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# Capital gains from Supply Chain pains

Hits and misses can drive or derail key projects

By Rick Dana Barlow - June 21, 2018

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Capital/facilities planning typically represents the nucleus of a healthcare organization's operations, patient care and potential success.

Unfortunately, all too often Supply Chain participation resembles those far-flung electrons orbiting the nucleus and providing negative charges to construction purchasing and service requests. That's largely because Supply Chain may be brought a bit too late into the process and then face the untenable task of making too many change requests for a variety of logical reasons.

Of course, those decisions could have been averted were Supply Chain executives recruited to participate much earlier in the process — some argue even before the process actually begins.

When Supply Chain and those managing and overseeing capital/facilities planning projects team up right from the get-go — or before — the process runs rather smoothly, sources say. However, when they don't, the challenges, hurdles and speed bumps ensue.

### Right of way

Both groups working together and sharing common goals is the ideal, insists Cindy Juhas, Chief Strategy Officer, [CME Corp.](#), a Warwick, RI-based national equipment distributor. But they have to be communicating.

"It helps if Supply Chain listens to capital/facilities' needs," Juhas noted. "There are many costs involved in ordering, delivering, installing, testing and trash removal when it comes to equipment. The price of product is one facet of the [total cost of ownership]. The capital group understands those costs and can make a good decision based on all of the apparent and hidden costs." A partnership between the two can flourish if each listens to the other, share common goals and trusting [facilities management's] judgment on goals-based decisions, according to Juhas.



*Cindy Juhas*

Steven Sutton, Director, Planning and Design Group, [Belimed Inc.](#), North Charleston, SC, argues that healthcare organizations with capital plans are on the right track already.

"The one thing the best hospitals get right is actually having a capital plan for their facilities," Sutton said. "They know where all of their assets are, serial numbers and their age. They leverage their vendor partners to determine an equipment replacement forecast. Leadership playing an active and positive role in the hospital by having and communicating a strategic vision and goals for the facility are a must. Poor leadership with no direction will build undersized facilities and let their supporting infrastructure waste away, setting their staff up for failure."



*Steven Sutton*

Supply Chain's role in the capital/facilities planning process varies by organization, acknowledges James Laskaris, Clinical Strategist, [MD Buyline/TractManager Inc.](#), Dallas.

"In some cases, they work hand-in-hand with the C-suite as well as with the clinical staff to ensure a team approach to capital and financial planning," he said. "In other cases, they are well below the strategic and planning level of the process, residing exclusively in the transactional part of the workflow. In my opinion, these two ends of the spectrum create the opportunities and reasons for success.

"Successful supply chain teams are attuned to the overall strategic and financial goals of the organization and play a crucial role in balancing those areas of focus with the clinical needs, wants and expectations that are invariably embedded in the capital process," Laskaris continued.

"Most supply chains are very well-informed and closely manage the GPO contract affiliations, and they work to maximize that contractual partnership whether it be buying on contract or working toward a compliance level that results in [an] optimal return on their GPO investment."

Because Supply Chain understands and takes advantage of the aggregation of an organization's supply expense stream, they place themselves in a winning position, indicated Mark Webb, Principal, [Vizient Inc.](#), Irving, TX. "By utilizing data on current spend trends and forecasting future [expenses], they are able to leverage various categories as they aggregate across their organization," he said. "Further enhancing that power is the utilization of their group purchasing organization's contract portfolio and group buy programs to enhance aggregation and drive even more value. In the Capital/Construction/Facilities area, the opportunities typically include medical equipment and furniture. Most other areas are not direct purchases, but rather third-party purchases through a construction manager or contractor."



*James Laskaris*



*Mark Webb*

Supply Chain's wide-angle lens into organizational spending makes a difference, according to Kristen Barrett, Planning Consultant with Attainia Professional Services, [Attainia Inc.](#), Scottsdale, AZ. "With their insight into major projects system-wide, Supply Chain can successfully identify opportunities for savings by leveraging group buys for multiple projects or utilizing existing/available inventory data," she said. "By acting as the clearinghouse for developing and enforcing standards, Supply Chain can successfully bring down the cost of the capital equipment Purchases."



*Kristen Barrett*

Ric Goodhue, CMRP, Equipment Planner and Capital Coordinator, [CaroMont Health](#), Gastonia, NC, credit's Supply Chain's broad view as a key attribute of its value to the organization.

"I believe Supply Chain takes a more broad-based approach to capital/facilities planning as their exposure/impact generally reaches across a variety of service lines, including financial as well as clinical, Goodhue told HPN. "Although there may be a targeted application, that one target can have a ripple effect, especially when it comes to support services such as IT, clinical engineering, supply distribution for stock items and purchasing and negotiating service contracts and other kinds of support.



*Ric Goodhue*

"Supply Chain can be as narrow-focused as needed to meet the clinical requirements of the organization, but their radar is much broader in scope to address the needs and goals of the whole organization," Goodhue continued. "An oft repeated philosophy is that Supply Chain needs to increase its visibility to the organization by sharing its successes and lessons learned from its failures. With most – and not all – situations or opportunities, Supply Chain adds value and not cost in the form of increased warranties, service and support, technology enhancements, and the list goes on. It is not just about price. It is about quality and meeting the needs of the healthcare providers at all levels and the patients."

