

Chapter 12

Supplier Relationship Management in Health Care

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ABSTRACT

The structural transformation of modern societies (e.g. aging of population, mobility) as well as continuously increasing market dynamics (e.g. mergers, technological advancement) induce health care organizations, more than ever, to reduce their costs while enhancing service delivery at the same time. In other industrial sectors this was achieved by optimizing cooperation, coordination, and communication particularly with regard to the supplier base. However, as the pressure to innovate will increase extensively in the next years, similar developments are becoming relevant for the health care supply chain, too. In this chapter we therefore adapt the current findings on supplier relationship management (SRM) to the health care context. We analyze theoretical foundations of SRM and explore one particular area of application in health care, namely the ordering of pharmaceuticals by hospitals. On the basis of a case study we develop a future scenario for drugs supply management and discuss potential performance and quality improvements.

INTRODUCTION

The effects of globalization, fragmentation of markets and new technological advancement, for example in data transmission and processing, has

an immense impact on the value chains of highly competitive industries (OECD, 2007). Despite enormous investments in innovation and the magnitude of opportunities for innovators in health care, one has not seen a fundamental change yet (Herzlinger, 2006). Nonetheless, the pressure to achieve effectiveness and efficiency is set to increase

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significantly as in many countries new economic principles, such as lump sums for medical treatments, are introduced in order to reduce health expenditures and enhance the competition among health care providers.

Although labor costs constitute the major share of the total costs of a medical treatment, there is still a high economic potential in improving expenditure on products and services (European Commission, 2006; The Chartered Institute of Purchasing & Supply, 2005). Supplier Relationship Management (SRM), understood as approach to systematically managing an organization's interactions with the companies that supply products and services to it, can help to reduce costs and enhance quality of service delivery (Mettler & Rohner, 2008). However, since hospital buying agents were only expected to attain the best price for the needed goods in the recent past, the trust between the buyer and the supplier is weak and the relationship is antagonistic. Therefore, and in contrast to industries with intense competition like for example the automotive or the consumer electronics industry, SRM is not paid much attention to in health care academia and practice yet. Although the adoption of electronic services saves the costs of the preparation and transmission of paper requests and invoices and eliminates costly, time-consuming errors from manual data entry by connecting ordering systems with production systems (Brynjolfsson & Yang, 1996), only 38 percent of the German hospitals implemented an electronic purchasing order and 35 percent an electronic invoice (German Association for Medical Technology, 2007). In Switzerland, the origin of this research, no such evidence exists so far, but considering the similarities between the health systems the adoption rate should be more or less at the same level. This ratio is diminutive compared to the aviation industry where 85 percent of the organizations actively use e-procurement in their daily business. Between 35 and 40 percent of hospital supply-related costs are caused by

handling and processing material and purchasing orders, while in competitive industries this amount is less than 10 percent (Grossman, 2000).

Some evidence suggests that this is going to change. To some extent hospital purchasing departments already are stipulated to contribute to revenue increases and to knowledge acquisition. Hence, the role of the supplier who formerly was considered to be an opponent (e.g. within price negotiations) will change to a business partner who contributes an added value to the hospital and therefore needs to be better involved in terms of cooperation (business relationships), coordination (processes and work practices), and communication (electronic services).

As a consequence, the concept of SRM will become more relevant for health care organizations as well as for supply chain management research. Because the hitherto existing literature is mainly focused on industrial enterprises, it is the aim of this chapter to provide a sector-specific discussion. In taking a different approach to perceive SRM, the understanding of possible impacts of SRM will be enhanced and encourage the application of these concepts and electronic services.

In order to achieve this goal, the chapter is organized as follows. First, we examine distinct definitions and theoretical foundations of SRM in order to provide an overview of the field. After this, we discuss the basic constructs of SRM such as types of business relationships, typical processes and work practices as well as exemplary electronic services supporting the implementation of SRM activities. To reference to the health care sector, we then explore the particularities of this industry and its influence on SRM. In the section that follows, we present a case study on the pharmaceuticals supply management of three Swiss hospitals in order to illustrate the potential value of SRM for health care organizations. Finally, we present some concluding remarks and offer some suggestions for future research endeavors.

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