

Optimizing Supply-Chain Costs for Community Hospitals



The ability for community hospitals to fully optimize supply-chain costs remains crucial to providing the highest-quality care possible and staying financially independent in today's rapidly changing and unpredictable healthcare environment.

To best illustrate this point, the COVID-19 pandemic signaled a wake-up call for those managing hospital supply-chain systems. The outbreak quickly exposed vulnerabilities in the supply chain that threatened the safety of healthcare workers and patients and, in many cases, led to soaring costs for PPE, ventilators and other critical medical supplies.

But even before the pandemic hit the U.S., healthcare supply-chain management expenses were surpassing labor costs for many hospitals, and smaller hospitals were among those hardest hit with these escalating costs.

Optimizing supply-chain expenses has taken on greater importance due to a continuing trend of rising prices. Purchased services and supplies currently represent half of hospitals' operating expenses, but those costs are headed upward. For instance, hospitals are now paying between 20 percent and 30 percent more for PPE compared to pre-COVID-19 prices, and may pay as high as 40 percent more for some supplies in the near future.

For community hospitals to remain independent, they require access to resources that reduce costs as they continue to grow. Achieving cost savings through economies of scale is particularly important with current market dynamics.

Recommended Supply-Chain Strategies for Community Hospitals

Here are some recommendations on how flexible and proactive supply-chain strategies can enable community hospitals to improve their financial health amid declining reimbursements, higher fixed costs, decreasing patient volumes and future uncertainties.

Optimizing Inventory of Critical Supplies

- Hospitals and other healthcare providers learned during the pandemic that they can no longer count on traditional supply channels or methods during a period of prolonged disruption, such as when Chinese healthcare manufacturers temporarily shut down production or when federal government agencies ran out of medical supplies early on in the outbreak. To avoid further shortages, hospitals should adopt a hybrid model that involves stockpiling critical supplies

but keep on-hand an inventory of non-PPE supplies that don't exceed 90 days.

Update Safety Stock and Pandemic Response Procedures

- Hospitals with available space and resources should stockpile PPE in greater volume, in order to prevent running out of supplies that many hospitals had experienced during the pandemic. Hospitals can store PPE inventory in a hospital-owned offsite warehouse, or pool resources with other hospitals. Policies and procedures also should be updated to reflect the possibility that another outbreak might trigger certain regulatory mandates.

Pooling and Coordination of Resources

- Hospitals should strategize with other regional healthcare providers, even if they are competitors, on how to reduce risk by creating and managing their own local stockpiles (whether they are stored separately or in a shared, centralized location).

Leverage Technology

- Vendors usually accept electronic data interchanges (EDI) that allow hospitals to automatically track orders, confirmations and deliveries. Hospitals without an EDI system should explore costs of this technology, as automation and good data are vital to increasing supply chain efficiency.

Expand Supplier Base

- One major problem facing hospitals in the pandemic is that many of them relied on only one or a few suppliers, resulting in shortages of PPE and other supplies. Hospitals should instead determine whether their GPO is diversifying its product contracting strategy and developing relationships with non-contract and non-traditional suppliers. It is also wise to prepare to alternatively source products in case of another disruption in the supply chain.

Collaborate with Clinicians

- Hospitals scrambling for alternatively sourced supplies during the pandemic clearly demonstrated the need for direct communication between hospital supply-chain leaders and clinicians. Clinicians are more likely to accept supply-chain management's goals and strategies, and the change that supports those objectives, if they are involved in decision-making early in the process.

Choose the Right GPO and Supply

- Chain Services Provider—Some smaller community and rural hospitals experienced severe shortages of PPE and other scarce supplies when more of the supplies went to larger hospitals or healthcare systems during the pandemic. The situation led to greater reliance by smaller hospitals on having the right GPO in place to serve their needs at all times.

Questions to Ask in Search for a GPO, Supply-Chain Services Provider

Hospital management should ask the following questions when searching for a GPO and supply-chain services provider, such as:

- Can a GPO quantify savings for your hospital if you join?
- What does the GPO deliver besides cost savings?
- Does the GPO have a diversified product contracting strategy?
- Can a GPO or supply-chain services provider help with alternative sourcing?
- Will a GPO “ghost” your small hospital when supply can't meet demand, especially during public health emergencies?
- Does the GPO have clout and leverage? Holding the line on supply chain costs is, or should be, a top priority for community hospitals, regardless of size. The right GPO negotiates with your best interest in mind, resulting in lower supply costs and a better savings margin which can free up funds for capital improvements and strategic hires.

- Does a supply-chain services provider support ongoing data analysis? CHC Supply Trust's spend analytics and reporting keep supply purchasing, monitoring and compliance on track. For example, our compliance reporting helps to ensure that purchase orders are completed correctly to avoid order delays.
- Will a GPO go the extra mile to ensure medical supplies are made available to hospitals facing shortages? For example, through CHC Supply Trust's innovative sourcing for its members, one CHC hospital client was able to purchase about 10,000 face shields produced by a chocolate maker that shifted its manufacturing operations to make shields for healthcare workers during the early stages of the pandemic.

CHC Supply Trust can answer those questions and provide guidance for community and rural hospitals requiring supply-chain efficiency and resiliency that will better prepare for supply-chain disruptions, offset costs related to COVID-19, and help reduce supply-chain waste. CHC Supply Trust is the supply chain services arm of Community Hospital Corporation and CHC Consulting.

CHC Supply Trust raised the bar in helping member hospitals during the pandemic and provides significant savings in supply costs to community hospitals through its long-standing relationship with HealthTrust, one of the nation's leading group purchasing organizations (GPOs), which has helped to mitigate price increases for CHC Supply Trust members. As a result of this relationship, CHC Supply Trust offers top-tier pricing for community hospitals regardless of their supply spend.

To find out how much your hospital can save in supply costs, CHC Supply Trust offers a complimentary supply spend analysis that compares the cost of items that your hospital currently spends to member pricing for those same items. For more details, contact Phil Trent, VP of Business Development, CHC Supply Trust, at (972) 943-1204 or ptrent@communityhospitalcorp.com.

