Community Hospital Supply Chain Best Practices

Planning for Supply Chain Efficiency and Resiliency

CHC
Community Hospital Corporation
ABSTRACT

Before the COVID-19 pandemic, hospital supply chain leaders were primarily concerned with minimizing cost. This objective has always been especially challenging for independent community hospitals due to limited purchasing power. Joining a group purchasing organization (GPO) gives hospitals access to better pricing, and in a pre-COVID world, choosing a GPO based predominantly or even solely on pricing was common.

Today, supply chain leaders face a more complex situation. They still need to control costs, but as COVID-19 made clear, supply chain efficiency and resiliency depend on many other factors. This white paper will draw from lessons learned from the pandemic to help community hospitals:

- Develop a strategic plan to address supply chain vulnerabilities.
- Anticipate scarcity and procure supplies in times of crisis.
- Assess a GPO’s ability to address a community hospital’s specific challenges.
- Offset COVID-related PPE costs by reducing cost in other areas.

INTRODUCTION

Along with the pandemic came a breakdown in normal supply chain channels and protocols, forcing a shift in materials management and procurement strategies. Cost containment previously had been the focus and remains a pressing concern: The cost of treating COVID-19 patients—combined with the suspension of elective surgery and nonurgent care during the pandemic—has put an added strain on hospitals. However, the COVID-induced supply chain disruption brought other considerations besides cost containment to the forefront.

Going forward, a supply chain optimized for proactivity and flexibility will help hospitals withstand disruptions such as further disease outbreaks or natural disasters. An optimized supply chain will also mitigate the impact of COVID-related supply chain costs that will persist into the future as a “new normal.”
SUPPLY CHAIN STRATEGIC PLANNING FOR THE “NEW NORMAL”

COVID-induced supply shortages signaled a wakeup call to hospital supply chain leaders, revealing vulnerabilities in the healthcare supply chain that threatened hospital employee and patient safety. Certain pandemic contingencies will carry over and affect product acquisition and utilization during “normal” times. (Example: CHC Supply Trust and its network of hospitals are purchasing more reusable vs. single-use gowns.) And, looking forward, supply chain strategic planning will seek to avoid further shortages by, for example, increasing on-site supply inventory in certain categories and finding more domestic sources for supplies.

New Realities in Supply Chain Management

Supplies like personal protective equipment (PPE) are no longer going to be single-sourced.
The supply chain breakdown was largely caused by the U.S. single-sourcing much of its manufacturing of healthcare products from China, where the pandemic hit first, resulting in a production lag.

Higher costs in certain supply categories are here to stay.
There are costs associated with alternative sourcing and building diversification and redundancy into the supply base.

Contract pricing is not always set in stone.
During the pandemic, contract manufacturers had to alternately source raw materials and pass those costs onto GPO members.

Some contracts will be volume-based.
In a pre-COVID world, hospitals would sign a term contract with a supplier and purchase product when needed, but newer contracts require hospitals to commit to buying a certain volume within a set period. For manufacturers during a severe supply shortage, this provides predictability and capital to help them scale up production.

Product standardization must be strategic and allow for some flexibility.
Standardization in product purchasing is still important to ensure quality while controlling costs, but equally important in case of a supply chain hindrance is flexibility. To achieve a balance, supply chain leaders should communicate directly with clinicians to gain an understanding of acceptable product alternatives, including features, functionality and performance requirements.

Hospitals should stockpile certain supplies, including PPE.
Even as hospitals increase their PPE inventory, they will continue to manage inventory turns in other supply categories. Just-in-time inventory management is still the cost-effective approach for most medical and surgical supplies.

LESSON LEARNED:
The Importance of Homegrown Stockpiles

Strategic, proactive stockpiling of PPE and other critical supplies at the hospital level is now advised. Relying on the federal government’s Strategic National Stockpile (SNS) for product replenishment proved futile early on in the pandemic, as it ran out of products in early April 2020 and the government’s position was that the SNS was “not supposed to be the states’ stockpile” and, further, the Federal Emergency Management Agency (FEMA) had “no involvement” in delivering PPE to hot spots.

1 Coronavirus Task Force press briefing, April 3, 2020
2 Congressional interviews on challenges with the White House Supply Chain Task Force, June 2, 2020
Before the pandemic, supply chain costs were gaining on labor costs as a hospital’s greatest expense, and COVID-19 has hastened the arrival of this reality. Healthcare supply chain best practices continue to prioritize cost management while aiming to achieve supply chain resiliency, which is associated with higher costs. As part of supply chain strategic planning, hospitals must budget for these costs and prepare for disruptions.

**Optimize Inventory Levels**

Even in a COVID-19 world, inventory turns are still important. Generally, supplies should be ordered to match the volume used, and excess inventory should be minimized. Carrying excess inventory incurs storage costs and risk of obsolescence. However, one lesson learned from the pandemic is that safety stock of PPE should be more plentiful. Therefore, it is recommended that hospitals take a hybrid approach—stockpile critical pandemic supplies but keep other on-hand supplies to a safe minimum via a Low Unit of Measure (LUM) program, as it is typically wasteful to hold 90-plus days of non-PPE inventory. Coordinating which supplies to stockpile and rolling out an LUM program will impact many clinical departments and may require a multiyear implementation plan.

