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How Community Hospitals Standardized Its Supply Chain to Reduce Total Spend

By Tony Ybarra

Community Hospital Corporation shares lessons learned from using a spend-analysis tool in its hospitals.

Tracking and managing the supply chain within one hospital can be challenging. Attempting to do so for an entire health system with disparate IT systems can be nearly impossible without standardization and the right tools.

To address this issue, Community Hospital Corporation (CHC)—a Texas-based health system with consulting, ownership, and management services—is using technology solutions that include a spend-analysis tool to accurately track spend and reduce overall supply costs organizationwide.

Addressing Supply Chain Challenges

CHC owns, manages, or supports more than a dozen community hospitals and

provides consulting and group purchasing services to dozens more across the East Coast and Midwest. Prior to 2010, however, CHC's owned and managed hospitals did not always create item files in the materials management information system (MMIS) for items they were purchasing.

In other words, there was no standardization within and across the organization for item numbers or product descriptions. Individual hospitals were using miscellaneous information in purchase orders to identify purchased items—a practice that is fairly typical in supply chains throughout the healthcare industry.

For example, one hospital that purchased a total hip replacement might have used a miscellaneous number for all components and documented only the total price. Another might have created master item numbers for each hip component and itemized their respective prices. This lack of standardization inhibited CHC's ability to accurately consolidate spend and capture a complete view of its total purchases.

In 2010, CHC started a supply chain analysis project for its owned and managed hospitals. The goal was not only to standardize, consolidate, and capture a complete view of spend, but also to produce valuable data analytics that would allow the organization to monitor

price compliance, track overcharges, and negotiate better pricing.

With a supply-chain analysis tool in place, all CHC-owned and managed hospitals underwent an item master cleanup to normalize data and ensure all supplies included the manufacturer's catalog number and description. That allowed each item to be matched to the GPO's data and then aggregated and consolidated. Today, when a purchase order does not match a contracted item, compliance reporting highlights the purchase as noncompliant. This delays the order until proper documentation is received, motivating staff to ensure that purchase orders are completed correctly.

By integrating spend data from accounts payable systems, CHC also is able to analyze "rogue" purchases bought outside supply chain departments and excluded from the MMIS. For instance, if a facility's engineer submits an invoice for hardware supplies through accounts payable rather than purchasing the items through the supply chain, the information is still captured. CHC therefore has a total view of spend across the organization and can quantify what is being purchased and by whom. Food and pharmaceuticals, which generally are not part of the MMIS, can be captured as well.

Leveraging a Spend-Analysis Tool: Tips and Strategies

When CHC researched supply chain solutions, it looked for one capable of interfacing with diverse IT systems—a key factor given that IT systems can vary significantly from hospital to hospital. The ability to fully automate once-manual processes prone to discrepancies also was important. Perhaps most significant, though, was enabling a real-time data view of the entire supply

chain, allowing hospitals to see their total spend at any given time so there are no surprises.

Utilization of the spend-analysis tool will save approximately \$589,000 across CHC hospitals annually. Specifically, CHC has been able to leverage the tool to assist with several key activities.

Consolidate data. Once data is matched to GPO items, the organization is able to aggregate and consolidate spend despite using multiple technology platforms and different item numbers and descriptions across its facilities. One hospital might use "blood pressure cuff" to identify what another hospital calls a "sphygmomanometer," for example, but they can be linked by using the manufacturer's catalog number to obtain a comprehensive view of spend for this item across the board.

Track price compliance and recover overpayments. Having an organizationwide view of spend allows the hospital to compare an item's purchase price against the GPO's contract price to help track and recover overpayments.

For instance, one large CHC-managed medical center recently identified and recovered \$300,000 in overpayments to an implant vendor after finding that prices on invoices and corresponding purchase orders were higher than the contract price. Using analytics, the medical center was able to substantiate the discrepancies and recover the overpayment.

Unlike manual processes where discrepancies might be hidden—especially if the purchase order price matches the invoice—spend-analysis technology makes the discrepancies obvious.

Negotiate better pricing. A comprehensive view of total spend provides negotiating

power to the organization. Based on volume, market share, or annual spend, it is often possible to negotiate better pricing or a more favorable pricing tier when total spend for the entire organization can be quantified.

In another example, a contracted vendor recently claimed a CHC hospital was no longer meeting the criteria for its designated tier pricing. Yet when CHC ran analytics organizationwide, it determined that, in reality, the spend was much more than the vendor was reporting—bumping the hospital up to tier one pricing. For this particular contract, the organization saved \$31,000 across the CHC system.

Pursue and compare new contracts. Every time the GPO considers a new contract or the renewal of an existing agreement, the organization uses spend analysis to scrutinize the contract and project the impact on both individual facilities and on the group as a whole. The potential agreements can be compared with what the organization historically has purchased to help determine whether a new contract is worth pursuing.

Negotiate local contracts. In addition to gaining negotiating leverage for large, organizationwide contracts, hospitals can use spend analysis to drill down into certain facilities or units and identify local contract opportunities for items used only in specific locations.

Manage rebates. Beyond tracking overpayments and negotiating tier pricing, organizations also can load rebate percentages into the tool. When the organization meets the criteria for achieving a rebate, the rebate amount is calculated, and the organization can match rebate payments to spend identified during the reported time period.

Protecting the Bottom Line

As hospitals and health systems experience payment declines because of ongoing healthcare reform, it is more critical than ever to know exactly how much an organization is spending—and on what—while also having the ability to catch discrepancies and recoup costs.

Whether organizations are stand-alone hospitals or part of a health system like

CHC, they should have an accurate view of their total spend and be able to verify compliance with system, network, or GPO contracts to promote operational success. Without standardizing data and leveraging a spend-analysis tool capable of consolidating data from disparate platforms, obtaining this view is extremely difficult for organizations with multiple MMISs. With the right processes and tools, however, organizations not only can standardize and

consolidate their spend, but also can leverage valuable analytics to negotiate more favorable pricing, monitor price compliance, and recover overpayments—improving shrinking margins and protecting the bottom line in the process. ☞

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