

Identifying Supply Chain Savings

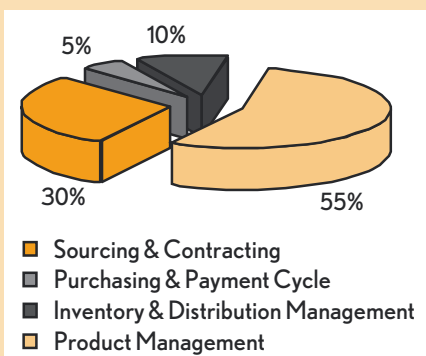
With supply costs typically accounting for more than 20 percent of a hospital’s operating budget, the job of managing and reducing those costs has become a top priority at most facilities. Supplies are the second largest expense behind labor, and with staffing shortages in a number of critical areas, most hospitals can’t even begin to entertain the idea of reducing labor cost—which puts more pressure on efforts to control supply spending.

Taken as a whole, most facilities can achieve savings of 13 percent to 27 percent of supply chain costs through improved utilization and standardization, better pricing, lower external logistics/distribution costs, and reduced shrinkage.

Facilities are likely to find the area with the biggest potential for reducing costs is in product management, because it covers the all-important physician preference items (or high-priced medical devices) that can account for as much as 40 percent of a hospital’s total supply spend.

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Where the Savings Are



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Opportunities for savings can be put into four basic categories: product management, sourcing and contracting, inventory and distribution management, purchasing and payment cycle. This exhibit provides a high-level view of how much savings generally can be squeezed out of each category.

Supply Chain Opportunities

Product Management

- > **Utilization and substitution.** Most hospitals purchase branded products that clinicians are used to, but often many of these items could be substituted with less expensive generic products of equal quality. As for utilization, hospitals need to look at how they’re using a product and if the product is being used correctly.
- > **Standardization.** Many hospitals use too many vendors for commodity items. These vendors usually can be reduced to one or two. Vendors for high-priced products also can be reduced to about two.
- > **Product line compression.** It’s best to limit the types of products offered within a category. For example, don’t give clinicians the choice of different exam gloves from four different vendors. Pick one type of exam glove and one vendor within the required product specifics given by your clinical staff.

Sourcing and Contracting

- > **Focused sourcing strategy.** All contracting should be processed through the materials management contracting office to reduce rove buying by multiple departments, and to ensure contracting terms and conditions are correct and meet organizational objectives.
- > **Maximization of group purchasing organization (GPO) and vendor contracts.** Hospitals should use GPO contracts only for what makes sense. Don’t be afraid to look for off-contract vendors when better deals are possible.
- > **Pricing and volume discounts.** The more volume a hospital buys from a vendor, the bigger the discounts will be.
- > **Negotiate contract coverage.** Additional contract value can be gained through terms calling for additional services.

Purchasing and Payment Cycle

- > **Purchase order transmission and acknowledgement.** Hospitals need to use materials management systems to their fullest capabilities. In general, facilities only use a third of functions available.
- > **Online product catalogs.** Benefits exist to using online catalogs, but hospitals may want to limit who’s allowed to place orders, as well as limiting product choices with a well-defined formulary.
- > **Evaluation receipts settlement.** Accounts payable should do three-way matching, and only pay invoices that correspond to the purchase order and the contracted price.
- > **Electronic funds transfer.** Using this method can provide labor savings, but a hospital must reduce staff to realize those savings.

Inventory and Distribution Management

- > **Inventory reduction: stock and non-stock.** Inventory should be reviewed against daily usage, and levels should then be adjusted to appropriate and safe amounts of stored items.
- > **Reduce shrinkage.** Policies and processes need to be established to reduce the amount of products lost or taken for improper uses.
- > **Channel distribution agreements.** Many times a hospital isn’t using its distributor enough, and products are delivered from the manufacturer with additional freight costs.

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