**Update Safety Stock and Pandemic Response Procedures**

During COVID-19 surges, many hospitals with safety stock quickly ran out of supplies. It is now recommended that hospitals with the space and resources stockpile PPE in greater volume. PPE inventory can be kept in a hospital-owned off-site warehouse, keeping in mind that it’s economical to cycle through and replenish this inventory to avoid product expiration and waste. (Hospitals with insufficient space can consider pooling resources with other area hospitals.) Policies and procedures should be in place to track and rotate stockpiled inventory. In addition, policies should be updated to reflect the possibility that a pandemic might trigger certain regulatory dispensations. For example, hospitals should routinely check for, and dispose of, expired product, but purging procedures and schedules should now take into account that an emergency order authorized by the Centers for Disease Control and Prevention (CDC) during the pandemic permitted hospitals to use expired PPE as long as there was no visible loss of product integrity.

**Pool and Coordinate Resources Across Organizations**

While the pandemic underscored the need for on-hand safety stock, some degree of centralization serves to reduce overall inventory requirements by balancing out the needs of hospitals with higher-than-expected demand with hospitals experiencing low demand. Purchase history drives distributors’ allocations to individual hospitals, but this does not ensure supplies are delivered where they are needed most during a pandemic. The healthcare supply chain of the future will provide broad visibility into demand and supply availability. Meanwhile, though, hospitals can strategize with other healthcare providers in their region (even those that compete for market share) about how to mitigate risk by creating and managing their own local stockpiles (whether separate or in a shared, centralized location). Successful pooling requires transparency about availability. Sharing information won’t solve a shortage affecting all parties, but withheld information and uncertainty can make shortages worse by triggering “just in case” hoarding.
Leverage Technology
Although COVID-19 emphasized the need for a global standardized system for healthcare product tracking and traceability—from raw material and manufacture to patient treatment—the healthcare industry as a whole lags behind other industries that have implemented product scanning, electronic ordering, order accuracy controls and other technology. Most Enterprise Resource Planning (ERP) systems are able to generate electronic purchase orders and, by requiring inventory to be input electronically, they help with inventory management. Most vendors accept electronic data interchanges (EDI) so hospitals can track orders, confirmations and deliveries electronically. Hospitals lacking an EDI system should investigate the cost of implementation as a first step toward future automation and Item Master file optimization. Automation and good data are key to increasing supply chain efficiency. Data analysis gives hospitals an understanding of trends and cost-saving opportunities across departments. A third-party supply chain services partner can provide the data analytics technology that shows opportunities, flags issues and tracks improvements.

Build a Diversified Supplier Base
Looking ahead from the vantage point of the pandemic, hospitals should not only make sure their GPO is diversifying its product contracting strategy (particularly for PPE), but they should also cultivate their own relationships with non-contract and nontraditional suppliers and be prepared to alternatively source product in the event of another supply chain disruption. Going outside normal channels for PPE and other supplies is a risk, so hospitals should vet vendors and secure and test product samples before placing orders. The right supply chain services partner or GPO can help with the vetting process. For example, CHC Supply Trust—the supply chain services arm of CHC—vetted companies that converted their manufacturing operations to produce PPE for the first time during the pandemic. Prequalifying and onboarding suppliers that can fill in as needed speeds up response time when a supply chain problem occurs. Strategically select a mix of large and small companies representing a range of geographical locations.

Gain Buy-in from Clinicians
Product review and value analysis teams should be in place to promote collaboration. By involving clinicians in decision-making, they are more likely to accept the goals and strategies of the supply chain management team and accept change that supports those objectives. The scramble for alternatively sourced supplies during the pandemic demonstrated the importance of direct communication between supply chain leaders and clinicians. When circumstances compel the sourcing of nonstandard products, supply chain leaders who have cultivated strong relationships and open lines of communications with clinicians can convene with them quickly to make sure alternative products pass muster and get feedback on performance.

LESSON LEARNED:
Review and Update the Item Master File
Hospitals that procured product from nontraditional suppliers during the pandemic should add this information to the file and ensure the vendor information is handy in case of a future supply chain disruption. Create a process for entering additions to the Item Master and for keeping it clean and up to date. Periodically, review the Item Master against the hospital’s purchase ordering history and remove items that are not used for a specific time. Create a process for monitoring contract expirations to ensure contracts for frequently used items are renewed ahead of time and to catch orders being placed for expired contract items. These responsibilities can be outsourced.
CHOOSE THE RIGHT GPO AND SUPPLY CHAIN SERVICES PROVIDER

During the pandemic, greater shares of PPE and other scarce supplies went to larger hospitals or hospital systems, while smaller community and rural hospitals suffered more severe shortages. The situation prodded some hospitals to seek a new GPO that caters to the needs of community hospitals.

