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Strengthening the Small Hospital Supply Chain: Big Opportunities, Big Savings

Rural hospitals realize considerable savings with a renewed focus on the supply chain.

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It's a difficult time to lead small, rural hospitals. Many face increasing expenses, decreasing reimbursement and a declining patient population. The need to reduce costs is as important as ever. Where should hospital leaders target their efforts?

Many rural hospitals are able to realize considerable savings with a renewed focus on the supply chain.

"Supplies are your second highest expense after labor," says Denise Murray, chief executive officer of Carolinas ContinueCARE Hospital at Kings Mountain, a 28-bed long-term acute care hospital in Kings Mountain, N.C. "You need to focus on it because that is the biggest area you can impact."

However, many smaller facilities struggle with supply chain management.

"In rural, community hospitals, the purchasing function as it relates to supply chain is often decentralized," explains Tony Ybarra, senior vice president for CHC Supply Trust, the supply chain services arm of Community Hospital Corporation (CHC) and CHC Consulting. "What we find is you may have the lab manager, engineering, housekeeping and even multiple clinicians placing orders and performing a supply chain function without knowledge of or access to contracts, contract pricing, purchase orders or the materials management information system module. This leads to fragmentation."

Rural facilities also lack the scale large systems can draw upon for volume discounts.

"We're small, so we don't have the purchasing power that we would as a large facility," says Tracie Haughey, chief financial officer of Wills Memorial Hospital, a 25-bed critical access hospital in Washington, Ga. "When you do not have good purchasing power, you have the tendency to pay higher prices."

Many small hospitals believe that becoming a member of a group purchasing organization (GPO) will be a surefire way to access better prices on supplies, but that is

not necessarily the case, notes Troy Bruntz, CPA, FHFMA, vice president of finance and chief financial officer for Community Hospital, a 25-bed critical access hospital in McCook, Neb.

Simply being part of a GPO isn't enough. Hospital leaders must ensure the GPO is providing considerable savings for even its smallest partners, says Bruntz.

Improvements possible—and plentiful

But there's good news: There are many ways small hospitals can work to overcome these obstacles and achieve substantial savings in the process.

A significant step for Community Hospital was to explore alternatives to its existing GPO, says Jon Reiners, the hospital's director of materials management. "One of the keys is finding a partner that aligns with your interests and understands your struggles. There are different struggles in a smaller facility."

Bruntz adds, "Now we belong to a group in which we're all pretty much small, and I think everyone is looking out for us. It's about finding the right fit."

Wills Memorial found such a partner with [CHC Supply Trust](#), Haughey says. "When we entered into our strategic support agreement with CHC, that gave us a higher tier of purchasing power with the GPO to which we already belonged. We were on the lowest tier available for the purchasing power, but with CHC, we're now on their highest tier. That has allowed us to see tremendous savings with our overall supplies."

Gaining access to supply chain financial metrics can provide insight into trends and areas for improvement. In fact, investing in supply chain-related resources has yielded significant savings for Community Hospital. "We have invested in automation and some analytics tools that have definitely helped us," Reiners says. "You need the right infrastructure in place to be able to realize some of those savings."

Part of that infrastructure included the addition of a new staff member. "We invested in another staff person within the operating room (OR) to help manage those supplies," Bruntz says. "Before that, the clinical staff was basically managing what was going on in the OR. It can quickly pay for itself to have the right skill set managing supplies."

Data from CHC indicate that about 45 percent of a small hospital's supply inventory is found in the OR and 35 percent is in the pharmacy, with the remaining in General Stores and spread throughout the hospital. While it is common for the person managing the supply chain to focus his or her efforts on the General Stores supplies, the opposite should be occurring. "We want them to manage the OR and pharmacy because those are the two biggest, high-cost areas from a supply chain perspective," says Ybarra.

While it may be helpful to reorganize management of the supply chain, efforts to improve spend need to fall on the shoulders of more than just one or a few individuals.

"When you have a small organization, if you don't have engagement at that department manager level, it causes problems across the board," Haughey says. "We have been

very successful in not only cleaning up our processes but also engaging the whole hospital to help us do so. That's been a mission from our C-suite's standpoint: to be as transparent as possible while we are making decisions."

Remain vigilant

If leaders of small hospitals want to achieve significant supply savings, they must focus on their specific needs and challenges, Bruntz says. "We don't ever assume that a hospital larger than us is actually smarter than we are at this stuff...you just have to focus on yourself. If you're not looking out for yourself, who will?"

It is also imperative for leadership to always keep a close watch on supply costs and usage.

"To manage a healthcare facility nowadays, especially a small rural hospital, you have to juggle so many balls at one time," Murray says. "While you always want to do what is best for the patient, you have to be cost-conscious as well. You have to be good stewards of your resources or you will find yourself with no hospital to run."



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* Based on 2015 analysis of 11 community hospitals comparing CHC Supply Trust prices to those of leading GPOs.

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