




**THE INS & OUTS OF PURCHASING**  
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**THE INS & OUTS OF PURCHASING**

**Agenda**

- Procurement
- Inventory Control
- Supplier Management
- Cost Reduction
- Benchmarking
- Value of Data
- Contracts
- Implementing a System
  - Supply Chain
  - Information Systems
  - Finance
  - Inventory Management

**THE INS & OUTS OF PURCHASING**  
Procurement

**Procurement**

Why do you want to pay attention to your procurement process?

- 1) It is your money.
- 2) Have supplies when you need them, where you need them.
- 3) Reduce operational costs.
- 4) Stay in business.
- 5) Grow!

**THE INS & OUTS OF PURCHASING**  
Procurement

**Procurement: What You Need to Know**

- What are the pitfalls?
- What is important?
- Role & expectations of your distributor.
- Inventory Management

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Procurement

**Procurement Involves 4 steps:**

- Step 1: **Negotiating**
- Step 2: **Requisitioning**
- Step 3: **Sourcing**
- Step 4: **Ordering**

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Procurement

**Purchasing Pitfalls**

- 1) Lack of a three way matching.
- 2) Embezzlement.
- 3) Emergency orders.
- 4) Don't manage your freight costs.
- 5) Waste: Product, Time & Money.
- 6) Emotional buying results in over inventory.

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Inventory Management



### Inventory Management

*To assure that the organization's acquisition and distribution strategies and practices improve the overall supply chain system.*

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## THE INS & OUTS OF PURCHASING

Inventory Management



### Inventory control should:

- 1) Provide monetary savings.
- 2) Improve service levels.
- 3) Improve internal operations.
- 4) Review supply utilization.
- 5) Reduce labor costs.
- 6) Reduce waste.
- 7) Fully utilize MMIS.

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## THE INS & OUTS OF PURCHASING

Inventory Management



Best practice includes an annual inventory.  
Do you know what you have on-hand?

Inventory can be counted two ways:

- 1) **Periodic counting**
  - Done at regular intervals (usually 6 or 12 months).
- 2) **Cycle counting**
  - Continuously selecting subgroups to count.
  - Typically 10% of stock per month.

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## THE INS & OUTS OF PURCHASING

Inventory Management



Successful Inventory Control is to achieve  
balance between stock on-hand and need

Basic components to assist this are:

- 1) Order quantity
- 2) Lead time
- 3) Safety stock

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Inventory Management



- 1) **Lead time** = require/order/receive/distribute.
  - 2) **Safety stock** = protection against stock-out.
    - Supply level calculations
    - Maximum/minimum
    - Economic order quantity
- ✓ The greater the order quantity, larger the inventory.
  - ✓ The longer the lead time, the greater the inventory.
  - ✓ The higher the safety stock, the greater the inventory.

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Inventory Management



### Inventory Valuation

- 1) **Last in, First out (LIFO)**
  - Newest define cost
- 2) **First in, First out (FIFO)**
  - Oldest define cost
- 3) **Average costing inventory**
  - Weighed average cost

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Inventory Management

**Carrying Costs includes such areas as:**

- ✓ Invested capital
- ✓ Handling charges
- ✓ Storage
- ✓ Insurance
- ✓ Cost of money
- ✓ Spoilage
- ✓ Data processing

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Inventory Management

**Three Different Types of Inventory**

- 1) **Official**
  - Maintained as assets on balance sheets.
- 2) **Unofficial**
  - Expenses upon receipt.
- 3) **Consignment**
  - Housed by the facility, purchased when used.

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Inventory Management

**1) Inventory Strategies**

- ✓ Consolidation
- ✓ Standardize
- ✓ Reduction
- ✓ Storage space

**2) Inventory Ratios**

- ✓ Not-In-Stock
- ✓ Fill-Rate
- ✓ % of Back-Orders

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**THE INS & OUTS OF PURCHASING**  
Supplier Management

**Supplier Management**

- Distributor
- Direct

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Supplier Management

**Role of Your Distributor**

- 1) Efficiently provide you with product.
- 2) Vendor Managed Inventories.
- 3) Do you know what you are paying for?
- 4) What is your distribution markup?
- 5) Are there hidden fees?
- 6) Know your terms!

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Supplier Management

**Direct**

- 1) Freight.
- 2) Payment terms.
- 3) Service levels.
- 4) Lead times.
- 5) Where is it being shipped from?  
(inclement weather can affect times)

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Supplier Management

**Freight & Payment Terms: Why Pay Attention?**

- 1) **Freight Terms and Title of Goods** (Optifreight, Triose).
  - FOB Destination
  - FOB Shipping Point
  - FOB Destination, Prepay Freight, and Add
  - FOB Shipping Point, Freight Allowed
- 2) **Payment Terms and Conditions**
  - 2% 10 days, net 30
  - COD
  - Credit Card/Purchase Card

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Cost Reduction

**Cost Reduction**

- Consolidation
- Negotiation
- Waste Management
- Product & Price Monitoring

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Cost Reduction

**How do you reduce your costs?**

- 1) Vendor consolidation.
- 2) Product consolidation.
- 3) Leverage.
- 4) Supplier negotiations .
  - ✓ Consolidate med/surg & Rx for better discounts.
- 5) Pay attention.
  - ✓ Price changes.
  - ✓ Substituted items.
- 6) Manage your inventory.
- 7) Standardize on products.
- 8) Reduce waste.
- 9) Consider joining a group purchasing program.

