LogicSource

WHITEPAPER

NON-CLINICAL SPEND MANAGEMENT: THE SOLUTION TO HEALTHCARE SYSTEM MARGIN PRESSURE?

INTRODUCTION

As pressure on operating margins increases, and healthcare systems struggle to invest into patient care and growth, how much further will access to care be impacted? It's a question that keeps healthcare leaders up at night, as they contend with negative or below-plan **operating margins** and shrinking revenue. Expenses have steadily grown by **17.5% in the last four years**, driven by rising costs for medical supplies, drugs, labor and indirect (or non-clinical) expenditures – pressures that are set to intensify as uncertainty continues in global markets.

How can leaders ease this margin pressure without yet another cost-cutting exercise or permanent headcount reduction, both of which will impact access to care? The surprising answer lies within **non-clinical costs**.

Non-clinical costs include goods and services expenses across categories such as IT, Corporate Services, Marketing, Facilities Maintenance, Construction and Logistics. These often overlooked expenses are vital for hospital operations and are typically sourced independently by those responsible within the organization, because they fall outside of GPO contracts. They also represent tremendous profit improvement opportunity, as non-clinical spending equates to a staggering **20% to 25% of net patient revenue**.

Optimizing costs and addressing inefficiencies across non-clinical spend categories:

Could yield net savings of upwards of 15% on non-clinical spend

Has the potential to reduce the cost base by 2% to 3%

Can mitigate the 7% to 12% higher prices that healthcare pays for the same goods and services purchased by other industries

The cost-savings potential of optimizing non-clinical spend is clear, so why aren't more hospitals doing it? Fragmented spend, lack of visibility into the cost base and underestimation of non-clinical cost savings potential are all typical factors. Health systems that overcome these challenges will unlock significant cost-saving opportunity, successfully reducing rising costs and mitigating ever-tightening operating margins.

In the next few pages, we provide insight into non-clinical spend and address areas like:

1 **WHY TRADITIONAL SOURCING AND PROCUREMENT METHODS AREN'T ENOUGH FOR HEALTHCARE'S FINANCIAL PRIORITIES**

2 **FIVE ACTIONABLE STEPS HEALTHCARE PROVIDERS CAN INITIATE TO ADDRESS NON-CLINICAL SPEND**

3 **THE BENEFITS OF WORKING WITH A LEADING PROCUREMENT PARTNER FOCUSED ON NON-CLINICAL CATEGORIES**

THE REALITY OF SOURCING AND PROCUREMENT FOR HEALTHCARE HAS SHIFTED

Certain key strategies that hospitals have used to manage procurement costs, like leveraging Group Purchasing Organizations (GPOs), are still proving effective in controlling the organization's clinical expenditures. However, these strategies do not extend across non-clinical expenses, an untapped source of cost reduction opportunity to relieve pressure on operating margins.

These four key issues highlight why healthcare systems must rethink their approach to non-clinical spend management strategies:

1. RISING CLINICAL COSTS ARE REDUCING OPERATING MARGINS

Hospitals have typically been able to negotiate with suppliers to reduce or maintain costs for clinical supplies and services, but not anymore. **Rising medical costs driven by supply chain disruptions** and **rising inflation** mean tighter margins for suppliers, and they are raising prices to compensate. Fueled by the thousands of purchases hospitals make, these rising costs drive down operating margins, even with competitive supplier deals in place.

2. THE GPO MODEL IMPACT IS LIMITED FOR NON-CLINICAL EXPENSES

The GPO model has allowed hospitals to achieve significant savings on clinical goods and services but less so in the non-clinical space. GPO programs only address 10% to 25% of the non-clinical expense base, leaving the majority untouched. GPO contracts are designed to drive standardization for commodities and SKU-based items, while effective sourcing of complex categories such as Corporate Services, IT, Facilities and Marketing require a different approach to unlock cost savings potential.

3. HEALTHCARE INDUSTRY BENCHMARKS ARE NO LONGER ADEQUATE

Hospitals commonly benchmark their spending against other industry peers, but do not generally compare their pricing to other industry sectors, resulting in missed opportunities for cost reductions. Benchmarking pricing using data from outside of your own industry is a valid strategy – so why shouldn't healthcare leaders do it? One sustainable way to obtain this data is through a procurement partner with cross-industry supplier relationships, sourcing experience and pricing information that can be transferred into a healthcare setting.

