

IMPLEMENTING TAILORED SUPPLY CHAIN STRATEGIES TO JUMP START SUPPLY CHAIN COST SAVINGS

Health system supply chain departments (and increasingly more C-suite leaders) appreciate the potential savings that standardization and centralization can generate for their organization given that 30 to 50 percent of their budget is associated with supply chain costs. However, implementing strategies and procedures, or even knowing where to start in order to generate these savings, can lead to temporary decision paralysis.

There is no one-size-fits-all approach to standardization efforts as supply chain touches nearly every facet of a hospital's daily operations. Supply chain teams may be inclined to first look at products procured to provide patient care (e.g., consumable products and capital equipment) given the significant spend in those areas. However, because maximum cost savings throughout clinical spend are typically best realized through clinical integration teams with purchase decision-making authority, those areas can be mired with challenges. Other high-cost clinical areas of supply chain spend, such as orthopedic and cardiac implants, also present challenges as such areas are associated with profitable service lines and physician preference, both of which may require extensive analysis and discussion prior to any changes being made to realize savings. These initial challenges, while not insurmountable, can stall supply chain progress towards standardization and centralization efforts.

Rather than focusing initial supply chain strategies on clinical areas, health systems may want to consider exploring cost savings and/or renewing efforts in the area of facilities and support spending, which include facilities management, laundry, food services, housekeeping, non-acute purchased services, courier, grounds and document and print management. Each of these categories is an opportunity for an organization that, if centralized and standardized, can often drive substantial savings while avoiding some of the common challenges related to clinical product procurement discussed above. Successes in these areas can also highlight supply chain achievements and serve as a foundation towards developing relationships between supply chain and other health system departments that will be essential when tackling more integrated clinical purchasing decisions.

To accomplish such goals, health systems should concentrate their efforts on centralizing vendor selection, standardizing their contracting process and establishing practical remedies for vendor non-performance as further outlined below.

CENTRALIZED AND AGGREGATE PURCHASING

With focused attention on its facilities spend, health systems can develop strategies to centralize and aggregate spending across their vendor portfolio to realize cost savings directly related to volume purchasing power. As health systems review facilities spend, it's not uncommon to discover that different business units may be buying the same type of products and/or services from different vendors. Health systems can also further capitalize on their volume by negotiating sole or dual source awards with selected vendors. These types of sourcing awards represent advantages to health systems when they can identify areas of spend where direct purchasing through one or two selected vendors serves the systems' best interests. Vendors that are willing to negotiate steep discounts in exchange for sourcing awards typically do so when they have adequate assurances that health systems have the internal control processes in place to direct purchasing at a system level rather than facility by facility, and health systems that are able to provide these assurances from a structural perspective can position themselves to take advantage of these sourcing arrangements.

STANDARDIZATION

Standardization in the facilities space includes working to standardize all aspects of the contracting process from vendor selection to contracting terms. Supply chain teams can institute vendor selection policies and contemplate issuing requests for proposals in the various facilities spend areas to ensure competitive bids. Once vendors are selected, supply chain teams can further drive standardization through contracting terms. In the facilities space, even though the spend may be relatively high, the associated risk may be perceived as low, so it's not uncommon that supply chain teams are inclined to simply sign off on the vendor's proposed terms and conditions. This approach can expose health systems to not only unfavorable contracting terms but also diminish future standardization efforts. For example, many vendor template agreements may set forth a three to five year term without termination rights, and some often include a liquidated damage clause

for early termination. These provisions keep health systems tied to multi-year terms and unable to seek competitive pricing.

REMEDIES

Standardization across vendor selection processes and contracting terms yields the best results when coupled with a strategy to ensure that all facilities contracts address remedies for performance issues for both product and service procurement in the facilities space. Cost savings can be contemplated on the front end of transactions with negotiated discounts but are only fully realized when vendors perform in accordance with expectations. Often, vendor agreements do not address remedies for non-performance. Supply chain teams are in the best position to negotiate strong remedy provisions when contemplating where to direct their spend for both products and services.

PRACTICAL TAKEAWAYS

To maximize cost savings from these outlined areas, Hall Render's dedicated team of supply chain attorneys can assist health systems' supply chain teams with the following:

- Reviewing existing facilities and support agreements for termination options;
- Developing streamlined contracting templates for the facilities space;
- Negotiating new contracts to outline enforceable remedies as well as termination options for performance failures; and
- Exploring and discussing outsourcing options for facilities services and ensure those agreements adequately protect the health system.

If you have any questions or would like additional information about this topic, please contact:

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