



MANAGING COSTS AND VENDORS MAINTAINS MISSION TOO

BY MARK CRAWFORD

Controlling costs is hard enough during a normal economy, let alone the worst recession since the Great Depression. A major factor in hospital cost control is managing the supply chain — the vendors who provide the myriad supplies and materials that every department needs to function properly.

But for Catholic health organizations, being cost effective means more than just achieving savings to improve the bottom line. Cost effectiveness — the role of supply chain management — can be fundamental to an organization’s mission.

“Every Catholic health care organization has a set of values that articulate how its mission and ministry will be lived out with integrity. These values often include a focus on respect for all persons, social justice, clinical excellence and stew-

ardship of resources,” said Terri Rocolo, senior vice president of mission services for Wheaton Franciscan Healthcare in Glendale, Wis. “The mission and ministry of our sponsors have been entrusted to us to carry on into the future. In order to do so, we must always be searching for opportunities to be more cost effective. This allows us to maintain our financial viability and remain focused on providing exceptional and compassionate health care to all those we serve, regardless of their ability to pay.”

A hospital’s supply costs can be significantly reduced when supply chain management works in partnership with physicians, hospital executives, hospital department staff, finance, information management and vendors. Challenges continue to mount — increasing scope and volume of prod-

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ucts needed, regulatory compliance and staying on top of technology, to name a few.

Meanwhile, products in the supply chain have continued to get more sophisticated and complicated over recent years.

“The broad care for patients requires operational processes that will effectively provide products that range from routine medical/surgical supplies to implants, blood, drugs and even food,” said Jon Rozenfeld, chief operating officer for SSM Health Care in St. Louis.

On the technology front, “keeping current automation upgraded — things like bar coding for inbound freight and lot numbers, electronic invoicing — is especially hard when you have to compete for capital dollars that are vital to clinical areas as well,” added Todd DeRoo, chief resource officer for Trinity Mother Frances Hospitals and Clinics in Tyler, Texas.

“Hospitals need to develop strategies for controlling those cost centers that keep going up,” said Eugene S. Schneller, a professor at Arizona State University’s W. P. Carey School of Business and

an expert in supply chain initiatives. “This means physicians and hospitals must work together to meet mutual expectations for maintaining a high level of patient care, lowering costs and staying true to the mission of the organization. It’s not about just bolstering its own margin — it’s about creating win/win situations at all levels.”

CURRENT TRENDS

Health care organizations have created more top management positions for supply chain departments in recent years, giving them equal footing with other large hospital departments — a reflection of the awareness administrators have for the importance of the role.

“Many hospitals now have clinical directors on their supply chain team that have both an RN and M.B.A., giving them credibility with both clinicians and the finance team,” said Mark Combs, regional vice president of supply chain management for Mercy Health Partners in Knoxville, Tenn.

“Our holistic approach focuses not only on supply costs in our major departments, but also in operational improvements that help physicians and clinicians improve the overall clinical experience for the patients,” he said. “All the members of this team play an important role in reducing our supply costs and supporting our mission.”

The recession’s impact on hospital revenues is evident, notably on those related to elective surgeries. Overall, case loads are down about 5 to 10 percent, and an increasing number of patients are self-pay. “This makes it even more important to control costs, including supplies and labor,” Combs continued. “Many hospitals are flexing their staffing to be at appropriate levels, given their patient volumes.”

Most hospitals purchase supplies through group provider organizations (GPOs) that buy products and services in volume and negotiate contracts for far better prices than hospitals could achieve on their own. “Some GPOs use a single supplier for a particular commodity, while other GPOs award multiple contracts for the same product, which gives health care organizations some choice,” said DeRoo. “Hospitals work with GPOs by giving them data regarding the products they utilize, the volumes they purchase and what their preferences are in terms of manufacturers.”

Supply cost savings combined with operational savings have resulted in 6 to 8 percent total budget savings — which translates to tens of millions of dollars annually — for Nashville Supply Chain Services, an organization that provides supply chain management to 175 hospitals owned across the country by Hospital Corporation of America. “We have found our savings comes 90 percent from supply cost savings driven by value analysis — finding the best products at the best price,” said Jay Kirkpatrick, CEO for Nashville Supply Chain Services. “Operations improvements account for roughly 10 percent.”

