

# How SKU Standardization, Reduction Improves Patient Care and Cuts Costs

Armed with real-time product intelligence, today’s supply chain professionals are becoming sophisticated cost engineers capable of transforming the hospital supply chain into a strategic business asset.

For Kelli McRory, no clinical product — from table paper to electrodes — is too small to warrant meticulous cost and utilization analysis when it comes to spend management.

Ms. McRory oversees roughly \$250 million in clinical supply spend at Thomas Jefferson University Hospitals in Philadelphia, where she plays an integral role in Jefferson’s clinical value analysis program at its acute care facilities. She is responsible for nearly \$40 million in cost savings at Jefferson during her 10-year tenure.

Two years ago, Jefferson Health appointed Ms. McRory associate director for clinical strategic sourcing, where she took up the mantle of process reformation and spend reduction in Jefferson’s non-acute care settings. Specifically, Ms. McRory was tasked with translating Jefferson’s robust value-analysis program for its acute care facilities to its non-acute clinical supply chain.

“We always knew we had to do it. The problem was *how* do we do it?” she says.

Managing and standardizing non-acute clinical care spend is a uniquely difficult challenge because non-acute practices tend to be more prolific and decentralized than hospital facilities. Disparate materials management systems, geographic distance and varying clinical specialties can further obscure purchasing trends, utilization habits and process inefficiencies. This can decrease care quality and drive up operating expenses.

Jefferson Health’s non-acute clinical care arm consists of more than **650 affiliated physicians** who practice at more than **105 physician practices** throughout Philadelphia and the Delaware Valley.



Due to consistent growth in the community-based healthcare market, the health system faced the additional challenge of aligning newly acquired and geographically diverse practices with Jefferson’s purchasing strategy.

Before Ms. McRory could address process inefficiencies, she needed visibility into non-acute clinical purchasing data.

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## Using Analytics to Drive Sourcing Strategy

In the past 10 years, data analytics has emerged as a powerful tool for hospital systems to drive process improvement in clinical and financial realms. But many healthcare organizations have yet to use analytics to inform their purchasing strategy.

Applying analytics to supply chain processes involves collecting, aggregating and storing vast amounts of purchasing data in a central warehouse. Using tools that identify, categorize and classify items, aggregated purchasing data affords supply chain administrators detailed visibility into spend and utilization habits to improve decision-making process around clinical acceptability and quality.

But collecting and making sense of spend information is no simple task. Even national health systems with sophisticated IT infrastructure often lack the human and financial capital required to develop an effective analytics program in-house. Moreover, hospitals that simply purchase and implement analytics software may not achieve the desired results without input from subject matter experts. Experienced analytics firms can provide valuable guidance, recommend clinically appropriate products and best practices and discover creative cost-savings opportunities.

“McKesson Medical-Surgical is that vendor for us,” says Ms. McRory. “They sat down and said, ‘This is how we can be different.’ They accepted our challenge to look at the data in a different way.”

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**“Large health systems come to us and want to know, understand and control their spend across non-acute care sites to drive efficiency and eliminate waste,” says Anne McCann, vice president of sales administration at McKesson Medical-Surgical.**

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By accumulating customer spend information and looking across different product sets, McKesson’s analytics team identifies opportunities for clients to maximize contract compliance, limit stock keeping units and discover cost-savings.

“We perform the analytics to serve up choices and make recommendations to our clients,” Ms. McCann says. “We work with the health system leadership, practice management and clinicians to help them select the best path forward for their organization.”

## Forming a Clinically Integrated Supply Chain

People are creatures of habit, which can make employees resistant to change in the workplace. This is particularly true in a field as regimented and disciplined as medicine, where physicians are uncomfortable forgoing habit for something new.

Engaging senior leadership, practice management and clinicians in SKU standardization was essential to ensuring successful process transformation across the non-acute enterprise, according to Ms. McRory.

Ms. McRory found involving clinical and administrative stakeholders in the value-appraisal process from the beginning ensured Jefferson’s value analysis committee selected the most appropriate SKUs as product standards. That meant including practice managers from every non-acute facility in all materials management decisions.

“Practice managers know their business and they are comfortable making decisions for the group,” says Ms. McRory. Practice managers can also express their practices’ unique preferences and concerns during the SKU reduction process.

