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McLeod Health

The Choice for Medical Excellence

Making a Case for Supply Chain Improvements

McLeod Health is a not-for-profit health system serving northeastern South Carolina. It is comprised of two hospitals, one swing bed and a psychiatric care unit. When Dale Locklair, vice president of Procurement and Construction for McLeod, joined the health system five years ago, the procurement department was, in his words, "archaic." Procurement did not have a strategic role within the organization; it was facilitating transactions and little more. Furthermore, the patient charge process was manual, with staff relying on stickers and handwritten documents.

"I came from outside of the healthcare industry so it was a bit of a culture shock," said Locklair. "Healthcare is literally 20 to 25 years behind other businesses when it comes to supply chain management and processes."

Strategic Marketing Plan

Locklair knew that before leadership could address the issues with McLeod's supply chain, it would be important to raise the profile of the supply chain's role within the organization, positioning the supply chain as a strategic imperative for the financial health of the entire healthcare system. To do this, the Procurement Services team created and implemented a strategic marketing plan that included staff development, ways to bring visibility to the issues, and stakeholder engagement.

- **Staff Development:** The first step was to reinvent the procurement department. Current staffing and process flows were evaluated, waste was eliminated from processes as were extraneous positions. Poor performers were eliminated and new personnel, better suited to the department's new strategies and goals, were hired. Overall, staff was reduced by approximately 38 percent.
- **Visibility:** According to Locklair, "Until you know that something is a problem, you don't have a way to fix it." So the Procurement Services team developed a lost revenue report to demonstrate to the healthcare system's administrative and clinical staff the financial impact of supply chain failures. They determined that McLeod was losing \$3.2 million a year as a result of not capturing product usage. Each week, departmental directors, vice presidents, and administrators receive a copy of the report, which contains lost revenue figures for all departments across the system so they can not only evaluate their own departments, but also see how each department compares to others.

- **Stakeholder Engagement:** Multidisciplinary teams comprised of information systems, nursing, procurement and warehouse staff became engaged with the task of working together to improve supply chain processes across the healthcare system. The goal was for these individuals to work together, develop relationships and understand how they impact each other's work.

Process Improvements and Cost Containment

Having engaged key stakeholders, they embarked on a number of key process improvements that focused on improving data accuracy, increasing automation and making educated purchasing decisions. Key elements of this program include:

- **Electronic Data Interchange (EDI):** McLeod transitioned from manual purchase orders to EDI so that it could transact electronically with its suppliers. To date, the healthcare system has 129 electronic trading partners.
- **Process Automation:** To automate purchasing and accounts payable processes, improve the accuracy of transactions and enhance contract compliance, McLeod uses GHX's My Exchange Order Center, AP Center and Contract Center to manage and track orders in real-time. The Procurement Services department is alerted to order discrepancies during the transactional process and can immediately resolve the issues. As a result, McLeod Health reduced its order touch rate by 60 percent, reduced its invoice match error rate by 20 percent, identified \$897,459 in savings opportunities and achieved \$10 million in cost containment.
- **Non-Catalog Purchases:** Procurement Services generates a weekly report detailing non-catalog spending – products that fall outside of the healthcare system's item master. If a product is not in McLeod's warehouse and not in its item master, the purchase is flagged. At the end of each month, a summary of these purchases is included in Procurement Services Monthly Operational Report, which is given to the chief financial officer and hospital administrators for evaluation.
- **Product Analysis:** To make better-educated purchasing decisions, McLeod is working to develop what Locklair calls a "true" value analysis team comprised of clinicians, clinical effectiveness staff, infection control practitioners and other hospital personnel. This team evaluates products not just on cost, but also on whether or not they will generate clinical improvements that have the potential to improve patient outcomes while reducing overall costs for the healthcare system.