

# Supply Cost Reduction in the Physician's Practice - Part III

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.*

**E**ffective supplies purchasing requires a physician's practice to maximize the use of resources and minimize waste and inefficiency. DoctorsManagement, LLC, is a leading physician management company that offers a purchasing partnership component to its clients. Our surveys have determined practices can reduce product cost by understanding the following product selection criteria:

**Product Brand** - Walk into any grocery store and immediately you see store brands sitting on the shelves beside familiar name brands. These products are always less expensive; as the consumer, you try the product to see if it "measures up" to your expectations. The same is true with clinical supplies. Ask your clinical supplier for a free product sample. Private label products can save money, but if poorer quality results in the need to order in higher quantities, you are most likely spending more, not saving.

**Contract Price** - GPOs (Group Purchasing Organizations) negotiate a contracted product pricing for their members, but not every product is available through a contract, so those items must be negotiated with your supplier. Knowledgeable purchasing begins with knowing if the product is available on a contract and the cost of the product or service delivered to your clinic. For non-contracted items, the lowest price you will pay can be found by shopping the item through many vendors. Since you are in the healthcare business and not the shopping business, a purchasing partner can provide a valuable money-saving service and leave

you more time to attend to the core business of patient care.

**Distributor Markup** - Distributor markup is a fee charged by the distributor to deliver products to your door. Generally, the more money spent with a single distributor, the lower the markup. In many clinics, distributor markups may equal the cost of the product itself. Like all businesses, distributors must maintain a profit margin to provide the service, but not all pay the same price for the same item or charge the same markup to deliver. Shopping your volume is one way to uncover the disparity between distributors.

**Purchase Order Cost** - The cost of writing the check or cutting a purchase order is not often considered as a supply cost. Buying from multiple vendors can increase the cost of supplies, which must then be offset by saving time, money, service, and product quality. Generating purchase orders and writing checks can add as much as \$15-\$75 to the product order.

**Quantities Ordered** - A careful review of past orders can help you determine if larger quantities can be ordered, i.e., a case instead of a box. Larger quantities often carry a lower price tag. Ask your distributor representative for a 12-month usage report with the latest pricing. This is a valuable tool that helps expose areas for product consolidation.

**Percent of Product Line Utilization** - Supply cost can be reduced by consolidating product purchasing to one manufactur-

ing line. Work with the product manufacturer representative to learn what you need to do to get better pricing.

In summary, physicians and their managers can spend a lot of time on activities that bring little value or significance to improving operations, increasing patient satisfaction or the overall running of a successful practice.

It may be time to work smarter by taking control of the things you do best and letting go of things that can and should be done by someone else. The practice and the administrator might be better served by outsourcing supply purchasing services that require expertise beyond what is typical for an administrator or physician. If your supply costs continue to rise or outcomes are not what you expect, it is time to do something differently.

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](http://www.drsmgmt.com). ■

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