

Supply Cost Reduction in the Physician's Practice - Part I

By Michael Lawson



Lowering supply cost in the physician's office can be a daunting task. This series outlines specific actions that can be taken to achieve that goal.

The cost of practicing medicine continues to rise while reimbursements continue to fall. Add to this the cost of providing employee benefits, which are also rising, and it is becoming more difficult to operate a financially healthy medical practice. Assuming that coding and billing operations are functioning at proper levels of performance and employees are operating at peak levels of performance, there are basically two ways to increase revenue and, hopefully, increase profit as a result: see more patients or add ancillary services. These are not always options for every practice, so the next opportunity to increase profits is to reduce overhead. Again, there are two basic ways to do this: cut supply cost or reduce HR cost. With each of these, the implication for the practice is the possibility of reduced practice performance and reduced revenue.

Reducing supply cost can be a formidable assignment. A supply program running at peak efficiency requires time, knowledge, resources, and dedication. However, by focusing on what is most within your control, you can achieve substantial savings. The obvious question for the practice manager concerning the cost of supplies and services is this: Am I getting the best balance of price versus product quality and service? In other words, am I getting value for the money?

An old adage states, "The bitter taste of poor quality remains long after the sweet taste of low price is forgotten." The desired result is to not sacrifice quality for price. A cheap price often brings tradeoffs in other areas: service, performance, and durability. A sacrifice in any of these areas will increase the cost of the product through downtime,

poor work output, and premature repurchasing.

There are several ways to address the issue of supply cost reduction to determine if a good balance between price and quality is achieved. This three-part article series approaches the subject from two angles – first, by looking at actionable steps to lower supply cost, and then looking at the products themselves.

Lowering supply cost can be accomplished by having a focus on several areas:

- Single focal point for supply purchasing
- Bonus program for supply cost reduction
- Inventory control system
- Focus on the vital few
- Internet shopping
- RFQs
- Membership in a purchasing organization
- Hiring a purchasing partner

Let's look at the first few areas:

Single focal point for supply purchasing - Assign one person to monitor inventories and purchase supplies to eliminate duplicate purchases. Clinical supply purchasing and office supply purchasing can be assigned separately. By assigning one person to do the purchasing, that person becomes the purchasing expert who will learn important skills and techniques over time, and supply cost will become lower as a result.

Bonus program for supply cost reduction - Incentivize employees to contribute to the bottom line. Implementing a basic pro-

gram to share a small percentage of the savings can yield big rewards on the bottom line.

Inventory control system - Start one immediately. Inventory control systems can range from simple pencil-and-pad systems to more elaborate systems using software and bar code scanners. Electronic inventory systems identify key order points, necessary stocking levels, frequency of use and, of course, minimize unnecessary ordering of supply items. This translates into a more efficient supply system, giving you greater control over where supply dollars are spent. Some distributors will supply a basic system for little or no cost if you ask.

Next month's article will cover the remaining actionable steps for reducing supply cost. This article is presented in abbreviated form in the next three issues of *Tennessee Medicine*. The full article can be found on DoctorsManagement's Web site at www.drsmgmt.com.

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