

Boosting efficiencies in hospital supply chain.

Strategies for managing
your supply chain and
procurement costs.

Prepared by:



ARAB HEALTH



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A cost-effective and efficient supply chain is an integral part of a hospital or medical facility’s functioning and is one of the main tools in maximising a provider’s revenue. In fact, the cost of a hospital supply chain is only second to labour cost representing a huge burden on the efficacy of a healthcare facility. This is particularly important given the current economic environment with governments in the Gulf Cooperation Council (GCC) working hard to provide universal healthcare across the region.

Alpen Capital estimates that current healthcare expenditure (CHE) in the GCC is projected to reach US\$ 104.6 billion in 2022 from an estimated US\$ 76.1 billion in 2017, implying a CAGR of 6.6%. Expanding population, high prevalence of NCDs, rising cost of treatment and increasing penetration of health insurance are the factors auguring growth. Between 2017 and 2022, CHE on outpatient services is predicted to grow at an annualised average rate of 7.4% to US\$ 32.0 billion, faster than an anticipated CAGR of 6.9% on inpatient services to US\$ 45.4 billion. So with an expanding population, the rise in costs of managing the burden of chronic diseases such as Type 2 Diabetes and cardiovascular disease, poor infrastructure, increasing penetration of health insurance, and acute skills shortages, the entire hospital supply chain needs to be carefully streamlined and managed to reduce rising healthcare costs and improve quality.

According to Takudzwa Musiyarira, who is a Transformational Health Research Analyst at Frost & Sullivan, healthcare financing is one of the major challenges for most organisations, particularly the private sector which has access to patients using both private and public health insurance.

“Public-private partnerships assist through cost-sharing among stakeholders, reducing the financial burden, and may include co-payments for health insurance claims. This enables both private and public sectors to save on costs while increasing efficiency,” he explains. “It is important for a healthcare facility to ensure its supply chain is managed effectively in order to cut costs and thus manage any revenue fluctuations.”

Two popular supply chain cost-saving methods that can be used are self-management and the Japanese-inspired just-in-time method. As Musiyarira explains, the self-management method essentially cuts out the middleman, who may be a distributor or other third-party suppliers. This method requires the healthcare facility to engage directly with the manufacturers of pharmaceuticals and medical suppliers, for example, and negotiate the best deals. However, this may require a proper inventory management system. “Additionally, for larger hospital groups, there is the additional advantage of collective purchasing through economies of scale. This results in further cost savings,” Musiyarira adds.

The just-in-time option focuses on keeping only important items

in the inventory and sourcing the rest as and when needed. This however, requires an efficient distribution system to ensure lead times are short and not negatively affect patient care. This method also reduces overstocking which sometimes leads to the expiry of stock in storage, particularly for pharmaceuticals. Ultimately costs are saved due to reduced wastage.

“Other methods of cost control involve the digital transformation of a healthcare facility,” says Musiyarira. “The use of digital tags placed on all forms of inventory can be useful in tracking movement of stock, thereby automatically notifying the supply chain manager if they are running low. This ensures effective stock and cash flow management, focusing spending mainly on necessary and current costs.

A much-needed transformation.

According to Federico Mariscotti, who is a vice president in A.T. Kearney’s Procurement & Analytic Solutions Practice in the Middle East, most GCC healthcare systems have put third-party spend into too small of a box tagged with a narrow definition of procurement: basic tendering and material handling. He says much bigger benefits can be achieved if hospital management gives procurement a more advanced role and that there are four regional challenges that tend to thwart attempts to reduce costs:

Doctors’ diverse backgrounds. GCC healthcare systems are staffed with doctors from around the world. This unique diversity of backgrounds brings with it an endless array of preferences for medical equipment, consumables and pharmaceuticals, making it difficult to standardise using basic methods.

A skills shortage. There is a lack of procurement professionals who specialise in healthcare, and local schools do not offer courses to train the workforce in healthcare supply chain management. Therefore recruiting category managers who are key to driving the advanced techniques is exceedingly difficult.

Procurement’s low status. Even when limited procurement skills do exist, suppliers’ functions are often seen and operate as a transactional entity that simply purchase goods and services under instruction from doctors and others. Few hospitals give procurement

a genuine voice in which products are purchased.

Competitiveness of the local supply market. Local companies often have exclusive rights to international products and brands and distributor mark-ups can double costs. A nascent manufacturing sector means a limited local market for even basic products.

In response, Mariscotti outlines four sourcing strategies can deliver substantial and sustainable cost reductions:

Change specifications: optimise what you buy. Hospitals have an excessive number of products, primarily because of a lack of governance and control mechanisms. For example, in the GCC, doctors and nurses often have a choice in which gloves they buy. Because of variations in personal preferences, hospitals end up purchasing a wide variety of gloves. In more advanced hospital settings, purchasing departments have a strong influence over the final decision.

