

Challenges

The industry faces financial challenges driven by poor data quality. Furthermore, lack of visibility and inaccurate data have resulted in inflated, unnecessary expenses and lost revenue.

Historically:

- More than 1% of purchase orders have a price discrepancy
- More than 10% of PO line items are not sourced from the item file
- Product descriptions are not in a consistent format
- The item master is not linked to contract prices

As bad data moves through the Procure-to-Pay cycle, there is an exponential increase in the number of discrepancies between purchase orders, shipment notices, and invoices.

The issue becomes apparent because supply is the highest expense item next to labor. And 80% of it is comprised of Physician Preference Items (eg. surgery, pharmacy, cardiac cath, radiology, and lab). In some hospitals, clinical resources are being used to manage a significant amount of inventory. And they use inconsistent processes to replenish it. In this regard, pick lists are developed with physicians according to the supplies they use for a particular procedure. Are they current?

Opportunities

Supply savings can be achieved by reducing medical-surgical product costs and increasing supply chain efficiency. By focusing on key drivers, supply chain managers can realize potential savings:

- Pricing Normalization - 3% of Total Spend
- Contract Maximization - 2% of Total Spend
- Data Standardization - 2% of Total Spend
- Non-Contract items - 10% of Non-contract Spend

Improved data accuracy also prepares the organization for electronic invoicing, which translates to a streamlined process for invoice reconciliation. According to Aberdeen Group:

AP Performance Area Before Automation After Automation

Invoice processing cost (PO & Non-PO Types)

\$2

Invoice Exception Rates 8.50% 3.50%

Time to Process and Schedule Payment 20 days 9 days

Payments Made On-Time 69% 75%

Early Payment Discounts 47% 59%

Payments Settled Electronically 31% 41%