## Wrong in play

On the other hand, Supply Chain can stumble if they're wearing blinders and too narrowly concentrated, Goodhue added.

"The flip side is that they can be too focused on a single want or need and don't take all the ancillary support requirements into consideration," he said. "Supply Chain has to be vigilant and sensitive in their understanding of the needs of the organization from a variety of perspectives. However, when they become single-minded they lose the broader perspective. Although they may have the 'one-off' success, it may be limited in scope and cause negative effects if the 'big picture' isn't addressed. Without the panoramic vision and understanding of all that's going on in the organization, success is limited to that single, one-off endeavor."

Attainia CEO Mike Rozenfeld concurs that tunnel vision limits success in capital/facilities planning.

"Siloed decision making is one of the greatest weaknesses in the healthcare supply chain," he asserted. "With a single department acting without buy-in or the appropriate decision makers at the table, the effects of a siloed decision tend to snowball. For example, if construction and design forecasts a specific cost per square foot for capital equipment purchases, Supply Chain and their colleagues in equipment planning may be forced to make less than ideal decisions on capital equipment to adhere to the budget."



*Mike Rozenfeld*

Belimed's Sutton points to what he calls "at-risk asset management" as problematic and "the worst way to run a facility.

"This break-fix cycle puts undue stress and strain on the staff working with the facility and the equipment," he noted. "The equipment is run well past its useful life on a shoe-string maintenance budget with no plan to replace or upgrade the equipment. When it fails, it disrupts operations and can negatively effective patient experience and safety. We ultimately find this strategy ends up costing much more money in the long run."

Control can be a challenge — as in who has it or who's allowed to have it.

When it comes to GPOs, Tom Watson, Vice President, Clinical Strategies, MD Buyline/TractManager Inc., cautions against depending on GPO expertise, particularly for strategic capital considerations.

"By design, GPOs have a narrow view of the market, vendors, and models," Watson said. "GPO agreements are geared toward generic contract pricing on specific models, making it more about price than about the right technology from the right vendor – and then at the right price. An organizationally vendor-neutral view with data analytics, pricing, clinical evidence, and overall return on investment (ROI) from an unbiased resource is critical. It is important that the process reflect the entire market with accurate, actionable and clinically relevant perspective. This will be a cornerstone for healthcare business strategies and success today and the future."



*Tom Watson*

Watson calls for a "strong team approach with supply chain as participant, ideally the quarterback, from beginning to end," as a successful play. After all, the vendors make it work with "a team-based, well-trained group focused on the vendor's business plan/strategies and sales quotas," so why can't providers do the same for the patient?

"A strong team — working together, guided by the overall business plan/strategy of the organization, and driven by the supply chain culminating in the decision process, negotiation, and purchase of technology — creates a blueprint for success," he said. "With all the demands put on supply chain in today's environment, especially when combined with reduced staff, negotiation in healthcare has become a lost art for many organizations. If necessary, incorporating professional assistance in this role can be a tremendous benefit."

Vizient's Webb cautions against casting too much of the blame on Supply Chain. He points to the entire organization as culpable for any shortcomings.

“Supply Chain professionals know what needs to be done, but getting others to collaborate isn’t always that easy,” Webb said. “The biggest area that needs improvement in most health systems is greater collaboration and utilization of established supply chain techniques and available GPO contract portfolios to add value in capital/construction/facilities projects. In particular [I’m referring to] those purchases that are not directly made by the hospital but rather made by a construction manager or contractor. In addition, improved coordination between Supply Chain and the design team helps to ensure that the procurement of capital items is well-coordinated to minimize costly change orders.”

But Supply Chain has to avoid the impression that it’s only striving to negotiate the lowest price without regard for the other costs involved that include freight, delivery, assembly, storage, security on-site, resources on-site, install costs, testing costs and trash removal costs, according to CME’s Juhas.

“A \$10 savings per item on the initial price can translate into an extra \$20 to \$30 cost on the logistics side,” she indicated. “That does not save the system money overall.”

Juhas recalls one CME project where the company was outfitting a San Diego-based hospital that invested in assembly and delivery direct to rooms. However, the hospital decided to buy a less expensive linen hamper that saved them \$15 per unit. “The hampers arrived on site and were being stored in an open area by the front door,” she recounted. “We all walked by those boxes for weeks. The plan was for the hospital staff to assemble them and get them to the rooms. There were approximately 200 hampers ordered. The week before their inspections we got a panicked call from the hospital asking if we could come to San Diego, assemble the hampers and get them into the rooms by Monday of the next week. We had to send a crew over the weekend and got it done for them. But they did not save money on this purchase when you added in the extra costs associated with this assembly and delivery. We usually assemble everything in our warehouse and deliver everything to the room on our time schedule and with other products. So not communicating with each other, not listening to everyone’s concerns and not having common savings goals made for a disjointed project not on budget.”


CaroMont’s Goodhue laments that Supply Chain may not be invited to the table early on because it maintains a reputation that all they care about is cost, price and saving money.

“What so many don’t understand is that Supply Chain truly wants to provide the best equipment at the best price that best meets the customers’ — and ultimately, the patients’ — needs,” he told HPN. “We have to get that message out to our customers and communicating it by our actions and sustainable results.”

Sidebar: Going solo, not mano-y-mano

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