

Navigating the Economic Storm: A Prescriptive Approach for Healthcare Supply Chain Professionals

Numerous papers written recently predict the impact of the economic downturn on the healthcare industry. Many of these predictions are now headlines – reduced labor budgets, declines in elective and out-patient volumes/surgeries, and smaller, or in some instances, no capital budgets. Because of the role supply chain plays in the financial well-being of an organization and the current economic environment, supply chain leaders can anticipate:

- Increased pressure to trim non-labor costs
- Increased pressure to assist in “margin mending”
- Increased need to justify support services and supply chain services staffing levels
- Increased demands for data-driven decision making
- Increased use of Lean-Six Sigma concepts, process redesign, and greater supply chain efficiencies
- Increased emphasis on contracts, rebates, and vendor management
- Increased use of evidence and value-based product decision making

However, the challenge in healthcare supply chain management today is not in recognizing the impact on our organizations, but knowing what to do about it. The Association for Healthcare Resource & Materials Management (AHRMM) recommends the following three prescriptive activities for supply chain professionals:

- Ensure financial key controls are maximized and operationalized,
- Prioritize and negotiate/renegotiate contracts for capital purchases and medical devices, and
- Step outside the comfort zone of operations to utilize supply chain skills in other areas of your hospital.

Many administrators focus on revenue growth as opposed to cost management. Assuming your organization's operating margin is 2%, one dollar (\$1) of expense reduction is worth \$50 in gross revenue – **\$100,000** in supply chain savings is equivalent to **\$5,000,000** in gross revenue.

Financial Controls

Take cost controls to the next level by maximizing and operationalizing key controls into your hospital's daily practices. The following list includes some of the cost controls you can utilize in your hospital today:

- Enforce existing policies and procedures
- Limit the number of people who have authority to commit hospital funds (i.e., place a purchase order with a vendor)
- Ensure you are paying the correct contract price for products
- Track and trend hospital expenditures by indicator (i.e., Adjusted Patient Day, Adjusted Admission, Net Revenue, etc.)
- Measure and report savings routinely
- Hold department managers accountable for their departmental supply budgets
- Lower approval levels for departmental purchases
- Ensure you have a high performing Value Analysis Team managing expenses
- Limit new product introductions
- Reprocess, Reprocess, Reprocess
- Limit vendor access
- Limit the number of warehouse/storeroom inventory locations
- Standardize to a Medical/Surgical formulary of products
- Take advantage of desktop delivery for office products
- Use procurement cards for non-medical and high volume/low value items like office supplies
- Maximize the use of information technologies installed at your hospital to reduce labor
- Optimize inventory in par locations based on replenishment needs
- Manage transportation and freight expenses, in-bound and out-bound

With key controls in place you be able to dedicate resources to prioritization and negotiation activities, and not spend undue time in non-value added activities.

Maximize Contracts

Supply chain management/ professionals must push their Group Purchasing Organizations (GPOs) and contracting groups to negotiate and renegotiate any and all agreements. Intense pressure is being placed on reducing supply expenses. Capital budgets are being cut, at best, and potentially eliminated for some. It is imperative to take many of the following actions to address these concerns:

- Confirm all orders to ensure accurate contract pricing
- Challenge all price increases
- Display a willingness to convert products and services to lower cost, clinically acceptable alternatives to assist negotiations
- Develop a hospital contracting template with your standard terms and conditions
- Standardize and streamline the RFP and bid process to fast track negotiations
- Assist in the strategic prioritization of capital expenditures, including “life-cycle” management
- Utilize third party benchmarking services to negotiate “best price”
- Require vendor quotations for all capital purchases that identify the source of all discounts

Get Out of the Box

Finally, with key controls in place and supply and equipment purchases being prioritized and negotiated/renegotiated, supply chain professionals must step outside the comfort of operations and engage in other areas of the hospital. Areas outside of typical materials management where supply chain professionals can engage include:

- Multi-facility consolidated supply chain services, including:
 - Consolidated purchasing
 - Consolidated accounts payable
 - Consolidated warehousing
- Pharmacy operations ranging from inventory management to contracting
- Document management
- Linen management
- Records storage
- Case cart fulfillment
- Surgical Services inventory management, contracting, and procurement
- Cardiology Services/Heart center inventory management, contracting, and procurement
- Interventional Radiology inventory management, contracting, and procurement

As healthcare supply chain professionals, we must look at the current economic climate as an opportunity to lead. AHRMM has a number of tools to assist supply chain professionals, among them the Knowledge Center and ListServ, designed to help AHRMM members meet the challenge of an environment rich with opportunities to improve their organizations and the healthcare industry.

AHRMM will be hosting a webinar on March 5, 2009, entitled “The Economic Crisis: Executives Look to Supply Chain – What’s Your Plan?” For additional resources and to access the recording of the webinar, please refer to www.ahrmm.org, your supply chain resource for best practices, peer interaction, and information on current issues and regulatory initiatives.