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healthcare financial management association

## Resource Management: **The Healthcare Supply Chain 2002 Survey Results**

### **Synopsis**

This report encapsulates the current state of supply chain management in healthcare and identifies leading practices. This represents the perspectives of over 321 executives and 279 supply chain leaders.

This educational supplement is a collaboration of the efforts of McKesson and HFMA.

**MCKESSON**

*Empowering Healthcare*



# Walking the Healthcare Tightrope

## Background

Over the past decade, pressures from the government, payers and the public have forced the healthcare industry to take a hard look at its business practices and change—with visible results. Hospitals and health systems have reallocated staff, reduced waste, streamlined processes, cut spending, and, in conjunction with Group Purchasing Organizations (GPOs), driven down product pricing.

But, unfortunately, the pressures have continued and hospitals and health systems are left with a continuing dilemma—how to increase revenue and reduce costs while continuing to improve quality of care.

## Redefining How We Look at Resources

With 80 percent of expenses tied to patient care activities, hospitals and health systems can garner substantial savings and improve clinical practices by better managing their labor, supplies, equipment, and facilities. An estimated five percent of an organization's operating budget is tied to inefficient utilization of these resources—fragmented, error-prone manual business processes; variations in, and under-utilization of constrained resources; and poor interoperability of information systems.

But in order to achieve these savings, organizations need to broaden their view of resource management. Instead of narrow, departmentally focused initiatives, organizations need look at the interrelationship of resources throughout the entire continuum of care. Actions taken based on this expanded view will result in more substantial, sustainable savings.

## Managing the Supply Chain

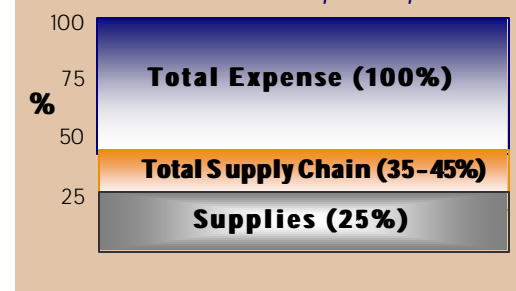
Supplies account for roughly 25 percent of an organization's operating budget. Considering the total cost of hospital materials management, adding labor and logistics to materials and equipment costs, this jumps to 35 to 45 percent<sup>1</sup>. Organizations can significantly reduce operating expenses through stricter, value-based standardization; informed purchasing and inventory management; strategic supplier partnerships; and, most important, an organization-level view of supply chain management.

This document encapsulates the current state of supply chain management in healthcare and identifies leading practices.

## Survey Summary

This report is based primarily on the results of **two parallel surveys**. One survey summarized perspectives from 321 **executives**. The second survey received 279 responses. The latter survey drilled down into real practices and front line issues of **supply chain leaders**—managers, directors, and executives in purchasing, materials management, and other related supply chain management functions. All research was conducted by HFMA.

Figure 1. Supply Chain Management as a Percent of Total Hospital Expense.<sup>1</sup>



1 Jamie Kowalski, Supply Chain Management for CFOs, HFMA audioteleconference-- November 2001.

# The Current Situation

## Past Success

Respondents indicated areas where they have recently achieved success managing the supply chain. Executives felt that the greatest improvements were made in reduced costs through standardized supplies— involving clinicians in this process, improved processes in central supply, and increased penetration of GPO contracts. Supply chain leaders, were more likely to indicate improvements in decision-making through investments in information systems and reduced costs through automation of purchasing and requisition functions.

Larger organizations (> 500 beds) indicated greater success than their smaller counterparts, particularly in the areas of clinical involvement in standardization and use of information systems for decision-making. Smaller organizations were more likely to attribute recent success to increased use of GPOs.