Jefferson holds monthly formulary meetings, where practice managers, McKesson representatives and clinical sourcing leadership convene to discuss and develop the product formulary. McKesson employees present new products or present cost-saving opportunities identified by the analytics algorithm. Jefferson's formulary committee then evaluates McKesson's analytical data against clinical, quality and cultural considerations to determine the most appropriate course of action.

"At these meetings, we're looking for opportunities to move to the largest volume provider with the highest quality product, thereby reducing SKUs to promote consistent patient care," Ms. McRory says.

## Reducing SKUs Raises Clinical, Financial Performance

Jefferson aimed to **reduce total spend in their non-acute clinical supply chain by 10 %.**

About five months after implementing the value analysis program, Jefferson achieved 20 percent of its goal, suggesting the **system is on-track to meet its target.**



Ms. McRory says SKU reduction and product standardization has positively impacted operations by improving patient safety and clinical quality, eliminating waste from supply chain processes and enhancing compliance to best practices.

### Quality of Care

Product standardization is a core part of Jefferson's quality improvement initiatives. Product variation threatens both caregiver efficiency and patient safety due to differences in quality and utilization processes. SKU reduction and product standardization improves patient care by reducing opportunities for human and clinical error, Ms. McRory says.

Consistency of care can also lead to operational efficiency. Because staff are not required to learn new processes for different products, standardization streamlines product application and speeds workflow efficiency, allowing clinicians to focus on patient care.

SKU standardization across non-acute care settings better positions a healthcare organization for success in a value-based industry. Under outcomes-based delivery models, hospital reimbursement increasingly depends upon patients' overall health outcomes, which includes medical care they receive outside the acute-care setting.

That's why many hospital systems like Jefferson are expanding their footprint in ambulatory and non-acute spaces to better control clinical quality across the care continuum. Ensuring physicians treat patients with same standard, high-quality clinical products inside and outside the hospital is key to improving patient safety.

"If a patient goes to our practice here in Center City, they are getting the same quality, efficacious product that they would get in our northeast facilities, our south Jersey facilities or anywhere across the region," says Ms. McRory. "And as we get larger, we want to make sure that continues at each location."

## Operational Efficiency and Compliance

Standardization has also emerged as a valuable tool to drive efficiency, reduce costs and improve compliance in supply chain management. Specifying a limited group of vendors to provide a limited brand of supplies, for instance, enables organizations to take advantage of volume discounts, further driving down material costs.

Jefferson also uses McKesson's Punch-Out solution to limit SKUs, standardize products and ensure compliance. Materials managers navigate McKesson's ordering website, which works similar to Amazon, where managers select and add SKUs to their "cart," punch the order back into the materials management system and then submit the final request.

As McKesson and Jefferson leaders target product groups for standardization, McKesson restricts SKU options within the Punch-Out database, decreasing the chance of variability.

"The system guides practice managers to the formulary we are trying to develop," Ms. McRory says. "Compliance was always a challenge on our non-acute side. Now we have the technology to drive compliance."

## Leadership Performance

Ms. McRory suggests more prescriptive spend practices may even psychologically benefit Jefferson's practice leadership. The psychological condition "decision fatigue" refers to the deteriorating quality of decisions an individual makes during a sustained period of decision-making. People in management or leadership roles are particularly susceptible to decision fatigue, which can negatively impact productivity and operational efficiency at a physician practice.

Limiting SKUs can help combat employee decision fatigue by trimming down or eliminating the amount of choices management makes each day, thereby preserving employee willpower for more critical decisions. "It's similar to how highly successful people often wear the same type of outfit every day — it's one less decision to make," says Ms. McRory.

## Bringing It All Together

In today's healthcare environment, where strategic sourcing influences patient outcomes, clinicians and supply chain managers are working more closely than ever to provide safe, effective and cost efficient healthcare.

Standardizing purchasing operations can save hospitals millions in operating costs over time. But the net result extends far beyond improving operating and profit margins. Every dollar saved is a dollar that can be invested in delivering better patient care.

"At the end of the day, if we have put an appropriate quality product in the hands of our caring and competent staff, then we have done exactly what we have set out to do," Ms. McRory says.



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