Six ROI Benefits of E-Procurement for the Healthcare Industry

In addition to experiencing the worst economic crisis since the Great Depression, Inventory Managers in the healthcare industry are facing many additional challenges. Workforce shortages, healthcare reform, shrinking Medicaid/Medicare reimbursements, and rising supply costs are all creating a challenge to the strategic planning of healthcare CFOs, hospital administrators, and healthcare administrators nationwide.

Next to a reduction in labor costs – which is known to adversely impact patient care – the best opportunity for the healthcare sector to save on expenses lies in streamlining the procurement and supply chain function. And the best opportunity for savings is to optimize the supply chain through the use of e-procurement technology.

With no additional burden to your IT staff, e-procurement can:

- Reduce requisition-to-order costs by up to 60%.
- Provide controls to manage maverick spending and comply with vendor contracts.
- Avoid overstocks and stock-outs.
- Reduce waste from expiring products such as pharmaceuticals.

Best-in-Class E-Procurement Solutions for the Healthcare Sector

There is an increasing focus on hospital supply chain management as a cost-reduction solution. Many hospitals have already made cuts to the labor force in order to adapt to lower operating margins and further reductions may put patient care at risk. Cost reductions in the supply chain are the next great challenge for healthcare executives.

In an annual benchmark study[1], the Aberdeen Group reported that, "healthcare enterprises have significantly improved their performance as a result of an e-procurement initiative. Additionally, healthcare enterprises display lower transaction costs and cycle times than all enterprises, but display greater maverick spend. Healthcare enterprises can improve their purchasing performance across various KPIs by leveraging technology enablers such as electronic purchase orders and supplier networks, while structuring a center-led procurement department that is championed by an executive sponsor."

The study found that Best-in-Class healthcare enterprises utilize e-procurement technology to:

- Improve profit through the reduction of maverick spend and savings leakage.
- Automate the routine tasks of the inventory management. function.
- Integrate with other IT systems to aid in decision-making and strategic planning.
- Ensure accurate order processing, financial reporting, and vendor contract compliance.
- Reduce requisition-to-order cycle cost and time by automating workflow.

In a 2012 study[2], Modern Healthcare surveyed healthcare executives on supply chain issues and found that "nearly 80% of the 159 providers who participated in the survey said reducing medical and surgical-supply costs is a formal part of their organization's strategic plan."

The study further noted, "Hospitals are expecting to reduce 20% to 30% of their operating costs in response to declining reimbursements, which has led to renewed emphasis on reducing non-labor expenses. Supply costs are usually the second largest expense in a hospital after labor costs."

Six ROI Benefits of E-Procurement for the Healthcare Industry

1. Reduce Requisition-to-Order Costs

E-procurement technology can typically reduce requisition-to-order costs by as much as 60% over a manual system. By replacing a manual inventory management. process with barcode scanning technology, healthcare systems can streamline their inventory management and procurement processes. Order processing becomes as simple as scanning the barcode, entering a quantity, and electronically submitting the order to the vendor.

E-procurement technology solutions can:

- Improve in-house order accuracy utilizing barcode technology.

- Reduce employee time to place orders.

- Result in fewer returns and shipping errors due to buyer-vendor synchronization for the transfer of electronic orders.

- Shift the attention of medical staff to patient care rather than on order processing and inventory management.

- Produce savings that can be invested into physician, nursing, and allied health staff for improved patient care.

- Produce improved supply chain intelligence as a result of robust reporting on non-payroll spend that provides high-visibility to the healthcare procurement environment which allows organizations to identify and prioritize further cost saving opportunities.

2. Rein in "Maverick Spending" and Improve Vendor Contract Compliance

According to the Aberdeen Group study, healthcare providers can save 7 percent of supply chain costs by eliminating maverick or off-contract spending. Maverick spending refers to purchases that are not in compliance with negotiated vendor contract terms. The study reports that Best-in-Class organizations using e-procurement for their supply chain have 25% less maverick spend.

