

Consigned Inventory Management: The Rx for Ailing Medical Profits

By Kristy Mouser, Vice President of Supply Chain Solutions - Healthcare, NAL Worldwide

NAL Worldwide LLC
1200 Greenbriar Drive
Addison, IL 60101
Toll Free: (800) 316-6860
Email: info@nalworldwide.com

In matters of life and death, the last thing one should worry about is a supply chain. But when it comes to medical devices and healthcare services, supply chain headaches can change the abbreviation for Out-Of-Stock to RIP in a heartbeat.

Like many other manufacturing industries, medical device makers face the need to streamline an increasingly complex supply chain. Of the approximate 6,000 medical device component and equipment manufacturers selling goods today, between 50% and 80% of the industry's \$75 billion in revenues come from products introduced during the last 3 to 5 years. That's high turnover in a market already facing the tightest regulatory, liability, and product-tracking requirements in history.

At the other end of the medical supply chain, hospitals and service providers are facing similar economic pressures. In recent years, rising insurance costs and rising numbers of uninsured have sent hospital margins to the lowest levels in the past decade, according to the Healthcare Financial Management Association.

In both cases, moving beyond in-house supply chain management to a consignment inventory management solution (CIMS) can add vital points to a medical organization's bottom line.

Medical device manufacturers trying to go 'lean' by reducing inventories face the challenges of how to continue to provide order fulfillment, warehousing, distribution, and customer service while reducing the inventory and maintaining (or reducing) product lead times. The first step in relieving the medical supply chain headache is realizing that while a supply chain is critical to the manufacturing operation, it may not be a core strength of the organization or its people. Companies around the world are outsourcing non-core operations to benefit from best in class solutions that reduce supply chain costs while improving overall customer service, such as NAL Worldwide's Centralized Supply and Logistics Center (CSLC).

Consider the additional costs of traditional in-house inventory management processes. High sales projections lead to overstocked inventory, which reduces the efficiency of the manufacturing schedule. Orders are filled on a per requisition basis rather than a consolidated shipment to a particular customer. Extra shipments mean additional transportation and labor costs and increase the chances for discrepancies and billing

delays. When is the last time you saw receiving operations at a hospital? The last thing they need is more inbound shipping activity.

Finally, hospitals -- operating under their own economic constraints -- resist carrying high inventory levels, leading manufacturers to move towards a vendor managed inventory (VMI) system to get their high-value products as close to the hospital as possible. Unfortunately, VMI requires monthly audits from field sales when they should be identifying and servicing new orders rather than reconciling inventory and billing documents.

An alternative to traditional VMI practices is for manufacturers to outsource inventory management to an independent Centralized Supply and Logistics Center (CSLC) that is designed specifically to serve the unique needs of the healthcare industry. If this is done, many of the inventory, warehousing, distribution, and billing problems facing manufacturers go away.

One call to a CLSC delivers all the materials needed for existing orders. A CLSC can consolidate deliveries, while improving receiving, restocking, and service to the hospital. Space previously used for inventory becomes flexible space for growth and revenue generation, while visibility across the manufacturing enterprise is greatly improved through a centralized inventory/warehouse/logistics provider.

At the other end of the medical supply chain, hospitals also financially benefit from a centralized inventory center. Supply chain management, inventory, and procurement can account for up to 35% of a hospital's operating budget, according to *Healthcare Purchasing News*. Unofficial VMI can account for up to 50% of total inventories, creating distribution, billing, and product lifecycle headaches for both manufacturers and hospitals.

Hospital supply chains spend approximately \$8 billion each year on inventory management and order management out of an estimated \$11.5 billion in total supply chain costs. In this context, even small percentage improvements to supply chain efficiencies quickly add up! Recent studies show that -- just in the past 2 years -- hospitals that move to a Consigned Inventory Management System can expect to reduce supply costs by up to 3.5% within the first 4 years of operation, which equates to more than 1% of total hospital operating expenses.

To learn more about how consigned inventory management can streamline your operation, contact Kristy Mouser, VP, Supply Chain Solutions - Healthcare at NAL Worldwide at 817.297.3550 or by email at kristy.mouser@nalworldwide.com. NAL Worldwide delivers specialty logistics solutions for Healthcare, Communications, Retail and Technology.