

Leveraging the supply chain for cost reduction

Hospitals are facing significant financial challenges. Costs are consistently outpacing revenue growth, strained teams are being asked to do more with less, and the cash reserves needed to fund transformational change are dwindling. Hospital financial leaders need strategies to drive cost savings and improve liquidity through supplier payment strategies.

In this HFMA Executive Roundtable, seven healthcare finance executives share their plans for leveraging the supply chain to help reduce costs.

How are the current financial challenges faced by the healthcare industry impacting operational costs for your health system?

FAHD BENJALIL: Labor costs continue to rise. As a result, our margins are shrinking overall. We're looking at many different ways to offset that increase; an example is consolidating the number of vendors we use for certain supplies.

We used to be an all-payer model for orthopedic implants — a capped payment model. To avoid another increase from the vendor, we did an RFP [request for proposal] and shrunk it to a four-payer model to be able to get a discount from the vendors, and we're saving about \$ 1.0 million a year overall. It doesn't fully offset the rising cost, but it helps.

JOSHUA SNYDER: Labor costs have gone up in clinical areas but also in nonclinical areas. We've had to keep pace with higher wages being paid by other employers. Coupled with retirements and burnout, there

just aren't enough people in the workforce to fill the roles, so we're incurring more overtime and agency expense.

In Pennsylvania, there is potential legislation that will mandate nursing ratios. We're already struggling to fill nursing positions, and if we have to have staff at mandated ratios, that's going to make us even shorter from a staffing perspective. It limits our ability to be flexible and nimble.

JUDY WEBB-HAPGOOD: From a supply chain perspective, contracting and standardization are where we have the ability to make a big difference. We need to be aggressive with standardization across the enterprise and utilize a system/enterprise approach to contract strategies. We have to be more strategic and less transactional to include implementing standard workflow across the campuses to maximize on volume and spend as an enterprise. We are also partnering with our clinical champions to get their feedback and buy-in to be able to find areas of standardization and efficiencies across the clinical arena.

Does your organization have transparency into all the costs associated with driving successful, cost-effective vendor relationships?

PAM ALEXANDER: We have robust information on what we've purchased and we're starting to merge that with volume data from our decision support system. We're trying to hone in on improving direct supply cost accuracy for cost accounting,

and building metrics with volumes and summarized product categories.

When you look at higher level trends in a product category, you can see that the mix of the products we're purchasing is driving significantly increased costs. Our contracts can hold flat pricing at the SKU level, but vendors are getting very creative on convincing physicians to use higher-cost, more complex products for patients. This drives higher average cost per case for similar procedures.

SNYDER: We also struggle with vendors coming in and talking to the doctors about the latest and greatest, and we could do a better job at limiting, at least in the hospital, the vendor's access to the physicians. A lot of the new products that physicians ask for are the result of a vendor just saying, "Hey, you guys should try this new thing." We could do a better job policing that.

Going back to transparency, we're able to see the cost per case on certain things, and where there is variation in practice. The data is there. I think the struggle is how to decipher it, and where do you go from there?

You almost need a dedicated resource in supply chain who's going to look for trends and opportunities. Get the information in front of the physicians and say, "Hey, you're using 20 screws where your counterparts are using 10," or "Everybody else is using this product that is cheaper, can we talk about changing it?" They're pretty business-minded and they understand we've got to maintain a margin as well.

BENJALIL: Being able to share data and being transparent with the surgeons has

helped us tremendously. We've partnered with supply chain and finance to develop dashboards that are being shared with physicians. For example, we provide orthopedic surgeons with a cost per case and where there are opportunities to save.

When you are transparent with them, you can say, "Here is where you're landing today. If this was your own practice, you would be mindful of your expenditures, so why not do it together for hospitals?" Many of them are excited to look at their data and sometimes they're very competitive with each other. When you show them the average cost per case, and their personal average is higher than the other surgeons, they want to do better.

NATE SMITH: Data is everything and if it's not clean and if it doesn't have integrity and if you can't aggregate it from multiple sources, it's really hard to do anything with it. I hear lots of talk about AI being able to do a lot of the data analysis these days on behalf of customers and buyers and supply chain and finance. We're not there yet, but there's a need for it, and it's a huge industry problem and challenge to solve.

How does your organization look at payment automation, cost savings and financial value?

ALEXANDER: We're pretty advanced in our use of payment automation and the various programs out there to generate rebates. We're embedding language in our contracts with our GPO. We have a product for everybody. We talk with some systems that are focused on getting to no checks, but we believe checks are a painful necessity to be able to get that value equation.

