With supplies and staffing being an ambulatory surgery center’s 2 major costs, no ASC can afford to be without a good strategy for managing its inventory and supply costs. Strong partnerships, teamwork with physicians, a relentless focus on cost management, and smart use of technology are some of the ways to manage your ASC’s supplies effectively.

ASC experts offered these 7 steps for managing the ASC supply chain.

Choose the right partners

Selecting the right partners is a key step. Supply chain partners include your group purchasing organization (GPO), distributor, and specialty vendors for physician preference items like orthopedic implants, notes Larry Lane.

A GPO can be a strong ally because it enables a surgery center, regardless of size, to take advantage of high-volume discounts. But GPOs offer more than good pricing. They should help monitor your purchases to make sure you’re taking advantage of their contracts and getting the best pricing. (Tips for selecting a GPO are in the sidebar, p 26.)

Your distributor and drug wholesaler are key partners, too, says Lane, a former sales and GPO executive who now heads Instra-MED Technologies, LLC, an Indianapolis-based consulting firm focused on surgery centers. He will present a session on inventory management at the American Association of Ambulatory Surgery Centers meeting in May in Denver (www.aaasc.org).

Lane suggests asking these questions when selecting a distributor and wholesaler:

• Do they offer templates of products by specialty for surgery centers? That indicates how in tune they are with the ASC market. It also helps if you’re stocking a new center.
• Do they have an electronic catalog so you can look up pricing on the Internet?
• Do they provide materials utilization reports? These reports, produced every 6 to 12 months, show your purchasing history by manufacturer so you can monitor your pricing.
• Do they provide a connecting report? This report identifies what GPO contracts your ASC has been connected to by your distributor.
• What is the distributor’s markup cost? This is the distributor’s fee, also called the cost-plus. You need to ask because the fee is blended in with the actual pricing. It typically ranges from 6% to 15%, depending on volume.
• How often are deliveries? Generally, deliveries are made twice a week. That allows you to plan for maintaining your inventory and/or your par levels.

Specialty vendors are important partners because they sell some of the most expensive items your ASC purchases, such as orthopedic implants, which generally aren’t covered by GPO contracts. Usage and cost of these items need to be closely monitored. Like your distributor, your specialty vendors should provide a materials utilization report. You’ll also want to keep your own records to make sure you are charged accurately for what was used.

Another consideration: Does the vendor provide in-service education? Many vendors provide education on their products at no charge.
Use consignment

“Put as much on consignment as you can. That’s critical, especially in orthopedics,” advises Joseph Zasa, JD, of Woodrum ASD, an ambulatory surgery development and management firm. With consignment, you avoid tying up the center’s own dollars in expensive inventory.

The most obvious item to consign is intraocular lenses. Orthopedic screws, plates, and anchors can also be put on consignment.

“You need your surgeons to work with you on this,” says Zasa. Orthopedic reps sell primarily to physicians. If the company thinks it has all of your business, it’s less likely to consign. But if it’s afraid you’ll give the business to someone else, it might.

Go with one distributor

Lane recommends consolidating purchases with one primary med-surg distributor and one drug wholesaler that you trust. One of the tactics of secondary distributors is to offer loss-leader deals that make it tempting to switch. Then they raise other prices to compensate, and you end up paying more. He suggests using secondary distributors only for items the primary distributor doesn’t carry.

Another advantage of using one distributor—you cut down on the number of purchase orders. The cost of a single purchase order runs $43 to $53, including labor. With a distributor, you can save by combining multiple purchases in one PO.

Get automated

“A good IT system is an absolute necessity to operate an ASC,” says Zasa. “I argue that it will pay for itself if used properly.” One area it helps you manage is inventory.

Load your inventory into the system as soon as possible. Your distributor may be willing to do this for you. If not, Zasa says it may be worth paying to have it keyed in. Then you will be able to get the reports you need to manage supplies.

Distributors have technology tools to help manage your inventory—available at no charge, adds Kimberly Alvord, director of materials management for National Surgical Hospitals. The distributor can help set your center up with electronic purchasing, enabling you to place orders through your IT system directly to the distributor without keying the data into a website. If you place orders electronically, the distributor may give you a small discount.

“Your confirmation comes back electronically. You’ve eliminated the paper, the rekeying, and the phone calls to customer service,” she notes. “This also works out well for the distributor because it streamlines their process, too.”

