



# Supply chain strategies: Now is the time to optimize

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By Cindy Jeter, CPhT, CPP, BGS

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## >1/3

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According to an industry survey, 78% of respondents still use manual supply chain processes, and just over one-third of respondents were unfamiliar with radio-frequency identification (RFID).

As hospitals, pharmacies and physician groups continue to join forces—evolving from stand-alone facilities and services into a full continuum of care—supply chains are becoming more complex. By taking steps now to optimize the supply chain across long-standing silos or newly announced mergers, healthcare organizations can expect to transform big challenges into real opportunities to reduce costs, capture revenue and diminish complexity.

### Growth and complexity

The U.S. healthcare industry has grown dramatically in recent years, due in part to an aging population and strong growth in subsidized spending through programs like Medicare and Medicaid. For the first time, we've seen healthcare jobs outpace both manufacturing and retail sectors,<sup>1</sup> while mergers and acquisitions in the healthcare space have hit record levels.<sup>2</sup> Many health systems are experiencing levels of organic growth that their supply chains were never meant to handle. Others are trying desperately to blend disparate technologies and processes as part of a consolidation move. And at the heart of it all, supply chain inefficiency threatens to chip away not only at profitability, but at patient care as well.

Whether your organization is expanding its geographic footprint with an acquisition, adding services through a pharmacy merger, or simply taking a fresh look at your legacy systems, it's never been more critical to optimize your supply chain. And frequently, consolidating or streamlining your IT infrastructure is the first step.

### Enhancing infrastructure: Self-care for growing supply chains

As organizations evolve to serve patients in multiple care settings, the complexity, cost and effort associated with the supply chain infrastructure increases exponentially. Combining data from siloed departments or different facilities is one of the first, most essential steps in creating a well-informed supply chain strategy to streamline purchasing power and optimize inventory management. Yet one of the most common misconceptions is to assume that two or more platforms can easily merge. This is rarely the case. Not only can the hardware and software systems have difficulty communicating with each other, but the information itself may be organized in different formats so that integration becomes a much more time-consuming project.

In addition to technology considerations, another important variable may come into play—a lack of automated supply chain systems. According to an industry survey, 78% of respondents still use manual supply chain processes, and just over one-third of respondents were unfamiliar with radio-frequency identification (RFID), a common barcode-scanning technology for inventory management.<sup>3</sup> This reliance on manual processes can lead to uneconomical and wasteful results. Manual processes are also a

common cause of inefficient inventory being stocked, which can lead to expired products, or product shortages, which can jeopardize patient safety.<sup>4</sup>

There may be good news about those who lack automated supply chain processes, however; an optimization initiative provides an ideal opportunity to build a beneficial infrastructure from the ground up. With the right automated system, hospitals should be well positioned to benefit from “just in time” inventory management, accurate tracking of drug use and prices, and electronic records on purchasing history and wastage.<sup>5</sup>

With a well-orchestrated supply chain platform in place, hospitals can begin to transform volumes of data into reliable, relevant analytics.

### Diminishing complexity: From raw data to actionable analytics

The amount of information generated in any one healthcare facility or department can be mind-boggling. And without a strategic plan for collecting, synthesizing and expertly interpreting that data, organizations could be missing out on valuable insights to help them identify trends and seize opportunities. The right analytics can prevent product stock-outs or overstocks, pinpoint critical details to ensure compliance and increase reimbursements, and make the entire supply chain work in sync to support both quality care and operational efficiency. And since hospitals attribute roughly a third of their operating expenses to supply chain management,<sup>6</sup> it makes sense to make analytics a priority.

Before developing an analytics strategy, it’s essential to gain insights from a multidisciplinary team of clinicians, IT professionals and support staff to define shared goals. Organizations can empower the combined team to see beyond their own data sets, focusing instead on how familiar data from their immediate purview fits into the big picture. This is important, because supply chains are made up of layers upon layers of interdependent components including medical supplies, pharmaceuticals, suppliers, pricing tiers, and much more.

With these stakeholder insights in mind, and with a shared IT platform to support these advanced analytics, hospitals are empowered to:

- **Achieve true visibility into the supply chain**, with analytics that add critical context to influence decisions that directly impact the continuum of care
- **Streamline inventory management** to easily compare items against purchase orders, monitor expiration dates, trigger reorders, and reduce waste related to poor inventory control
- **Accommodate the growing trend toward value-based reimbursement models**, which emphasize factors such as minimizing readmissions and focusing on preventative care
- **Manage supplier relationships and product offerings** more effectively through advanced analytics that cross-reference pricing, terms and more<sup>7</sup>

### Fueling performance: Business drivers in alignment

In some ways, even complex conversations about technology platforms and supply chain analytics can pale in comparison to the topics of everyday processes and cultural norms in growing organizations. And in many cases, the healthcare and IT professionals going through a supply chain optimization initiative simply don’t know what they don’t know.

For example, failing to align and standardize clinical preference items can leave an estimated 10–20% in cost savings on the table.<sup>8</sup> And something as fundamental as philosophical differences about leadership or change management can make it difficult to move forward as a cohesive organization when a merger or acquisition is involved. These are just a few situations in which a consulting partnership with an independent third party could be useful.



# 10–20%

*cost savings left on the table*

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## Facing a merger or acquisition?

All too often, the critical months before the closing of a merger or acquisition are spent waiting, rather than taking action early in the process to optimize the supply chain. And that inaction can have unintended consequences. That's why it's never too early to ask these important questions:

What technology platforms are already in use?

Can those platforms communicate with each other?

Are processes automated, or manual?

If manual, are the processes documented, or do they only exist in someone's head?

Do the organizations use the same pharmaceutical distributor and GPO?

Which new services will be added?

Which positions will be duplicated?

Do physicians currently have different preference items?

How will formularies be combined?

What non-formulary procedures are in place, and how will those be applied consistently?

What community programs are in place to help keep patients within your system?

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By aligning your continuum of care through [process and technology consulting](#), you can expect to reduce spend while enhancing staff efficiency and exploring untapped sources of revenue to improve both your health system's performance and patient outcomes.

## Leveraging outside consulting resources

Clearly, optimizing the supply chain is a task that deserves and demands the attention of healthcare decision makers. Yet in many cases, executives and staff tend to underestimate the amount of time, planning and hands-on project management that go into these strategies. And while it can be tempting for organizations to assign additional duties to willing individuals in the name of saving money, it's important to consider the time and cost of using trained clinicians to perform unfamiliar tasks that, by nature, can't be their first priority. By partnering with an experienced supply chain consultant from the start, organizations can quickly identify and resolve gaps, disconnects and other obstacles that can stand in the way of profitability. Just as significantly, optimizing and standardizing the combined supply chain helps them function seamlessly as one organization, keeping patients at the center of the newly defined continuum of care.



### About the author:

**Cindy Jeter, CPhT, CPP, BGS**, is a supply chain management consultant for McKesson RxO<sup>®</sup>. As a Certified Purchasing Professional, Cindy is one of McKesson's top experts for supply chain consulting. Her focus includes best-practice inventory management processes, wastage reduction and cost containment.

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<sup>2</sup> "US Health Services Deals Insights: Year-End 2018." PWC. Accessed online 3/24/2019: <https://www.pwc.com/us/en/industries/health-industries/library/health-services-quarterly-deals-insights.html>

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