



Requisitioning & Purchasing

A BEST PRACTICE GUIDE

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Besides speed and efficiency, good requisitioning practices provide control of and visibility into spend. Linking requisitions to contracts helps to ensure that staff adhere to the item master. Hospitals and health systems should aim to create a centralized, automated requisitioning process that is funneled through purchasing and provides requisitioners with the information they need when they need it. The purchasing department frequently drives cost reduction and performance improvement initiatives. Purchasing serves as the liaison between requisitioning departments (most often clinical end users) and vendors. It is a core supply chain function that has greatly evolved from its transactional beginnings to be able to carry out more strategic initiatives.

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Have a standardized requisition process to eliminate rogue spending

Standardization gives supply chain and finance staff greater control over financial resources. It also ensures that hospitals have a better idea of what is being ordered and spent. The best way to eliminate rogue spending (circumventing the system) is to make certain that all requisitioners know how to place an order through the hospital's centralized process.

Link requisition activity to the item master file

To drive spend through the hospital's pre-approved item master (and eliminate rogue spending), try to make certain that requisitions

only contain items that are in the item master. For electronic systems, this entails building an interface between the requisitioning platform and the system that houses the item master (if they are separate systems) so that a requisitioner who is making a purchase from an item master only needs to point and click a mouse. In hospitals that don't have an electronic requisitioning system, the paper requisition should contain a required field for the item master number. If no item master number is given, the requisition should be funneled through an approval process for off-contract items.

Incorporate stock item master into requisition process

Ideally, the replenishment of stock items is automated. If not, then in addition to linking requisition activity to the item master file, hospitals

should ensure that both stock and non-stock items are requisitioned via the same process. For electronic systems, this entails linking the stock item file to the user platform whenever a requisition is created, then converting the stock requisition into a storeroom pick ticket rather than a non-stock PO. A pick ticket tells the inventory clerk which items and in what quantities to pick from the shelves for each department. Hospitals may also choose to prioritize stock items so that they appear above non-stock items in electronic searches. This helps drive requisition activity through the storeroom as much as possible, shortening the time between when the requisition is submitted and when the item is received. It can also help drive down the shipping costs associated with ordering non-stock items.

Use Clinician-Friendly Fields

It is important to include descriptor fields in requisition forms that allow clinicians to identify the products they are requesting. For example, many clinicians refer to Y connectors as a “Christmas tree.” Separate item and business description fields help supply chain personnel decipher what the requisitioner needs in cases where clinical jargon is often used.

Incorporate capital and purchased services into a centralized requisition process

Spending associated with purchased services (linen and laundry, biomedical engineering, etc.) and capital equipment often falls outside of the supply chain purview. While the requisition process for these areas cannot be standardized in the same way that it is for medical/surgical items (mostly because the items being ordered

cannot be included in the item master), it is still important to have these requisitions go through the same channels in order to track spend and ensure that the requisitions are being reviewed and approved by the necessary parties.

Establish punch-outs for non-medical/surgical items

Many hospitals choose to standardize their requisition activities in such non-medical/surgical areas as information technology equipment, engineering, and office supplies by establishing punch-outs with contracted vendors. A punch-out is a portal to a vendor’s website that is accessed through the hospital’s electronic requisition system. A requisitioner initiates a requisition using the hospital’s system, which is automatically redirected to a catalog hosted by a specific vendor (e.g., an office supply vendor). Once the correct supply is identified from the catalog on the vendor site, the requisitioner submits the requisition to the hospital’s purchasing department for PO creation and submission. Hospitals thus eliminate the need to incorporate these items in their item master, thereby cutting down on the overall maintenance required to keep the item master up-to-date. For hospitals that have an electronic system in place, punch-outs offer an easy way to standardize and streamline requisition activity for areas that typically fall outside of the supply chain purview.

