

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

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.

There are several ways to address the issue of supply cost reduction to determine if a good balance between price and quality is achieved. In part two of this three-article series, we continue looking at actionable steps to lower supply cost.

Focus on the vital few –While a practice may use hundreds of clinical or office supply items, the real cost savings will be generated by just a few expensive or high-volume items. For instance, a large orthopedic practice was using about 600 different clinical items annually, but most of the expense was in the top 15 items! Remember the 80/20 rule: 80 percent of the supply cost is concentrated in 20 percent of the inventory. Don't waste time saving a big percentage on a low-cost item. The key is to identify expensive items and concentrate on those. Start by preparing a list of currently used items, preferably in an electronic spreadsheet that can be updated frequently or every time the supply invoice arrives. To save time, ask your distributor for a 12-month usage report that includes pricing. This is your purchasing information and it should be readily available.

Internet shopping - The Internet brings the medical supply industry to the desktop. It can be a great source for product research and pricing, but it can become very time consuming if shopping time is not structured. Use caution, since some of those great-looking sites may be in someone's garage. Orders should only be placed from trusted sites. Never give out personal information, including your Social Security number, bank account or credit card numbers, if you are not absolutely certain the vendor is legitimate

and that their Web site is secure.

RFQs – Using an RFQ (request for quote) is a dependable method to determine the best price for the same or similar item from different manufacturers. Knowing the right product for the application is critical to obtaining the right product at the best price within the shortest time frame. Use vendors, peers, and other practices to learn more about product specification or product capability to source the right product to meet your needs. Trade shows also offer a great opportunity to see product demonstrations and to request "Trade Show Pricing."

Membership in a Group Purchasing Organization (GPO) - GPOs are supply chain organizations that develop purchasing contracts with healthcare product manufacturers and service organizations. GPOs work by aggregating the spending of their members in exchange for better product pricing; some have annual purchases in the tens of billions of dollars, far exceeding what a large private practice buys. Achieving maximum benefit from a GPO requires a great deal of ongoing involvement and follow-through.

Hiring a purchasing partner - Medical practices are more complex today, which means their purchasing is more complex. To get the best value requires a greater range of skills and knowledge to navigate a sea of vendors and products. In response to this need, organizations offering purchasing expertise have sprung up to help practices maximize office efficiency and save money on supply purchasing. Each of the previously-mentioned points will achieve positive results, but

each has a trade-off: time utilization, use of material or human resources that might be better utilized caring for the patient, or importance of saving a few dollars relative to other matters. The message here is that resources used to save on supply cost may come at the expense of something else and may actually cost the practice money. Hospitals have employees dedicated to getting the right product at the lowest possible cost; contrast this to a physician's practice where purchasing is done by someone who may be involved in a myriad of activities. Firms that offer purchasing partnerships for physician practices provide a service that can yield significant savings and improved practice efficiency.

Part III of our series will discuss the products themselves and examine variables that most influence product cost. This article is presented in abbreviated form in *Tennessee Medicine*. The full article can be found on DoctorsManagement's Web site at www.drsmgmt.com. ■

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