Taking supply management to next level

Part 2 of a two-part article on improving supply chain management. Part 1 appeared in the August issue.

Supplies account for a major chunk of an ASC’s spending. A center may spend from 16% to 30% of its operating budget on surgical supplies, depending on the size and mix of procedures.

An ASC needs the right supplies at the right price in the right place at the right time—without having more inventory on the shelf than it needs. Striking that balance requires a good system and a dedicated effort.

In the second part of this 2-part article, ASC managers, consultants, and suppliers share strategies for managing the ASC’s supply chain. Part 1 covered initial steps for improving the supply chain. In this installment, they suggest how to take supply management to the next level.

Ask suppliers for help

Your distributor and group purchasing organization (GPO) have resources that can help.

“I suggest holding your distributor rep accountable for providing data you need to manage your supply chain,” advises Dawn McLane-Kinzie, RN, MSA, CASC, CNOR, of NSC Aspen Health Care, a Chicago-based ASC management and development company.

Distributors should be able to provide reports on supply usage and back orders. They should make sure you’re using your GPO contracts for as many purchases as possible. Distributors also have consultants who can advise you on setting up a storeroom, setting par levels, and figuring out how often deliveries are needed.

GPOs not only negotiate pricing but can help monitor prices you are getting. When was the last time you asked your GPO to audit your pricing?

“Your GPO will do this for free as a member service,” notes consultant George Puckett of Choice Systems Inc, Ameri-sourceBergen Technology Solutions, who teaches supply chain seminars for the American Association of Ambulatory Surgery Centers (AAASC).

Step up to technology

Distributors and GPOs offer no-cost or low-cost technology tools that can help their customers and members with supply management.

MedAssets, which claims to be the largest GPO in the ambulatory surgery market with about 1,700 members, has an Internet-based catalog where members can look up their contract pricing with the distributor markup, to see what price they should be paying.

LeeAnn Puckett, materials manager for Evansville Surgery Center’s 2 ASCs in Evansville, Ind, says the MedAssets online catalog enables purchasing coordinators to check pricing before they place orders.

“If we see a discrepancy, we can ask the manufacturer or distributor about it. It enables us to get to the root of the problem faster rather than creating credits and rebills,” she notes.

She can also see if Evansville is taking advantage of its contracts and has consol-
Distributors Medline and Cardinal have web portals where customers can search for products, see availability, and order electronically. Customers can see their monthly supply usage, which can be used to set par levels.

“The Internet is available to just about everybody. We believe it’s the easiest way for ASCs to order their supplies,” says Karen Scott, RN, vice president of Medline’s ASC division.

More than 70% of line items its ASC customers order weekly go through cardinal.com, says Mike Orscheln, Cardinal’s vice president and general manager of Medical Products and Services.

Internet ordering is more accurate than either paper or phone ordering, he adds. Orders are cleaner. There are fewer errors because the system won’t let you order the wrong thing. That saves the time and energy of having to return products,” Orscheln points out.

Electronic tools are a strategy companies and GPOs are using to build customer loyalty.

“In these days of shrinking margins and fierce price competition, good suppliers are looking for ways to earn your business,” says George Puckett. “I find only about 1% of customers will switch their business after they get an electronic tool.”

Put it in writing

If you haven’t already, start putting inventory records in a spreadsheet or at least on paper, Puckett recommends.

“You can’t make effective decisions unless you have records,” he says. “You don’t need fancy technology. A spreadsheet or paper journal is fine. Just start tracking basic order and inventory information.”

Too often, an ASC’s inventory records exist mainly in the supply manager’s head. Only the supply manager knows how much is on hand, when to reorder, and where supplies are kept. That’s hazardous because when that person is absent or leaves, the inventory system goes too.

For each product, record the date ordered, supplier, price, unit of measure (case, box, vial, etc), date received, quantity received, whether the product is on a group purchasing contract, and the price paid. Leave room for notes about special requirements.

“These journals will allow you to analyze your purchase history, usage patterns, and supplier performance and reliability,” he says.