Create favorites lists

Another way to streamline requisitioning is to build standardized favorites lists by user, service line, department, etc. A favorites list is a collection of frequently ordered items that can help drive uniform spending if managed effectively and also speed up the requisitioning process by eliminating the need for requisitioners

to search for their items in the item master. Favorites lists are most commonly used with electronic procurement systems, but hospitals without electronic systems can still create, maintain, and distribute paper copies of favorites lists.

Create templates

People are more likely to adhere to a requisition policy when there are tools in place to help them. For hospitals that don't have electronic systems, templates are an effective way to standardize requisition content and make the process easier for end users. Create templates that list all the information needed to successfully complete a requisition, then make those templates readily available. Distribute paper copies to each unit and department or post a PDF on the hospital Intranet. Separate templates can be created for stock items and non-stock items. A fully completed form that includes all the required elements improves efficiency and ultimately saves time.

Required Purchase Requisition Fields

- | | |
|-------------------------------------|---|
| ▪ Requisitioner contact information | ▪ Vendor/manufacturer contact information |
| ▪ Department | ▪ Item name and description |
| ▪ Department/cost center number | ▪ Quantity |
| ▪ General ledger (expense) code | ▪ Unit of measure/
quantity of each |
| ▪ MMIS number (if applicable) | ▪ Unit price |
| ▪ Vendor/manufacturer name | ▪ Total price |
| ▪ Vendor/manufacturer part number | ▪ Budgeted expense or
non-budgeted expense |

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Establish approval pathways for off-contract supplies

For contracted supplies, many hospitals allow requisitions to flow through to purchasing without any approvals, since the items being ordered have already been approved for purchase (ideally, using value analysis). For off-contract purchases, it is important to balance the need for review with the equally important need for efficiency. Most hospitals structure the review requirements by spend authorization level (e.g., sometimes requisitions up to \$5,000 require a director's signature, requisitions between \$5,000 and \$50,000 may require a director and an assistant vice president's signature, and so on). Regardless of the number of people a hospital designates as required approvers, it is most important to have and adhere to a predetermined approval process and timeline.

Requisitions that are created and reviewed electronically improve efficiency and accuracy. Automated systems typically incorporate a feature that alerts each reviewer (usually via email) when a requisition needs their signature.

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Verify contract coverage for product requests

When a requisition for a non-stock item or a purchased service has been submitted (and, if necessary, approved), purchasing should first determine whether the item is available through a contract. If it is not on contract, purchasing should then try to identify a functional equivalent that is on contract.

In purely transactional supply chains, purchasing manually verifies contracts for each order before the PO is created. However,

there are significant efficiency gains to be reaped by automating this function. Most electronic requisition platforms can integrate item master and contract catalog content into the user interface, thereby driving requisitioners to select contracted items, which results in cost savings and increased efficiency because purchasing no longer has to verify contract coverage for these items. In fact, the majority of item master supplies do not need purchasing involvement at all, since everything has already been approved for ordering. In the most advanced supply chains, after appropriate approvals, these requisitions can be converted to POs automatically. Purchasing should strive to carry out manual contract verification and PO creation only for special requests (i.e., items that requisitioners order outside of the approved item master, which should represent a small percentage of overall order volume).

The more advanced requisition/content management systems can identify functionally equivalent items for non-contracted items, which is optimal, but purchasing should continue to work with the ordering department, contracting, and value analysis to determine whether the original item is truly needed. Items that are fully vetted by value analysis will then get incorporated into the item master and contract catalog. The next time they are ordered, there will be no need to get purchasing involved.

For true one-off items that lack a contracted functional equivalent, purchasing should see if the vendor is in the vendor master. Adding new vendors takes time and requires compliance review.

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Gather as much information as possible before processing orders

Purchasing must make certain that all of the information is accurate before placing an order for a special request. To avoid incurring

unnecessary costs, ask the following questions:

- Did the requisitioner provide a written justification for the order?
- Do we need clinical input from end users?
- Did the requisitioner attach all necessary documentation (e.g., specifications)?
- If the requisitioner asks for overnight delivery, does the item truly require it?
- Does the requisition or contract cover all aspects of the total cost of ownership?

