ONLINE EXCLUSIVE

Finding savings where you least expect them

Learn how one health system cut its supply costs by more than 22 percent

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As provider organizations cope with declining reimbursements, professionals are starting to recognize that nonsupply categories can offer tremendous untapped potential. This category, which includes telecommunications, information technology, back office and utilities, may only account for 16 percent of operating expenses but offer a savings of up to 50 percent of what is spent. And that equates to an 8 percent savings on total operating costs.

While most provider organizations rely on group purchasing organizations (GPOs) for supply purchasing, nonsupply purchasing can be fractured and transactional, which causes a multitude of inefficiencies, including:

- Numerous suppliers becoming embedded within their respective departments
- Negotiations often led by functional departments, and pricing established as early as the first budgetary quotes that a vendor provides

Strategic sourcing of nonsupply purchased products and services can be less disruptive than sourcing core supply products and physician preference items because they generally require limited involvement of the medical staff and, therefore, can be driven independently by the supply chain organization. However, the savings opportunity can be significant when organizations can achieve the same discipline and focus on indirect spending as they have on the supply side with GPOs.

One approach is to increase incrementally the procurement organization's scope to take on additional nonsupply categories if a group has the internal resources and infrastructure to do so. Building the internal knowledge, experience and processes necessary to achieve GPO-level efficiencies for nonsupply purchased services requires an investment of time and human resources.

WellStar Health System in Marietta, Ga., has invested in its sourcing capabilities. The system includes five acute care hospitals, five urgent care centers, 14 imaging centers and more than 100 medical group offices. The system was named 2011 Supply Chain Department of the Year by *Healthcare Purchasing News*.

When Anthony Trupiano, vice president of supply chain, joined WellStar in 2008, his initial focus was on clinical supply procurement. Since 2009, Trupiano's team has cut supply cost per adjusted discharge by more than 22 percent. Now the team's focus has shifted to include nonsupply items.

"About 18 months ago, we started to tackle some of the purchased services," Trupiano says. "We formed a team to review opportunities starting in descending order with certain high-cost purchased services — such as ambulance services — and worked our way through a good portion of those items. Unlike medical surgical supplies where we tend to see 3 percent to 5 percent reductions, the opportunities in purchased services can be upwards of 40 [percent] to 50 percent, depending on the product category."

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Trupiano's efforts are supported by a program called Opportunities 2012 that brings together WellStar's senior leaders to explore cost savings in supply chain and purchased services. It also reviews revenue enhancement, clinical utilization and the development of Lean processes. The steering committee provides senior level support for initiatives aimed at increasing revenue and reducing cost.

"Having only been at this a little over a year, we wanted to focus on the high dollar [opportunities] first," Trupiano explains. "We've looked at transcription services, waste management, parking services and neurological monitoring, and there have been some pretty big opportunities. But we still have a ways to go."

"With reimbursements continuing to go down, we have to look at total cost," he adds. "In the future, instead of being paid per episode of care, we're going to be paid based on outcomes. So we have to be focused on products that ensure our clinicians are providing high-quality care at the best cost possible."

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The savings opportunities within these areas create a compelling financial reason for provider organizations to accelerate their focus on how much they spend in the nonsupply category.

Nearly two years into its purchased services initiatives, WellStar has worked through about 60 percent of its total purchased services, Trupiano estimates.