventory turns of 10 or lower
- Are willing to consider redesigning their procurement processes
- Are committed to reducing inventory investment



“McKesson’s Asset Management program is the first big improvement in pharmacy inventory management I’ve seen in my career. You always think you can get more efficiency, but without automation, you’ll never achieve the same results.”

— Joe Ness

Director of Pharmacy
Southwest Washington Medical Center

Set a goal for your pharmacy

Your inventory turn rate is a measure of how often you re-buy your inventory in a year — the higher the turns, the smaller your inventory investment. Consider, for instance, a pharmacy that has annual purchases of \$22 million. The last physical inventory count documented an investment of \$2,155,000. By dividing \$22 million by \$2,155,000, the inventory turn rate calculates to 10.2.

Now assume that this pharmacy has an expected growth rate of 10% year over year and has a goal of increasing its turns by 2. This reduces its inventory investment by more than \$353,000, but keep in mind the cost of inventory ownership also includes the cost of capital, or the opportunity cost of investing the money elsewhere. So, in our example, if we assume the institution's cost of capital to be 6%, the first year savings amounts to \$375,000. **As you can see, by increasing your inventory turns, you can free up significant dollars, which in turn can help fund other important investments.**

Asset Management worksheet

STEP 1	Calculate your current inventory turn rate	EXAMPLE	YOUR VALUES
	Actual 12-month pharmacy purchases	\$22,000,000	\$
	Value of current on-hand inventory (or last physical inventory)	\$2,155,000	\$
		= 10.2 TURNS	= TURNS
STEP 2	Calculate your expected 12-month pharmacy purchases and inventory value in the year to come		
	Expected growth rate of purchases (%)	10%	%
	Expected purchases next year = Actual purchases x Growth rate	\$24,200,000	=\$
	Expected on-hand inventory next year = On-hand inventory x Growth rate	\$2,370,500	=\$
STEP 3	Calculate your target on-hand inventory value		
	Expected purchases next year (<i>from step 2</i>)	\$24,200,000	\$
	Inventory turn goal (national average is 10–12 turns)	12	
		\$2,016,667	=\$
STEP 4	Estimate your one-time inventory savings		
	Expected on-hand inventory next year (<i>from step 2</i>)	\$2,370,500	\$
	– Target inventory value (<i>from step 3</i>)	–\$2,016,667	–\$
	= One-time inventory savings	\$353,833	=\$
STEP 5	Estimate annual savings in holding costs		
	Reduction in inventory value (<i>from step 4</i>)	\$353,833	\$
	x Cost of capital or total inventory holding cost	x6%	x %
	= Annual savings in holding costs	\$21,230	=\$
STEP 6	Total your estimated savings		
	One-time inventory savings (<i>from step 4</i>)	\$353,833	\$
	+ Annual savings in holding costs (<i>from step 5</i>)	+\$21,230	+\$
	TOTAL ESTIMATED SAVINGS IN YEAR 1	\$375,063	=\$
STEP 7	Work with your McKesson Account Manager to create your pharmacy's Asset Management plan for better inventory management.		

McKesson Health Systems

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