

# REFINING A HOSPITAL'S SUPPLY CHAIN

## SAUK PRAIRIE HEALTHCARE

### SITUATION: SEEKING TO IMPROVE SUPPLY CHAIN PRACTICES

Sauk Prairie Healthcare is an independent health system with several clinics and a 36-bed acute care hospital 40 miles north of Madison, Wisconsin.

Sauk Prairie's leadership was concerned that its supply chain was not operating as efficiently as it could, and that neither its contract with its main orthopedic supply vendor, nor its Group Purchasing Organization (GPO), had been evaluated for several years.

Accordingly, Sauk Prairie engaged FTI Consulting in 2015 to evaluate its supply chain and update and improve its processes where advisable. The goal was to reduce costs, improve operating margins, and buttress fiscal discipline throughout the Sauk Prairie system.

“As a small, independent healthcare provider that had recently moved into a new, much larger facility, we were uncertain whether our contracts were market competitive and whether our Materials Management Department was operating at maximum efficiency. By evaluating our supply chain operations and giving us suggestions for improvement, FTI provided us with significant current savings and a blueprint for how to operate in the future. The professional, personable team from FTI enabled us to achieve excellent results.”

### CAROL MAY, CFO

Sauk Prairie Healthcare



## FTI CONSULTING'S ROLE: MAPPING A MORE EFFICIENT SUPPLY CHAIN

A team of FTI Consulting Health Solutions experts worked with Sauk Prairie in the following three primary areas:

- 1. The strategic plan for supply chain services:** FTI Consulting leveraged its supply chain expertise to help Sauk Prairie establish metrics for success, and create both short- and long-term goals. An evaluation of the system's supply chain operations revealed opportunities to improve efficiency through better data and IS integration. For example, the FTI Consulting team showed Sauk Prairie how to improve pricing visibility, and reduce the risk of errors, by finding ways to manage consignment inventory within the hospital's Business Information system, thus automating Purchasing, Billing and Accounts Payable processes that had been performed manually.
- 2. Orthopedic supply contracts:** FTI Consulting helped Sauk Prairie move to a best practice matrix pricing model with its orthopedic vendor. This matrix pricing model gathered functionally similar implants into categories, and assigned a single price to implants in each category, thereby ensuring that Sauk Prairie did not pay unnecessary surcharges for marginal, non-value added differences in products.
- 3. The committed GPO program:** Sauk Prairie had been working with a primary GPO (Intalere), and using a secondary GPO from time to time. FTI Consulting advised Sauk Prairie that it could reduce costs by signing up for Intalere's committed purchasing program, the Intermountain Committed Contract Portfolio (ICCP). Committed purchasing programs allow healthcare providers to access lower prices in exchange for a commitment to obtain a certain percentage of available supplies (e.g., surgical gloves) through the program. Since GPOs do not necessarily demand a minimum dollar volume, even relatively small healthcare organizations like Sauk Prairie can participate and access the savings offered by committing a percentage of their spend.

## OUTCOME: MORE TRANSPARENCY, HIGHER EFFICIENCY, LOWER COSTS

Sauk Prairie spent \$12.9 million on supplies in 2014. The matrix pricing model that Sauk Prairie negotiated with FTI Consulting's assistance has the potential to reduce orthopedic implant expenses, the organization's largest supply expense category, by more than 15%.

FTI Consulting also helped Sauk Prairie evaluate several potential GPO partners. Ultimately, by signing up for the committed program, Sauk Prairie was able to stay with its existing GPO and still achieve more than \$200,000 in annual savings.

The engagement has given Sauk Prairie a roadmap to modernize its supply chain practices. The matrix pricing and committed GPO contract have the potential to reduce its total supply spend by almost 10 percent, thereby increasing operating margins by more than 1.5 percent.

Even as the hospital has cut costs, and improved the efficiency of its supply chain, it has continued to deliver superlative patient care. In 2015, Sauk Prairie maintained its annual tradition of receiving Patient Safety Excellence Awards and Outstanding Patient Experience Awards from Healthgrades, an online resource for consumers of health services.



### ABOUT FTI CONSULTING

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring. More information can be found at [www.fticonsulting.com](http://www.fticonsulting.com).

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