Non-clinical goods and services are often seen as "minor" purchases that individual healthcare departments need to execute their primary function. As such, purchasing decisions typically fall under the purview of internal department stakeholders and may go unscrutinized – creating gaps of visibility and unknown risks for a hospital's finance and accounts department.

4. MERGERS AND ACQUISITIONS HAVE FRAGMENTED SPEND MANAGEMENT

The **record-breaking number** of healthcare mergers in the previous years should theoretically have improved the buying power of some healthcare organizations; the reality however is that it has introduced greater complexity and fragmentation across the majority of non-clinical spend categories for Healthcare systems.

While a small portion of the merged system's spend can be routed through GPO agreements, the greater opportunity lies within the remaining majority of non-clinical expenses, including direct cost reductions, supplier consolidation, improved contractual control and reduced workload for legal and A/P functions.

There is opportunity - and even obligation - for hospitals to challenge the established norms and pursue alternatives for non-clinical procurement optimization. Driving this change is critical to ensuring access to care while keeping operating margins healthy. In the following section, we detail several steps that healthcare leaders can take to bring non-clinical spend under control and drive margin improvement for their healthcare organization.

TAKING THE FIRST STEPS TO ADDRESS NON-CLINICAL EXPENSES

What should hospitals do to begin making headway in reducing non-clinical expenses? This section details the actionable steps that healthcare leaders can take to unlock the cost-savings opportunity and drive margin improvement.

1 EVALUATE YOUR NON-CLINICAL PROCUREMENT CAPABILITIES

Non-clinical goods and services are typically purchased by department stakeholders instead of dedicated and expert procurement resources. However, department stakeholders purchasing their own items are not procurement experts and do not have the time to competitively tension spend, perform strategic category analysis or drive direct negotiations with suppliers. To compound the issue, department heads typically renegotiate contracts infrequently (every two to three years), are typically not familiar with complex procurement agreements, and could hesitate to demand lower pricing or better contract terms based on keeping good relationships with suppliers.

Significant opportunities for cost reduction are missed simply based on these factors; migrating to a centralized and technology-enabled procurement function will drive material financial and operational benefit for the organization.

2 ESTABLISH VISIBILITY INTO NON-CLINICAL EXPENDITURES

The lack of visibility to non-clinical costs within healthcare departments is a risk healthcare leaders can no longer accept, especially when cost overruns could easily tip operating margins further into the red. Leaders should demand visibility into non-clinical purchases, and department stakeholders should be held accountable for spending to budgets, as well as unapproved transactions or sourcing activities from non-approved suppliers.

Hospitals can try to do this manually or via data extracts and Excel, but this approach requires significant time and resource investment, and results in data that is out-of-date once it finally becomes available. The alternative is to **leverage spend analytics software** that brings clarity and visibility into supplier and spend data, while providing insights into the opportunities to drive profit improvement across the spectrum of non-clinical expenses.

3 ENSURE THE RIGHT LEVEL OF SPONSORSHIP FOR YOUR NON-CLINICAL PROCUREMENT INITIATIVE

Clinical sourcing costs tend to be rigorously scrutinized due to their visible impact on operating margins; it is clear that non-clinical costs deserve the same rigor and discipline. Demand for greater accountability must come from the top; healthcare leaders must sponsor the centralized procurement of non-clinical expense categories and mandate that purchases for items such as office supplies, software, facility maintenance or professional services be tracked, analyzed and sourced as competitively as bandages, sutures and implants.

While critical, this shift of perspective for non-clinical spend can take a long time to achieve with internal resources, even with the right level of top-down sponsorship. The process can be achieved much more quickly and with greater impact with a strong third-party procurement partner. The right partner can drive a disciplined and competitive approach towards non-clinical sourcing on your behalf, using the right technologies, people and processes, as well as tapping into a supplier network that extends beyond healthcare into other industry verticals.

