GPOs transforming cost center to revenue center

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Hospitals all across the country are facing declining margins for a whole host of reasons. Reimbursements are declining due to welfare reform and new reimbursement formulas, while at the same time labor and supply-chain costs are increasing. According to some, supply costs are on pace to exceed labor costs by 2020.

"In 2019 and beyond, health systems will continue to see significant pressure placed on revenue and cost structure, accelerated cost growth, aggressive reductions in federal health spending (reductions in payment rates), provider consolidations and regional plays, payer provider integration, and a transition to the retail environment," said Dan Pak, Assistant Vice President at Nexera. "Given these changes in the market, the role of supply chain must shift from a transactional model to a strategic model with an emphasis on increasing C-suite presence, holistic approaches to expense management (all non-labor spend), clinical supply chain integration, and revenue generation. We are seeing group purchasing organizations (GPOs) expanding their expertise to support a strategic supply chain and their transformation efforts to get there."

Hospitals that effectively leverage supply chain as a competitive advantage will be the most successful. That calls for creative, out-of-the-box thinking in managing supply chain costs. Here are a few predictions:

Hospitals will need to implement single warehouse or self-distribution solutions to move idle or stale inventory assets within hospitals or networks. If the inventory does not move internally, it will be sold on a larger marketplace of medical facilities to enhance cost recovery.

Hospitals, networks, IDNs, and groups will continue to develop new methods to purchase directly from manufacturers, removing cost layers from the healthcare supply chain.

GPOs will assist hospitals and members in transforming the traditional supply chain cost center into a revenue center. GPOs have been reducing costs through staff reductions by offering early retirement, implementing layoffs, or not replacing staff as they turnover. GPOs will also need to be creative in this changing environment of tightening margins, new technologies, population health, and changing reimbursement models. This has been done successfully with Information technology departments, IT executive or accounting services via a shared services model. An IT department, for example, becomes a stand-alone entity that provides services to the hospital or network, as well as non-member facilities for additional fees. The fees for services cover not only the associated costs to provide the services, but also provide a profitable revenue stream.

GPO consulting groups will hire additional talent with extensive supply chain optimization experience inside and outside of healthcare. GPOs realize the need to offer these services to assist their members, differentiate themselves from their peers, and help hospitals and GPOs succeed in this changing environment.

It will be necessary to view supply chain as strategic instead of transactional. This will lead to a change in how supply chain departments are structured, staffed, and accounted for. The GPO consulting groups can then help transform supply chain departments from a cost center to a revenue or profit center. The consultants will do this by charging fees for their services and value-based billings/contracts tracking measurable savings and cost recovery for various member facilities and departments. The savings, cost recoveries, and waste reductions must be measurable!

How will these new supply chain groups become a profit center? Here are some initiatives that GPOs will likely facilitate and some of the barriers as well:

Enablers:

- Reorganize supply chain departments and leadership to align as a strategic versus transactional organization
- Implementing a self-distribution/single warehouse platform to manage distribution from a virtual or brick-and-mortar warehouse.
- Utilize the GPOs extensive cost and purchasing data, enabling the member facilitates to more efficiently manage their product mix and purchasing.
- Bring new software/platform solutions to member facilities to improve efficiency and communication, enabling waste reduction and cost recovery.
- GPOs understand scalable purchasing solutions.
- Utilize data visualization tools and artificial intelligence (AI) to analyze purchasing patterns and to optimize those purchases. (This will require overcoming the data silo barrier listed below.)
- Enable competitive bids on capital equipment.
- Identify refurbished or reprocessed assets where appropriate.
- For very high-volume items with predictable purchasing patterns, enter into tailored fulfillment agreements directly with the manufacturer. This will require a self-distribution platform to realize the efficiencies.
- Reduce staffing by leveraging a shared services model with the supply chain entity and GPO and outsource activities where appropriate

Barriers:

- GPOs may have to “get out the way” and modify contracts and partner in new ways to facilitate these new initiatives.
- Data silos make it difficult to aggregate and utilize the existing purchasing history; data from member facilities must be available.
- Systems may not be in place to facilitate some of the initiatives mentioned.
- Supplier contracts need to be renegotiated.
- Lack of resources to execute this strategy will lead to more outsourcing solutions and partnering.

It is a time of great change in the healthcare supply chain. This is a small subset of some of the ways that healthcare facilities are adapting to declining reimbursements and increasing costs in labor and supply chain. The rate of change is increasing and the supply chain of today will look very different in two to three years.