“One hospital system we worked with was buying three brands of infant formula with identical specifications but vastly different prices,” Mariscotti explains. “By standardising to the most affordable option, the company reduced its costs for formula by 70% with no negative impact on the standard of care.”

Reduce demand: decrease waste and underuse. GCC health organisations have expanded quickly to meet the population’s needs, often without setting up clear rules for spending. Because of this, many warehouses are full of an assortment of items, often in quantities which invariably leads to a lot of it becoming obsolete and being thrown away. According to Mariscotti, policies contribute to stockpiling because many hospitals have a use-it-or-lose-it budgeting practice that results in unnecessary purchases. “What’s lacking is rigorous planning with stock thresholds and governance mechanisms that define what is desirable and what is excessive.”

Leverage competition: do things better. Despite the region’s healthcare market being relatively small, two factors give it a big bargaining power: the growing and ageing population and the fact that GCC countries tend to be cash rich and have demonstrated a willingness to invest in healthcare. This makes the region attractive for companies with an eye on growth. For example,

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the United Arab Emirates is among the world's top improvers in terms of its business environment, and the government is committed to attracting foreign direct investment. Too often, however, negotiating power is lost because of poor planning. "For example, one company we worked with was buying blood-collection tubes from the same supplier every few months but at hugely variant price points, primarily because orders were being placed by different hospitals," says Mariscotti. "Combining demand and establishing long-term contracts lowered the cost of the tubes by 74%."

Partner with the right vendors: choose your suppliers wisely.

Mariscotti says that identifying strategic vendors and forming meaningful partnerships can create the right conditions to benefit both the hospital and the supplier. For example, a hospital in the United Kingdom has a long-term partnership with a provider of cardiac devices. The partnership extends beyond product supply into patient lifestyle sessions and follow-up clinics. This encourages both the hospital and the vendor to take a long-term view of patient satisfaction and clinical outcomes as well as the commercial opportunity.

Locking in sustainable results.

According to Rahul Anand, who is a director in A.T. Kearney's Supply Management Practice, there are four practices that are proven to help keep costs down:

1. Change the setup of your procurement team. A world-class procurement organisation is created by investing in talent, and infrastructure, to build serious capability, and consulting support to mobilise that capability quickly and with immediate results. The return on this investment is measured by the benefits that procurement delivers, including lower costs and better results. A.T. Kearney's unique Return on Supply Management Assets study found that for every dollar invested in developing and running a health organisation's procurement function, the company gets \$4.30 in return.
2. Bring stakeholders together in a cross-functional clinical value team. Advanced healthcare organisations have clinical value teams that act as decision-making groups. "Comprised of doctors and nurses along with people from supply management and finance, these teams pinpoint the right specifications for the whole organisation, for example the ideal type of gloves," Anand explains. "In addition, this level of transparency and information-

sharing enhances compliance to the jointly agreed product selections."

3. Overhaul the engine with fit-for-purpose processes. According to Anand, many GCC health organisations struggle with the timely management of procurement requests and bottlenecks and delays tend to be the norm. Strategic sourcing requires a flexible approach to adapt to both the organisation's needs and the market's changing conditions. Category managers need the freedom to choose the most appropriate strategy, from making purchases on demand to setting up multi-year agreements. Leading organisations standardise and automate the process, often by using dedicated software.
4. Use enhanced analytical capabilities to uncover hidden opportunities. With the large variety of products that a healthcare system buys, and the countless unique item numbers, enhanced analytical capabilities are essential to uncovering the opportunities buried under all the data. Analytics can also prevent overstocking and reduce working capital by optimising inventory and defining reordering policies. In more advanced applications, statistical analysis of historical patient data from electronic medical records can be used to develop predictive models for low-cost interventions, reduce the number of readmissions, identify chronic illnesses, and evaluate the effectiveness of treatment.

The way forward.

According to experts from A.T. Kearney, a forward-thinking approach to third-party spend can create significant economic gains, including reducing third party spend by 20%, which can, in turn, be used to support investments to sustain the region's escalating demands for healthcare.

"Unlocking the full range of opportunities will require a proficiency in generating competition among suppliers to get the best prices, systematically managing demand to avoid unwarranted range complexity, creating clinical value teams to facilitate a healthier cost-benefit dialogue with clinicians, and, most challenging of all, developing differentiated supplier interaction models, including strategic partnerships, to get the most from your suppliers," says Anand. "A complete improvement transformation can take 12 to 18 months, but we have found that by working collaboratively most of the savings can be delivered in the first six to eight months." 

By Inga Louisa Stevens, Contributing Writer, Arab Health Magazine, Informa Exhibitions

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