Achieving Cost Savings by Looking at the Big Picture of Health System Supply Chain
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By Molly Gamble

Cost containment is a challenge in every industry, but especially for healthcare organizations. As hospitals and health systems map out strategies to curb costs, every dollar must be saved in a way that supports the hospital’s mission of care quality. This two-part demand requires ingenuity and meticulous strategic planning, and it underscores the need for integration and efficiency.

Becker’s Hospital Review surveyed hospital and health system CEOs, COOs, CMOs, vice presidents, directors and other high-level decision-makers to gain a greater understanding of what their organizational strategies for improved efficiency look like. Eighty-five percent of executives responded that they know what an efficient and integrated organization looks like, yet 40 percent of them acknowledge that they are unsure of how to get there. While the majority of hospital and health system executives can visualize an integrated and efficient organization, nearly half don’t know what to do to make that happen.

What does your organizational strategy for improved efficiency involve?

- I do not know what that looks like for my organization, and am unsure of where to start
- The vision changes often and I am unsure where to start
- I know what that looks like, and I have a clear understanding of the necessary steps we will take to get there
- I do not know what that looks like, but I am ready to start taking steps to figure it out as I go
- I know what that looks like, although I am unsure of how my organization will get there

Featured Survey Results

- 1.9%
- 4.9%
- 39.8%
- 44.7%
- 8.7%
Since supply chain is usually a hospital’s second-largest expense after labor, many hospital leaders see wasteful supply-related spending as a prime focus for cost containment initiatives. Survey respondents identified excess inventory — or extra materials on hand that employees do not need — as one of the most targeted types of waste in their organizations. Hospitals tend to continually replenish supplies to avoid a stock-out, but supply hoarding becomes wasteful when items are overstocked and expire.

Interestingly, while executives surveyed said excess inventory was a bull’s-eye target for waste reduction, unnecessary transport — or the improper utilization of the network — was ranked as a low priority. There appears to be a disconnection in the executives’ perception of these two types of waste, as proper network utilization can have a direct impact on excess inventory.

If supplies, network utilization and transportation continue to be viewed in a fragmented fashion, it will be difficult for healthcare executives to fully understand the costs and time wasted. One key area that leaders can look to for increased efficiency and integration is their physical integration strategy, or intra-company transportation.

**Where to focus first?**

The lean philosophy focuses on maximizing customer value while minimizing waste. On a scale of 1 to 5, how much attention does your organization give the following issues?

- Overproduction - producing more materials, service or information than necessary
- Inventory - excess materials on hand that customers or employees do not need at that moment
- Motion - movement of people that does not add value
- Transportation - movement of materials or information that does not add value
- Over-processing - efforts that do not provide value from the customer’s perspective
- Defects - work that contains errors or lacks something necessary
- Waiting - idle time created when material information, people or equipment is not ready
- Under-utilizing staff - either not using at all or under-utilizing the talent of employees

**Featured Survey Results**

| Issue                                    | Attention Score
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<td>Overproduction</td>
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<td>Inventory</td>
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<td>Motion</td>
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<td>Transportation</td>
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<td>Over-processing</td>
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<td>Defects</td>
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Physical integration is not yet held as a universal strategic initiative in hospitals or health systems. While almost 50 percent of survey respondents noted that their organization’s physical integration of materials and supplies is a formal part of their strategic plan, almost 40 percent said that it isn’t included and 10 percent didn’t know if it is or not.

This sheds light on an important gap and a trend. The gap is that for too many organizations, supply integration and transport has not yet made its way to C-suite discussions and strategic planning sessions, despite the fact that quality and cost-cutting were cited as top executive priorities.

There is indication, however, that this may be changing. While more than half of respondents (56 percent) indicated supply chain was responsible for transportation strategy or physical integration at their organization, 29 percent of respondents said that someone in the C-suite (CEO, CFO, COO) was responsible for transportation strategy at their organization, an increase from previous surveys.

Rising C-suite involvement in intra-company transportation strategy may indicate that leaders are beginning to recognize the strategic value of transportation and the role it can play in creating more efficient organizations that deliver higher quality of care.