“It is, of course, harder for small operations to achieve this kind of critical mass,” said Kirkpatrick. “In general, health care systems with a minimum of 8 to 12 average- to large-size hospitals could probably achieve a similar combined supply-cost savings and operational savings in the 6 percent to 8 percent range.”

PRODUCT STANDARDIZATION

An obvious place to start saving money is product standardization. Multiple suppliers are usually available. Sometimes it’s a simple decision like finding the lowest price for gauze pads, other situations are more problematic, such as “physician preference” items — particular types or brands of products that physicians feel very strongly are the best to use.

Physician preference items continue to be one of the biggest challenges for controlling supply costs. Finding acceptable alternatives to high-end products can provide the most significant savings opportunities for a supply chain department. For example, hip and knee implants can range in cost from \$2,500 to over \$8,000. Cardiac rhythm management devices range from \$4,000 to over \$40,000.

“Although there may be alternatives that are obvious to supply managers or even other physicians, these products may not be acceptable to the requesting physician,” said Schneller. “Most commonly these are orthopedic implants. But sometimes physicians can be equally adamant about relatively low-cost items such as gloves.”

“I can’t say for certain that physician preference items drive up cost so much as they prevent us from lowering costs,” said DeRoo. “With orthopedic implants, for example, surgeons generally train on a certain product and become familiar with the nuances of that particular product line. The manufacturers want market share in ex-

change for an improved price point. A hospital that commits 80 percent of the orthopedic business to a given company will have a much lower price than a hospital that gives each vendor 20 percent.”



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“Our job in supply chain is to work with physicians to ensure they have all the information they need to make the best decisions for their patients, while keeping in mind the hospital cannot continue to exist and serve its mission without some kind of margin,” said Combs.

Several years ago, Trinity Mother Frances Hospitals and Clinics standardized to a single

ments, sole-source agreements and longer-term contracts from their health care partners.

“Vendors understand times are tough right now and are trying to be as flexible as they can, considering most are for-profit companies,” said Combs. “We do some longer-term contracts to get pricing concessions with some vendors, and some pricing is gained by giving certain vendors more market share.”

Some organizations also may wish to favor vendors who support key mission and values tenets through such operational practices as environmentally responsible manufacturing and conscientious recycling of waste materials.

“Being a Franciscan-sponsored organization, environmental stewardship is very important to us,” said Rocolle. “By partnering with our supply chain leaders to select vendors that use environmentally friendly materials and post-consumer recyclable products, we have identified opportunities that both save money and are in alignment with our Franciscan tradition to be faithful stewards of all God’s creation.”

“Supply chain can also help maintain mission by working with our vendors to obtain donated products for things like public health screenings and mission work,” said Combs.

Medical supplies and used equipment — beds, chairs, testing equipment, gloves, for example — are needed around the world, as Wheaton Franciscan Healthcare and Hospital Sisters Mission Outreach, Springfield, Ill., have found. Their program to collect donations and responsibly redistribute such items not only helps meet medical needs in other countries, but saves on disposal costs and keeps useable equipment and supplies out of landfills.

“Lowering costs and fulfilling the mission is best achieved through collaboration and partnership,” said Rocolle. “It’s not just about saving money — it is staying focused on organizational values and building relationships with people and suppliers who support your mission and will work collaboratively to achieve cost savings.”

TECHNOLOGY AND AUTOMATION

Investing in systems technology can pay off handsomely in supply chain management terms. For example, at Trinity Mother Frances Hospitals and Clinics, automation has played a critical role by reducing the turnaround time between submitting a requisition for a product and having the product be approved, ordered and delivered.

