

Strategizing Supply Chain:

Making Providers' Second Biggest Cost a Top Priority



In U.S. hospitals, supply chain is the second biggest expense after labor, accounting for nearly a third of all costs. By 2020, supply chain is projected to be hospitals' greatest expenditure. In 2017, the top 25 U.S. hospitals with the highest medical and surgical supply costs spent a total of over \$1.2 billion, according to a study by Definitive Healthcare. That's an average annual spend of a hefty \$49 million each. A separate study by Navigant found hospitals could save \$25.4 billion if they improved their supply chain operations and better analyzed data—a 17.7% average supply chain expense reduction of up to \$11 million a year per hospital.

Yet, at hospitals across the country, supply chain continues to be an afterthought for many high-level executives. Too many healthcare facilities continue to make supply chain decisions based solely on cost, even as the industry shifts to a model of value-based care. A survey conducted by Modern Healthcare

Custom Media on behalf of Acurity and Nexera shows that, while providers have a solid grasp on what a strong supply chain looks like, hospitals need to work to transform their supply chain departments into more strategic operations equipped with a clear management structure and increased clinical integration.

LOOKING BEYOND COST

The responses of more than 200 healthcare executives paint a picture of leaders that value supply chain but are in need of a targeted strategy that goes beyond cost, if they intend to achieve long-term success.

The majority of executives are not supply chain practitioners themselves. Over a quarter (26%) have roles in senior management, 21% in clinical management, and 14% in operations management, among other roles. Only 4% work in materials management of supply chain. The survey, therefore, offers a glimpse into how non-supply chain executives view their facility's

supply chain performance, and provides valuable insight into their awareness of supply-related issues.

The data shows that executives do believe in the importance of supply chain to the hospital at-large. Nearly all respondents (90%) agreed that supply management plays a significant role in good margin control and a provider's ability to establish a sustainable financial model in a value-based, patient-centered environment. A majority of respondents (91%) also agreed that supply management plays an important role in a provider's efforts to create a more highly reliable organization.

Most providers are therefore actively working to assess their supply management operations. Of those surveyed, 69% of executives have conducted a coordinated assessment of supply management operations and cost containment efforts, and over half (53%) have done so recently, in the last two years. Only 7% of those surveyed hadn't completed an assessment at all, while 16% of respondents said they weren't sure if an assessment had been done at their facility. The latter figure may suggest a need for greater supply chain awareness among executives at certain facilities, as well as better inclusion of executives from across facilities' varying departments.

While assessing one's supply chain is a crucial first step, almost equally as important is crafting a long-term supply chain strategy that goes beyond cost containment. According to survey results, it's not entirely clear executives are taking that next step. Of those surveyed, 42% still said their supply chain department's biggest priority is cost reduction or containment. Other priorities were widely scattered to include issues such as technology integration, and inventory and logistics operational improvement. When asked about multiple areas for improvement, cost was

also still in the spotlight. The majority (53%) of survey respondents cited cost containment, and 44% pointed to reducing cost per case and clinical variation.

THE IMPORTANCE OF CLINICAL INTEGRATION

For hospitals looking to provide excellent patient care while also reducing costs, a clinically integrated supply chain is more important than ever. Clinical integration—working with clinicians to make more informed purchasing decisions—can support facilities' efforts to provide the best-quality care at the most competitive cost, while also minimizing waste.

On the flip side, there can be numerous consequences for supply chain departments that do not collaborate with clinical staff. A recent Hospital Supply Chain Survey of more than 300 health care providers conducted by Cardinal Health found that a fear of not having adequate supplies was causing 39% of respondents to hoard supplies. In the same survey, 64% of those who responded said that wasting or overutilization of supplies was a major issue.

Our survey suggests a majority (64%) of those polled do have some form of clinical integration in their supply chain. Providers said their organization's clinicians are involved in formalized supply utilization and procurement decisions

through formalized initiatives, such as a multidisciplinary supply chain committee. Such involvement is indeed a positive development, but a sizable minority (24%) admit their organization lacks clinical integration, and only 5% of those surveyed cited clinical integration as their supply chain department's greatest priority.

Respondents said the operating room (27%) and nursing floors (20%) were two top areas where supply-related challenges are the most prevalent. Results suggest that in the operating room and on nursing

69% of executives have conducted a coordinated supply chain assessment, and **53%** have done so in the last two years

floors, clinician preference for specific devices or tools, plus frequent waste, may interfere with a facility's best efforts to optimize cost and quality of care. These are two areas where clinical integration and education could potentially make a significant impact on an organization's performance and bottom line.

The survey also showed that healthcare leaders polled see their facility's group purchasing organization (GPO) as an important, knowledgeable partner capable of helping them achieve better clinical integration. Nearly half of executives (49%) said they believe one of their GPO's most important functions is its ability to integrate clinical and supply data for better decision-making.

Given this finding, providers would be well-served to embrace their GPOs and their expertise. Increasingly, many GPOs are offering supply chain optimization services that include data analysis and benchmarking, market research, and advisory services. A 2014 survey from the American Hospital Association (AHA) and the Association for Healthcare Resources and Materials Management (AHRMM) showed hospitals derive value from GPO's benchmark data (58%), data analytics (51%) and clinical outcomes data (38%).