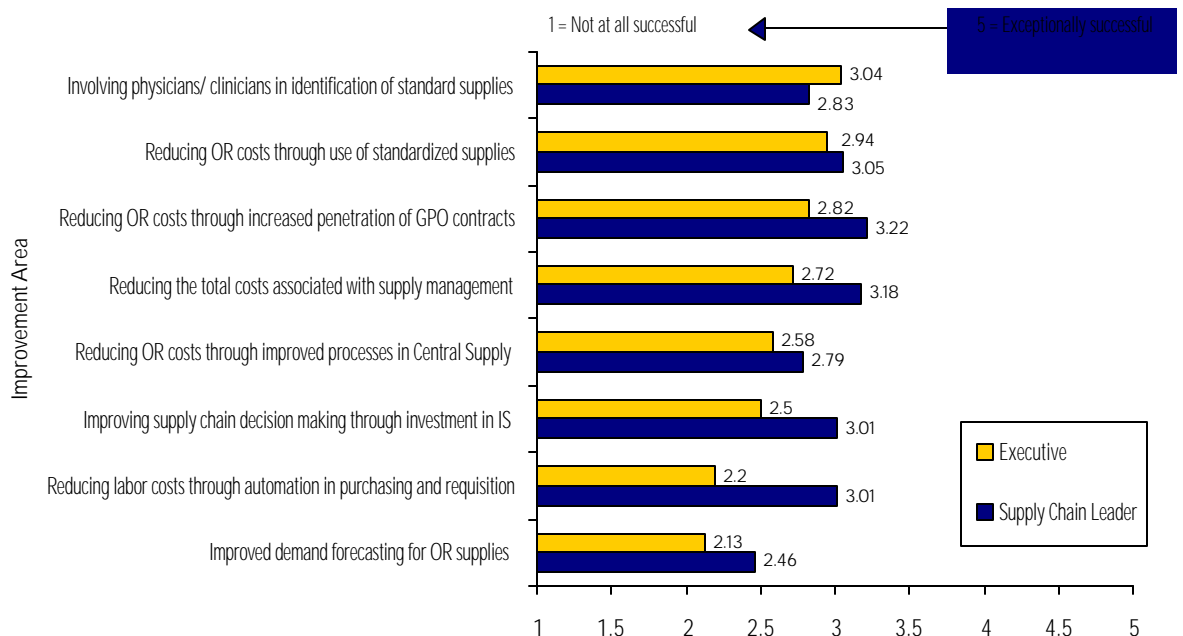
## Specific Successes

Respondents gave open-ended answers to questions about specific projects/successes. Highlights of these responses appear at the end of this report.

Executives were more likely than supply chain leaders to state a specific measurement of the cost savings/ improvement in their reply than were supply chain leaders. Supply chain leaders, on the other hand, were more likely to cite process improvements and controls, such as enforcement of central purchasing, reduction in inventory levels, and logistical redesign.

Figure 2 identifies respondents' perceptions of recent success.

Figure 2. Previous Success in Supply Chain Management



# Barriers and Opportunities

## Barriers

Respondents concur that they believe physician preference is the most significant barrier to reducing costs. Other barriers:

- capability of current information systems
- variation in vendor technology capabilities
- training and retaining qualified staff
- executive support in promoting financial accountability for physicians and clinical departments

## Opportunities

Supply chain leaders perceive opportunities in the following areas: involving clinicians in standardizing supplies, improving decision-making through information systems, improving demand forecasting, and reducing labor costs through automation. Respondents indicated high opportunity to reduce total supply management costs. Executives rated the opportunity at 3.79, supply chain leaders at 3.70 (5 point scale, 1= no opportunity, 5 = tremendous opportunity.) Figure 3 ranks the average ratings of future opportunities and past successes.

Executives see a greater **future** opportunity in reducing labor costs. Whereas Supply chain leaders were more likely to indicate reduced labor costs as a **recent** success.

Supply chain leaders see demand forecasting as a future opportunity. Both executives and supply chain leaders noted limited previous success in this area.

## Current Themes

The research identified 5 topical themes in supply chain management:

- 1) value-based selection and standardization
- 2) e-procurement
- 3) managing inventory
- 4) vendor collaboration
- 5) The strategic view of the supply chain

**Figure 3. Rankings of Future Opportunity and Recent Success**

Area of Future Opportunity/ Recent Success (1= highest average rating to 7 = lowest average rating)	Future Opportunity		Recent Success	
	Executive	Supply Chain Leader	Executive	Supply Chain Leader
<i>Involving clinicians</i> in identification of standard supplies	1	1	1	5
Reducing OR costs through <i>use of standardized supplies</i>	2	2	2	2
Improving supply chain decision making through <i>investment in IS</i>	3	4	5	3
Reducing labor costs through <i>automation</i> in purchasing and requisition	4	7	6	3
Improved <i>demand forecasting</i> for OR supplies	5	3	7	7
Reducing OR costs through <i>increased penetration of GPO contracts</i>	6	5	3	1
Reducing OR costs through <i>improved processes in central supply</i>	7	6	4	6

