



## **The New Imperative: Do More With Less November 2010**

**Simple But Powerful Solutions That Produce Results** has championed a central theme: **FOCUS (Strategy) + EXECUTION + LEADERSHIP = RESULTS**. In this issue, we suggest one way to **DO MORE WITH LESS**.

### **Is Strategic Sourcing an Option for You?**

Two weeks ago a well respected hospital association leader told me that hospitals will have to “**do more with less**” over the next decade even if their organizations are fully prepared for reform.

This is clearly not a new insight as he readily acknowledged. What is different is that hospitals have been pruning staff by increasing quality, productivity and throughput and eliminating programs and services leaving little room for further reductions without shedding core programs. At the same time most hospital leaders believe they have successfully captured available supply chain savings.

### **How Big Is The Challenge?**

For most hospitals, the goal in managing operating costs has historically been to control the rate of growth in spending. With the reimbursement changes associated with the Reform bill, providers everywhere are under pressure to reduce costs on an absolute basis yearly to keep up with reimbursement reductions. HFMA estimates that planned reimbursement cuts to hospitals' existing revenue streams will exceed \$20,000 per year, per bed. It has advised hospitals to “adapt to profiting at Medicare reimbursement rates”. For most hospitals, achieving this objective will require significantly lower expenses, not just reductions in expense growth.

### **Where Can Cost Be Reduced With Minimal Disruption?**

Approximately half the operating expense of a mid-size hospital is salaries & wages; the other half is the supply chain -- externally purchased supplies, equipment depreciation and services. Both areas require close scrutiny, but reducing salaries and wages tends to be more disruptive and can affect employee morale and patient care. The supply chain is a large opportunity for cost savings that can be achieved without affecting morale or patient care.

### **Aren't We Already Looking at the Supply Chain?**

Historically, most hospitals have understandably assumed that their standardization efforts and their GPO contracts have been effective means for ensuring competitive vendor pricing. In comparison with peer hospitals, this is often accurate. However, when benchmarking against best-in-class supply chains, we typically find a 15-20% gap. Closing this gap represents well over \$10 million in annual savings potential for a mid-size hospital.

Strategic sourcing has been used effectively for years by business and industry to establish and maintain a competitive cost position. Strategic sourcing employs a real-time cross industry market intelligence database, efficient e-procurement tools, and global best practices to achieve significant supply chain cost savings. Savings can typically be realized within four months with the right partner.

### **How Can we Evaluate Supply Chain Saving Opportunities?**

In our ongoing search for ways to help clients and friends meet their business challenges, we have recently been introduced to a unique approach to provide a risk free answer to this important question.

The Hospital Performance Alliance's strategic sourcing service uses a proprietary market intelligence database covering over 100 spend categories and data and best practices accumulated since 1992 from projects both within and outside of health care. The company employs a large market intelligence database and state-of-the-art electronic procurement tools to help organizations meet their cost objectives.

HPA claims that strategic sourcing projects have historically delivered average of 18% hard cost savings, across all spend categories and a 97% success rate in getting cost reduction from incumbent suppliers. I have seen case studies demonstrating substantial cost saving in large teaching hospitals, community hospitals and health systems. These savings have reportedly come from procurement savings rather than forced changes in preference items.

HPA offers clients a "pay-for-performance" option without up front costs or risk if savings are not achieved.

### **Next Steps?**

Want to see if a strategic sourcing project can help you do more with less without turning your organization upside down? Contact me and I will arrange for a conversation. Want to talk with HPA directly? Call Jonathan Lauer or email him at 425-358-0877 or [jlauer@hpartners.net](mailto:jlauer@hpartners.net).



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