We start people out with checks and extended terms because then we get their conversation, we get their excitement to come to the table and we say, "Yes, we'll give it to you in an automated fashion, and we'll help manage your DSO [days sales

outstanding], but we need to start with what we get for that." We've got different programs for different size suppliers and it's really a complicated balance. Every day there's something new that comes out, and every day some supplier is pushing back.

TODD ANDERSON: Some of the lower hanging fruit is areas that have matching of routine transactions. For example, if you have any non-PO [purchase order] items and you can transition into an electronic PO matching to an electronic invoice, that cuts out some manual transactions and may add additional internal controls.

Also, there are some areas on the fraud and abuse side where you can match certain types of transactions and certain types of data elements in cross modalities, maybe a supply chain vendor file to something on your human resource file. As you increase usage of AI, you need to make sure that you're using the right technology, you have the right assumptions built, and you have some checks and balances built in.

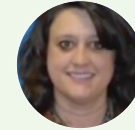
Getting data and crunching data is the easier part. Interpreting data is harder and takes more time and skill. Automation can solve a lot of the routine items, but we need to take more thought to first make sure we have the right technology and the right assumptions in our selection of AI items.

BENJALIL: You don't want to automate everything all the time. You want to automate where it makes sense. Invoices and POs, those are areas that could be automated. However, we have seen errors happening by the automation processes. I think it's a slow progression into what will ultimately become AI-driven, but now, we're still trying to figure it out.

For example, we had a capital purchase of some equipment, and the vendor was requiring a PO to be itemized. When the PO was entered in the system as itemized, it created an issue with our system and now the supply chain team had to go back, delete the existing PO, delete every single line item, and

HFMA Executive Roundtable

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re-enter every single line item in a different way. That was part of being automated, but it created more work for supply chain when they could have just issued it a lot more easily in one single line item.

DOMINIC SERPICO: Our procure-to-pay process is mostly automated, but some managers have automation fatigue. They might complain that an invoice hasn't been paid but the invoice may be sitting in their inbox to be approved, so as soon as they approve it, we'll pay it.

We're figuring out how to balance this process, but this can be fraught with problems. No outright fraud, but I'm sure we've probably paid an invoice or two that's snuck in as a part of a PO. It's so hard to stay on top of it when you've got 10,000 transactions a day. I think we need to catch up with it and be thoughtful on the process, but I don't know what the ultimate solution is.

How does automation across the procure-to-pay process factor into your cost savings strategies?

WEBB-HAPGOOD: We're utilizing an automated e-commerce platform. This makes it easier for our users and provides a seamless acquisition process. If you set up your business rules according to your policies and processes, it will decrease discrepancies and match exceptions, which in turn will assure accurate pricing and timely payments. It has also assisted us in capturing

administrative fees and rebates that we've lost in the past because our user would order non-contracted items. It has significantly decreased rogue ordering plus given us better reporting and analytics on purchasing trends which in turn gives us a better lens on our spend management.

With all the staffing shortages, we don't have the bandwidth or the resources to be watching everything that's being ordered. If you can do it in an automated way, it's much simpler for everyone involved. An example of this was listening to our staff in the lab. They order reagents and testing supplies daily and weekly and asked if there was a way to make it easier for them. We put their daily and weekly items in our e-commerce site and now all they have to do is click and order. There was no more hunting for items, and we saw their purchasing discrepancies decrease. The managers tell us they don't spend an hour every day approving purchase orders or hunting for items. They actually praised supply chain which was a big win for everyone. That little bit of success helped us build those clinical relationships and trust, which has allowed us to do bigger projects which in turn have resulted in significant savings.

ALEXANDER: Supply chain being part of the clinical areas is a necessity, not a desire. We're in there making sure that the products they need are on the shelf and we're using handhelds, getting those orders placed. As long as they're being managed with a preset order quantity and reorder triggering scenario, a vast majority of our

small products are predefined. Punch outs and more structure in the procedure areas are for those high dollar items that you really want to manage. That all helps to make your transactions common and makes your data analysis on the back end easier.

What technology has your organization considered to reduce costs and automate your operations?

SNYDER: We're in the middle of implementing a new cloud suite that's supposed to help with the automation. The goal is to have finance, revenue, supply chain and contracting systems all talk to each other. There's a lot of rework that goes on with matching POs, and we're hoping this suite will help with that.

BENJALIL: We've put in place automation, and we're allowing the system to automatically round up the PO by a certain percentage. The thresholds are vendor dependent, which has helped us tremendously not having this back and forth about whether your PO is 12 cents short or 12 cents too high.

In addition to that, handheld scanners for inventory purposes have been helpful. We're also streamlining the purchasing process at each entity. This will allow more control of the par levels and know which department or cost center needs what. We anticipate a pretty significant amount of savings by implementing that. ■



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