



NHS Supply Chain

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.

Challenge

Privatize the government purchasing and supply agency and logistics authority

Centralize and standardize the procurement function to reduce costs

Improve operations at seven existing NHS logistics centers across England

Generate savings for NHS and manage financial risks

Solution

Create team of dedicated procurement experts commercially focused around product groups and knowledgeable about specific medical products

Expand the range of products offered through a centralized online procurement catalog

Implement direct-from-manufacturer sourcing to generate product cost reductions

Deliver substantial inventory improvements through an integrated stock management system

Results

 Generate savings for NHS

 Increase product offering

 Reduce product costs

 Improve satisfaction





To ensure a successful transition for the NHS, DHL dedicated a team of seasoned supply chain executives to the project, and supplemented them with strategic procurement experts. Dedicated account managers and specialist resources focus on specific markets in order to ensure that every doctor, nurse, and clinician receives high quality service while ensuring that DHL provides the NHS with the required healthcare savings.

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

"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



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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.