# Theme 1: Value-Based Selection and Standardization

## Summary

Value-analysis and product standardization were frequently mentioned as areas of both past successes as well as future opportunities. Respondents indicated an average rate of nonstandard surgical purchases of **26 percent (median 20.)** There is substantial opportunity in this area. Noted strategies for value-analysis and standardization:

- clinician participation and buy-in
- use of value-analysis teams
- focus efforts on high-cost or high-use supplies
- promoting demand-matching programs

## Physician Buy-In

The most frequently noted concern related to value-analysis and product standardization was physician participation and buy-in. Several supply chain leaders felt that executives should actively press for greater financial responsibility from physicians and clinical departments. Those who indicated greater success in this area used one or more of the following approaches:

- *Developed value-analysis teams or committees.* Nurses, who are more likely than physicians to participate in value-analysis teams, are often able to represent the physicians' views to the committee and may influence physicians' acceptance of the committee's decisions.
- *Increased awareness of data and metrics.* Many respondents noted success through presentation of facts and benchmarking data to clinicians. A few respondents noted their organization's leadership had increased departmental accountability for supply costs.
- *Developed buy-in from department heads of the OR and other high-cost areas.* Many had enlisted a physician "champion."
- *Pursued one-on-one meetings* with physicians to increase awareness of issues.

## Value-Analysis Teams

Value-analysis committees foster collaboration to identify the product or equipment that:

- maximizes quality
- minimizes cost
- minimizes variation in supplies
- minimizes procedure case time

In addition to reviewing current supply usage, these teams are typically charged with reviewing data and reports on non-standard purchases and approving new products or supplies.

## One by One

Many respondents are taking a more gradual approach by concentrating on a few high-cost or high-use products or devices at a time. At the same time, respondents see a significant opportunity to continue these standardization efforts into additional product categories. Specific successful standardization projects mentioned: orthopedic implants, spine implants, pacemakers, cath lab supplies, endo-mechanical supplies, gloves, sutures, needle-free I.V. catheters, and custom supply packs.

## Demand Matching

Institutions have realized cost savings without compromising care through demand-matching programs. Primarily these programs aim to ensure that implant devices are appropriate for the patient's age, weight, and activity level. The selection is based on matching, but not exceeding, the quality of resources to the desired outcome.

*"Respondents indicated an average rate of nonstandard surgical purchases of **26 percent.**"*

## Theme 2: E-procurement

### The Internet in Supply Chain Management

It is estimated that approximately \$150 total transaction costs exist per order for healthcare buyers and sellers<sup>2</sup>. E-procurement reduces purchasing costs through increased access to product information; reduced time associated with the requisition process; and increased use of standard supplies.

Most respondents indicated they would like to make greater use of the Internet for supply chain management processes. Most frequently noted reasons for *not* using the Internet include: variation in vendor capabilities

- inability to integrate materials management system
- staff aptitudes and training
- lack of Internet access at multiple inventory and purchasing sites
- inability to use Internet for special orders where more detailed or more specific information may be needed

### Use of Internet Technologies

The majority of respondents noted they use the Internet primarily for product/market research or purchasing office and other administrative supplies. A few institutions are using on-line catalogs for purchasing, reviewing orders and delivery status, confirming pricing, and administrating contracts.

Relatively few organizations are using Electronic Data Interchange (EDI) for purchases.

### Percent of Purchases Made Using EDI/Internet

Area	Average	Median
Materials Management	54%	60%
Surgery	35	25
Cath Lab	28	18
Radiology	32	25

*"Currently healthcare organizations buy less than 1% of their equipment and supplies over the Internet, but online purchases are expected to rocket to \$27.3 billion by 2004\*... Key drivers of the adoption of e-procurement in health care include affording senior management a viable option to contain costs, manage inventory, and streamline ordering processes."*

Laura Carabello, "Digital Perspectives," Healthcare Financial Management Magazine (HFM), December 2001.

\* Millennium Research Group, Boston, MA. 2000

<sup>2</sup> Todd Tabel, "Claiming the Last 40% of Your Purchasing Power," McKesson presentation, July 2001.

