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JUL 16 | MORE ON SUPPLY CHAIN (/RESOURCE-TOPIC/SUPPLY-CHAIN)

# CFOs say supply chain changes mean they have to act fast

CFOs across the country to develop new, innovative ways to cut costs.

**Chuck Green**

[\(/news/author/2621\)](http://www.healthcarefinancenews.com/news/author/2621)

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A number of market forces are making it even more complicated to manage a hospital supply chain (/directory/supply-chain) today.

Declines in inpatient volume, reimbursement (/directory/reimbursement) and changes in the boundary between payers and providers - not to mention the perpetual cost hikes in supplies and pharmaceuticals - all eat into hospital margins, which affects spending pools.

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Those pressures are compelling CFOs across the country to develop new, innovative ways to cut costs in areas such as labor, overhead, capital and supplies, which Dan May, managing director of Huron Consulting Group in Chicago, called "the least painful among them."

Over the past five years, hospitals have become much more strategic in their supply chain decision making, said May.

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Huron recommends clients develop a defined strategy around four key areas in the supply chain: commodities, pharmaceuticals, physician preference items and purchase services. Health systems should work closely with the national group purchasing organizations for commodities and pharmacy (/directory/pharma) since those products can be contracted at the national level, he said. However, a different strategy should be developed for physician preference items and purchased services, which are contracted at the local level.

"Two or three years ago, many executives told us their supply chain strategy consisted primarily of working with their national GPO." However, today executives recognize the importance of forming a much more comprehensive strategy, which is leading to the formation of a number of regional supply collaboratives and/or regional GPOs to complement those on the national level.

"Hospitals can't depend on the national GPO for everything," said May. "They need a comprehensive strategy to manage the full supply chain."

Meanwhile, Suzanne Haggard, CFO at LCMC Health in New Orleans, said she's been surprised by how much supply chain prices, systemwide, vary for individual hospitals of newly formed systems.

"What we watch, are working on and devote significant energy to is trying to negotiate system contracts for all of our hospitals in order to take advantage of the buying power hospitals have collectively compared to standalones," said Haggard. The institution also is vying to secure the best pricing and standardize its products across its system, she said.

"We believe we should be able to get the best price for supply chain items," she said.

Steve Hargett, CFO at MUSC in Charleston, South Carolina, said one complication he wishes he could fix is pharmaceuticals, in which costs seem to be increasing exponentially. "It's kind of two separate functions," he said. "There's all other supply chain functions and then there's pharmaceutical acquisition and distribution. A lot of it involves FDA (/directory/food-and-drug-administration-fda) requirements, but I wish there was a way to bring those two disparate functions together under a single supply chain function." Unfortunately, he's yet to figure out how to do so, he said.

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MUSC is making more strategically based decisions on supply chain, Hargett said. For example, about three years ago, the system hired its first chief supply chain officer, who arrived with a lot of experience about other large systems and manufacturers. As a member of the hospital system's administrative team, she's

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very knowledgeable about the administration of MUSC's service lines, involved in their planning and understands new procedures they're contemplating, he said. "We didn't focus on that until she came here," said Hargett.

She also oversees the supply chain for the system's physician practices and physician-based outreach clinics and planned surgery centers, he said.

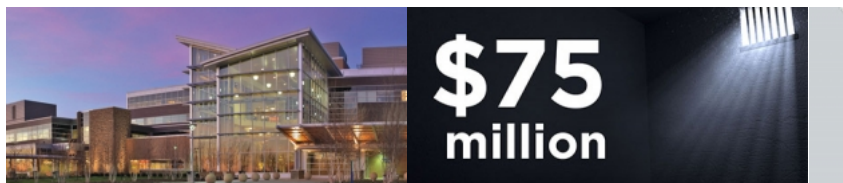
An emphasis on supply chain strategy is also a major part of the finance strategy at LCMC Health.

"If I can strategically lower our supply chain costs, this will help to strategically improve our operating income. I'm helping our bottom line," said Haggard.

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