

Inside Perspective

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Supply Chain Management Opportunities—How technology can help

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Materials Management—much like finance, human relations, and medicine—is both an art and a science. The art of materials management is applying people skills such as leadership, communication, judgment, persuasion, and negotiation. The science deals with the technical facets of purchasing, vendor agreements, negotiations, inventory management, production, processing, laundry, and so on. One aspect cannot exist without the other.

Simply defined, materials management is an integrated system of functions and departments responsible for getting materials from the point of origin (manufacturer) to the point of use (patients and/or departments).

The objective of materials management is to provide the right items, in the right quantity, to the right place, at the right time, for the right (i.e., lowest total) cost. The complexity of the interrelationships within a hospital organization supporting the flow of supplies underscores the fact that materials management can have a profound effect on the entire organization—as well as the hospital's budget.

Materials Management is responsible for the hospital's supply expense, which may represent as much as 46% of a hospital's cash outflow. This is enough to get an executive's attention, and it has become clear that it is easier to have a positive impact on the bottom line by managing or reducing costs than by focusing solely on managing or increasing revenues.

With increasing reimbursement restrictions and the cost-cutting initiatives of managed care organizations, hospitals have been forced to continuously reexamine their operational costs, including supply-related costs. Today, hospitals are seeking greater improvements in operational costs through a variety of means, such as:

- Product standardization
- Value analysis
- “Just-in-time” (JIT) inventories
- Electronic data interchange (EDI)
- Group purchasing organizations (GPO) including rebates and lower membership fees
- Shared services
- Inventory controls
- Prime vendor distribution agreements for medical surgical supplies as well as pharmaceutical
- Negotiation of freight costs
- Review of vendor maintenance agreements and other service agreements

To create a win-win situation for all players while lowering costs across the entire supply chain continuum, organizations must take a hard look at the way they do business, both internally and externally. The overall goals can be achieved only through a combination of process improvements and the application of technology.

Hospitals can benefit a great deal financially when materials management staff members run a smooth, efficient Supply Chain Management (SCM) process and are committed to the GPO in which the hospital is a member. Supply cost savings generated through these activities can be

significant, and the money can then be invested in new technologies. The application of technology will enhance a hospital's ability to streamline more SCM processes and this, in turn, may reveal even more additional opportunities to reduce costs.

Technology can definitely deliver value to the organization in a number of ways, not all of them obvious:

- Aggregation of suppliers and their products through electronic catalogues and one-stop shopping capability, which can result in better pricing and lower product costs
- Connectivity between suppliers and buyers in smaller markets and buyers of lower volumes, which may improve pricing in areas underpenetrated by GPO's
- Efficiency in pricing for buyers, for example, via access to updated information on pricing and contracts
- Efficiency in procurement for buyers
- Improved inventory management on a just-in-time basis across the supply chain
- Reduced cycle times in the fulfillment of transactions
- Automatic triggers of replenishment through end use monitoring systems
- Synchronized databases across supply chain partners
- Collaborative planning, forecasting, and replenishment with suppliers and customers
- Dynamic re-planning, forecasting, and replenishment with suppliers and customers
- Improved quality of information flows by reducing the number of errors
- Rationalized reimbursement using electronic payments and automatic reconciliation of rebates at the point of sale
- Enhanced change management and partnering along the value chain as vendors and providers alike adopt e-commerce technology and share data

Many—even most—of these benefits can be achieved relatively simply, starting with a clear focus and a sound Supply Chain Strategic Plan. JJWild has been committed to improving the SCM processes both through technology enhancements and our Materials Management consulting services. If you would like to explore the possibilities for your own organization, we're ready to help. Contact us at editor@jjwild.com.

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