



## HOSPITALS FACE MOUNTING PRESSURE TO CONTROL BUSINESS SPEND

Healthcare industry survey highlights top concerns and strategies for managing costs and efficiencies across the supply chain and business



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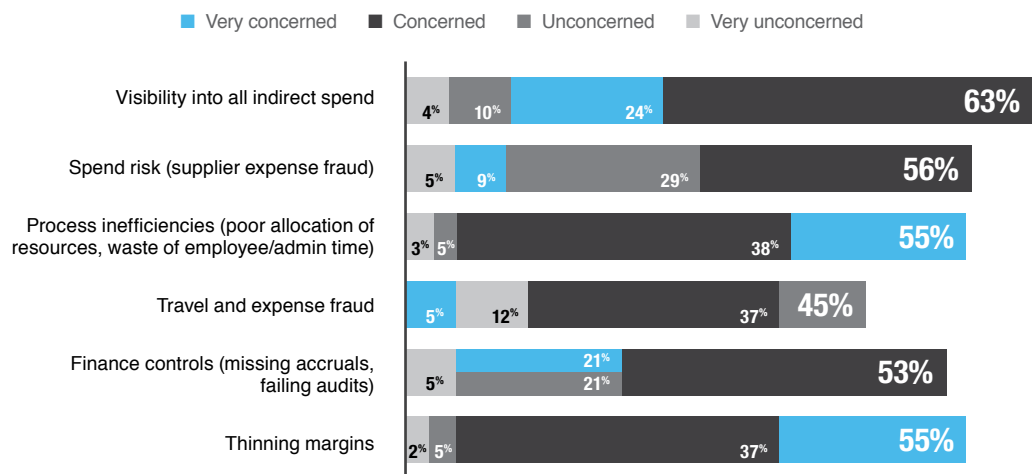
Hospital business spend practices are experiencing a powerful shift as the industry goes deeper into value-based care and risk-based contracting. Hospitals are continuing to consolidate at an aggressive pace in an effort to become bigger and stronger. Above all, they seek to improve market share, margins, costs, and quality. These macro trends are igniting new challenges and opportunities for healthcare organizations, which now must find new ways to transform their business spend management (BSM) process, especially in the areas of indirect spend and waste.

Many healthcare organizations face grave challenges in taking control of their business spend. In a recent HealthLeaders Media Buzz Survey, sponsored in partnership with Coupa, a provider of BSM software, 110 hospital and health system leaders revealed their top business spend concerns. According to the survey, healthcare organizations are concerned or very concerned about process inefficiencies (93%), thinning margins (92%), visibility into indirect spend (87%), finance controls (74%), and spend risk-supplier fraud (65%), among other areas. (Figure 1)

Survey respondents also shared insights into key waste areas, important technologies for managing indirect spend, and cost-cutting strategies they plan to deploy over the next two years. Ultimately, the survey points to a wide gulf between organizations that still rely on manual processes and those that are turning to digital BSM solutions to cut costs and drive efficiency.

“Finance and procurement leaders in healthcare organizations today understand the urgent need not only for cost control, but also reducing risk

**Figure 1. Top spend concerns for healthcare organizations** | Please rate the level of concern in your organization for the following:



Base = 110



across the supply chain and optimizing process inefficiencies,” says Andy Malay, vice president of public sector and healthcare at Coupa. “We have heard from our healthcare clients—from hospitals to health clinics to long-term care facilities—that visibility into indirect spend is surprisingly difficult without the right business spend management technology that captures all spend data across the organization in real time.”

**“ Oftentimes we are meeting process and efficiency with both process improvement and technology.**

—Peter Schemm, supply chain technology director, Children’s Hospital of Philadelphia

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To these points, Children’s Hospital of Philadelphia (CHOP), a stand-alone hospital with annual revenues of \$2.8 billion and a Coupa customer, is focused on gaining more insight into its spend as its footprint grows. The 500+ bed hospital has spent the last seven years improving operational excellence across its supply chain contracting process, says Peter Schemm, supply chain technology director. “The more we have brought general operations under control and become high-performing, the more our supply chain team has focused on influencing a wider span of our spend.” Schemm says years of careful planning, strong financial accountability, and strategic technology investments have led to greater control over business spend processes and resulted in less waste.