In the event that a different product is ordered (due to functional equivalence or because of policies established by the value analysis team), purchasing must also communicate that information back to the requisitioner.

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Use data management to make purchasing more strategic

Automate purchasing through an electronic data interchange (EDI)

Technology—specifically an EDI—increases efficiency, reduces errors, and frees up time to focus on other purchasing issues. However, an EDI must be managed—ideally by purchasing. The setup involves boarding (entering) vendors into the EDI platform, which requires coordination between purchasing, the vendors, the EDI company, and other internal stakeholders. Advanced organizations regularly review potential vendors to board based on order volume. Some smaller vendors lack the necessary internal technology to participate in an EDI program, but most of the larger vendors (and all of the main distributors) have EDI capability.

Support the Procure-to-Pay Cycle

As organizations make strides in integrating key business processes across functional areas, the importance of a lean procure-to-pay cycle has become more apparent. The procure-to-pay cycle is the end-to-end process of ordering and obtaining supplies and remitting payment for them. Since reconciling contract price, PO price, and invoice price is so integral to this cycle, purchasing plays a vital part through its contract coverage and price verification process. The active role of purchasing in resolving match exceptions also prevents accounts payable discrepancies (instances where a hospital is invoiced at a price that is different than the PO price) by addressing the discrepancy as soon as it is submitted via the EDI.

Address match exceptions

When a PO is processed via an EDI portal, it is electronically routed directly to the vendor. Either the EDI or the vendor notifies purchasing about pricing, contract, or UOM issues, allowing purchasing to resolve match exceptions immediately. A match exception occurs when certain data elements (most commonly price, part number, or UOM) on a PO do not match the data that is stored in the vendor's system. Electronic ordering systems offer insight into occurrences of match exceptions, but it is up to hospital staff to resolve them. Many match exceptions related to contract pricing can result in improved MMIS data integrity, which is a step toward clean data and ensuring that the right product is obtained at the right price. Match exceptions should be reviewed weekly at a minimum.

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Support internal customers

When purchasing is responsive, answers questions, and provides support, internal customers are less likely to procure items outside of the defined approval channels.

Hospitals may want to consider assigning specific purchasing employees to specific product categories or service lines, which can improve relationships with both end users and vendors. This approach also helps purchasing staff develop greater expertise about their designated product category or service line.

The most strategic supply chains recognize purchasing as a repository of knowledge with subject matter expertise on a variety of areas, especially requisitioning. Not only does purchasing serve as the liaison between ordering departments and vendors, it often manages the requisitioner training program for both new and current requisitioners. Even though these professionals have different job functions, this arrangement makes sense because purchasing is the supply chain function with which requisitioners usually have the most interaction. At a minimum, new requisitioners should be required to undergo live or virtual training that incorporates the hospital's requisitioning process (policies, technology, best practices, etc.). All requisitioners should be given refresher training on a regular basis (at least once a year) to keep abreast of policy changes, technology updates, and more. In many cases, the supply chain department can help requisitioners understand what elements need to be in a contract, service-level agreements, delivery schedules, and other non-price elements.



KEY PERFORMANCE INDICATORS FOR REQUISITIONING

The following can be used to measure supply chain performance in requisitioning:

- Preferred item requisitions (%)
- Requisition to PO (time)
- Electronic requisitions (%)
- Percent electronic ÷ total requisitions
- Item master requisitions (%)
- Percent of requisition line items with item master number



KEY PERFORMANCE INDICATORS FOR PURCHASING

The following can be used to measure supply chain performance in purchasing:

- Exceptions (%)
 - Number of discrepant PO lines ÷ total PO lines
- Cost to issue a PO (\$)
 - Annual supply chain department operating expense ÷ number of POs
- Automatic POs (%)
 - POs that automatically skip the buyer's desk
- POs through the EDI (%)
 - Total EDI POs ÷ total POs
- PO lines per full-time employee (number)

Nexera, Inc. | 555 West 57th St. | New York, NY 10019 | nexerainc.com

