Innovative procurement and logistics model drives substantial savings for UK’s National Health Service

As the cost of quality healthcare continues to escalate, governments and private enterprises alike are struggling to find new and innovative ways to curb this upward trend. But although healthcare payers and providers try to rein in these costs, their primary mission must be to provide the highest quality care to their patients. Many organizations do not have the expertise, resources or funding they require to implement the sweeping changes needed to drive significant savings. In the U.K., the National Health Service (NHS) felt these pressures firsthand, and it looked to DHL Supply Chain for help.

The Challenge

Serving a population of more than 55 million people, the NHS managed eight regional distribution centers across England. Rather than centralizing the inventory into a common system, each distribution center operated independently. This caused the NHS to hold too much inventory across its network. Furthermore, if a product was out-of-stock at one distribution center, it wasn’t supplied from an alternate one.

The NHS also ran the procurement and supply agency, which managed purchasing contracts with hundreds of suppliers. It managed the procurement of a wide variety of products from heart valves and orthopedic joints, to surgical equipment and gowns, to food and janitorial supplies. The existing NHS procurement team had a demonstrated history of accepting the status quo, and did not possess the innovative processes necessary to drive cost savings from their suppliers.

What NHS needed was a new way of thinking and doing. It needed to be able to handle increases in volume without having to invest in activities outside of patient care, such as warehouses and trucks. Stagnant methods, techniques, and mindsets needed to be replaced with progressive methods. Procurement teams needed to become diligent and motivated, and organized to best service their customers. Management teams needed to take on a profit-oriented attitude, communicate clear objectives, and inspire their teams to drive savings wherever possible. They needed transformational change.

The Solution

DHL took over the existing procurement and logistics operations, maintained the existing workforces, and established the work procedures and philosophies necessary to turn the performance around.

- Procurement teams were commercially focused around product groups.
- Supplier contracts were renegotiated to drive cost savings.
- Purchasing methods were adopted to leverage aggregated procurement.
- Logistics facilities were integrated to reduce inventories.
- The product catalog was expanded to enable increased cost savings.

Generate savings for NHS
Increase product offering
Reduce product costs
Improve satisfaction
Reducing cost is an objective all healthcare systems have in common. And one major cost area for medical facilities is the day-to-day procurement of supplies: everything from rubber gloves, office furniture, pharmaceuticals — you name it. These items need to be supplied continuously to all medical facilities…

By leveraging DHL’s supply chain expertise, we will save the UK government over $1.2 billion over the span of our contract. This is an example of product innovation and smart public-private cooperation — in short: a “win-win” for all.”

- Dr. Frank Appel, CEO of Deutsche Post DHL, in an April 2010 speech at the U.S. Chamber of Commerce

The Results

In the 3-1/2 years that DHL has operated the contract, NHS has seen a significant increase in volumes, and sales value has almost doubled. The organization has achieved this by employing a more commercially-driven procurement process and by bringing innovation to a number of critical areas to improve patient care delivery. This has been underpinned by DHL’s core capabilities in successfully managing change and providing a consistently high level of service in terms of product availability, thereby allowing hospital staff to focus on patient care. More specific results include:

- Healthcare Savings: $170 million in the first three years; projected $1.2 billion savings over 10 years
- Products Offered: More than 600,000 products
- Hospital Services: Serve 450 hospitals with 110,000 deliveries per year; technology solutions and off-site consolidation
- Home Delivery: NHS’s largest home delivery service provider
- Sourcing Specialist: Direct-from-manufacturer solution will save $150 million over the contract
- Logistics Capabilities: Eight locations, 2,500 employees, 240 vehicles
- Value-Added Services: U.K. Government pandemic plan provider

Delivering exceptional patient care is the driving mission of any healthcare organization, but demands of the business can often compete for attention. By driving savings through an outsourced procurement and logistics partner, healthcare companies can stay focused on what they do best.

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