



# SOURCING & PROCUREMENT'S ROLE IN THE FUTURE OF HEALTHCARE

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America's hospitals are projected to have lost \$54 billion in net income in 2021, with more than one-third of these institutions maintaining negative operating margins, according to the American Hospital Association. Some of the healthcare industry's financial instability can be traced back to expenses related to the COVID-19 pandemic — severely sick patients require more costly care and supplies, the price of these critical supplies is surging and labor shortages are driving up healthcare salaries. There's also less revenue coming into healthcare systems. With staggered patient appointments to maintain social distancing, facilities are booking fewer patient appointments, and the insurance industry is starting to pay less for virtual care. As pandemic-related pressures mount, government scrutiny is also increasing, with regulators setting upper limits on what healthcare providers can charge for procedures.

This ongoing revenue pressure and increased complexity magnify the need for bottom-line cost management and profit improvement across the healthcare industry. Many healthcare institutions are responding to the pressure by participating in buying programs that leverage scale to negotiate best-in-market pricing on the clinical supplies that directly impact patient outcomes.

This strategy for managing clinical spending and streamlining suppliers is typically successful for healthcare facilities, which begs the question, why isn't the same model as successful with non-clinical spend? While healthcare facilities benefit from a centralized, strategic buying approach for clinical expenditures, the industry is taxed by patient care, and lacks the category expertise to optimally manage non-clinical spending, or the goods and services a healthcare facility needs to continue business operations.

Non-clinical expenditures span all departments within a healthcare provider and include diverse products like office supplies, linens, and printed brochures, and services, like IT development, payment processing and janitorial services. These non-clinical expenditures are significant, equating to as much as 20% of total revenue. True spend management of these goods and services can drive significant profit improvement that lifts the institution's bottom line — without impacting patient care. In fact, strategic procurement can stretch dollars further and enable investment in enhancing overall patient outcomes and experiences.



## Unique Industry Spend Challenges

The healthcare industry faces particular challenges in managing costs. Record merger and acquisition (M&A) activity in the sector has complicated many administrative functions, making disparate spending systems even more decentralized.

Increased M&A activity has strengthened the collective buying power for clinical supplies, but non-clinical spending, which has historically received less attention, has only become more complicated and fragmented. Unlike clinical spending, which is typically centralized under supply chain groups, non-clinical spending tends to fall under stakeholders from across the organization that manages their own departmental spending and partner with their own preferred network of suppliers. Because non-clinical spend management is decentralized, bringing together various administrative functions magnifies inefficiencies, requiring disciplined oversight and spend visibility.

M&A activity creates unique buying challenges in itself. In the private sector, facilities in many privately owned businesses are identical in every market, and their procurement activities can easily be replicated across locations. Medical facilities vary, even in the same market. Many have different systems, different operating models, and different ownership structures. As a result, these highly technical but physically different facilities have different demand requirements, which adds a layer of complexity to non-clinical buying.

Healthcare systems also tend to be part of the fabric of their communities and often favor buying non-clinical supplies from local vs. large national or global suppliers. More robust local economies typically support healthier populations, which is in the industry's best interest, but locally-sourced products and services can be more expensive.

Procurement strategies, and the technology that optimizes value generation, can help the healthcare industry address their unique buying challenges, streamline contractors and find the deep savings in non-clinical expenditures typically seen in the system's clinical spending. And the money that's usually left on the table each quarter from mismanaged non-clinical spending can help alleviate the financial instability currently challenging organizations within the industry.



## WHAT IS DRIVING HEALTHCARE'S LOSSES?

### SICKER PATIENTS.

*Hospitals are seeing more high acuity, inpatient cases—including COVID-19 patients—requiring longer lengths of stay than prior to the pandemic in 2019. While such cases are contributing to revenue increases, any gains are offset by higher care costs for treating patients with more severe conditions.*

### HIGHER EXPENSES.

*Expenses are rising across the board, as hospitals face increasing costs for labor, drugs, purchased services, personal protective equipment (PPE), and other medical and safety supplies needed to care for higher acuity patients.*

### FEWER VISITS.

*Hospital outpatient visits—which tend to have lower expenses and higher margins—continue to grow, but remain depressed compared to 2019 levels. They have yet to fully recover after plummeting with nationwide shutdowns and COVID-19 mitigation efforts in the early months of the pandemic in 2020.*

## Lower Costs Without Lowering the Quality of Care

A thoughtful, well-implemented procurement strategy is an effective way to drive meaningful and sustainable value through profit improvement, process efficiency and supplier management. Disciplined procurement centralizes company-wide non-clinical spending, streamlines processes and procedures for spend management and assures quality from supply partners.

Collecting and aggregating spend data like invoices, purchase orders, contracts, budgets and historical spend gives healthcare stakeholders a broad picture of organization-wide spending, the first step towards making better buying decisions. But manual processes are too slow and cumbersome to sift through the volumes of data or provide a real-time picture of spending. Purpose-built procurement technology collects disparate data, cleans the information, categorizes it to create an accurate, real-time picture of spend and raises the visibility of supplier information.

By leveraging automation, procurement technology can categorize thousands of organization-wide vendors and invoices and provide powerful data analytics around non-clinical inventories, suppliers, contracts, payment structures and more. With this data, stakeholders can identify more efficient sourcing and buying strategies and find opportunities for profit improvements. Although non-clinical spending spans business functions, most healthcare systems find the most significant savings opportunities in the areas of corporate services, IT and facilities.

## Partner for Success

Even in the best of times, healthcare professionals don't usually have the time and resources to manage non-clinical costs since their success is principally defined by patient outcomes — as it should be. And with the current state of healthcare, some systems are nearing a breaking point, and there's no bandwidth to implement a comprehensive non-clinical spending strategy. We recently met a hospital group CFO to discuss how a non-clinical procurement strategy could save his hospital system millions each year while he was focused on more pressing needs, e.g. how to transform the cafeteria into an ICU overflow.

Many institutions outsource to third-party procurement partners that can offer their experience and knowledge to analyze indirect expenditures, create a strategy around streamlined spending and roll out a procurement implementation plan to ensure optimal results. While the medical facility focuses on its broader objective, third-party procurement experts can offer an unbiased, outsiders' perspective, provide industry insights and even use their leverage to negotiate with local vendors. Procurement experts can also present market intelligence from companies in other sectors that procure goods and services at volume and density and compare healthcare facilities' buying efficiencies against these organizations.

In healthcare, if you can't diagnose a problem, you can't fix it. The same is true for managing non-clinical spending. If the industry wants to come out of the pandemic stronger than ever, medical institutions must analyze their non-clinical spending and suppliers and apply the same discipline to these goods and services as it does to clinical buying. Management of non-clinical spend and suppliers can alleviate some of the industry's financial strain and unlock funds that can support a greater standard of patient care.

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