



HIDDEN COSTS IN THE HEALTHCARE SUPPLY CHAIN



When it comes to healthcare, all stakeholders agree that there is a need to prevent cost escalation and simultaneously cut expenses.

Even so, an often-overlooked area in this endeavor is the healthcare supply chain. The supply chain for healthcare has many areas for savings, including hidden costs. There are abundant savings available throughout the healthcare supply chain. Healthcare entities practicing “Lean Supply Chain Management” are finding ways to lower supply chain associated costs.



What Is Lean Supply Chain Management in Healthcare?

Healthcare lean supply chain management focuses on long-term supplier relationships along with a highly integrated supply chain management system. The emphasis is on improving supplier relationships along with long-term strategic alliances. As one-fifth of the United States economy is in the healthcare sector even small gains are important. The few studies done about lean supply chain management in the healthcare sector suggests that improving the healthcare supply chain using lean processes causes a better quality in healthcare companies. This improvement stems from lean manufacturing principles that methodically address quality, safety, and cost.

A book titled “Wastes in Healthcare” describes 7 areas of waste which are shown in the following table:

Waste Category	Definition	Example
Overproduction	Producing greater, faster, or sooner than required	Unnecessary test
Waiting	Patients and information idle time	Waiting for a page to be returned
Material Movement	Unnecessary patient or material movement	Restocking unused LP needle
Inappropriate Processing	Using costly equipment	Reentering patient’s social history by the nurse
Motion	Any unnecessary staff movement	Searching for a manual blood pressure cuff
Inventory	Information, market, or patients in queue or in stock	Patients waiting in examination room
Underutilization	Underutilized human talent and ability	Nurse changing diapers

How Does Lean Supply Management Reduce Costs in Healthcare?

- 1/ Implementing improvement in prices and standardize the purchasing and distribution functions
- 2/ Reduce the number of suppliers and purchasing processes
- 3/ Align healthcare providers and their purchasing staffs to care models

These are the three steps in reducing healthcare costs. When they are followed by providers, their **employees and their patients have increased satisfaction and improved safety** as they curtail supply chain expenses.





Lean Supply Chain Management in Action in Healthcare: **Battling Hidden Supply Chain Costs**

A critical care hospital in northern California had clinicians uncertain as to how well the purchasing department did its job in procuring supplies. Because of this mistrust, they spent more time than necessary looking for medical and surgical supplies. This wasted time caused patients a good deal of frustration as they had to wait for treatment while supplies were located. Once a lean supply chain management solution was implemented at the hospital there were outstanding results:

403 square feet of space used for storage was eliminated and a patient room, formerly used for storage, was returned to patient use.

Supply outages were all but eliminated

Lost and stolen items at the loading dock were curtailed

80% of expired products were eliminated and there was a 40% reduction in inventory.



A hospital in Napa Valley, California revamped its requisitioning process using lean supply chain management principles. Instead of restocking shelves as supplies were drawn (push restocking) to a pull restocking process that only filled inventory on an as-needed basis. **This hospital freed up 420 square feet. More importantly, it slashed \$97,000 of endomechanical products that represented nearly 30% of total inventory costs.**

Every healthcare entity faces challenges for reducing costs and lean supply chain management is a welcome tool for keeping healthcare costs down.

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