

Why Hospital Procurement Matters!

Most USA sales professionals are surprised at the growing power and influence of hospital procurement in the buying process. They shouldn't be. If they talked to their counterparts in Canada, Europe or other countries they would understand the importance and relevance of why hospital procurement matters.

Many of the doubters within the sales force are those that have had great success in selling to physicians/surgeons or department directors....in other words "silos" where one influential individual could authorize or demand that a product be purchased. These seasoned sales professionals while competent and highly skilled have often failed to step back and see the "sea of change" that has occurred within healthcare and in particular with hospital procurement.

Here is our list of why Hospital Procurement Matters!

1. **Control of Purchased Services Equipment & Supplies:** Hospitals exist to provide emergency care for patients with accidents or injuries, for unexpected medical care, for scheduled or unscheduled surgeries and to deliver babies. To perform these functions a hospital needs to provide patient rooms, services (laboratory, pharmacy, radiology, surgery etc.), personnel, equipment and supplies. Purchased services, equipment and supplies is best sourced, negotiated and acquired by hospital procurement. It is hospital procurements job to get the right product, in the right place, in the right quantity, for the right patient, at the right time and at the right price. This requires a system, process and control.
2. **Control Supply Cost as a Percentage of Spend:** After salaries and wages the next largest expense for most hospitals is supplies. This often is 18-23 % of their total cost. It has to be managed successfully in a fee-for-service environment and it has to be managed expertly in a fixed payment system.
3. **Manage Total Lifecycle Management:** Hospital procurement is in charge of managing the three phases of total lifecycle management. The beginning phase of the lifecycle is the value analysis process where hospitals determine the best value products. The middle phase is utilization management where hospitals control their in-use cost. The last phase of the lifecycle is where they economically and ecologically dispose of the products.
4. **Process Brings Measurable Results:** As individual hospitals become a part of a system they are centralizing their procurement function to decrease acquisition and total cost of ownership (TCO) and to improve their clinical outcomes. A reduction in the number of suppliers lowers their transaction costs. Standardizing on one or two suppliers per product lowers their training costs and reduces potential errors. Watching utilization allows them to ensure the right product is in the right place at the right time for the right patient while ensuring each product is being properly utilized. Misusing or misapplying a product can cost a hospital millions per year.
5. **They Have a Seat at the C-Suite Table:** In hospitals today that are part of a system, procurement is managing a major amount of currency (dollars, euros, pounds etc.). For example: At Vanderbilt University Medical Center, Nashville, Tenn. Teresa Dail, who is the Chief Supply Chain Officer manages a \$500 million annual supply chain spend for four hospitals; 151 employed physician clinics and 1,065 beds.
6. **Data Analysis Drives Unemotional Decisions:** Hospital procurement has access to the data and data can identify the areas where there may be an opportunity for cost savings. In some situations higher cost products will be required to provide a better clinical outcome while in

other situations they will be unwarranted. It is these areas of unjustified variation that will be the focus for improved utilization. As an example, tools like point of use inventory tracking allows nurses to issue items to patients, order item for replenishment and request new supplies. E-Commerce allows hospitals to electronically communicate with selected suppliers to track orders and confirm details. Spend analytics assists hospitals during the negotiation process with suppliers.

Parting Thoughts

Done well hospital procurement can dramatically improve the bottom line (every dollar, euro, pound etc. saved during the negotiation) goes straight to profit in a For-Profit (FP) hospital or can be reinvested in a Not-For-Profit (NFP) hospital. Hospital procurement also improves working capital and therefore makes the balance sheet look better. As a result the Vice President of Procurement can often become the “best friend” of the hospital CEO, COO and CFO.

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