

## Do You Know the KPIs of the Hospital Strategic Procurement?

As a sales professional, your performance is under scrutiny. Management has key performance indicators (KPIs) that they measure daily, monthly, quarterly and yearly on you and your counterparts. The most common KPIs are revenue versus plan, achievement of the assigned product mix, percentage of gross margin, win rates and expenses versus plan.

Buyers in hospital strategic procurement aka supply chain management or strategic sourcing also have KPIs use by management to measure their performance. Understanding how performance is measured for a hospital's strategic procurement department can make it easier to forge a working relationship and achieve mutual goals. It will also allow you to understand their strategies and goals and predict their next move.

Hospital strategic procurement is not the sales professional's enemy! They have a job to perform and the more that you understand about their role, accountability, function and performance indicators, the easier it will be to create win-win relationships.

### What are Some of Hospital Strategic Procurement KPIs?

While KPIs may vary by hospital, consider the list below as a fair representation of how hospital executives measure the contribution of their procurement teams.

- 1. Savings Realized:** This is the hard number that can be "quantified" as savings resulting from negotiated lower prices, changing of suppliers etc. It is measured in total currency saved i.e. dollars, euros, pounds etc.
- 2. Spend Under Management:** This is the proportion of the hospital's total spend on products (capital & consumables) and purchased services that is under the influence or control of hospital strategic procurement. The higher the percentage, the less chance of "rogue" buying by a physician, department or service line director.
- 3. Percentage Savings Achieved:** This is often expressed in the local currency or in a percentage of forecast savings. In general, the higher the number, the better the performance of hospital strategic procurement. The reasons for a lower number could be:
  - a. Increase in energy costs
  - b. Influx of rush orders
  - c. Higher than expected patient volumes
  - d. Later than anticipated start dates fir supplier contracts
- 4. Percentage Compliance/Non-Compliance:** This measures the percentage of spend made by rogue buyers who are circumventing the hospital strategic procurement department. If this number is 50% it means that 5 out of every 10 dollars (if USA currency is the measure) is being spent with unapproved suppliers outside of the agreed upon contract terms and without adherence to the hospital strategic procurements policies and procedures.
- 5. Internal Client Satisfaction:** This measures how well hospital strategic procurement responds to providing the equipment and supplies that each department's stakeholders require when they need it. Think of this as a "delivery to required date." It can be measured as a percentage of on-time shipments that are completed along with stakeholder satisfaction. Remember hospital strategic procurement must provide value to their internal stakeholders.
- 6. Procurement Cycle Time:** There are two ways to look at this KPI:

- a. The average time it takes from submission of the requisition to purchase order placement; or
  - b. The time it takes from the beginning of a sourcing process until a contract is signed.
7. **Cost Avoidance:** This is a cost reduction from a lower than expected spend that would not have occurred without hospital strategic procurement's intervention. Examples include contracts that protect price over time, delaying a price increase or obtaining additional services for free such as staff training and no-charge attendance at a manufacturer's service school.
8. **Supplier Performance:** Hospital strategic procurement always tracks the quality, cost and delivery of their key suppliers. This often takes the form of a supplier scorecard.
9. **Percent of Active Suppliers Accounting for 80% of Total Spend:** This KPI measures supplier consolidation and activity from one year to the next. Increased supply usage and new product introductions can impact this metric.
10. **Procurement Costs:** Procurement costs money in both people and technology. Hospitals measure and monitor the cost of providing service within the facility/system. To cut costs hospital strategic procurement often uses a range of strategies such as: automation in placing and tracking orders, consolidating suppliers and SKUs and negotiating longer contracts.
11. **Procurement ROI:** This KPI measures procurements cost effectiveness, comparing hospital strategic procurement's cost savings to the department's operating budget.

### **Why Are These KPIs Important?**

These KPIs are important because it explains, in part, the underlying accountability process that drive hospital strategic procurement policies and procedures. When hospital strategic procurement is successful in helping the organization achieve business goals, it can bring recognition, bonuses, promotions, additional funding and self-satisfaction. Failure to achieve performance standards may bring the opposite effect. In the 2015 MHOI Global Sales Best Practices Research respondents were asked the question "We clearly understand our customer's issues before we propose a solution?" 93% of world class organizations stated "yes" while only 44% of healthcare organizations answered affirmatively. Sellers have to understand the issues of their customers and the KPIs that determine their performance.

### **What's Missing but Also Important to Hospital Strategic Procurement?**

Hospital Strategic Procurement may not measure the following as KPIs but they are vitally important to their performance:

- *Supplier Collaboration:* How well each supplier works with procurement day-to-day.
- *Supplier Innovation:* Ideas or new products that can drive down costs and improve efficiency from the supplier.
- *Total Cost of Ownership: (TCO):* Suppliers that help hospital personnel understand TCO and not just purchase price. This requires business acumen.

### **Parting Thoughts:**

Sales professionals should understand how accountability and performance issues drive procedures and activities of hospital strategic procurement. KPIs (business results) can provide the sales representative a lens for understanding hospital strategic procurement's underlying motivations.

The hospital strategic procurement office is no longer just an added complexity in the selling process; they are the trusted guardians of budgets, margins and expenses—core indices of overall business performance.

As always we welcome your thoughts and input. Feel free to start a discussion.

*If you would like a copy of the 2015 Executive Summary of the MHI Global Sales Best Practices Survey please send an E-mail to TWilliams@StrategicDynamicsFirm.com.*

Authors: Thomas Saine and Thomas J. Williams

If you enjoyed this post, please share it with your social network and connect with us on:

- Blog: <http://strategicdynamicsfirm.com/blog/>
- LinkedIn- Tom Williams: [www.linkedin.com/in/thomasjwilliams](http://www.linkedin.com/in/thomasjwilliams)
- LinkedIn- Tom Saine: [www.linkedin.com/pub/tom-saine/94/3a/7b6](http://www.linkedin.com/pub/tom-saine/94/3a/7b6)
- LinkedIn Publisher: <https://www.linkedin.com/today/author/8734131>
- Twitter: [https://twitter.com/sd\\_firm](https://twitter.com/sd_firm)

Photo courtesy of Google Images.

©Strategic Dynamics Inc. All Rights Reserved. 2015