



HEALTHCARE

Shifting the healthcare supply chain paradigm

Rising costs, payment model shifts, and increasing patient consumerism are placing increasing financial pressure on healthcare organizations. The resulting climate is forcing organization to find new ways to maintain margins. One area that forward-thinking healthcare organizations are focusing more strategically on is healthcare's second highest cost: supplies.

The US Centers for Medicare & Medicaid Services [reports](#) that of the \$3.5 trillion in national healthcare expenditures in 2017, \$64.1 billion was spent on nondurable medical products, while \$54.4 billion was spent on durable medical equipment.¹ The Centers for Medicare & Medicaid Services goes on to [project](#) that US healthcare expenditures will reach an all-time high of \$6.0 trillion by 2027, with \$105 billion of that spent on non-durable medical products, and \$97.8 on durable medical equipment.²

To combat these mounting costs, healthcare organizations need to develop new processes and strategies around the supply chain that maintain cost efficiency, while still delivering quality, outcome-based patient care.

From traditional to transformational

To help drive supply chain efficiencies that yield significant cost savings, healthcare providers traditionally employ a variety of different strategies to gain true visibility into their supply chains' capacities. While these efforts can generate positive results, they can only reach so far. Resource constraints and not prioritizing the supply chain often mean that supply chains are not tied to patient outcomes.

However, with the rapid adoption of interoperability that extends across both clinical and operational systems, it's becoming easier and much less time consuming to connect these systems. This creates the ability to analyze supply utilization and efficiencies at the patient care level. This digital evolution is driving healthcare organizations throughout the US to examine their supply chain management and processes with a fresh, patient-centric perspective.

A patient-centered supply chain pulls clinical, supply, and financial functions together with built-in analytics that can be used to identify the best supplies with the most positive impact on care to create efficiencies, such as:

- Better understanding the costs of care and cost variability
- Predicting expenditures more accurately
- Negotiating more favorable contracts
- Standardizing on a core set of products
- Reducing unnecessary variation

The power of the patient-centered paradigm

With optimum outcomes at the core of a healthcare organization's mission, cost savings can't result in compromised care. That means supply utilization needs to be incorporated as a consistent and expected part of the care process.

The patient-centered supply chain approach at work

- Automates the physician order in the electronic medical record
- Pushes the order to an offsite consolidated service center
- Triggers and automates the packaging and delivery of patient- and/or procedure-specific kits
- Tracks orders in real time for inventory management

A patient-centered supply chain joins supply systems with electronic medical records to help support better care, healthier populations, and lower costs—the “**Triple Aim**” of the Institute for Healthcare Improvement.³ This framework should also include an organization's quality and safety objectives—a perspective that requires a fundamental redesign of how supplies are selected, moved, and delivered to the patient care setting. To remain sustainable, this framework also requires a shift in organizational culture.

Engaging the physician

According to Navigant, healthcare organizations with high performing supply chains “**engage data-driven physicians on standardizing use of physician preference items and medications proven to produce clinically equivalent outcomes at a lower cost.**”⁴ For this to work, physicians need to be presented with insightful, compelling data that they can trust. Providing accurate information about their supply preferences and tying those selections to patient outcomes can strengthen physician decision-making and encourage physicians to be involved in the careful selection of supplies.

It seems that healthcare organizations agree. According to a CAPS Research Report, 83% of organizations identified “**Physician alignment with supply chain goals**” as one of most important supply chain issues.⁵

Patient and staff satisfaction

With a patient-centered supply chain, all the necessary supplies are already in the room when the caregiver arrives to take care of the patient. It's common knowledge in the healthcare industry that busy nurses and patient-care technicians tend to hoard items to reduce time-wasting trips to the supply room, which may be hundreds of feet away from patient rooms. Supply hoarding translates into significant material waste when unused supplies are left in patient rooms or caregivers forget where they stashed items. This results in waste and lost dollars when those supplies are thrown away because they are expired, contaminated, or lost.

The challenge of market forces

Much like large retailers, such as Walmart®, today's healthcare organizations need centralized storage and distribution—especially in an era of mergers, acquisitions, and affiliations. As organizations grow, the potential for fragmented supply management increases. By **centralizing distribution**, organizations can see significant efficiencies and cost savings.⁶

But it's not enough to simply house supplies in one system. Beyond that, robust, intuitive analytics that look for ways to improve efficiencies are also needed to support a culture of continuous improvement across the supply chain as organizations use purchasing power to achieve economies of scale. The right information also helps organizations better adhere to physicians' preferred items and medications.

Benefits of a patient-centered supply chain

- Reduces supply room visits
- Deploys supply technicians, rather than nurses, to handle supply deliveries
- Saves time by putting the right supplies where and when they're needed
- Reduces the delay to patient care
- Keeps caregivers where they need and want to be: at the patient's side.

Care quality—the ultimate goal

Today, most care outside of emergency rooms is reactive. For example, if a physician decides to have a patient's feeding tube changed later in the day, the nurse typically has to spend time first collecting the required supplies. In a patient-centered supply chain, the hospital's clinical staff predetermines the items needed for the feeding tube change and sends the order out to a consolidated service center, where those supplies are proactively picked, packed, and delivered. This allows the nurse to spend more time with the patient, focusing on direct patient care. Connecting the supply chain with clinical care helps to codify and ensure the use of best practices and evidence-based medicine. When these strategies are applied across the continuum of care, organizations can reap benefits, such as:

- Reducing avoidable readmissions
- Decreasing the number of hospital-acquired infections and other adverse events
- Increasing compliance with the **Core Measures** of the Centers for Medicare & Medicaid Services⁷

The patient-centered supply chain

As healthcare organizations are challenged—more than ever before—to build patient loyalty and keep costs down, organizations must stay focused on patient-centered practices across all areas. And the supply chain is not immune. The implementation of a patient-centered supply chain creates the connections and focus needed to deliver the value and cost-efficiency that consumers, governments, and payers are demanding.

Healthcare supply chain trends and issues

According to a [CAPS Research survey](#), supply chain management procurement professionals identified these as the 12* top-most noteworthy trends and issues:⁸

1. Managing supply costs
2. Integrating the supply chain throughout the organization
3. Using data analytics
4. Improving data transparency across the organization
5. Expecting savings from supply chain performance
6. Using supply chain performance benchmarks
7. Integrating supply chain data with clinical data**
8. Building trust with supply chain partners**
9. Enacting cybersecurity
10. Physician alignment with supply chain goals
11. Achieving information technology integration
12. Managing financial risk in the supply chain

1. Centers for Medicare & Medicaid Services, National Health Expenditure Data: Historical, December 11, 2018.

2. Centers for Medicare & Medicaid Services, National Health Expenditure Data: Projected, February 26, 2019.

3. IHI Triple Aim Initiative, Institute for Healthcare Improvement.

4. Hospitals' Supply Chain Savings Opportunity Increases to \$25.4 Billion a Year, Navigant, October 18, 2018.

5. Eugene Schneller, CAPS Research, 2018 Healthcare Supply Chain Trends/Issues, Healthcare Purchasing News, July 22, 2018.

6. Jeff Lagasse, Looking to slash hospital supply chain costs? Centralizing operations is one way to do it, Healthcare Finance, January 24, 2019.

7. Core Measures, Centers for Medicare & Medicaid Services, July 28, 2017

8. Eugene Schneller, CAPS Research, 2018 Healthcare Supply Chain Trends/Issues, Healthcare Purchasing News, July 22, 2018.

* Many of these issues also take into consideration outcome and quality in relation to cost.

** Items 7 and 8 had the same number of respondents

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