The Business Case for Outsourcing Procurement

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Agenda

• Why should ASCs consider a business partner for procurement?
• Current state of ASC supply chain management
• Opportunities presented by effective supply chain management
• Models for achieving optimal supply chain performance
• Strategies for cost reduction
• Operational improvements
• Case examples
• Questions
Why Should ASCs Consider a Business Partner for Procurement?

- Rising Costs of Healthcare
- Declining Reimbursement
- Pay for Performance
- Inefficiencies in Supply Chain Operations
- Procurement Management is Hot Sector of Outsourcing
- Opportunities for Cost Savings
Current Generalization of ASC Market Procurement Practices

- Limited Personnel at ASC
- Minimal Governance & Infrastructure
- Lack of Information Technology
How ASCs manage supply chain:

- Maintain paper records: 53%
- Other inventory management software: 41%
- Track on spreadsheet: 23%
- Distributor-provided system: 18%
- Other: 5%

More than one half of Surgery Centers rely on paper records for supply chain management.
The Vast Sea of “Systems” Used in Supply Chain Management
Models for Achieving Supply Chain Improvement

- Develop Internal Capabilities (Insourcing)
- Apply Technology
- Outsource for Expertise and Management
Developing Internal Capabilities

• Requires
  – Managerial attention and expertise
  – Hiring specialized labor
  – Disciplined application of process
Applying Technology

- Deploying an MMIS can improve supply chain outcomes
  - Automation simplifies processes
  - Access to data with which to improve
  - Reduce stock-outs, overpayments, inventory expiration
  - Enables standardization & SKU reduction

- But!
  - Achieving best outcomes still requires specialized knowledge
A Materials Management System Reduces Operational Costs

From a Study by the Center for Advanced Purchasing Studies; Robert J. Trent, PhD and Michael G. Kolchin, D.B.A., C.P.M. of Lehigh University
Outsourcing the Materials Management Function

- Best practice deployment of MMIS capabilities
- Item master clean-up and ongoing maintenance
- Increase utilization of GPO pricing
- Data allows leadership to focus on strategy
- Access to supply chain expertise
Strategies for Cost Reduction

- Data Capture & Accuracy
- Price Parity
- Product Standardization
- Aggregation of Volume
- Clinical Utilization
- Clinical Integration into Supply Chain
- Reduction of Waste
- Maximize Use of Reprocessing
- GPO & Distributor Partnership
Case Example

- Customer: ASC Management Company
  - Impact of improved contract penetration
  - Impact of broader GPO contract utilization
  - Initiated product standardization and aggregation
  - Improved customer service
  - Increased cost savings
Positive Results Achieved with Focus on Technology and Action on Data!

**Contracted Purchases**

- 2011: $4,000,000
- 2012: $12,000,000

125% increase in contract coverage

**Savings Achieved**

- 2011: $200,000
- 2012: $600,000

157% increase in cost savings
Positive Impact of Higher Integration with GPO Delivers Maximized Cost Savings

Maximize the utilization of your national GPO portfolio to reduce supply and purchased services costs

- Physician Preference Items
- Regionalized Spend
- Specialty Items
- Appropriateness of Use
- Reduction of Waste
- Standardization
- Foundation of Cost Control
- Negotiated Terms and Conditions
- Ease of Use
QUESTIONS?

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