With e-procurement barcode technology:

- The product to be ordered is linked to the corresponding vendor, thereby reducing or eliminating maverick spending.

- It improves vendor contract compliance by issuing the order to the contracted vendor every time.

3. Better Manage Stock Levels and Reduce Inventory Carrying Costs

In a life-or-death industry such as healthcare, it is common for inventory managers to overstock important supplies in order to prevent stock-outs during emergency situations. But tying up cash with supplies that may sit on the shelf for some time is a drain on a healthcare provider's cash reserves.

E-procurement technology allows healthcare material managers to:

- Reduce the investment in inventory and related carrying costs.
- Use savings to shore up healthcare staffing levels.
- Automate the procurement process thereby moving toward a just-in-time inventory system.
- Reduce inventory storage and use the space for revenue-generating activities such as an exam room.
- Set minimum stock levels that automatically sends notification to place an order.
- Set maximum stock levels that prevents over ordering.
- Approve and submit orders to vendors within seconds.

4. Improve Patient Care by Reducing Inventory Stock-Outs

In contrast to overstock inventory, stock-outs can bring the revenue-generating activities of healthcare providers to a screeching halt. Without the proper supplies, patient treatment suffers and surgeries need to be rescheduled. Healthcare staff that should be focused on patient care is then mobilized to rectify stock-outs, incurring premium products charges as well as increased shipping and processing expenses.

E-Procurement technology for the healthcare industry:

- Sends an alert to the inventory manager that an item has reached its minimum stock quantity.
- Increases revenue-generating efficiencies by reducing the need to reschedule surgeries and treatments due to stock-outs.
- Improves patient care by having the right supplies on hand when needed.
- Reduces rush shipment charges and premium supply costs.

5. Reduce Waste utilizing Expiration Dates

Medical supplies such as pharmaceutical drugs have expiration dates and if those products expire prior to use, they are thrown away along with the dollars invested.

E-procurement technology allows materials managers the ability to:

- Catalog hospital supplies by lot numbers.
- Track product expiration dates.
- Receive alerts as to what products are nearing their expiration date so that they can be consumed before expiration.

6. Cloud-Based Solution to Keep IT Costs in Check

Cloud-based e-procurement solutions allow vendors to maintain all aspects of the IT function thereby relieving the client hospital from absorbing additional IT costs.

Cloud-based e-procurement technology:

- Operates on the vendor's servers and is accessed by the client hospital through highly-secure internet connections.

- Allows the e-procurement vendor to manage all software installations, updates, and releases, letting your IT group focus on more important issues such as EMR implementation.

- Ensures that the data is accessible via any PC, tablet or smartphone with an internet connection.

- Eliminates the need to hire additional staff or use internal resources to manage the e-procurement solution.

E-procurement offers healthcare providers the opportunity to reduce operational costs in the supply chain. The return-on-investment begins almost immediately as your organization streamlines its inventory management process. Savings generated can go directly to the bottom line, be utilized to upgrade your workforce, or invested into revenue-generating activities.

About JumpTech

Jump Technologies, Inc. (http://www.jumptech.com) was founded in 1999 and is located in Eagan, Minn. We develop cloud-based and mobile technologies for health care providers, transportation companies and any company that wants to automate the management of its inventory as well as reduce the costs associated with ordering supplies. Our products make the ordering, inventorying and tracking of supplies and parts simple, efficient and less expensive.

JumpStock is a simple yet sophisticated inventory management system designed to eliminate stock-outs while minimizing the amount of on-hand inventory. JumpStock will also help you to reduce your requisition-to-order costs and eliminate off-contract spending. JumpStock is a cloud-based solution that leverages the ubiquity of smartphones and tablets to drive down the cost while making it simple to use.

Sources

1) http://www.aberdeen.com/Aberdeen-Library/4841/SI-e-procurement-healthcare.aspx
2) http://www.modernhealthcare.com/section/lists?djoPage=product_details&djoPid=27522&djoTry=1345227036