



High-reliability supply chains: 6 qualities that help drive financial + patient care improvements

Healthcare organizations have faced unprecedented pressures in the last decade. Shifting consumer preferences, changing reimbursement models and supply chain disruptions have all become the norm. In addition, health system leaders routinely struggle with escalating costs, as well as eroding margins.

In the face of these challenges, leading healthcare organizations are turning to high-reliability supply chains to improve downstream clinical workflows and deliver better patient care. To learn more, Becker's Healthcare recently spoke with Michael DeLuca, senior vice president of value realization at GHX.

High-reliability supply chains foster financial health

GHX has found that organizations with high-reliability supply chains share six common characteristics:

1. They broaden the concept of spend under management, realizing savings by applying supply chain discipline to purchasing activities across every category of spend.

"The strongest health systems operationally that we see have over 60% of their spend under management," Mr. DeLuca said. "That includes everything from clinical spend to pharma categories, services and all non-clinical spend. Non-clinical spend usually represents half of a system's spending."

2. They shape demand by driving preferred purchasing behaviors. This is accomplished by informing and empowering requesters to make the purchasing decisions against highly structured and compliant formularies. In many cases, health systems leverage technology to accomplish these goals.

3. They ensure rigid formulary control. This means enforcing compliance from the front end of the procurement process and orchestrating demand in response to disruptions.

"When you shop as a consumer, the result set generally start out as broad," Mr. DeLuca said. "When you go to a marketplace in a business setting, however, you should generally see a focused set of results carefully curated, that when selected and procured achieve your organization's strategic sourcing goals."

4. They cultivate data integrity. Improving master data-management workstreams helps improve the accuracy and completeness of the data and help drive more efficient downstream processes. This enables buyers to find the right item and order it in the right unit of measure. It also helps ensure that the pertinent data is integrated to the ERP system and can be shared with clinical subsystems and EHRs for billing purposes.

5. They drive efficiency with automation and clinical integrations such as the EHR or case scheduling system. Technology can play a central role in enabling the flow of data across the supply chain ecosystem.

6. They are data driven. Access to actionable information allows employees to achieve performance objectives.

"In a data-driven supply chain, managers and leaders can look at an intelligent dashboard that is easy to use and shows metrics that are important to the health system," Mr. DeLuca said. "Taken together, these six priorities drive toward financial compliance, especially in light of the headwinds that providers continue to face."

Supply chain is a proven way to meet sustainability and diversity goals

Many health systems today are pursuing organizational objectives related to regionally diverse spending, as well as environmental sustainability.

"Health systems want to invest in the communities they serve by working with regional and local vendors and regionally diverse vendors," Mr. DeLuca said. "We are also seeing a drive toward sustainability. Item-spend percentages tied to spend classification are going up, which drives the environmental, social and governance-related (ESG) metrics that many boards are now focused on."

To attain ESG-related goals and objectives, healthcare organizations must ensure that hundreds and potentially thousands of users order from the right vendors and select products that contribute to positive environmental, social, and governance outcomes.

"When the behavior of requesters is shaped to organizational objectives, both suppliers and providers benefit, but they need assurance that the strategies they're invoking will be made operational," Mr. DeLuca said.

High-reliability supply chain value extends to clinical workflows and patient outcomes

GHX believes the business and patient-facing aspects of healthcare are inextricably linked, and supply chain is a central business function. Technology is a proven way to help bridge the business and clinical realms of an organization.

"During the COVID-19 pandemic, health systems made great strides to source gloves and masks from secondary or tertiary sources, but they also needed a way to prevent hoarding of supplies in their own organizations," Mr. DeLuca said. "We helped organizations leverage technology so users could only order a certain quantity of masks, for example. In this way, they were able to rationalize limited supplies."

When it comes to ordering products, the best time to inform users about recalls, substitutions or back orders is at the point of demand.

"It's not enough to identify a viable substitute – you have to tell someone at the point of demand that they can't order their first-choice item," Mr. DeLuca said. "We utilize technology to populate GHX Marketplace with items and information from supply chain source of truth systems."