## Theme 3: Managing Inventory

### Summary

A 3% reduction in supply inventories typically equals a 1% reduction in total hospital expenses- \$10M for a health system with a \$300-\$450M supply budget<sup>3</sup>. Respondents' successes related to purchasing and inventory centered on the following themes: central sterile supply, unofficial inventories, point-of-use systems, and information.

### Central Sterile Supply

Many respondents indicated improvements in central supply. Initiatives focused on reducing inefficiencies in supply flow, appropriate staffing, and reprocessing. Respondents also noted that giving central supply staff more decision-making authority resulted in cost savings.

### Unofficial Inventories

Survey responses revealed that, on average, 27 percent of inventory is unofficial (median 20 percent). Thirteen percent of respondents indicate unofficial inventories accounted for more than 50 percent of their institutions' total inventory. Not surprisingly, many stated a need to improve management of these inventories.

Unofficial inventory falls into these categories:

- inexpensive items or those in partial cases/containers intentionally not counted
- "safety" stock that is hidden by providers concerned that necessary supplies will not be available or close at hand when needed
- special-order items, such as lab supplies or devices for a planned procedure

### Point-of-Use Systems

Several respondents also noted increase in use of point of use inventory systems, such as automated supply cabinets and point-of-use data terminals, to improve accuracy of tracking. This allows for improved accuracy of inventory quantities and patient charge capture.

### Information

Information is fundamental to prioritizing improvement opportunities and vulnerabilities. Many respondents noted difficulty in aggregating organization-wide information. Supply chain leaders are focusing on integrating fragmented information systems and are continually evaluating information availability, reporting, and information system's capability and usage.

Investment in information systems was one of the most frequently noted supply chain management improvements. Those who were dissatisfied with their current systems expressed one or more of the following concerns:

- lack of custom reporting
- lack of interface with financial and clinical systems
- cumbersome to use/not user friendly
- lack of EDI capabilities/connectivity
- high costs associated with customization
- lack of chain integration
- insufficient customer support

*"On average, 27 percent of inventory is unofficial. Thirteen percent of respondents indicate unofficial inventories accounted for more than 50 percent of their total inventory."*

<sup>3</sup> Todd Tabel, "Claiming the Last 40% of Your Purchasing Power," McKesson presentation, July 2001.

## Theme 4: Vendor Collaboration

### Summary

Supply chain leaders are looking to the following external resources to reduce costs and improve processes: GPO relationships, outsourced supply chain functions, vendor solutions, consulting, and reprocessing activities.

### GPO Relationships

According to a recent study by the Association for Healthcare Resources and Materials Management (AHRMM), hospitals average 1.2 GPO memberships—a reduction from the more than two memberships institutions reported in a 1994 survey.<sup>4</sup> Also, the number of line items per purchase order increased from an average of 6.9 in 1994 to 13.4 in 2000.

HFMA survey respondents noted significant cost savings due to an increase in GPO contracts and greater focus on contract compliance. On average, 67 percent of surgical supplies are purchased through contracts (median 70 percent). Respondents plan to continue to leverage these relationships. Sixty-six percent of respondents track vendor/supplier performance or contract compliance—primarily through materials management systems. Thirty percent conducted periodic reviews with vendors. Typically, these were quarterly reviews, although some noted monthly or annual reviews. Those who track vendor performance measure: percent on-time delivery, pricing, fill rate, contract compliance, and inventory accuracy.

GPO and hospital leaders have collaborated to improve standardization of supplies and access to information. Examples include on-line catalogs, availability of pricing, and working sessions. Respondents are also focusing on Just-in-Time delivery, inventory sellback and reducing price variation.

*“On average, 67 percent of surgical supplies are purchased through contracts.”*

### Outsourced Supply Chain Functions

According to a recent survey released by VHA and Michael F. Corbett & Associates, hospital outsourcing is expected to increase by 30 percent from 2001 to 2003. Several respondents cited outsourcing of purchasing and inventory management functions as recent process improvements.

### Vendor Solutions

Respondents reported that implementing vendor solutions led to cost savings. Automated supply carts and cabinets, point of use systems, and prepackaged supply packs, are among the opportunities indicated.

### Reprocessing

Respondents also noted substantial savings from reprocessing equipment. According to the Association of Medical Device Reprocessors (AMDR), reprocessed medical devices offer an average 50 percent savings as compared to purchasing a new device. While some reprocessing occurs in central supply, respondents also noted savings from outsourcing reprocessing procedures.