**Featured Survey Results**

Is your organization’s physical integration of materials and supplies a formal part of your organization’s strategic plan?

- **Yes**: 49.5%
- **No**: 28.2%
- **No, but it will be soon**: 11.7%
- **I don’t know**: 10.7%
Who is responsible for transportation strategy or the physical integration of materials and supplies in your organization?

- CEO: 5.8%
- CFO: 9.7%
- COO: 13.6%
- Supply chain director / VP of supply chain management: 56.3%
- Other: 14.6%

On a scale of 1 to 5, how much attention does your organization give the following issues?

- Cost-cutting initiatives
- Quality of care
- Care coordination
- Supply chain
- Standardizing care
- Standardizing operational processes
- Reducing redundancies

0 1.0 2.0 3.0 4.0 5.0
The world of healthcare operations becomes more vast and complex as hospitals and health systems merge, affiliate, partner and form joint ventures. Health systems are expanding by the number of hospital beds, and also through the addition of other care settings such as urgent care centers, ambulatory surgery centers, medical groups, skilled nursing facilities, home care and more.

Intra-company transportation refers to how tangible materials are moved throughout these ever-growing health systems. As health systems grow larger and more diverse, there is more capacity to utilize scale for better, more efficient supply and inventory management. This is especially true given that the transport of materials touches every part of a healthcare enterprise and can ultimately influence employee satisfaction and patient safety.

Intra-company transportation, while a large area of opportunity that touches nearly every area and site within a healthcare organization, is typically never greater than a fraction of a percent of a health system's total expenditure. As a result, many healthcare executives overlook it and still have transportation networks dictated by departments, which oversee their own network of drivers. This siloed approach is no longer sustainable and can increase risk, reduce quality and add waste and inefficiencies, all adding unnecessary costs.

Done well, intra-company transportation ensures that clinicians at hospitals and other care settings have the supplies, linens, medications, financial documents, equipment and other items they need, when they need them, in the appropriate quantity and delivered in the most efficient manner. By enhancing the system-wide sharing of products, duplication and unnecessary expenses are reduced and quality is enhanced.

As healthcare stakeholders call for more strategic supply chains, decision-makers must think more about a collaborative and centralized approach to transportation. Modifications must be made to maximize efficiency, reduce redundancies, improve system-wide sharing, consolidate or eliminate travel to certain sites, reduce overlap and avoid delays.

It is crucial to understand the parts and pieces that make up any one system. Developing a network to enable scale for better utilization lets decision-makers design a system that functions more like a strategic asset and less like a cost center. This strategic shift will help leaders create the efficient organization they envision but struggle to achieve.

Greater efficiency and improved care quality are not mutually exclusive. A redesigned intra-company transportation system supports clinical quality and ensures clinicians have the right supplies in the appropriate amount and in a timely fashion.
Although hospitals and health system executives identify cost-cutting initiatives and quality of care as their top two priorities, a minority of surveyed organizations are elevating physical integration and intra-company transportation to C-level discussions. When this large opportunity is left out of strategy, health systems run the risk of growing larger and more complex without properly redesigning their intra-company transportation strategies to maximize efficiency. By taking a much closer look at the benefits of strategic physical integration, healthcare executives can transform their hospitals and health systems into the efficient and integrated organizations they visualize.

Healthcare is changing. Hospitals, health systems and laboratories are growing and care continues to expand outside of the four walls of the hospital. This growth provides more capacity to utilize scale in order for health systems and other healthcare companies to become even better functioning, smarter organizations.

Healthcare transportation, or intra-company transportation logistics - the enterprise-wide movement of physical materials, such as blood and other specimens, pharmaceuticals, supplies, equipment, print, mail and more - is the foundation of the healthcare supply chain. Every health system needs it for the clinical operations to function.

MedSpeed is a market-leading organization that is changing the way the industry views transportation logistics by using it to help health systems and other healthcare organizations integrate. MedSpeed demonstrates to our clients that transportation is a strategic asset that works as a means to achieving greater operational efficiencies, reducing risk, more effectively utilizing scale, eliminating redundancies and centralizing services.