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Hospitals turn to just-in-time buying to control supply chain costs

Hospitals are saving money by keeping inventories lean while others say it's too risky.

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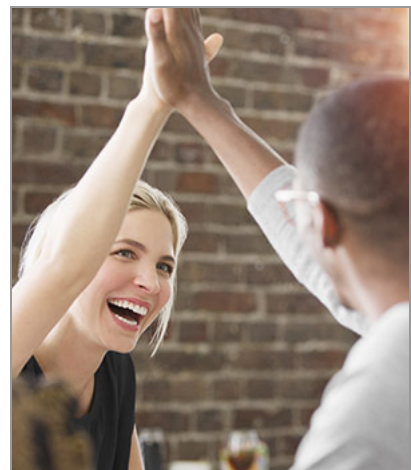
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As hospitals and other healthcare facilities face tighter profit margins tied to care costs and cuts in reimbursement (/directory/reimbursement) rates, more organizations are turning to just-in-time inventory management to keep supplies lean (/directory/lean) and costs low. But the approach comes with risks.

Cardinal Health is exploring just-in-time inventory management routines and processes to maximize reimbursement, especially since reimbursement pressures have them moving towards bundled payments (/directory/bundled-payment) over traditional fee-for-service (/directory/fee-service-ffs).



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"Many of our customers are realizing that their current methods are becoming irrelevant in the 'new' era," said Rebecca Hellmann, vice president of services marketing for the Dublin, Ohio organization. "While change is difficult and painful, they're not alone; many of their peers have already moved away from those dated methods and are examples of improved performance with lower costs."

Just-in-time purchasing benefits the industry by lowering the carrying cost of inventory, said Don Spence, vice president of Corporate Development for GHX, a supply chain (/directory/supply-chain) management vendor based in Louisville, Colorado. "If you buy bulk product and it sits there for a long period, you assume the carrying cost of inventory," he said. At the same time, the system ensures consumption levels coincide stay in line with the uses for each supply, which helps minimize or eliminate obsolete stock, which can be costly, said Spence.

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Just-in-time isn't without financial risk, however. The biggest -- and the reason it took this type of inventory management a while to catch on in healthcare -- is the potential lack of availability of a product under the system, said Spence.

"Hospitals take financial risks everyday, but the one they don't want to incur is a patient event becoming a negative event." For example, occasionally, situations arise where a patient procedure must be rescheduled because an implant, due to arrive the night before, is unavailable, said Spence. Then the surgery must be moved, which costs the facility more money.

"If you carry inventories under JIT that are so low that the product's unavailable because of one incidence, that can be hugely adverse in the hospital sector," he said.

Quincy Stanley, supply chain manager at Mercy Hospital in Chicago, said the savings associated with just-in-time purchasing can really add up.

"As supply chain professionals, it's our job to make sure clinicians have what they need when they need it, but we must also make sure we don't have too many dollars tied up in inventory," he said. Mercy saw a 50 percent drop in on-hand inventory last year. "The data tells you which direction to go. Obviously, there are items you must have in a hospital, but you should know what they are, and whether you need to keep extras (in case of an emergency.)"

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Stanley also said many supply chain departments devote too much time on sourcing, bent on negotiating the best prices. Instead, Stanley believes more focus should be trained on operations (/directory/operations), including replenishment, waste elimination and overall efficiency.

"Just in time is a bit of unicorn when it comes to the healthcare supply chain.," said Hellmann. "While used effectively in industries such as automotive, where demand and production scheduling is highly predictable, most health care providers don't have that luxury of extreme predictability when it comes to the services they provide," she said. "Frankly, hospitals need some cushion in their inventories to absorb this variation."

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Balancing the need to carry enough inventory and having the right supplies at the ready really is the crux of just-in-time, an approach Hellmann called a logical approach that allows customers to maintain the most cost-effective stocking level for medical supplies.

For the most part, McKesson Pharmaceutical also recognizes just-in-time's unpredictability in healthcare, said Lisa Schatz, managing consultant of pharmacy (/directory/pharma) optimization for the analytics (/directory/analytics) company, but that's where data can help. "As we begin to really study the best ways to standardize procedures, we can understand what products should be used, how many, in what sequence and how many of those types of procedures are seen in a month over month basis, even in procedures with unpredictable demand."

As for Stanley, he doesn't buy the notion that just because it's healthcare, running a lean operation is too risky.

"Anyone, in any industry, can use that excuse."

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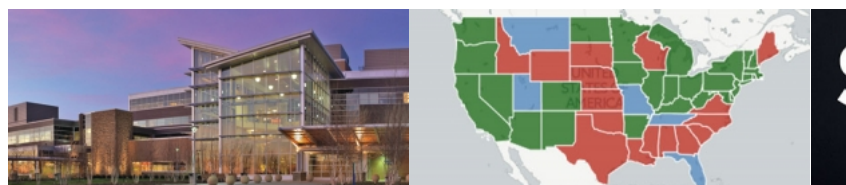
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