

Five Ways to Optimize Your Supply Chain

Today's market dynamics, coupled with healthcare reform measures, have made supply chains extremely complex and planning more difficult. Representing 25% of a healthcare provider's budget, the supply chain holds significant opportunities for savings. That's why it's critical for providers to reduce high-dollar supply

chain inefficiencies. Implementing a supply chain optimization strategy takes a great deal of work and great effort on the part of the organization. However, the benefits far outweigh the efforts because an optimized supply chain can help a facility stay lean, manage costs and respond to fluctuations in demand.

Here are five ways to optimize your supply chain:

1. Take Control of Your Item Master

At the core of a supply chain management data architecture is the facility's item master and the taxonomy of the medical items. The item master is your organization's information source for some of the most important supply chain activities – procurement, charge master comparison and/or linking, data standardization and value analysis. If this data is disorganized and contains errors, then it will be very difficult to improve operations and control costs in your facility. The fact that there are likely multiple sources entering information into your materials management information system (MMIS) without standardized rules can often lead to the following:

- Duplicate entries.
- Inconsistent item descriptions.
- Inconsistent and obsolete manufacturer names.
- Outdated manufacturer item numbers.
- Missing or outdated categorization schemes, United Nations Standard Products and Services Code® (UNSPSC).

Table 1 is an example from an organization's item master that shows three unique entries for the same item. The vendor name, item description and part # are all inconsistent. It's easy to see how your facility's item master could get out of control without the proper rules established.

Data Source 1	Vendor Name: Zimmer Description: BRACE-NEOPREN PART#: 3456 UOM: EACH	Match Vendor Name: Zimmer Parent Name: Zimmer Part #00-03456-224-00 MFR Description: NEOPRENE KNEE SUPPORT, SUPERIOR BUTTRESS, BLUE MED UOM: EA
Data Source 2	Vendor Name: ZMR Description: KNEE SUPPORT PART#: 3456-224 UOM: EACH	
Data Source 3	Vendor Name: ZMR Description: KNEE SUPPORT PART#: 3456-224 UOM: EACH	

Streamlining the item master will help your organization attain transparency of your supplies and support trending of utilization. It's a necessary step to developing an integrated supply chain management system that aims to reduce costs, improve efficiency and enhance patient safety and clinical outcomes.

2. Manage Your Inventory

Inventory plays a vital role in supply chain optimization. Efficient management of inventory is no easy task though. It's a challenge to balance the right amount of supply to meet the facility's demands. For example, having a high amount of inventory results in increased storage costs and a chance of product expirations; having a low amount of inventory is risky due to the impact it can have on patient care if products are not available.

Examine your business processes in the areas of supply procurement, patient charging, inventory management and information capture. Look for ways to improve and/or automate certain functions. You might discover your staff is spending too much time dealing with inventory, when they could be focusing on patient care instead. In this era of strict payment regulations, any breaks in your processes can lead to time-consuming resubmission efforts, penalty charges and lost or inaccurate revenue.

You are on the path to success if your facility is able to connect your inventory management data with your relevant procedural data. Gaining this visibility will give you meaningful insights to improve clinical care, staff and resource utilization and cost control.

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3. Establish Supply Chain Metrics for Measurement and Benchmarking

It has often been said, “You cannot improve what you do not measure.” Benchmarking encourages a company to become open to new methods, ideas, processes and practices to improve effectiveness, efficiency and performance. By benchmarking you may discover who performs the process best within your own organization or outside of your industry.

Establish supply chain key performance indicators (KPIs) and involve key stakeholders throughout the benchmarking process. Reviewing these KPIs consistently as a team will stimulate thought provoking discussions and help your facility stay on target to reach the business goals of the organization. Remember that your benchmarking efforts should not stop once you've reached the goals you establish. Constant monitoring and measuring leads to ongoing success.

Table 2 is an example of possible supply chain KPIs.

Table 2	Better Performing (75%)	Median (50%)	Poor (25%)
Indicator			
Supply Chain Expense per Adjusted Patient Day	\$236	\$321	\$399
Supply Chain Expense per Adjusted Discharge	\$754	\$998	\$1,250
Supply Chain Expense as a % of Operating Expense	13%	17.15%	19.3%
Supply Chain Expense per Surgical Procedure	\$803	\$1,220	\$1,684
Pharmacy Expense per Adjusted Discharge	\$116	\$160	\$183



4. Create a Value Analysis Committee

Organizations can no longer afford to have physicians make all the purchasing decisions. The never-ending pressure to contain costs and optimize patient care has led many facilities to create a new decision-making process – one that involves a cross-functional team.

In order to make best-valued product and service acquisition decisions it's crucial to create a value analysis committee (VAC). This committee should involve key stakeholders in the following areas:

- Clinicians to bring product knowledge and valuable evaluation opinions.
- Finance to bring cost analysis knowledge.
- Materials managers to bring supplier management and contracting knowledge.

The structure and processes of a VAC can vary by organization. To be successful, make sure your VAC is in agreement on these key objectives:

- Collaborate using a team approach.
- Focus on quality, safety, costs and performance improvement.
- Use an evidence-based approach to evaluate new and emerging technology.
- Standardize on products that are clinically successful and provide the highest quality care and safety to patients in the most cost-effective manner.

5. Implement Performance Improvement Analysis

At the forefront for most healthcare organizations is the goal to improve the patient experience without sacrificing quality and lowering costs. Healthcare reform doesn't allow providers the luxury of relaxing after achieving a goal. Areas of focus for process improvement within the healthcare supply chain are constantly changing. Purchasing, receiving, inventory management, distribution and other hospital-based functions are being replaced out of necessity with sourcing, acquisition, logistics, collaborative contracting, cost management and relationship building with key partners such as physicians, suppliers and the community.

Your facility should consistently evaluate and review your systems and processes. Changes to your organization and the industry often open possibilities to become more efficient. You can capitalize on this by making thoughtful and informed decisions. Effective decisions regarding your supply chain begin with an analysis of your requirements and expectations.