Look for opportunities

“Just the process of recording the information will get you in the habit of thinking about what to do with the data,” Puckett says. “Soon you’ll be thinking of new information you want to collect.”

The first 2 things to look for:

• duplicate products
• dead stock.

How many products do you have, such as catheters, that accomplish the same purpose? Are there opportunities to consolidate?

“You probably can’t force standardization,” he says, “but you can make the business case for standardization.”

To make a business case, document how many brands of a product you have on hand and how much you paid in total. Then estimate how much you could save if you standardized to 1 or 2 brands. Display the information side by side in a table or chart. Once administrators and physicians see the numbers, “most will get on board pretty quickly,” he says.

Another area to look at—products that aren’t moving. What’s sitting on the shelf that you’re not using?

“This is money tied up in inventory you don’t need,” he observes. “If you keep your records up to date, you can often react quickly enough to return products to your supplier or sell them to another facility that could use them.”
Use your journals to start setting supply management targets such as reorder points and maximum stock levels.

**Look at the big picture**

If you focus only on price, you could be overlooking opportunities for inventory savings, advises George Puckett.

“The price difference on commodity items now is minimal,” he says.

When negotiating with companies, ask what other benefits they can bring that could help you manage your inventory. That might actually yield more savings than a few cents in price.

“There is an adage: For every dollar you spend on a product, you spend another dollar managing it,” he says. “While you’re fighting to get a penny off on a product, there’s a dollar lying on the table that you could get with better inventory management.”

For example, in exchange for your business, will a company give you a small quantity of an item at the big-box price? That saves storage and inventory management costs.

Will a vendor agree to consignment so you don’t pay for products until they’re used? That saves you the cost and hassle of storing and returning supplies that are obsolete or aren’t moving.

Will your supplier help you analyze how much stock you need on hand? Most ASCs probably turn their inventory over 9 to 12 times a year—about once a month, Puckett estimates. (To calculate your inventory turns, divide your total annual supply spending by your on-hand inventory. For example, if you spend $250,000 on supplies annually and have $50,000 on hand, your inventory turns are 5. That means inventory is being replaced only 5 times a year.)

Yet most ASCs get deliveries at least once a week. That means they are keeping much more inventory than they need. Think of the money that would be freed up if you reduced inventory. In the example above, increasing turns from 5 to 10 would reduce on-hand inventory from $50,000 to $25,000—saving $25,000, or 10% of your supply budget.

Shop around for companies that will help you achieve this, he suggests.

**Do your ABCs**

To get the most bang for your buck in supply management, classify supplies into A, B, and C categories according to their volume and cost (graph):

- **A items** = 5% to 10% of items that make up 70% to 80% of your costs
- **B items** = 30% of your items and 15% of your costs
- **C items** = 50% to 60% of your items and 5% to 10% of your costs.

Then focus on your big-ticket A items. Managing these will have the greatest impact on your spending. Later, if you have time, move on to less costly B and C items.

**Consider procedure packs**

Procedure packs can save time because most supplies needed for a case are assembled in one kit. This means the staff does not have to gather and open multiple packages.

Cardinal Health says about 70% of its ASC customers use custom packs.

Medline estimates that, on average, 30% to 40% of an ASC’s supply spending is for procedure packs.

One ASC manager who analyzed packs versus pulling individual supplies for bilateral augmentation mammoplasty, found a small 3-minute time savings in pulling for the case. The larger savings, 19 minutes, came in opening for the case, noted Joan Culberson, RN, administrative director of the Museum District Aesthetic Surgery Center in Houston, who spoke at the AAASC meeting in March in Reno, Nev. Considering the OR room cost and lost revenue, the time savings can be significant.

LeeAnn Puckett is sold on packs.

When she came to Evansville 4 years ago, the only packs used were for eye sur-
gery and linens. She calculated the cost for the center to assemble its own packs. She also solicited bids for packs for the major procedures and determined packs would be cheaper. “Overall, we think it’s a significant savings in time and money,” she says.