A SINGLE SOURCE OF TRUTH FOR SUPPLY CHAIN

Ultimately, the responsibility for a successful supply chain falls on a wide variety of roles within healthcare

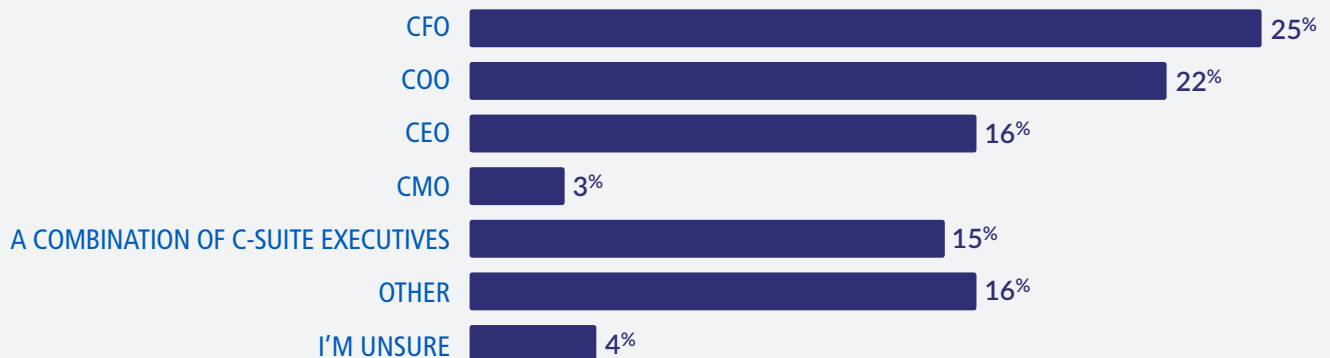
organizations. Our survey showed there was not a single C-suite title that respondents said was held solely accountable for supply chain.

Of those who responded, 25% said supply chain falls to the chief financial officer (CFO), and 22% said the chief operating officer (COO). However, a notable 16% said the chief executive officer (CEO) is ultimately responsible, while 15% said a combination of the CFO, COO, CEO or chief medical officer share responsibility for overseeing supply management. The latter response is concerning, as diluting responsibility could potentially run the risk of creating a "too many cooks in the kitchen" scenario, whereby too many leaders managing supply chain could result in a less than optimal outcome.

What's more, a notable 16% of those surveyed cited "other" titles as responsible for supply chain, with several citing supply-related titles as ultimately responsible, among a myriad of other clinical and non-clinical titles. Results showed 4% said they weren't sure who is ultimately responsible for supply chain management at their organization.

This data illuminates the fact that, to develop a successful clinically integrated supply chain, providers must have clear management. Accountability needs to be clear so clinicians can consult a skilled, confident leader when they have questions about procurement.

WHO IS ULTIMATELY RESPONSIBLE FOR SUPPLY MANAGEMENT IN YOUR ORGANIZATION?



DATA-DRIVEN DECISION MAKING IS KEY

In a world of rising healthcare and medical costs, it's paramount to dedicate time and resources to creating a clinically integrated supply chain that reduces costs while enhancing patient outcomes. Active engagement between those responsible for supply chain and clinicians is key. Failing to facilitate this engagement could be costly, both for the bottom line and for patients, as payers may choose to pass lofty costs on to consumers. Patients themselves, unable to afford these elevated costs, may ultimately decide to forgo expensive treatments that may be crucial to their care.

To truly be successful, organizations must elevate supply chain to a higher level and change the way they look at supply management, treating it as a strategic asset. Sophisticated technology and data analytics have the potential to support this effort, and executives recognize that. Of those surveyed, 35% said their organization can improve their integration of materials management, clinical and financial technology systems.

A separate study by the Global Healthcare Exchange of 50 top provider organizations in the U.S. showed that improving data-driven decision making is the area that supply chain leaders deemed most critical to the future of supply chain. Yet, most organizations still rely on manual counting for some part of their supply chain. The Cardinal Health survey found 83% of respondents still engage in manual counting, even as they indicated that an automated solution could improve patient outcomes and reduce costs. One specific way change can be affected is by revising information distribution systems so that doctors have supply recommendations at their fingertip.

Our survey shows us that providers need not educate themselves about the importance of supply chain—many already understand its critical role in the era of value-based care. But providers must engage in discussions with their executives to better understand how supply chain is managed across their organization and to determine how to most effectively integrate physicians into that effort.

ABOUT THIS SURVEY

Modern Healthcare Custom Media, on behalf of Acurity and Nexera, commissioned Signet Research, Inc., an independent company, to conduct a survey of health-care professionals. The objective of this study was to gain insights into the role of supply management in health systems, and its impact on care quality and financial outcomes.

On September 10, 2018 Modern Healthcare Custom Media sent a broadcast email to a sample of 38,046 healthcare professionals who subscribe to Modern Healthcare, asking them to participate in a survey, followed by two subsequent reminder emails. By the closing date of September 24, 2018, 248 returns had been received. The base used is the total number of respondents answering each question. Survey findings may be considered accurate to a 95% confidence level, with a sampling tolerance of approximately +/- 6.2%.



ABOUT ACURITY

Acurity is a strategic group purchasing organization and supply chain resource for hospitals and health systems. Through their affiliation with Premier, they have combined a regional contracting program with the power of national aggregation to deliver a best-in-class purchasing portfolio. Their leading industry experts identify data-driven methods to support members in lowering total costs while improving outcomes.



ABOUT NEXERA

Nexera delivers tailored solutions to improve hospital and health-system operational and financial performance. Using a value-driven approach that ties total costs and patient outcomes with financial reimbursements, they design engagements around each client's resources and business culture, ensuring that services generate sustainable results.



ABOUT MODERN HEALTHCARE CUSTOM MEDIA

Modern Healthcare Custom Media's dedicated team of writers and researchers develops custom content solutions designed to educate and engage readers. These custom content solutions provide in-depth information on specific trends, topics or solutions that are top-of-mind for healthcare executives.