“Visibility and the ability to impact the indirect spend are high on our radar,” says Schemm. Process and efficiency are also critical focus areas at CHOP. “We are being asked to do more with the same resources, and efficiency is a big component of that,” he says. “Oftentimes we are meeting process and efficiency with both process improvement and technology.”

### Top challenges

Survey respondents also shared their top three hurdles for improving business spend control. Surprisingly, (52%) say paper-based processes for BSM, including procurement, contracts, expense management, and sourcing, are a serious problem, followed by lack of employee usage/ adoption of existing technologies (50%), no access to real-time data on employee spend (46%), and no support for investment in automating processes and the latest technologies (35%). (Figure 2)

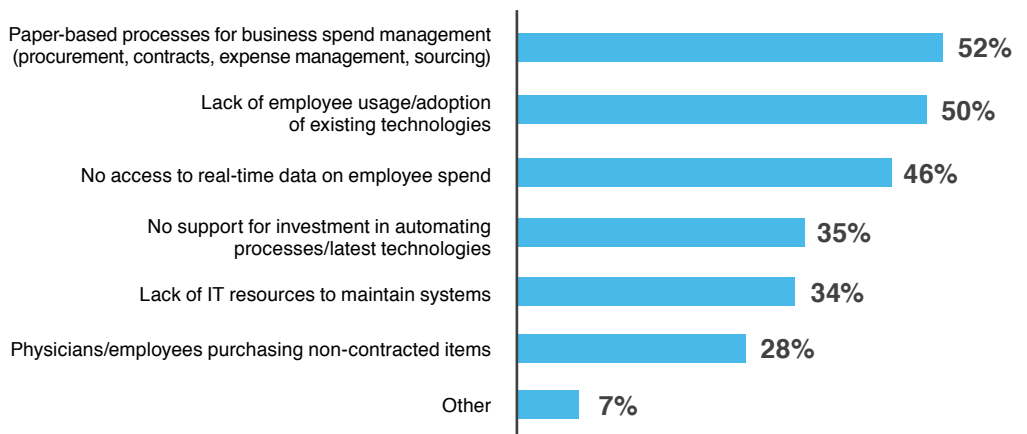
“In the era of digital transformation, it’s easy to forget that many healthcare organizations still manage their sourcing, procurement, suppliers, AP, and expenses on paper,” says Malay. “For those who do invest in technology,

they find these solutions are often designed for the back office without thinking about the end user—the nurses, doctors, administrators, and suppliers who use the applications on a daily basis. We find that while finance leaders at healthcare organizations want to automate these paper-based processes, they don't know where to start and often piecemeal disconnected solutions together as needs arise, versus addressing the business spend management problem holistically up front."

Indeed, Schemm with CHOP is surprised at the number of organizations still relying on paper processes. "We have built a long history of improvement," he says. Automation, enterprise-level analytics, and a business management technology platform have eliminated many of the problems noted by survey respondents, he adds. "We have very few paper-based processes left. All of our procurement is on PO, and we continue to improve our automation and B2B connectivity." CHOP uses Par Excellence Systems technology and has 22,000 products on scales that are weighed and automatically send orders to the vendor. Further, says Schemm, "our contracts are all electronic and loaded into Coupa, and for RFP and bidding processes, we adopted Coupa's electronic sourcing. We are funneling about 400 purchase orders a day through Coupa and rely on our ERP system to manage our direct procurement."

However, Schemm says CHOP faces other challenges in areas such as standardization. "Traditionally, we have run into challenges when our customer teams have identified, contracted, and procured equipment without

**Figure 2. Top hurdles for improving spend control** | What are your top challenges related to improving control of your business spend?



