

Chain of gold: Dig in and find supply chain cost savings

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Does your hospital, physician's practice or care system purchase more supplies via "special order" than through standard purchasing protocols? Do different groups within the organization have strong, and sometimes competing, product preferences? Do you frequently run out of supplies with no warning?

Do nurses stash hard-to-procure equipment or supplies in hidden storage areas where they never get inventoried or serviced? Are supply charges not fully automated or disconnected from your electronic medical record (EMR)?

If you answered "yes" to any of these questions, you may be spending too much on supplies. The good news is that, although there are many ways your supply chain can be inefficient, there are just as many ways to achieve savings through improved supply chain management.

Today, with the intensifying squeeze on healthcare providers' profit margins, it's imperative to cut costs wherever possible. To this end, inventory control is essential. In-house materials management professionals can improve this process significantly; if you don't have such professionals, you might want to consider adding or outsourcing this function. That way, your purchasing processes will be efficient and consistent, and clinical staff members will be able to spend their time maintaining a laser-like focus on patient care.

Strong supply chain management is especially important in the current healthcare delivery environment, but many providers lack a true, well-managed chain of processes and procedures for purchasing supplies and equipment. Those that do have well-designed systems still may find it difficult to enforce purchasing protocols and accurately track spending.

Begin with Research

Sensible and effective supply chain management begins with a detailed assessment of how purchasing decisions currently are being made. Much of this information can be gathered from interviews with department managers or individuals in charge of operations, accounting and finance. You can ask:

- How are new product and equipment decisions made?
- How often are supplies purchased?
- From whom? (Be sure to review vendor contracts.)
- How are charges being captured?
- How is inventory tracked?
- Where are the most frequently used items located?
- How are materials management and IT involved with these activities?

Through these interviews, you will begin to identify inconsistencies, inefficient practices and cost-cutting opportunities. It's not uncommon to find that "special orders" constitute a surprisingly large percentage of total supply costs. Often, standard inventory levels have not been defined and no attempt has been made to standardize which products and brands are used across the organization. Without standardization, you could be missing out on opportunities for volume discounts and some parts of your organization may be spending more than others on the same supplies.

It is also common to discover that rolling vendor contracts are bypassing the valuable practice of annual contract review. Frequently, vendor negotiations are handled by one individual, or one individual in each department. Negotiator effectiveness can vary widely between these individuals, and long-time personal relationships with suppliers can turn into friendships that make fact-based contract negotiations difficult.

You may also find it valuable to go beyond department managers or operations staff and survey clinical staff and/or patients to learn how your current supply chain processes are affecting them.

Begin with Research

Your interview findings will be most powerful when they are combined with data analysis. Ideally, you should work with 12 full months of data, comparing absolute numbers and trends for patient volumes, supply costs, supply utilization, and waste (products that expire and must be thrown out rather than used). It is revealing to study the relationship between cost, inventory and equivalent patient days on a quarterly or monthly basis. Seasonal fluctuations in these numbers may relate to things like staff stocking up on items in anticipation of busy "seasons" for your practice, facility or system.

Analysis of overlapping trend data can be very telling. For example, if patient volumes are steady over time but your profit and loss numbers fluctuate greatly during the same time period, you might not be accurately capturing either supply or service charges, or both. Another example: If patient volumes or equivalent patient days trend down toward the end of the year, yet supply costs increase, is it due to supply price increases or some other factor?

Yet another layer of information may be helpful, depending upon the situation. If you contract with a purchasing organization, it's essential to understand how that organization operates. You may also want to look at industry-wide statistics for useful benchmarks, such as those from MGMA or the Ingenix Almanac of Hospital Finance and Operating Indicators. For a given year, you can look up specific financial measures and see the averages for institutions of your size and service level, in your region of the country.

Developing Solutions

Next, it's time to brainstorm solutions. Armed with interview findings and data analysis, many organizations need to establish or have in place purchasing committee that meet regularly to discuss purchasing needs, issues and brainstorm solutions.

The most effective purchasing committees are limited to five to seven regular members representing finance, operations, nursing and materials management. Representatives from other areas can be invited to committee meetings on an as-needed basis, but better decisions will be made more quickly by a small core group. The committee should be convened regularly – not just when a large contract comes up for review or a big-ticket equipment purchase must be made.

No matter who formulates and implements cost-saving purchasing ideas, there is bound to be some opposition when changes must be made. People are naturally resistant to change. In healthcare organizations, department managers and nurse managers often want control over their own purchasing decisions and tend to view their department's needs and circumstances as unique. Therefore, it's imperative to repeatedly communicate the need for supply chain consistency across the entire organization, and to engage employees at all levels in supporting purchasing process changes.

Best Practices

The types of solutions that result from this process of discovery, analysis and decision-making teamwork often involve:

1. Re-evaluating appropriate inventory levels for individual products and their location.
2. Developing definitions and rules. For example, rather than a catch-all category for orders that don't follow standard protocol, "special orders" should be redefined as something that is needed for a specific patient and can be billed to that patient.
3. Identifying and requiring the most cost-effective products to be used throughout the organization.
4. Forecasting improvements, achieved by monitoring things such as seasonal purchasing patterns.
5. Fact-based, team-based vendor negotiations.
6. Greater involvement of materials management or purchasing experts.
7. Charge system automation, including use of bar code systems and integrating supply charges so that they drop directly into the EMR.
8. Documentation and paperwork improvements.
9. Kanban scheduling, which uses a re-order card trigger system to replenish supplies just when they are needed, keeping inventories as lean as possible.

Of course, it's up to each organization to determine which specific initiatives are needed, and what is achievable. These decisions should be based on what you learn from your interviews and surveys, your analysis of purchasing and utilization data, and peer organization benchmarks. However, keep in mind that all of the items in the list above rise to the level of "best practices" that can be applied to achieve significant savings in virtually any healthcare organization.

After you've undertaken the effort to analyze your situation and identify and carry out supply chain management improvements, ongoing monitoring and measurement are essential. A number of changes might be implemented simultaneously, and you will need an evaluation system to be able to see what is working, what is not and where adjustments might need to be made.

Improving supply chain management, especially when resources and staff time already are stretched thin, may seem like an overwhelmingly complex undertaking. However, every organization can make progress by breaking the work down into manageable phases, using thoughtful research, selling the need for consistency and engaging key personnel to develop and implement solutions. Your cost saving results will be well worth the effort.

About the Author

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