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On Healthcare

CHIPPING AWAY AT SUPPLY CHAIN COSTS

Announcer: Welcome to Navigant On Healthcare, offering insights for healthcare leaders striving for success in an evolving industry.

Host: Welcome to Navigant On Healthcare. I'm your host, Alven Weil, and today we'll be discussing the $23 billion question: How can hospitals chip away at supply chain costs?

We're joined by Navigant's Rob Austin, one of our supply chain experts who collaborates with hospitals and health systems on rapid supply chain improvements with a focus on reducing variation and cost and care processes. Prior to Navigant, Rob worked at Allegheny Health Network, a seven-hospital system based in Pittsburgh. There, he had various leadership roles, including director of supply chain and director of business.

Rob, thanks for joining us.

Rob Austin: Sure. Great to be here, Alven.

Host: Rob, a recent Navigant analysis suggests hospitals nationwide could reduce their annual supply chain expenses by about $23 billion in aggregate. That represents 18 percent average total supply expense reduction opportunity, or just about $10 million a year, per hospital. Clearly, those are some pretty significant saving opportunities. Question for you: did this come as a surprise? The extent to which these savings could be achieved? And can you explain how significant these savings are for these facilities overall?

Rob: Yeah, sure. In terms as coming as a surprise, what I would say is this is really the first time we thought about it holistically, in terms of what's the aggregate opportunity across all health systems in the U.S., is really what we looked at, and coming up with the $23 billion number by looking at some pretty detailed analytics. However, as we go from system to system, inevitably there is a...we find a 10 to 20 to 30 percent potential savings opportunity at each client that we work with across dozens and dozens of clients. I guess the answer is yes and no, in a sense that we all would see lots of opportunity, but to think about it in aggregate like $10 million in saving opportunity, per hospital, across every single hospital in the country, we never thought about it in those holistic terms before.

SPEAKER

ROB AUSTIN
Associate Director
rob.austin@navigant.com

navigant.com

About Guidehouse

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What I would say is that — really in the last few years, three to five years — the cost pressure has continued to intensify on health systems around the country and operating margins continue to be compressed. Folks have looked at — and we, working with clients, have looked for a number of years at — opportunities to reduce costs, but the sense of urgency, particularly among C-level leaders focusing on supply chain, specifically, has dramatically increased just in the last couple of years.

Host: Rob, what would you say was your biggest takeaway, or maybe your biggest surprise, from the Navigant analysis?

Rob: Alven, there are really two things that stood out to us when we analyzed the data closely, and both of which were somewhat surprising and somewhat counterintuitive. One, that lower supply spending isn't negatively impacting quality. In fact, we found that the top performing hospitals, in terms of their cost structure and having low supply costs, were also above average and among the top performers with regard to their quality scores. And the reason we believe that's the case, is that a lot of quality around clinical outcomes relates to reducing variation. In fact, for improved supply expense, reducing the number of suppliers, reducing the number of products that you would have in an ED, in an OR, in a cath lab, etc., reducing the number of products and number of suppliers, actually reduces variation. That was the first thing that was somewhat counterintuitive to us, with regard to this study.

The second thing was that the savings opportunities — like we said, $23 billion in aggregate, about an 18 percent on average, per hospital — those savings percentages held true on a per hospital basis, regardless of the type of hospital. What I mean by that is, whether the hospital's in the Northeast, or the South, or the West — pretty similar opportunity. Or, if it was a small community hospital with 50, 75, 100 beds or a large academic medical center in an urban area, regardless, the savings opportunities were pretty similar: 14, 15, 16, 17, 18 percent. Same, even if it was a government entity, versus a non-profit health system, versus a for-profit health system. Across the board, the savings opportunities were pretty consistent and pretty dramatic.

Host: Let's talk about best practices and benchmarking. The study suggests that the top 24 percent of the 2,300 hospitals that Navigant analyzed spend 23 billion dollars less on supply chain products and related operations and processes and procedures. I think this begs the question for the remaining 76 percent of the hospitals: what are the strategies that those top performers are implementing that are really efficiently and effectively helping them manage supply budgets, at the same time maintaining high quality outcomes?

Rob: Right. And that really is the $23 billion question, right there. And as you know, Alven, it's no secret that healthcare lags behind other industries when it comes to utilizing evidence-based data to drive successes. Yet, this is exactly what top performers are focusing on: really using data analytics and IT to reduce variation in pricing, product usage, and to improve clinical outcomes.

With this analytics capability, this detailed information, hospitals are much better equipped to do a few things. One, to engage physicians to help support strategies that standardize the use of products — particularly what we call physician-preference items, or implantable devices, which are proven to produce clinically equivalent outcomes at a lower cost. Also, they use this data, the high performers, to consolidate suppliers in contracts for like-items, particularly with products needed for routine procedures, more commoditized products. Third, these high-performing systems are able to optimize utilization — the use, with regard to the type and the frequency of the products used, based on the specific patient circumstances and the case requirement for that particular situation where you need a product, or even a service.