Base = 110  
Multi-response

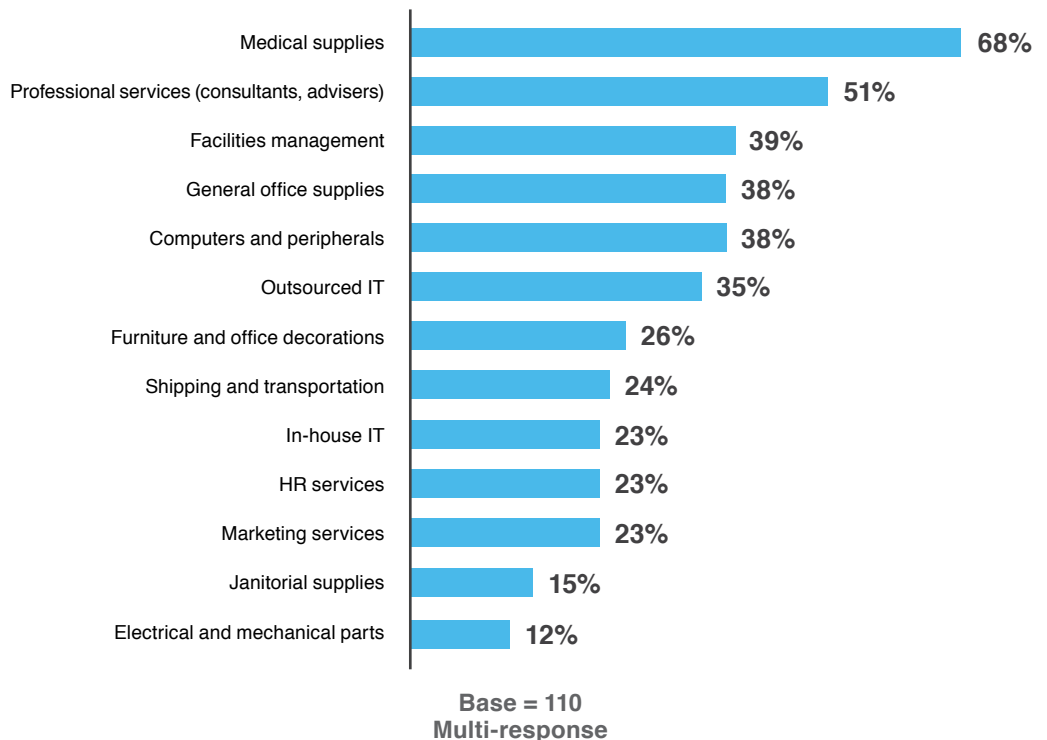


the involvement of supply chain because they are familiar with another surgical system or even helped design that system.” The solution, he says, has been to form closer partnerships with these customers. “Our supply chain professionals work more closely with them and become more ingrained in their processes to make it easier for them to do what we would like for them to do from a supply chain perspective.”

Survey respondents also say that over the next 24 months, they intend to cut costs in the following areas of indirect spend: medical supplies (68%), professional services (51%), facilities management (39%), and general office supplies (38%). (Figure 3)

CHOP, much like other healthcare organizations, has its own fiscal worries and is deeply focused on bottom-line improvements. Schemm says that while CHOP is financially strong, there is a continual push for fiscal accountability. Three years ago, senior leaders began asking directors and managers to be stronger stewards of financial resources, which has led to more opportunities to save across the supply chain. “We have aggressive savings targets for labor and non-labor of \$15 to \$20 million per year, each year, and we continue to ratchet it up. Our organization is evolving to accommodate these needs,” he says.

**Figure 3. Intended cost cuts for indirect spend** | Over the next 24 months, in which areas of indirect spend are you looking to cut costs?



Schemm also says that while the traditional GPO focuses on obtaining the best deals for reoccurring medical and surgical supplies, CHOP is finding more opportunities to control costs in other areas, including capital services, complex commodities, utilization, and dealing with end users, such as medical researchers. “Traditional models in healthcare have underserved these areas,” says Schemm. Having the right business management technology is important to reach such goals. “We selected a new procurement system that allows us to impact these areas at the right time with improved levels of communication and transparency.”