Questions to Ask

- **Can a GPO quantify how much your hospital will save by joining?**
  - Can the GPO analyze your current spend and show how much you can save on products you are already buying?
- **What does the GPO deliver besides cost savings?**
  - Before the pandemic, pricing was a foremost consideration when choosing a GPO, but a GPO’s customer service and willingness to go the extra mile to help community hospitals through a crisis has proven to be a foremost qualifier, as well.
  - GPO selection criteria should include price, quality, clinical evidence and transparency about upstream supply chain risk mitigation.
- **Does the GPO have a diversified product contracting strategy?**
  - Since the pandemic, has the GPO expanded vendor networks and identified more domestic sources for supplies?
  - Can the GPO procure alternative products at a competitive open-market price if contract pricing falls through?
- **Can a GPO or supply chain services provider supplement your hospital’s local efforts to alternatively source products?**
  - How did the GPO help its hospitals procure products during the pandemic?
  - How does the GPO vet nontraditional and noncontract vendors and obtain product samples for testing?
  - How does the GPO leverage synergies with its hospital system members to build a referral network for vendors that prove to be reliable.
- **Will a GPO “ghost” your small hospital when supply can’t meet demand?**
  - During COVID-19 surges, some smaller hospitals could not get so much as a return phone call from their GPO, let alone necessary supplies. Ask for references from a similarly sized hospital.
- **Does the GPO have clout and capital?**
  - Can the GPO leverage relationships with manufacturers to fulfill big orders on compressed timelines?
  - Is the GPO acquiring manufacturing facilities to help fill future supply gaps?
- **Does a supply chain services provider engage in ongoing data analysis?**
  - A third-party supply chain partner should be able to provide business intelligence on savings opportunities on product and purchased services.
  - A supply chain partner should be able to analyze historical supply chain spend to forecast future needs.
  - A supply chain consultant should be able to help a hospital leverage data and technology to maximize the functionality, interconnectivity and analytics across the hospital’s computer systems.
  - GPOs and supply chain consultants should engage in national supply spend benchmarking to find cost-saving opportunities and guide contract negotiations.
SAVE ON PURCHASED SERVICES TO OFFSET PRODUCT COSTS

The unfortunate reality: Hospitals will have to accept price hikes of 3 percent to 5 percent for PPE for the foreseeable future and perhaps even as high as 10 percent for some products. A good GPO or supply chain services partner will step up and help hospitals offset those costs through savings in other areas. One such area is contracted purchased services, which touch every hospital department and represent an opportunity for significant savings.

Purchased services are those services that a hospital contracts with a third party to perform. Purchased services account for about 25 percent of a hospital’s operating expenses. Purchased services and products together make up 50 percent of the budget, with labor costs comprising the remaining half.

Hospital Operating Expenses

Purchased services and products account for about 25 percent of a hospital’s operating expenses. Purchased services and products together make up 50 percent of the budget, with labor costs comprising the remaining half.

Often, service purchasing is a decentralized process, in which each department contracts on its own. Two different departments may use courier services or pay for software subscriptions, and without communication, they may be using different couriers or duplicating subscriptions.

Like product purchasing, purchased services can be aggregated across multiple hospitals for volume-based savings. The first step is evaluating a hospital’s spend on purchased services and benchmarking each category against that of similar organizations to spot potential savings opportunities. Next comes a request for proposal (RFP) process; vendor selection based on price and other factors, including frontline staff input; and contract negotiation. A third-party supply chain partner can take charge of each step, typically resulting in savings of up to 10 percent on purchased services.
CONCLUSION

COVID-19-induced supply chain shortages have underscored the need for supply chain efficiency and resiliency. Hospitals must optimize their supply chain to better prepare for disruptions, reduce supply chain waste and help offset COVID-related costs. A strategic supply chain services partner can help.

Community Hospital Supply Chain Services

Community hospitals use CHC Supply Trust for a variety of healthcare services:
- Access to Valify Supply Chain Analytics and Reporting
- Purchased Service Aggregation
- Supply Chain Consulting
- Hospital GPO Access to HealthTrust
- Customized Support Services Agreement
- Outsourced Materials Management

CHC Supply Trust partners with HealthTrust, a leading national GPO, to roll out preferred pricing for community hospitals. Since CHC owns, manages and consults with community hospitals, the benefits of our GPO are tried, tested and proven daily. In addition to significant product savings through our GPO, CHC Supply Trust has augmented its supply chain services to help hospitals save on purchased services by aggregating volume across multiple hospitals.

Find Out How Much Your Hospital Can Save

CHC offers a Complimentary Supply Spend Analysis to compare the cost of items a hospital already purchases to CHC Supply Trust pricing for those same exact items. This analysis shows a conservative estimate of how much new members can save purchasing those items using the HealthTrust GPO accessed through CHC Supply Trust.

www.communityhospitalcorp.com
7800 N. Dallas Parkway, Suite 200, Plano, TX 75024
Phone: 972.943.6400 | Fax: 972.943.6401

Community Hospital Corporation owns, manages and consults with hospitals through CHC Hospitals, CHC Consulting and CHC ContinueCARE, with the common purpose to guide, support and enhance the mission of community hospitals and healthcare providers. Based in Plano, Texas, CHC provides the resources and experience community hospitals need to improve quality outcomes, patient satisfaction and financial performance. For more information about CHC, please visit www.communityhospitalcorp.com.