This is helpful, for example, in operating rooms, where circulating nurses often spend considerable time typing information into the EHR from illegible stickers on products. Supply chain data also needs to be integrated into the procurement system so vendors are paid for items used during surgical procedures.

Myth: Certain spend categories simply can't be managed

Mr. DeLuca described how GHX frequently hears that some spend categories are like the "Wild West" and are impossible to manage. "Or, we hear that small ambulatory surgical centers can't be managed in the same way as an acute care hospital or a community hospital. We don't think those statements are true," he said.

GHX's clients show that suppliers and service purchasing activities can be standardized into a single channel.

"We see large integrated delivery networks with contract utilization greater than 85%," Mr. DeLuca said. "That tells us purchase activities for supplies or services can be tied to a contract that might be with a regional or a diverse vendor. We're also seeing contract compliance in clients that's greater than 95%. This suggests that price accuracy across the lifecycle of a procure-to-pay transaction can be achieved."

In 2019, [Navigant Consulting](#) published a study that found U.S. hospitals can save 5-8% on every additional dollar of spend under management, resulting in savings opportunities of around \$25.7 billion a year.¹

"Those findings are as relevant today as they were when the study was first published," Mr. DeLuca said. "When we look at those metrics, it really challenges the view that spending can't be managed in healthcare organizations and that contract utilization can't be north of 60%."

GHX leverages technology to make high-reliability supply chains a reality

Through [GHX's recent acquisition of Prodigio Solutions](#), clients have access to enriched content and validated supply chain data from two leading healthcare data aggregators.² This forms the basis of a common data platform that is used across applications like GHX Marketplace (formerly Prodigio Marketplace), GHX's value analysis tools and more.³

"GHX Marketplace formulary management helps enable healthcare supply chain leaders to control purchasing decisions," Mr. DeLuca said. "Substitute product information from our Value Analysis and Strategic Sourcing solution can be delivered to [GHX Marketplace](#) to drive behavior at the point of demand."

Procure-to-pay processes start with a purchasing decision. GHX Marketplace's directed buying determines what search results are shown based on the user, and displays preferred product or service options higher in the search results. Consequently, users are directed to a list of items for a specific physician that has been optimized from a cost and quality standpoint. Result sets are unique to groups of users and follow the optimized sourcing playbook for the organization.

The concept of bill-only or point-of-use consumption is also very important in healthcare organizations. In the surgical setting, for example, suppliers may bring in items for a patient case – such as implants for a knee surgery – but they don't have a purchase order. The vendors must be paid for what is used, but, there are often times discrepancies between what was documented in the EHR and what gets sent to the ERP for purchase order creation. Reconciliation in the OR at the point of use is critical.

As a fellow GHX colleague, Josh Skiba, highlighted in a Becker's presentation he gave last year on the heels of GHX releasing its community-based Consignment Implant Order Automation Guide, solving this big challenge comes with a big impact.

- The implantable device market makes up 40-60% of total supply spend.
- This market accounted for \$98.6 billion in 2022 and is estimated to be \$166.3 billion by 2032.
- There is an estimated \$92 billion in medical implant spend left to automate.

The handshake between suppliers and providers at the point of use must become more efficient, and GHX Marketplace's bill-only functionality can help. Thanks to technology, items can be scanned into the solution and integrated to the ERP or the solution can accept a feed from the source EHR rather than manually entered. This reduces documentation errors and enables nurses to get back to the bedside.

While health system margins are starting to improve as demand for elective surgeries grows, the broader healthcare environment has changed. Leaders must look at the business aspects of operations like supply chain and financial controls to reduce expenses and drive improvements in patient care.

"If you're a health system and you want the best neurologists or the best capital equipment, you have to make money and improve margins," Mr. DeLuca said. "I often use the phrase, 'there's no mission without margin.' CFOs can turn to the business side of healthcare, specifically supply chain, to help their organizations deliver on the mission of patient care."

1 <https://guidehouse.com/news/corporate-news/2019/supply-chain-analysis-2019>

2 <https://www.ghx.com/news-releases/2023/global-healthcare-exchange-completes-acquisition-of-prodigio-solutions>

3 <https://www.ghx.com/marketplace>