There’s a caveat—pack contents have to be monitored diligently. Evansville reviews its packs every 6 to 12 months. “We see if we are throwing items out or pulling extra supplies and make revisions,” she says.

The packs have also simplified charging. Evansville still does line-item billing. With packs, there is one charge versus multiple charges for individual items.

**Generic or specialty?**

It’s important to differentiate between custom packs and generic specialty packs. Custom packs are individualized to a surgeon or surgery center and require a purchase commitment of 6 to 12 months. Generic packs, on the other hand, contain supplies common to a procedure, such as knee arthroscopy, but are not individualized. They don’t require a commitment and are less expensive than custom packs.

“These generic packs are a cost-effective alternative and are easy to get from the vendor,” notes Marye Walker, CPA, assistant vice president of financial operations for Symbion Healthcare, a Nashville, Tenn-based company that owns and manages surgery centers. She spoke on inventory management at the Federated Ambulatory Surgery Association meeting in May in San Francisco.

**Investigate bar coding**

Some ASCs are adopting bar code technology to manage their supply chain. Evansville Surgery Centers are installing a bar coding system from Cardinal that will enable them to scan bins or a bar code catalog with a small device that looks like a key fob. Once inventory has been scanned and the order is ready, the scanner docks to the computer, uploads data to the distributor’s Internet-based ordering system, and creates the order. The ASC can review the order online, verify pricing, and send it through.

LeeAnn Puckett thinks bar coding has an advantage because it eliminates the need to enter the supply order twice. Par levels can be difficult to set in an ASC, she notes, because case types and volume may fluctuate from week to week.

Medline’s Scott says she hasn’t seen many ASCs implement bar coding. “I’m not sure bar coding is going to fix supply chain ills,” she says. “We believe technology is more Internet based than scanner based.”
Staff compliance can be a problem with bar coding, she notes. Staff may not take time to scan supplies when pulling them so they can be deducted from inventory.

Medline touts its consignment program for supply management. With consignment, the center doesn’t pay for supplies until they are used. The company monitors supplies that aren’t moving and removes them from inventory, which means the ASC doesn’t bear the cost of obsolete supplies, Scott says.

George Puckett will speak at a materials management seminar for the American Association of Ambulatory Surgery Centers Oct 7 in Atlanta. Information is at www.aaasc.org.

**Ten steps to better supply management**

1. Get your staff involved. Educate staff and physicians about supply costs and trends. Have every staff member assist with steps such as updating preference cards and checking for supply sterility and out-dates.
2. Maintain accurate preference cards. They are a key driver of cost and efficiency.
3. Appoint a materials manager with responsibility for supply management.
4. Have a well-organized storeroom, with labeled shelves and bins and par levels set.
5. Have internal controls for purchasing and receiving. This includes authorization and approval of purchase orders and proper valuation of the supply inventory, including accurate quantities, costs, and descriptions of items.
6. Perform a regular inventory count. The count is the basis for accurate valuation of an ASC’s inventory and the basis for accurate case costing and financial reporting.
7. Partner with your distributor and group purchasing organization, which should be able to provide reports and supply management tools.
8. Use electronic ordering, either on the Internet or through electronic data interchange (EDI).
9. Have a vendor access policy to manage activity of sales personnel. Make sure the policy is monitored and enforced.
10. Use an objective, systematic process, such as value analysis, for making purchasing decisions. (See December 2004 OR Manager.)

**Tips for supply savings**

Want to make a dent in your supply costs? Here are 3 strategies every surgery center can try, suggested by MedAssets:

1. Verify that the pricing you’re receiving from distributors is the GPO-contracted price. **Savings: 1% to 2%**
2. Standardize. Consolidate purchasing with 1 or 2 vendors for any products you can. Focus first on high-volume, high-cost procedures. **Savings: 1% to 3%**
3. Get a further price reduction by aggregating purchasing volume of key supplies with single vendors with whom you have GPO contracts. That could enable you to move to a higher contract tier and qualify for better pricing.

**Savings: 2% to 4%**