<sup>4</sup> Edmund X. DeJesus, “AHRMMing the Field With Survey Statistics,” Materials Management in Health Care, AHRMM, September 2001.

# Theme 5: Strategic View of the Supply Chain

## Summary

Leaders in hospitals and health systems struggle with fragmented information systems, multiple supply inventory sites, and many decision-makers. An organization-level view is essential. Respondents indicated several strategic initiatives—identifying hidden costs, evaluating management and staffing structure, increasing awareness of issues and metrics, and integrating information systems for improved decision-making were key themes.

## Hidden Costs

Costs associated with transportation, shipping, storage, waste, labor and management are often neglected factors in day-to-day supply decisions. Respondents indicated that cross-functional involvement, end-to-end process mapping, and cost data identified opportunities to reduce hidden costs.

Automating or simplifying manually intensive activities to reduce human resource costs is an example of reducing total costs. For instance, clinical procedure set-up time is reduced when organizations create custom surgical packs.

## Supply Chain Structure

Noted changes to structure include:

- centralized responsibilities for supply management and centralized purchasing
- located materials management personnel directly in OR or central supply
- recruited clinical personnel to materials management

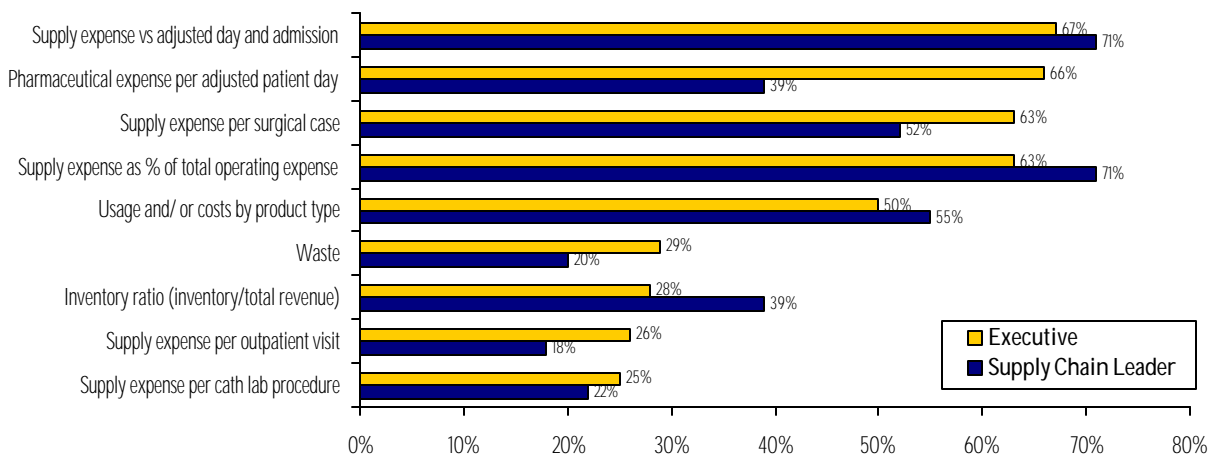
## Awareness of Issues and Metrics

Providing cost information to department leaders and clinicians in key areas has improved buy-in to process improvements, said survey respondents. More formal training and internal awareness programs are also used to draw attention to goals, metrics, opportunities, and best practices.

Figure 4 summarizes priorities for metrics. Executives were most likely to monitor:

- supply expense versus adjusted patient day and admission rates,
- pharmaceutical expense per adjusted patient day, and
- supply expense per surgical case.

Figure 4. Respondents' Priorities Related to Supply Chain Metrics



% indicated = (# identifying metric within top 5 most important)/(total # of respondents)

Other metrics included: supply expense vs flexible budget, supply expense per radiology test, requisition turnaround time, cost per purchase order, and cost per requisition.

# Industry Wild Cards

## Emerging technologies

While solutions such as e-Procurement, automation, radio frequency, bar codes, and asset tracking systems are not new, organizations will increasingly use automation and the Internet to streamline supply chain functions.

While a number of respondents noted application of point of use systems, surprisingly few identified other automated inventory tracking tools. A handful identified lack of data standards and inconsistent use of bar coding by manufacturers/distributors.