4 LEVERAGE PARTNERSHIPS TO ACCELERATE TIME-TO-VALUE

Health systems can build their own centralized procurement capabilities, however doing this requires significant investment in resources and technology as well as experience and expertise in change management. All of this can take significant time, meaning a much slower path to achieving value from the program, as well as increased organizational overhead to manage the emerging capability.

Partnering with an expert provider of procurement services and technology dramatically accelerates the time-to-value for a procurement transformation initiative. The right partner can deploy expert category sourcing, enabling technology and change management oversight on Day 1 of the engagement, meaning a faster path to profit improvement than recruiting and training internal resources and implementing new procurement policies and technology in-house.

HOW LOGICSOURCE TRANSFORMS NON-CLINICAL PROCUREMENT

LogicSource is an innovative leader in procurement services and technology that's driven by one purpose: to help our clients drive margin improvement, mitigate risks, and ensure supply chain continuity across non-clinical expenses. We focus exclusively on the sourcing and procurement of non-clinical goods and services and our solutions have helped numerous organizations drive significant financial and operational benefit.

Why partner with LogicSource? Here are several reasons why:

WE INVEST UPFRONT IN YOUR ORGANIZATION.

We perform a no-cost Mutual Value Assessment (MVA); a five-week deep-dive into your non-clinical procurement practices where we interview key stakeholders, analyze your contracts, invoices, and rate cards, and finally present a detailed partnership proposal that includes our sourcing strategies, benchmarks, and plans on how we'll deliver the proposed value.

WE IMPLEMENT KNOWLEDGE FROM OTHER INDUSTRIES.

We provide our healthcare partners with pricing benchmarks that non-healthcare organizations are paying for the very same non-clinical expenses. This wealth of data points gives healthcare leaders a real-time view of how much others are paying for the very same goods and services, allowing them to pursue alternative sourcing strategies and devise ways to improve margins or free funds ahead of annual budget cycles.

WE'RE ALL ABOUT ACTION AND EXECUTION.

Unlike consultants that run spreadsheet analysis for a high fee and hypothesize what savings opportunities could be achieved, LogicSource goes into specific projects and benchmark-level detail to partner directly with our health clients, and execute on their behalf. We bring together our people, processes, technology, and learnings to elevate your procurement function, improve non-clinical procurement practices, and achieve your goals for the bottom line.

WE DELIVER IMPACT ON THE BOTTOM LINE.

We've helped businesses achieve **7% to 15%** average savings across all non-clinical expenditures, while streamlining your procurement practices to reduce cycle times and accelerate speed-to-value.

WHAT WE BRING TO THE TABLE

Our Service teams work hand-in-hand with our clients to establish or elevate their non-clinical procurement function, or empower existing procurement teams with our best-in-class OneMarket technology platform, backed by our tools, market data, and array of industry experts.

Here's what you can expect from us:

PEOPLE: More than 120 dedicated non-clinical category experts from our Center of Excellence who bring the latest data, insights, best-practices, and cost savings initiatives to your procurement function.

DATA: Access to over $85 billion in managed spend and pricing data from across our client portfolio, giving you real-time access to market intelligence and price benchmarks so you can source for the most competitive rates for non-clinical purchases.

SUPPLY CHAIN CONTINUITY: Partner with a procurement organization with the ability and experience to tap into an extended network of suppliers to source critical items needed in times of disruption.

RISK MANAGEMENT: Holistic risk management that's borne from a combination of our industry expertise, market data, and insight that can be leveraged to identify areas of risk, drive mitigation, and secure non-clinical procurement against operational disruption.

TECHNOLOGY: A best-in-class, practitioner-built procurement technology platform designed to enable and automate the Source-to-Pay process in a single, integrated user experience.

LogicSource®

ABOUT LOGICSOURCE

The innovative leader in procurement services and technology, LogicSource is purpose-built to drive profit improvement, mitigate risk, and ensure supply chain continuity through better buying.

Unlike traditional advice-based consultants, LogicSource is a purpose-built buying utility with assets that are configurable to their clients' needs and ready to deploy. By combining decades of sourcing and procurement expertise, superior market intelligence, cross-portfolio spending leverage, and their OneMarket® Source-to-Pay technology, LogicSource executes customized solutions that deliver immediate savings and sustainable value.

For more information, visit **www.logicsource.com**.