

Just-in-time access to products in small quantities has a real financial value to the customer in terms of time, space, reduced cash outlay, and more.



HEALTH INDUSTRY DISTRIBUTORS ASSOCIATION

## Inventory Considerations for Physician Practices

Although medical supplies account for just 4-5% of the typical physician practice's total expenditures, they are critical to patient care. Yet with storage space extremely limited in most physician offices, it can be challenging to ensure that products are always available when needed.

One key decision is whether to buy products in bulk or in smaller quantities.

### Advantages of buying in larger quantities

- Lower per-unit pricing
- Potentially, less risk of stock-outs\*

*\*The risk of stock-outs associated with small-quantity purchasing can usually be minimized by negotiating same-day or next day delivery services with a reliable distributor.*

### Advantages of buying in low units of measure

- Less cash tied up in inventory
- Less storage space required
- Less risk of product expiration, damage, or theft
- Potentially, less staff time required to retrieve items from storage, break down larger cartons, etc.

### Additional Considerations for Hospital-Owned Practices

In evaluating whether to buy for all facilities on a consolidated basis or to manage various supply chains separately, supply chain managers must take into account all the components of the product's "total delivered cost."

These include:

- The **base, per-unit product cost** – generally negotiated between the manufacturer and the contracting entity such as a group purchasing organization (GPO).

*Note: To ensure that a hospital-owned physician practice receives the same unit pricing as the parent hospital, purchasers should negotiate with the manufacturer to have all owned entities covered in their contracts.*

- The **distributor mark-up** – generally reflects the type of service provided (bulk deliveries to a single location such as a loading dock = lower cost to serve; low unit-of-measure deliveries to multiple locations = higher cost to serve).
- The **facility's costs for product storage, handling, and delivery**, such as:
  - Transportation of products from loading dock to practice sites
  - Costs for warehouse or storage space
  - Cost of capital tied up in inventory
  - Staff costs to receive, putaway, pick, and distribute products to offsite locations

### Understanding Cost Differences

Large quantity purchasers often receive dramatically lower per-unit prices than do smaller-quantity purchasers.

- Purchasers with access to inexpensive storage space may find that these lower prices outweigh the additional costs of ownership associated with bulk buying.
- Facilities that are short on storage space, staff, or both, may find it worthwhile to buy in smaller quantities even if the per-unit pricing is higher.

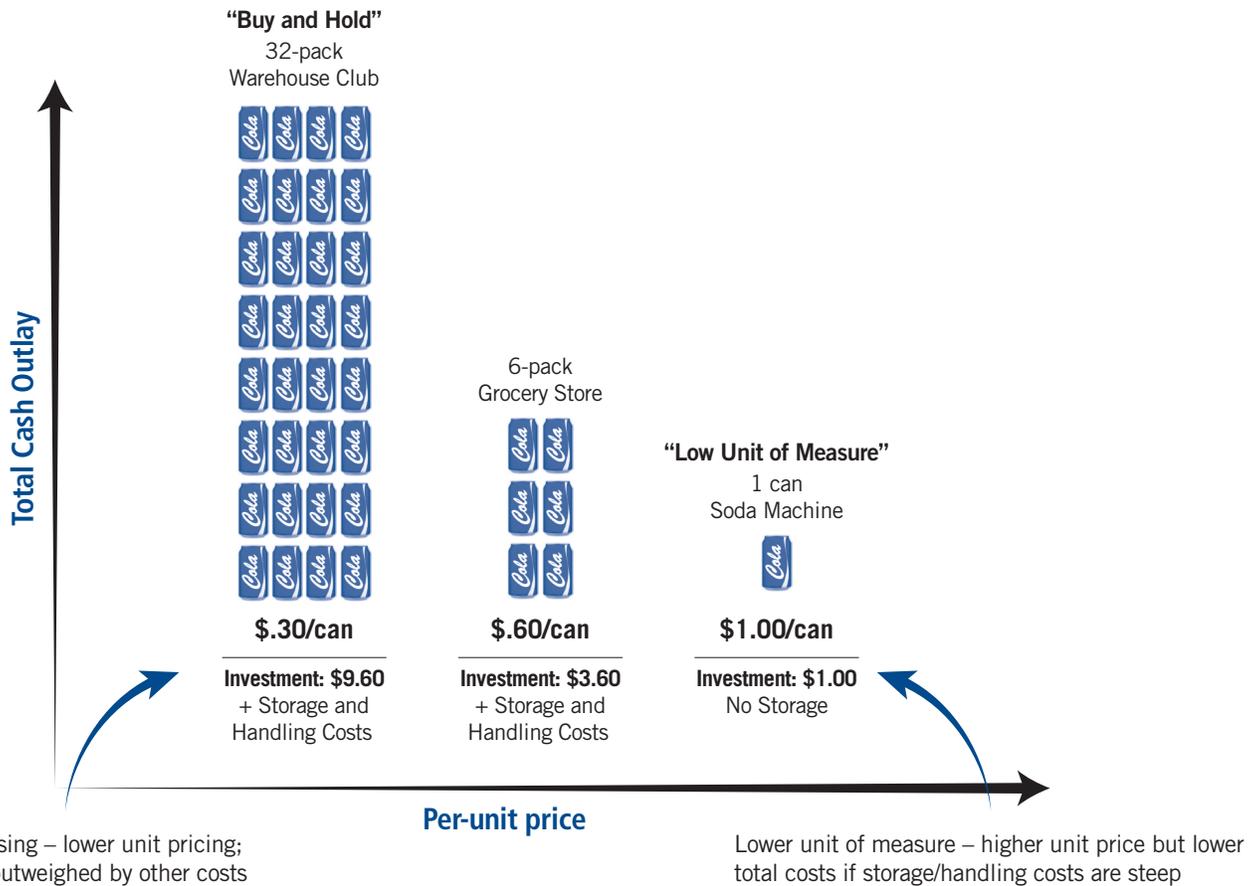


A comparison to a typical consumer purchasing decision — purchasing beverages — is helpful. A drink from a soda machine is immediate and no storage is required, but the per-unit price is relatively high. Purchasing a case of sodas from a warehouse club offers the lowest per-unit price, but transportation

and storage costs are required and the total cash outlay at the time of purchase is higher.

It's critical for healthcare managers to consider all ownership costs related to medical supplies and choose the inventory strategy that meets their clinical and financial needs.

## Inventory Strategies – Cost Comparison



Source: HIDA Research

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