And then, finally, with regard to technology, they're able to automate some of their processes. For instance, requisitions, purchase orders, invoices and other manual ordering and logistics and broader supply chain processes that lead to increased efficiency doing that, and it also dramatically reduces the number of errors in documentation.

Host: Rob, I recently saw an article that you co-authored with Main Line supply chain executive Christine Torres in Fierce Healthcare that discusses how Main Line achieves supply chain successes. Can you just give me a quick summary of that article and how they achieve their successes, as well as any specific success examples you might have from other health systems?

Rob: Yeah, sure, Alven. Main Line Health has done – and they're a client we've worked with for a little over a year now. They're in an interesting situation in the sense that they have been extremely successful historically, but like — as I mentioned earlier — like most systems, if not all health systems around the country, they're under increased cost pressure. They have focused on, "Okay, assuming my payment mix, the reimbursement I am going to get as a health system, was based solely on Medicare, which is a lower reimbursement, as you know. What does my cost structure need to look like?" So, all of their activities over the last year, many of which relate directly to reducing costs around their contracting, their supply chain — all of it tied to that principle of Medicare breakeven. So, reducing costs with lower revenues coming in, basically, to reduce your cost structure.

The other thing, though, that they use as their guiding principle is what's called the STEEEP™ principle. It's from the Institute of Medicine. STEEEP™ represents six aims for care delivery: safe, timely, effective, efficient, equitable, and patient-centered. It's a pretty well-known framework, but Main Line does a very good job of really living the STEEEP™ principle. So, for instance, every supply chain activity as we've worked with them, every initiative they undertake, they ask themselves, "Okay, how does this tie to the STEEEP™ principle? How am I keeping my clinical environment safe? How is this, what we're working on, timely, effective, etc.?"

And so, really, those are the two goals: getting the Medicare breakeven and embodying the STEEEP™ principles. All of their activities are centered around that, but with the ultimate goal of optimizing patient outcomes and reducing unnecessary utilization.

A couple of the specific things that Main Line Health has done around supply chain, in recent years, which is an example of what we're talking about in terms of systems doing it right, are: one, clinician engagement, which means working very closely, the supply chain folks, with physicians, particularly specialists. If it's hip and knee replacements, for instance, and the joints and all that working with orthopedic surgeons, or, in cardiology, if you're working on pacemakers and stents, and that sort of thing. Working very closely with clinicians to have them actually drive the decision-making process about which suppliers and which supplies will be used and having them make decisions about, "Okay I can standardize here in this category, but in this other category, no. It makes sense. There's too much variation with the type of patients we see, that we can't really reduce our offering in terms of the number of products that we use in our cases here."

That's really important, the clinician engagement process. An example of that is — a recent example — and I think we had this in the article as well, Alven, that you referenced, is antibiotic bone cement, commonly used in orthopedic procedures, hip and knee replacements, in particular, also for shoulder replacements. After analyzing clinical evidence supporting limited use of antibiotic cement, based on the surgery type, there's really a very limited number of surgeries — these types of surgeries — where you need this antibiotic surgery. What Main Line supply chain did, together with their executive leadership and their clinical leadership, was they engaged the physician partners to standardize what the appropriate utilization is for this antibiotic bone cement across the entire system. The result was an 80 percent reduction in antibiotic bone cement use, which is much more expensive — the antibiotic cement. So, it resulted in about a 45 percent savings, all with clinically-equivalent patient outcomes.

Another thing that Main Line Health does really well with regard to supply chain, is they focus on making sure they're managing all kinds of products and services — almost everything, if not everything that the hospital and the health system buys, even if traditionally has not been purchased in a centralized, formalized way. Another example is they just renegotiated a contract for food service across their facilities and they took about $2 million out of their overall cost for the health system by partnering with the food service provider to buy the food itself, more effectively, and more efficiently.

I bring that example up to say that supply chain is not just about clinical supplies, like physician-preference items and things you'd use in an operating room. It also relates to non-clinical items, such as food and food service, janitorial services — it's often called purchase services. But that is a huge area of opportunity for increased efficiencies in supply chain within health systems, as well — the non-clinical or purchase services area. I just wanted to make sure I identified that as something that health systems who are really on the leading edge of cutting costs through supply chain, that they are very focused on purchase services, as well as on clinical items.

Host: Rob, thanks so much for sharing those great insights, and that's it for today. Thank you for joining and take care, everybody.

Announcer: That concludes today's episode. Be sure to check in with us for future installments of the Navigant On Healthcare podcast series on navigant.com/healthcarepodcast. Navigant On Healthcare is a podcast series produced by Navigant's healthcare practice. If you enjoyed this episode, please share it with friends and colleagues on social media. Learn more at navigant.com.