



Guest Commentary: Applying Lean Principles to Health System Supply Chain Management

by Brian Murphy

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It is a common misperception that Lean supply chain management is exclusively for companies that manufacture products. In fact, any business that wants to eliminate waste, create inventory that is specific to need, reduce costs, and otherwise streamline the supply chain process would be well-served to investigate the advantages of Lean.

The Affordable Care Act (ACA) has greatly impacted the health system supply chain. Hospitals were already working under very tight margins. Under the ACA, it is even more critical that health systems find ways to not only drive costs out of their supply chain, but also improve service levels to their internal and external customers. Many sophisticated health systems have begun to look into applying Lean principles to address their specific needs.

In the past, it was near impossible to predict costs incurred by hospitals for various medical procedures, regardless of precedents set by previous treatments or knowledge of existing conditions. There were too many variables involved in the procurement of medical supplies and devices to accurately pinpoint the costs. Under the ACA, insurance companies pay a fixed fee for designated consumables and a pre-determined fee for medical services. Hospitals must operate within this framework and quickly adapt to the new administrative guidelines. This affects the method in which they bill patients for these services. Increasingly, they are finding the rates paid by insurance companies are not commensurate with the costs incurred by hospitals. Looking internally, health systems have identified supply chain and procurement activities as areas in which significant savings could be realized.

Health systems are now looking at self-distribution in an effort to streamline the procurement process, reducing or removing altogether the somewhat unwieldy process of dealing with distributors. The first area targeted for improvement is standardization of consumables. The potential for waste and skewed product management created by numerous

hospitals using multiple brands is enormous. A key step to reduce waste is to ensure that all supplies specifically meet the needs of doctors and patients. Inventory analysis and consistency of brand would lead to a more efficient process and reduced costs.

To successfully accomplish this, health systems need not only the warehouse and supply chain expertise a 3PL can provide, but also to contract with carriers to ship products to hospitals on a daily basis. Instituting the process of self-distribution represents charting new territory for health systems, but is currently being done by industry leaders. Let's consider the benefits to health systems of working with a 3PL with Lean expertise.

MORE CONTROL

A Lean warehouse management process would help eliminate wasted resources and non-value-added steps. Reducing unnecessary inventory would maximize warehouse space, thus reduce costs and increase efficiency.

IMPROVE SERVICE

Rather than be part of a huge pool of customers, health systems would be able to focus on supply chain strategies that best suit their hospitals by developing a quick response delivery system, while providing greater visibility of the items that go there. This would help consolidate orders and streamline transportation procedures.

STANDARDIZATION

Dealing directly with the manufacturer would allow for standardization of price and product to aid in working within ACA guidelines. Even taking price fluctuations into consideration due to changes in cost of materials, labor costs, shipping, etc., standardization of consumables would enable health systems to keep tighter control of all aspects of supply chain management.

COST REDUCTION

Buying a standardized set of products directly from manufacturers would allow for greater price efficiency and eliminate markups previously paid to distributors. These less visible, but equally significant, savings could be realized through negotiations with manufacturers. Most

vendors provide financial incentives for buying in mass quantities. Those monies previously went to distributors. Health systems would now be the beneficiary of these incentives through volume ordering.

From the time supplies are first purchased and brought into a warehouse, Lean principles could be applied to packing, dock management and shipping – processes that create an easier and seamless approach to receiving goods – helping ensure that each facility receives exactly the right materials, in the desired amounts, at exactly the right time.

Whether more health systems will team with 3PLs in the future or choose to venture alone into these new waters remains to be seen. Clearly, though, partnering with logistics experts offers significant potential to expedite successful implementation of an effective health system supply chain, resulting in increased control of expenses, cost-effective contracting with vendors, volume purchasing initiatives that reduce overall costs, standardization, and significant reduction in waste.

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