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Supplier Management

**Dangers of Not Having Purchasing Controls**

- 1) Costs you money.
- 2) Waste.
- 3) You don't have products that you need.
- 4) Fraudulent charges.
- 5) Counterfeit product.
- 6) Product recalls.
- 7) Product shortages.

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Benchmarking

**Benchmarking**

See how you compare to like organizations on:

- Cost effectiveness
- Strategy
- Quality
- Best practice

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Benchmarking

**Where do you go to benchmark information?**

- 1) Get on the phone and network.
- 2) State associations.
- 3) National associations.
- 4) ?????

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Value of Data

**Value of Data**

- Helps you make key business decisions.
- It is factual.
- It is measurable.
- Can help you drive change.
- ????

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**THE INS & OUTS OF PURCHASING**  
Contracts

**Contracts**

- Look at joining a group purchasing program that is independent of your distributor.
- Key is understanding them, utilizing them & maximizing your savings.
- ????

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**THE INS & OUTS OF PURCHASING**  
Implementing a System

**Implementing a System**

- Determine your desired future state.
- Optimize technology: EDI.
- Hire talent.
- Other????

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Implementing a System - Supply Chain

**Supply Chain**

- 1) **Activity Based Costing (ABC)**
  - A cost management tool to identify and allocate overhead costs.
- 2) **Activity Based Management (ABM)**
  - Minimize costs, eliminate duplication.
  - Continually evaluate new supply chain process.

**Using ABC/ABM procedures will help ensure maximum returns for efforts expended and costs that have been incurred.**

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Implementing a System - Supply Chain

**Supply Chain**

- 1) **Value Added Opportunities**
  - ✓ Additional services offered as incentives.
- 2) **Value Analysis**
  - ✓ Functionally oriented process.
  - ✓ Best and most economical procedures, products, equipment, or services.
  - ✓ Meet the needs of the user while reducing the overall cost involved.

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Implementing a System - Supply Chain

**Supply Chain**

- 1) **Total Delivered Costs**  
*All aspects of the product cycle.*
  - ✓ Purchase price, receiving, warehousing, delivery.
  - ✓ Holding, value of money, pilferage, obsolescence.
- 2) **Outsourcing**
  - ✓ Reduce the overall cost.
  - ✓ Increase the quality.

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Implementing a System - Supply Chain

**Supply Chain**

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**THE INS & OUTS OF PURCHASING**  
Implementing a System - Information Systems

**Information Systems**

**A Materials Management Information System (MMIS) encompasses purchasing, receiving and inventory.**

**Interfaces with:**

- 1) Accounts payable
- 2) General ledger
- 3) Patient accounts
- 4) Surgery
- 5) Other clinical departments as determined.

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Implementing a System - Information Systems

**Information Systems**

**Electronic Data Interchange (EDI)**  
*Transmits data between computer systems using standardized communication protocols.*

- 1) ANSI (American National Standards Institute)
- 2) ANSI x .12
- 3) File Transfer Protocol (FTP)

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Implementing a System - Finance

**Finance**

**Value Analysis**  
*Looks at the reduction of non-salaried expenses from a multidisciplinary or team approach.*

**Some quantitative techniques used are:**

- ✓ Cost benefit analysis
- ✓ Life cycle
- ✓ Forecasting
- ✓ Unit cost
- ✓ In-use cost
- ✓ Environmental cost
- ✓ Impact of staff productivity

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Implementing a System - Finance

**Finance**

**Value Analysis Application includes:**

- ✓ Multidisciplinary approach.
- ✓ Utilize brainstorming to problem solve.
- ✓ Breaks down functions.
- ✓ Identifies potential alternatives.
- ✓ Reviews the total delivered cost.
- ✓ Patient focused high quality approach.

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Implementing a System - Finance

**Finance**

**Corporate Compliance Programs**

- 1) Conflict of interest policy.
- 2) Background check on employees.
- 3) Guidelines for ethical behavior.

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## THE INS & OUTS OF PURCHASING

Implementing a System - Finance



### Finance

#### Asset Management Program

- ✓ Financial analysis
- ✓ Acquisition vs. Rent
- ✓ Receipt
- ✓ Distribution and tracking
- ✓ Charging
- ✓ Maintenance
- ✓ Replacement
- ✓ Disposal

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## THE INS & OUTS OF PURCHASING

Implementing a System - Inventory Management



### Inventory Management

#### Inventory – product on-hand

- 1) **Turns** - *Current asset that has been acquired by cash and is yet to be consumed.*
- 2) **Stock** - *May also be used to describe inventory.*
  - Determined by dividing the total annual inventory purchases by the end inventory value.
  - Physical inventory is the actual counting of supplies and comparing the amount on hand with the amount on the financial statement.

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## THE INS & OUTS OF PURCHASING

Implementing a System - Inventory Management



### Inventory Management

#### ABC analysis – highest to lowest dollar

*"A" items are given the highest priority*

- 1) "A" 10% inventory account for 70% of dollars.
- 2) "B" 20% inventory account for 20% of dollars.
- 3) "C" 70% of inventory account for 10% of dollars.

**Increasing the order frequency of "A" items has the same effect as increasing turn rate.**

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## THE INS & OUTS OF PURCHASING

Implementing a System - Inventory Management



### Inventory Management

#### Distribution Methods

- 1) Random request
- 2) Emergency
- 3) PAR
- 4) Exchange carts
- 5) Case carts
- 6) JIT
- 7) Stockless

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