



# Reinventing the supply chain

Client story



## Client

A U.S.-based teaching hospital and biomedical research facility

## Sector

Healthcare

## Project

Designing and implementing a new supply-chain model



## Client challenge

This top ranked academic medical center strives to set the standard of excellence in healthcare; from their exceptional patient care to their internal operations. Like other healthcare providers throughout the nation, declines in revenues and reimbursements are placing significant pressure on their financial margins. They are an \$8 billion enterprise that includes a network of five hospitals in Baltimore and one in Florida with multiple affiliations in the U.S.

To help improve its cost structure, the hospital system's leaders embarked on a bold strategy to restructure its supply chain delivery model. Instead of buying supplies primarily through group purchasing organizations and distributors, our client would create and manage its own consolidated service center (CSC) to buy directly from manufacturers. This enormous strategic shift in supply chain management would have an impact on the purchase of supplies ranging from cotton swabs to medical devices and pharmaceuticals. Ultimately, this game-changing strategy would help the hospital system bend its cost curve and in turn strengthen its long commitment to delivering excellent patient care.



## Benefits to client

The new CSC will give the hospital system the ability to more directly control the majority of its medical, surgical, and pharmaceutical supply chain. When it opens in 2018, the new center will distribute supplies to all five of the system's area hospitals and provide at least eight additional services, such as: the production of non-sterile kits for procedures, pharmacy shared services, and contract logistics. Additional results include:

- Improve fill rates and customer satisfaction (clinicians)
- Deliver cost savings in the range of \$45 million over the center's first five years and a conservative estimate of return on investment of about 30 percent
- The creation of approximately 90 net new jobs in the community
- Development of new skills for employees
- Improved accountability, productivity and service for materials management
- Stronger relationships with manufacturers
- Creation of a platform for additional revenue opportunities



## KPMG response

Healthcare supply chains are intended to support clinical services. The traditional model—which relies on group purchasing organizations and distributors that can lack incentives to streamline the process—adds complexity and cost that ultimately are borne by the healthcare providers.

Our client, with the support of KPMG, decided to transform the model. The hospital system's leaders asked us to evaluate and propose options for implementing a new supply chain strategy, including the creation of a new consolidated service center.



### Go beyond traditional levers

Most costs for healthcare providers fall into two large categories: about 50 percent of costs are labor-related and about 40 percent are related to products and services. Organizations for years have pushed on med-surgical costs through work with the group purchasing organization (GPO) or through custom contracting mechanisms. These mechanisms have delivered significant savings or at a minimum have help curb product driven medical inflation.

A CSC allows providers to seek opportunities to reduce costs in addition to addressing the costs of supplies through GPO contracting and standard value analysis. The traditional distribution model contains significant complexity of product and information flows, resulting in layered costs, margins, and fees between manufacturers, GPO administration, distribution, and transportation that are ultimately paid for by the provider.

The CSC offers levers to not only reduce costs, but to change the paradigm from a narrow span of control to a platform for strategic importance that will change the organization's performance culture and enable sustainable value chain success. The value drivers and levers for the client include:

- Consolidation of multiple supply chains for sustainable and foundational improvements: Driver for tighter metrics and controls and a platform for process standardization
- Control of all data, product flow, and relationships: More responsive and profitable to demand-driven changes

- Transparency and elimination of med/surg distribution costs (e.g., sales tracing fees, rebates, special terms)
- Stronger relationships with manufacturers: Eliminating the cost and complexity of the traditional model and bringing together the "makers" and "users"
- Negotiation of bulk purchasing discounts with visibility provided to manufacturers for product movement
- Collaboration with clinicians and manufacturers to develop innovative delivery models (e.g., orthopedics)
- Service platform for revenue generation opportunities through centralized supply chain shared services beyond product fulfillment

### Assess and evaluate your options

A comprehensive assessment that evaluates the scale, market density, geography, and risk will provide necessary insight into whether a consolidated service center makes business sense for an organization. A CSC might not be the right solution for every healthcare provider, but for an organization with this scale and geographic location, it becomes a game-changer.

### Drive insight and garner support across the organization

Get top-to-bottom perspectives when undertaking a major transformation. Understanding the challenges faced from the hospital leaders through to the individual contributors stocking supply closets will help develop a solution that incorporates a breadth of insights and in turn builds support for the transformation come time for implementation.

**If you are interested in learning more about this case study, or if you are experiencing similar issues, please contact us.**

#### Tony Ross

tonyross@kpmg.com  
214-840-2242

#### Teran Andes

tandes@kpmg.com  
312-665-1155

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