### Bar Code Trends

Few respondents commented on automated data retrieval (ADR). The Health Industry Distributors Association (HIDA) performed a 2000 audit to track trends. Results indicated a notable increase in bar coding. Current bar code usage: 85.2 percent cases, 75.3 percent boxes, 61.1 percent "eaches" (unit of use level).<sup>5</sup>

### Data Standards

A handful of organizations are working to promote comprehensive data standards such as Universal Product Numbers (UPN) and Health Industry Numbers (HIN) and to accelerate industry-wide adoption of these standards. The Coalition for Healthcare e-Standards and the Health Care eBusiness Collaborative (HCEC, formerly HEDIC) are two examples of industry work groups.

## Vendor Partners

Future themes related to vendor partners include: vendor use of technology, recycling devices, and disintermediation.

### Vendor Use of Technology

Healthcare institutions will demand that vendors use technology. These new capabilities will enable vendors to utilize new business models to enhance customer service, create better cost efficiencies, and improve information sharing between system headquarters, hospitals, other care sites, distributors, and manufacturers.

### Vendor Managed Inventory

Supply chain leaders will also increasingly focus on employing just-in-time delivery and vendor-managed inventory.

### Disintermediation

There has been some speculation about disintermediation, which could reduce costs by allowing hospitals and health systems to order directly from manufacturers. However, there is currently little evidence that this will lead to significant savings.

## Recycling devices

As hospitals and health systems continue to reduce costs through reprocessing and recycling devices, they may be hampered by additional FDA regulations. The FDA plans to phase-in additional oversight based on assessment of current practice and potential risk<sup>6</sup>.

*"The healthcare industry is facing many challenges, one of which is declining operating margins. While there are bright spots including organizations' improvement in revenue cycle and better contract management, market forces of particular concern are increasing supply expenses. It is critical for a healthcare organization to apply sound business practices in managing its supply costs to assure itself of sustained advancement."*

*"Most healthcare leaders see aligning financial and clinical objectives as paramount to achieving their organizations' goals. They insist that involving physicians and clinicians in the process of successful supply chain management is key. The cultural barrier between clinicians and executives is improving and that must continue. A healthcare organization's performance can only increase when cross-functional efforts are made to achieve better clinical outcomes in a way that is fiscally responsible."*

– Rick Gundling, FHFMA, Vice President Product Development. HFMA

<sup>5</sup> Markian Hawryluk, "Cracking the Code," Healthcare Industry Executive Magazine, October 2000.

<sup>6</sup> U.S. Food and Drug Administration- <http://www.fda.gov/cdrh/reuse/index.shtml>

## Simply Stated....

Selected quotes from survey respondents. "What, if any, recent projects or process improvements have had a significant impact on your supply chain management process."

### Value-Based Standardization

"Implementation of a new product evaluation committee and process for all physician requested products and equipment. It requires physicians to present requests to a committee of senior executives, OR, committee chair, and asst. chief of staff."

- Director, mid-sized system

"Outlined an algorithm for total joint replacement for Doc's to follow which directs them as to the specific joint replacement components to use on a patient."

- Director, mid-sized hospital

"Incorporating an RN as clinical resource."

- Corporate director, large system

"Standardizing supplies for our clinics eliminated purchasing of 300 items."

- Director, mid-sized system

"Purchasing of orthopedic implants based on demand matching and all-inclusive pricing."

- VP Finance, mid-sized hospital

### Information and Metrics

"We have a very strong team of cardiologists who have helped with supply standardization and technology planning. We've developed a 'strategy center' that houses all the metrics we've put in place to monitor our progress related to implementing our strategic plan. All communications with our med/surg distributor are now electronic, including price rolls."

- Vice President, large system

"Tie back actual reimbursement to patient, i.e. doctor 'actual check vs. actual cost'. Thought we were making lots of money in one service line, but in fact, we lost."

- Director, large system

"Putting Cath lab and OR inventory into our IS as an inventory location."

- Director, mid-sized system

"Monitoring/ reporting supply cost per adjusted admission on weekly basis- compared to budget- taking corrective action where needed."

Director, large system

### Inventory Management

"More penetration of materials management personnel in facility departments to do actual inventory control processes. Centralized purchasing is enforced. We have also increased utilization of our overall materials management system."

- Director, small hospital

"We have focused on inventory reduction house-wide (about \$500,000 /year) implemented reprocessing of SCD sleeves and unused/unopened OR supplies (\$100,000/year), and staffing reductions (about 3.5 FTEs)."

