

# Paving a new way for procurement

**M**any healthcare organizations are working with an inefficient supply chain. Despite significant investment in time, dollars and IT systems, these organizations still have data quality issues, non-item file purchases and supply leakage.

So what can be done? New procurement systems harness analytics, artificial intelligence (AI) and cloud technologies to help improve supply spend control. How much control depends on the type of procurement system you are using: Procure to Pay (P2P) or preemptive formulary. The biggest difference is that a P2P system provides data after requisition, leaving you to make corrections after the fact. A preemptive formulary system offers accurate information up front and helps enforce an organization's formulary at the point of requisition — *before* users buy. With guided purchasing and automation, a preemptive formulary system helps to significantly reduce off-contract spend and the rework it requires.

Wheaton Franciscan Healthcare is a large, tightly run, integrated, regional healthcare delivery system (serving Iowa, Illinois and Wisconsin). Wheaton was looking for a way to be more efficient, to gain more control over purchases and to drive savings. After some research, Wheaton purchased a preemptive formulary system.

Before the new system, Wheaton experienced the common challenges associated with an inaccurate item master: inability to easily find the correct item and price; and difficulty identifying duplicates and inaccuracies. To resolve these issues, many organizations get caught in the item master cycle of cost: hiring consultants to clean up item master data, the subsequent erosion and the need to clean it up again. A preemptive formulary system provides perpetual assistance to help keep data clean. An artificial intelligence engine combines internal and external supply chain data including GPO contracts, vendor catalogs, self-contracted items and off-site locations such as physician specialty practices. Information rolls up into a central vendor and item master. "Now that we know exactly what unique items we have, we can better

match pricing to contracts and more easily identify items for standardization," says Joe Volpe, vice president, Supply Chain, Wheaton.

Preemptive formulary systems have analytics built in. This helps organizations determine total spend and can even suggest new opportunities for saving. For example, the system showed Wheaton spend leakage of more than \$3 million in med-surg spend due to off-contract purchases and identified non-catalog items bought multiple times. "The system identified that 528 of our non-catalog and off-contract items were bought up to five times. This enabled us to put additional items on contract to drive new savings," says Volpe.

Finding the right product can often be a problem for a requisitioner. Cryptic descriptions make searching difficult. And from the multiple items available, how does the requester know which brand and price is preferred? A preemptive formulary system guides the requisitioner to the preferred product choice based on the organization's pricing and contracts; i.e., its product formulary. Descriptions are standardized, with unlimited product attributions and photos presented in an easy-to-use, Amazon-like, online market environment. So a nurse and a buyer can both find the same item, even if the nurse calls it a "Christmas tree" and the agent calls it an "airway adapter." Intelligent attributes group functionally similar items and help organizations identify functional equivalents. "With the new system our

requisitioners were guided to select functionally correct items that are on contract and on contract price," says Terri Kendrick, system director, procurement services. "We have saved \$3.5 M by reducing off-contract spend."

What you don't know can hurt you. Missed contract compliance or lost opportunities to standardize can add up to big dollars. A preemptive formulary solution provides comprehensive visibility into purchase data, so organizations can find new opportunities for savings. Wheaton uncovered \$4.2 million in spend where the purchase order did not match the invoice, representing a potential process issue between Accounts Payable and Purchasing that could translate to over-payments to vendors.

"Because the system matches the price and contract prior to purchase, and directs the user to our preferred choice, we've drastically reduced off-contract spend and all the mistakes and rework that went with it," says Volpe. "It's freed our staff from non-value-add tasks and enabled us to focus on more strategic initiatives. And we're generating savings that support our organization's financial goals."

The supply chain is the new driver for healthcare savings. For more information about ways to improve your supply chain and save, read this white paper (hyperlink to WP at <http://www.mckesson.com/contact-us/form/strategic-supply-sourcing-white-papers/>) or visit McKesson.com/supplychain. **HPN**

*An attribution- and context-based foundation helps build proper formulary compliance at the point of requisition.*