**“ We continue to improve our analytics and push more to the impacting stage.**

—Peter Schemm, supply chain technology director, Children’s Hospital of Philadelphia

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### Managing indirect spend

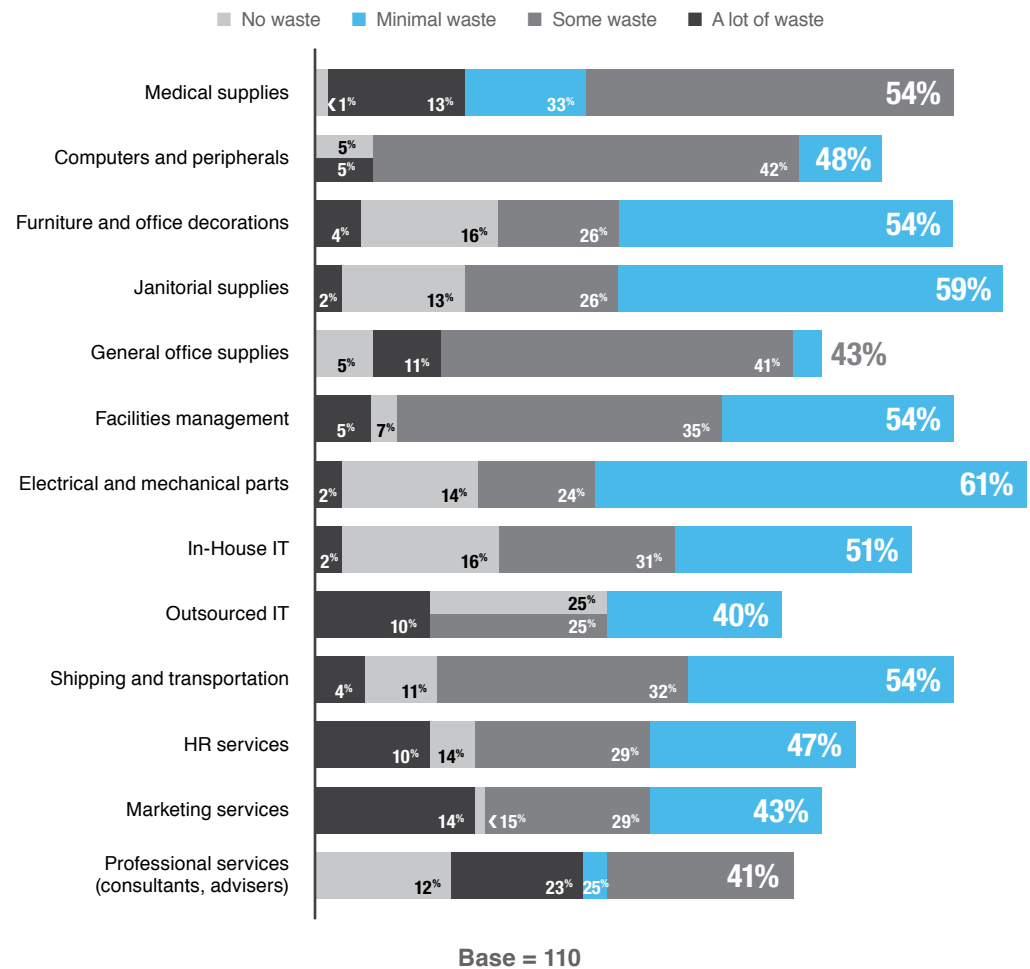
For many organizations, indirect spend is an untapped area for reducing waste and cutting costs. At CHOP, which has 15,000 full-time employees and a contingent workforce of about 5,000, Schemm says thanks to a robust analytics program, the organization has good visibility into spending. Having an unfettered view into direct and indirect spend data enables greater influence on contracts and on reducing variation among physicians and surgeons. “We continue to improve our analytics and push more to the impacting stage,” says Schemm.