Distributors have other technology tools. For instance, they may be able to barcode your shelves and bins and provide handheld scanners at no charge. The scanners can dock to a PC and upload orders to the distributor.

Obtain best pricing

Three tactics can work together to drive further savings, Lane suggests:

• contract utilization saves 1% to 2%

Checklist for selecting a GPO

Questions to ask if you’re choosing a new group purchasing organization, suggested by Larry Lane, a surgery center supply chain consultant.

остоя Does the GPO have a specialty portfolio?
For example, does it offer contracts for orthopedics, eyes, and GI endoscopy? That’s helpful if your center just starting up or launching a new specialty because it gives you a template to work from.

Does the GPO provide a cost analysis service?
The GPO should audit your purchases at least every 6 months to see if you are taking advantage of its contract pricing.

Does the GPO provide contract review?
The GPO should review your buying patterns to see if you’re taking advantage of their contracts. They should also review your current contracts to see if there are alternatives that could save you money.

Does the GPO charge a membership fee?
In the past, some associations charged ASCs membership fees to use their GPOs. That’s largely gone away. If the GPO does charge a membership fee, ask to have it waived.

Does the GPO have a relationship with your current distributor?

Does the GPO have an Internet-based catalog?
That’s the state of the art for doing business these days.

Does the GPO have a capital equipment guide?
Do they maintain a separate electronic catalog for these high-ticket items so you can easily see what’s available? Some GPOs will help with budget projections for capital equipment.

Does the GPO do group buys?
Some GPOs offer group buys of capital equipment like sterilizers, offering an additional discount for a limited time. This can save you an additional 10% to 15%.
• standardization saves 1% to 3%
• consolidation saves 2% to 4%.

Here's how they work together: If you standardize a product line—for example, reduce gloves from 23 types to 5—you may be able to consolidate your purchasing to fewer companies. If those companies are part of your GPO contract, you may qualify for a higher contract tier because you are delivering more volume to that vendor, earning a larger discount.

An added benefit—by standardizing, you have fewer products to stock and manage.

Lane is not a fan of rebates. Rebates put the burden on the customer to claim the savings.

“A lot of times what happens with rebates is that people forget about it,” he says. “Most people want the price at the pump. They don’t want to deal with rebates. It’s another thing to monitor.”

Monitor your pricing
Once you’ve worked to lower your prices, make sure you’re actually getting that pricing. Most ASCs don’t have the personnel to do the monitoring. They need to rely on their GPO, distributor, and drug wholesaler to give them quarterly reports.

“That’s where a good partner comes in,” says Lane. “They should be sitting down with you and identifying opportunities for cost savings based on your trends and utilization.”

The distributor should be reviewing your pricing to be sure you’re taking advantage of contracts and best pricing. The GPO should be providing information on better pricing and identifying pricing opportunities you could gain by moving to other clinically acceptable products.

Specialty vendors should also recognize your standardization and consolidation efforts by giving you better pricing.

“It’s about utilizing those partners. You need to pick the right partners because they are going to be accountable for helping you to maintain your pricing,” he says.

Benchmark your supply costs
National benchmarking reports can help you see if your supply costs per case are in range. Two sources of benchmarking information are FASA Inc (www.fasa.org) and InforMed (www.informedllc.com).

If your supply costs are substantially over the median, say by 10%, it’s time to start probing, Zasa suggests. Three of the most likely reasons:

• You bought more supplies than you need, and the cost got expensed.
• Some surgeons use more expensive supplies than others. Consider costing out surgeons’ preference cards for your highest volume procedures to compare what physicians are using. Enlist their support to see what’s necessary and what isn’t.
• You’re not getting the best pricing from vendors.

With cataract surgery, the cost is usually lens driven, Zasa notes. With orthopedics, a lot is vendor driven, meaning the vendors sell to the surgeons to entice them with newer, more expensive technology.

An important note about monitoring supply costs. Most surgery centers use the cash method of accounting, meaning their reports reflect income when actually received and expenses when actually paid. If you buy too much inventory in one month, supply costs will balloon, even though they haven’t yet been used on cases.

“It looks like your inventory costs are out of control, but they really aren’t. You had someone over-order,” he says.

If you use this accounting method, you will need to develop reports that link the inventory costs to the actual spending.

For more on ASC benchmarking, see the January 2007 OR Manager.

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