- Director, mid-sized hospital

"We implemented a perpetual inventory system in cath lab, radiology, and anesthesia with significant savings."

- Director, mid-sized system

"Tighter management of Rx, including closed formulary, has significantly reduced inventory costs."

CFO, small hospital

### Vendors and Procurement

"We have recently adopted a supplier evaluation process that is helping identify quality issues and transfer the cost of poor quality back to the vendor. This model has been brought in from outside the healthcare industry (from 'high tech') and while it is a tough sell to our suppliers and our GPO, we are holding firm and are seeing paybacks."

- Vice President, Large System

"We outsourced the supply process and capture more supply revenue while tracking our progress through benchmark scorecard tools."

- CFO, Large Hospital

"Consignment of cardiac and OR supplies - \$1.0 million. GPO for cardiac supplies - \$1.0 million; GPO for sutures and endo/mech - \$600K"

- CFO, Mid-Sized Hospital

"Placing a purchasing agent directly in the OR area has given us the best gain."

- CFO, Mid-Sized Hospital

### Value-Based Standardization

"Standardization of needle free I.V. catheters resulting in reduction of needle stick occurrences."

- Director, small hospital

"Standardization efforts with physicians in trauma systems and for spine implants have impacted supply line approximately \$900K annually- This also includes capitating ortho joint implants."

- Director, large system

"Utilizing 'Champion' physicians under specific practices to assist us in considering and communicating product switches based upon potential savings."

- Vice President, large system

"Education of clinicians on purchasing process. Support of administration. Better communication with physicians."

- Manager, mid-sized hospital

"We implemented an OR supply taskforce. We have eliminated obsolete items; contracted for previously non-contracted items; and focus on standardization. The taskforce has been meeting monthly for six months saving a documented \$120,000 to date."

- Director, mid-sized hospital

### Information and Metrics

"Completely understanding capabilities of our computer package."

- CFO, large hospital

"Providing cath lab physicians with a chart showing costs per stint by length and vendor, thus encouraging them to use the lowest cost, clinically acceptable stint. Projected annual savings of \$300,000."

- Director, large system

"We have installed a new materials management system, which is fully integrated with the hospitals financial and budgeting systems."

- CFO, mid-sized hospital

"We've implemented a team concept to review data. Automatic data capture using bar code technology and the manufacturer's universal product number (UPN) is a significant part of our success."

- Director, mid-sized system

### Inventory Management

"Moving toward JIT inventory had immediate cost savings associated with reduction of 2 FTEs and inventory reduction of \$80K."

- Director, mid-sized hospital

"Inventory reduction project increased turns in storeroom to 18. Redesigned value analysis to reduce CS and OR supplies. Purchased automated supply cabinets for selected areas."

- Vice President, mid-sized system

"The implementation of automated supply dispensing unit on the clinical floors. We have been able to standardize product location, reduce PAR levels, capture charges and reduce product walking out the door."

- Director, mid-sized hospital

"Materials management/central supply staff taking a more active role in supply replenishment activity in the OR. We have established inventory levels and consistent ordering practices. Product overstock is returned for credit, we have fewer rush orders, and a more systematic process has been established."

- Director, mid-sized hospital

### Vendors and Procurement

"Establish corporate policies/procedures and ensure/enforce compliance."

- Vice President, Large System

"Review of current contracts to be sure we were getting correct prices." - Director, Mid - Sized System

"Our IS folks did an audit of purchasing functions and the implementation of their suggestions reduced at least 2 FTEs from the purchasing function."

- CFO, Large System

"E-commerce has allowed us to process over 50% of our dollars through a single website which is interfaced with our MMIS."

- Director, Large Hospital

"On-line ordering of office supplies eliminated one FTE in purchasing."

- Director, Mid-Sized Hospital

"Designed pro-active control for consignment, trial and 'loaner' products."