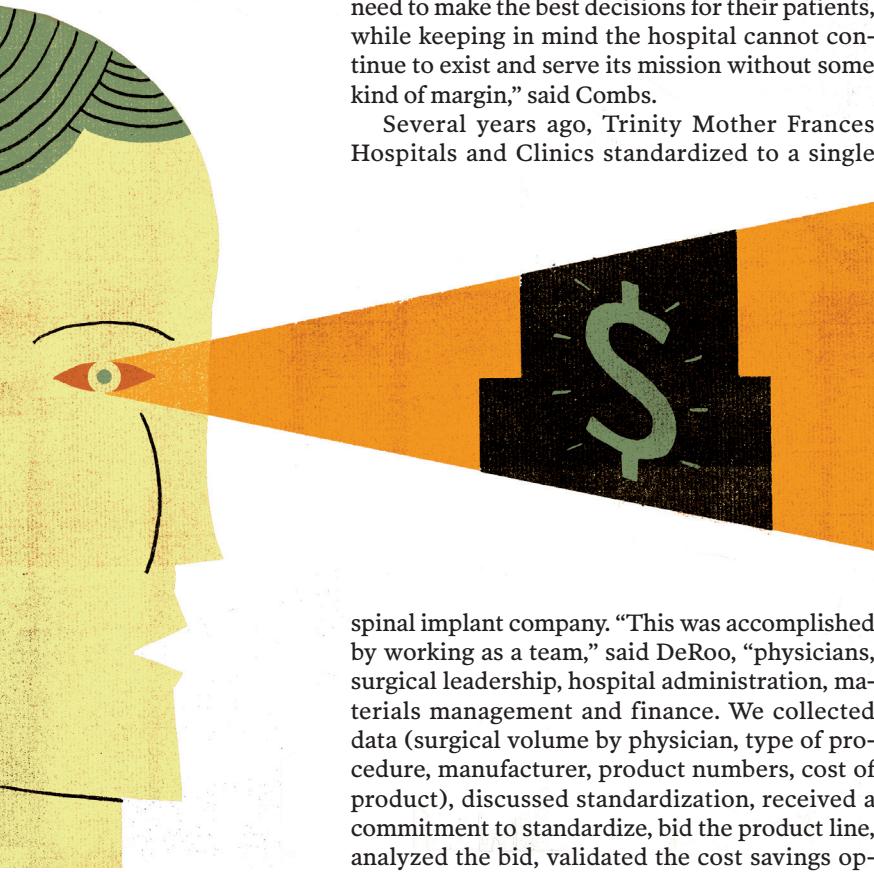
spinal implant company. “This was accomplished by working as a team,” said DeRoo, “physicians, surgical leadership, hospital administration, materials management and finance. We collected data (surgical volume by physician, type of procedure, manufacturer, product numbers, cost of product), discussed standardization, received a commitment to standardize, bid the product line, analyzed the bid, validated the cost savings opportunity and committed to the change. This process saved our organization over \$1 million in this single product category.”

VENDOR RELATIONSHIPS

Hospitals are asking supplier partners to help find new opportunities for reducing costs with lower prices and improved product utilization. In return, vendors continue to seek volume commit-

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“This process has allowed us to reduce both official and unofficial inventories,” said DeRoo. “Our main storeroom has achieved an inventory turn ratio (resupplying the inventory) in excess of 30 turns per year. Order accuracy has been improved. Order templates have been prepared for frequently ordered items that each department uses. For example, employees can merely click on the item, enter the quantity needed, submit for approval and then a buyer converts this electronic requisition. This has reduced the number of discrepant invoices that buyers and accounts payable clerks have to deal with.”

Another area of improvement has been “charge capture” for patient care supplies. A new touch-screen technology captures the patient’s name and room number from the hospital’s admitting, discharge and transfer software, and bar-code scanners capture the items the patient receives.

“This system interfaces with our billing system,” said DeRoo. “The patient is billed for the items received, the items are subtracted from the inventory on the nursing unit and a pick ticket is sent to central supply for the items that need to be replenished on the nursing unit. This process has increased departmental revenue substantially and lets the department know what items to bring back to the nursing unit the next day.”

MOVING FORWARD

Looking ahead, “hitting our supply budget targets will be much tougher, as we have been asked to really make reductions there,” said Combs. “This is coupled with maintaining our gains in cost reduc-

tions we have made over the last several years, as the economy begins to rebound and the manufacturers want to recoup the prices that have eroded for them over the last few years.”

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So now is a perfect time for an organization to conduct an unbiased, in-depth performance analysis on itself and its strategic partners. The process calls for regular communication with physicians, clinicians, executives and other hospital staff regarding supply costs and related patient outcomes.

“Our recent research on group provider organizations shows gaps exist between a hospital’s expectations and its supply partners’ actual performance,” said Schneller. “Many hospitals, however, still do not have a well defined strategy for engaging their strategic partners, nor do they recognize the gaps. Now is a great opportunity to identify these weaknesses and work with these partners to assure performance.”

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