Transforming the pharmacy into a strategic asset
Unlocking hidden savings
Ten-hospital health system in the Midwest
Success snapshot

In a time of reimbursement reductions and declining revenue, cost reduction is an imperative for every healthcare organization. By working with Cardinal Health, one hospital discovers that you can cut costs and improve outcomes.

**The customer:**
485-bed acute care facility
(Member of ten-hospital health system in the Midwest)

**The challenge:**
Reduce pharmacy costs

**The solutions:**
Drug Cost Control Service
Inventory Optimization Service
GPO Contract Optimization Service

**The benefits:**
Lower medication costs
Streamlined antibiotic use
Best-practice prescribing
Pharmacy viewed as “strategic”

**Key learnings:**
Cost cutting should be inclusive
Look for sustainable savings
Use external resources to accelerate the process

**Total savings to date**
(for health system):

$5.9 Million
“We’ll try it. Let’s focus first on achieving results in one hospital.”

So began our transformative journey with a ten-hospital health system in the Midwest. Together, we collaborated on a vision that would transform their pharmacies from cost centers into strategic assets that positively impact patient outcomes and drive results aligned with the organization’s overall goals.

The first step: Identify the pilot site.

A 485-bed acute care facility was selected. Next, the Cardinal Health team conducted a comprehensive analysis of the hospital to reveal those areas with the greatest potential to yield savings.

After a careful analysis of data, the team identified three areas:

1. Clinical prescribing habits
2. Inventory management
3. Medication purchasing

Antibiotic usage at the pilot site represented 20 percent of the hospital’s total drug spend—so a top goal was to reduce antibiotic expenditures.

Best practices

It takes a team
Because the hospital pharmacy staff was very lean, they had limited time to take on new cost-saving initiatives. Cardinal Health helped fill the gap. We began by building a strong alliance; a multi-disciplinary team that included:

- Pharmacy leadership
- Staff physicians
- Nurses
- Department representatives

Everyone involved was fully committed and engaged. This multi-disciplinary approach is essential for success.
Three initiatives. Three teams

Prescription for savings
Three teams were created to find efficiencies and cost savings across the hospital.

Clinical prescribing habits: Drug Cost Control Service
Ensure the most appropriate drug treatments and avoid adverse events.

1. Gather information using our proprietary analytic tools
2. Benchmark information using our benchmark database
3. Identify opportunities for reducing utilization and costs
4. Collaborate with physicians and pharmacists and leverage empiric therapy guidelines
5. Conduct education sessions with physicians about prescribing habits
6. Implement new strategies around lab reporting, length of therapy and physician documentation on infections

Inventory management: Inventory Optimization Service
Operate close to just-in-time inventory control processes--while ensuring availability of medications.

1. Conduct a baseline inventory, track meticulously and compare with other facilities
2. Establish minimum and maximum reorder points, appropriate to the size of the hospital
3. Introduce best practices to obtain credits from returned excess products
4. Provide additional training on inventory and purchasing best practices

Medication purchasing: GPO Contract Optimization Service
Take full advantage of discounts and government programs.

1. Maximize tiered discount programs by maintaining or improving tier status under performance-based programs
2. Optimize generic conversions to enable immediate access to newly released generic products
3. Utilize investment buying opportunities by reviewing purchase history, contract pricing, and vendor terms to purchase lower-cost contract alternatives
4. Fully leverage GPO contracts by evaluating performance-based programs to identify potential savings opportunities
The bottom line

Savings of $670,000 over 18 months were achieved at the pilot site. At the end of the trial, the health system was in the midst of a big cost reduction initiative. The decision was made to extend the Drug Cost Control and GPO Contracts Optimization services offered by Cardinal Health across the entire health system.

With a successful pilot and a big cost reduction initiative underway, the decision was made to deploy two of the services to the entire health system.

- **Drug Cost Control Savings**: $2,432,027
- **GPO contracts optimization savings**: $3,191,932
- **Inventory optimization savings**: $254,540
  - *Single site results for one hospital only
- **Total health system savings**: $5,878,499

39.4% Reduction in inventory value

3.2% Improvement in inventory turn

19.9% Reduction in cost of sales
Cardinal Health works with health systems to help their hospitals:

- Add value
- Lower operating costs
- Improve care quality
- Enhance patient satisfaction

Because we believe that...

When a hospital pharmacy is leveraged to its full potential, it can become a key driver for achieving the organization's strategic agenda.

The Four F Framework

**Find meaningful growth**
- New business
- Reimbursement optimization
- Government funding
- Cost savings

**Fix inefficiencies**
- Top-line impact, such as meaningful growth opportunities, cost savings, reimbursement capture and federal funding
- Operational efficiency
- Supply chain optimization
- Remove operational obstacles and waste, optimize spend and apply Lean strategies

**Fulfill quality care mission**
- Quality care
- Clinical outcomes
- Continuity of care
- Patient safety
- Deliver on the vision of quality care to every patient through core measures, utilization, clinical outcomes, physician alignment, minimize length of stay and patient satisfaction

**Follow the patient**
- Population health management
- Readmission management
- Patient outcomes and hospital compliance starts at pre-admission and continues post-discharge

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