

# A self-distribution strategy built to last

Memorial Hermann Health System's Consolidated Service Center promises cost savings, more control over supplies



We have to do something different.

It was a common rallying cry coming out of the pandemic, and one that was especially applicable to the healthcare supply chain as skyrocketing demand revealed unprecedented vulnerabilities.

So, Memorial Hermann Health System (MHHS) decided to go different in a big way—309,400-square-foot big, to be exact.

That's the size of the system's Consolidated Service Center (CSC), a built-from-the-ground-up project that took root in early 2021. With more than 30 years of experience in self-distribution, Jeff Stephens, MHHS senior vice president of supply chain management, knew that based on the health system's supply spend and regular distribution numbers, the math was in the system's favor.

Add the chaos created by the COVID-19 pandemic to the equation, and opening and managing a warehouse—while undoubtedly daunting—seemed like a perfect solution.

After all, the potential benefits were clear: For one, the CSC could house the medical and surgical inventory needed to fulfill daily MHHS customer demands, as well as any backup stock needed for emergencies. For another, buying direct from manufacturers would allow MHHS to negotiate fees, which would mean cost savings they could reinvest in the CSC.

There were obvious challenges too, including a lack of internal experience in demand and inventory management, warehousing, fulfillment and delivery operations. The CSC also required significant capital investment in equipment and annual operating expenses; the addition of a new warehouse management system (WMS) and building and fortifying a facility that could withstand the severe storms that perpetually plague Houston.

But Stephens knew who to call.

"We needed a team of 'doers' who could get results," he said. "I felt confident that Vizient would get us exactly where we needed to go."

## Preparing the pro forma

In many ways, the project was a team-building activity disguised as a CSC. Internally, nearly every MHHS department was represented in the initiative—from purchasing, contracting, IT and real estate to finance, facilities management, security and human resources. System leadership from Chief Financial Officer Alec King lent support, structure and guidance from day one.

Vizient consulting directors Jim Richardson and Patrick Marier joined the project in February 2021. They immediately began working with the MHHS team to develop a business case and pro forma to determine the financial feasibility of converting to self-distribution. The six-month process involved intensive data collection, including current inventory and distribution supply chain costs, as well as projected costs for design, building, material handling, storage equipment, transportation and labor.

“We went through eight or nine different versions of a pro forma before landing on the right one,” said John Tomocek, MHHS vice president of supply chain. “We relied on the expertise of the Vizient team to highlight the many opportunities and challenges inherent in self-distribution.”

The work paid off. The project was ultimately approved by the MHHS board, which meant phase two—focused on solving the challenges identified at the onset—could begin.



**“ Pulling off something like this is about building the right culture. The CSC team has embraced this work, and they’re running with it. We’re already seeing the positive impact it’s making.”**

**Jeff Stephens**

Senior Vice President, Supply Chain Management

That involved considerations such as:

- Project management, during which a comprehensive plan for implementation was developed that included 200 major tasks and weekly status meetings with core team members.
- Building design and construction, which took into account all the storage, picking, shipping and staging operations, as well as internal offices. Since a survey of existing buildings yielded none that were suitable, a brand-new warehouse was constructed over 24 months.
- Robotics system specifications that led to the selection of a robotic picking process. This included a simulation model of the CSC that was used to evaluate various configurations of equipment, stock keeping units (SKU), people and robots.
- SKU slotting, which resulted in a customized tool to assign SKU locations based on pick velocity and order data history.

The final step was to create CSC-specific job descriptions, particularly for the essential role of assistant vice president. It was no easy task to find a candidate with the background, know-how—and frankly, fearlessness—to tackle the day-to-day operations of such a sizable undertaking. But with a deep understanding of supply chain management and optimization shaped by his work at some of the nation’s largest distributors, Tyler Neely proved the right fit. He joined as CSC assistant vice president in August 2022.

Over the next year, more full-time staff members were hired and final details were finessed. Unsurprisingly, it wasn’t all smooth sailing. There were initially hiccups with the enterprise resource system integration into the WMS, weather events that delayed construction and the unavoidable complexities of building a new structure in a flood-prone city.

But those were molehills, not mountains. By December 2023, the CSC was ready to launch—two hospitals at a time.

## The rollout

The phased rollout took place over six months until all MHHS hospitals received their supplies from the CSC. It began with two smaller MHHS hospitals, then progressed to additional small- to medium-sized hospitals brought on board in four stages. That intentional strategy ensured any issues were addressed before phasing in the system's three largest locations.

"Very early on, we thought, 'How are we going to eat this elephant a little bit at time?'" Neely said. "Rolling out this approach in small, predicated chunks was part and parcel to our success."

**98.8%:**

Current fill rates,  
an increase from  
97.4%

**99.5%:**

Current fill  
accuracy

So far, that success includes:

- Greater control over supply chain. Internal order fill rates have increased and stockouts have decreased. Additionally, CSC management has identified numerous opportunities for the standardization of supplies and has more easily weathered supply disruptions that have occurred.
- Improved customer relationships. An extensive communications plan—implemented during the transition to CSC deliveries—has bolstered positive relationships with hospital departments throughout the system.
- More supplier collaboration. The direct from manufacturer relationships not only serve MHHS better when product availability is low, but also open opportunities for bulk purchase discounts, new inventory management and distribution technologies, as well as the ability to move market share.
- Additional revenue. Manufacturers typically pay distributors a fee for delivering products to hospitals. Now, many of them pay those fees directly to MHHS. This revenue helps MHHS offset the cost of operating the CSC and its delivery network.

"This really is just the tip of the iceberg," Neely said. "What self-distribution allows us to do is to challenge ourselves to be better every day."

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## Memorial Hermann Health System

Memorial Hermann Health System (MHHS) is one of the largest health systems in Southeast Texas, with 6,600 affiliated physicians, 33,000-plus employees, 14 hospitals and more than 300 clinics and specialty programs across the greater Houston area. The flagship hospital of MHHS is Texas Medical Center (TMC), which accounts for 30% of supply volume.



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