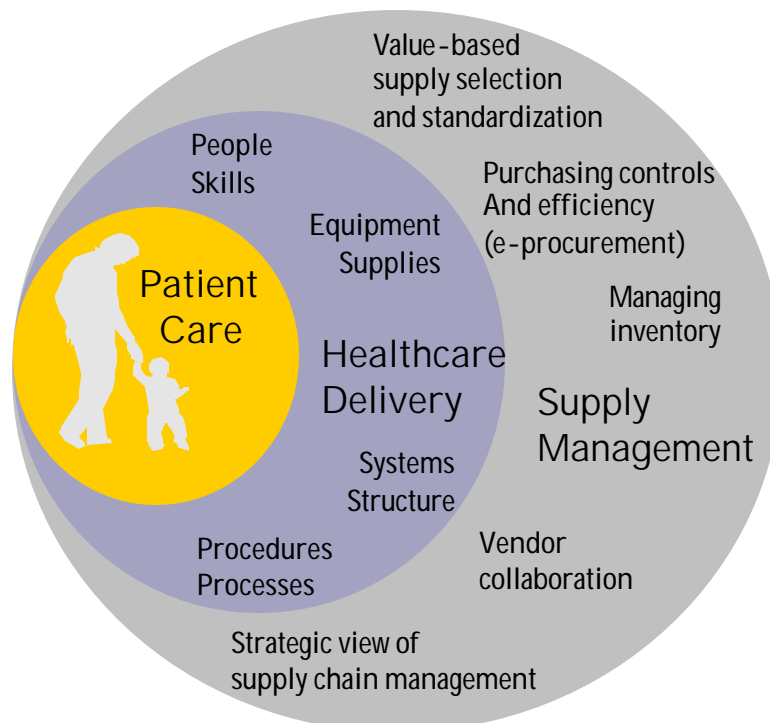
Director, Large System

## Ten Leading Practices

Respondents who indicated high success in recent supply chain management activities employ several of the following strategies:

1. Solicit increased **executive support** and collaboration.
2. Promote organization-wide **awareness** of indicators and issues.
3. Seek **buy-in** from clinicians to establish best practices to standardize patient care and reduce variation in processes and products.
4. Develop systems, protocols, and processes to **integrate information** for decision-making.
5. **Improve** efficiencies and controls related to **purchasing functions**, particularly through the use of **Internet technologies** electronic catalogs.
6. Cultivate **vendor partnerships** by tracking performance, sharing information, and applying mutually beneficial supply chain solutions.
7. Articulate the **organizational view of supply chain management interdependencies** with clinical departments and other areas. Figure 5 summarizes the organizational view. Seek solutions that reduce **total resource costs** through organization-wide collaboration and shared goals.
8. Improve **inventory management** through: better understanding and control over unofficial inventories, application of just-in-time methodologies, and use of perpetual inventory systems.
9. Evaluate appropriateness of supply chain management **structure and staffing** to ensure that clinical perspective is represented and to improve control of purchasing and inventory in key areas.
10. **Interact with and share** best practices with peers.

**Figure 5.** *Organizational View of Supply Chain Management*



**About HFMA:**

HFMA is the nation's leading membership organization for more than 32,000 healthcare financial management professionals employed by hospitals, integrated delivery systems, managed care organizations, ambulatory and long-term care facilities, physician practices, accounting and consulting firms, and insurance companies. Members' positions include chief executive officer, chief financial officer, controller, patient accounts manager, accountant, and consultant. HFMA offers educational and professional development opportunities, information on key issues, technical data and networking opportunities, with the ultimate goal being to create a more supportive environment in which members do their business. For more information, visit the Association's web site at [www.hfma.org](http://www.hfma.org).

This study is available on-line at:

[www.hfma.org/FeaturedTopic/resource\\_management.htm](http://www.hfma.org/FeaturedTopic/resource_management.htm)



HFMA Member:

McKesson is proud to join forces with HFMA to define the current status of and future opportunities in healthcare supply chain management. McKesson is the world's leading healthcare services company and the leader in integrated technologies for the industry. We recognize HFMA as the nation's foremost personal membership organization for leaders and innovators in healthcare financial management.

McKesson and HFMA share a common goal of reducing costs through the use of leading edge products, services, and processes. Which is why we collaborated on this educational supplement.

We recognize that an enterprise-level view of processes and systems and end-to-end resource management is crucial to the financial health of an organization. Therefore, this report summarizes current supply chain methods, best practices, barriers, and issues from the perspective of leaders in the field.

This *Resource Management Update* is an important part of an ongoing effort aimed at identifying opportunities to optimize the total management of labor, supplies, equipment and facilities. We are excited to be a part of this project!

Sincerely,

James Garvey  
Vice President, Resource Management  
McKesson Corporation