Traditionally in healthcare, the focus has been on sending supplies to nurses and on hospital operations, he says. CHOP, however, has shifted to holistic ownership of areas well beyond the direct materials, says Schemm. “Half of our sourcing and contracting team is dedicated to indirect spend, and we have had pretty good spend analytics and fiscal monitoring for about five or six years now and have been getting progressively better at understanding where dollars go.”

According to the survey, medical supplies and professional services drive the most waste in indirect spend, with respondents saying medical supplies (67%), professional services (64%), computers and peripherals (47%), and facilities management (40%) generate some to a lot of waste. (Figure 4)

“We have focused closely on waste for the last two years,” says Jeff Raup, strategic sourcing manager at CHOP. Raup says facilities management, outsourced IT, and HR services are examples of areas that still generate some waste at CHOP because there is less involvement in end-to-end usage of items in each of those areas.

**Figure 4. Indirect spend waste** | Please rate the level of waste in your organization in the following areas of indirect spend.



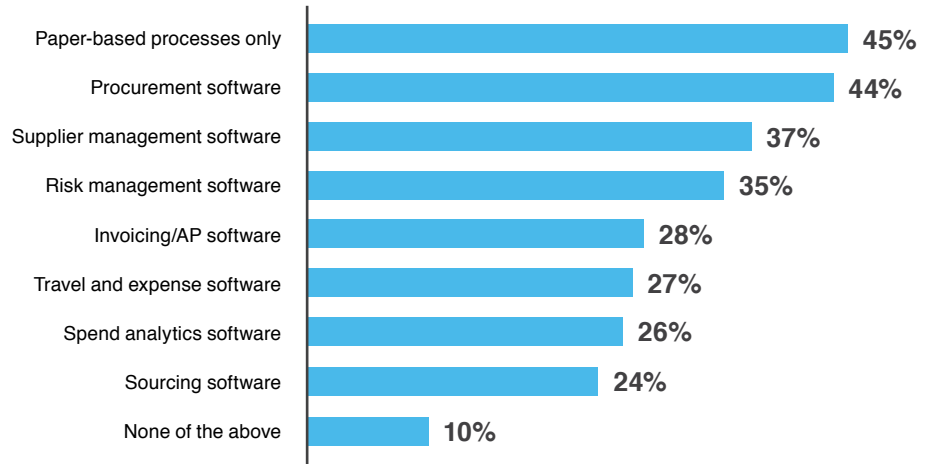
At the same time, says Schemm, “we have had success in areas such as service contracts by working with biomed and questioning the level of service contract we are getting with our equipment and how we can consolidate across the board, or how we can choose to deploy our own internal resources vs. outsource the resources.”

When it comes to managing indirect spend, survey respondents use a variety of processes and technologies, including paper-based processes only (45%), procurement software (44%), supplier management software (37%), and risk management software (35%). (Figure 5)

“For healthcare organizations, streamlining technology solutions to manage indirect spend—to cut costs, reduce risk, and maximize efficiencies—is a pressing need,” says Malay. “This is why finance and procurement professionals at healthcare organizations of all sizes are increasingly



**Figure 5. Managing indirect spend** | Which of the following technologies does your organization use to manage indirect spend?



Base = 110  
Multi-response

turning to comprehensive business spend management software to serve their spend management needs, from sourcing to payments.”

### Tackling business spend goals

This survey shines an important spotlight on top business spend concerns for hospitals, including process inefficiencies, thinning margins, visibility into indirect spend, and spend risk. As healthcare organizations look to innovate and to improve value, reimbursement, and market share, they need a business spend strategy that leaves paper behind and embraces digital technologies. CHOP is a good example of how the combination of fiscal accountability and investment in flexible, easy-to-use BSM technology can help control business spend, eliminate waste, reduce costs, and drive efficiency across an organization.

About Coupa:

**Coupa provides a unified, cloud-based spend management platform that connects hundreds of organizations globally with millions of suppliers around the world. The Coupa platform provides greater visibility into and control over how companies spend money, helping customers maximize their spend under management, achieve significant cost savings and drive profitability.**

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