

Consolidated Services Centers Can Improve the Health Care Supply Chain

From the *Health Sector Supply Chain Research Consortium* (Eugene Schneller, Director), CAPS Research & Arizona State University, W. P. Carey School of Business

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Abstract

What is the message?

- Consolidated service centers (CSCs) can help simplify hospital supply chains by reducing suppliers, contracts, and staffing requirements. In doing so, CSCs act as system integrators that achieve greater cross-functional coordination of hospital supply relationships.

What is the evidence?

- A study of three consolidated service centers (CSCs) used complexity theory to seek

common themes and strategies that CSCs use to provide effective supply chain services for hospitals. Information for the studies included documents, field visits, and interviews with CSCs and their customers (Abdulsalam, Gopalakrishnan, & Schneller, 2015).

Links: [Slide01](#) | [Slide02](#)

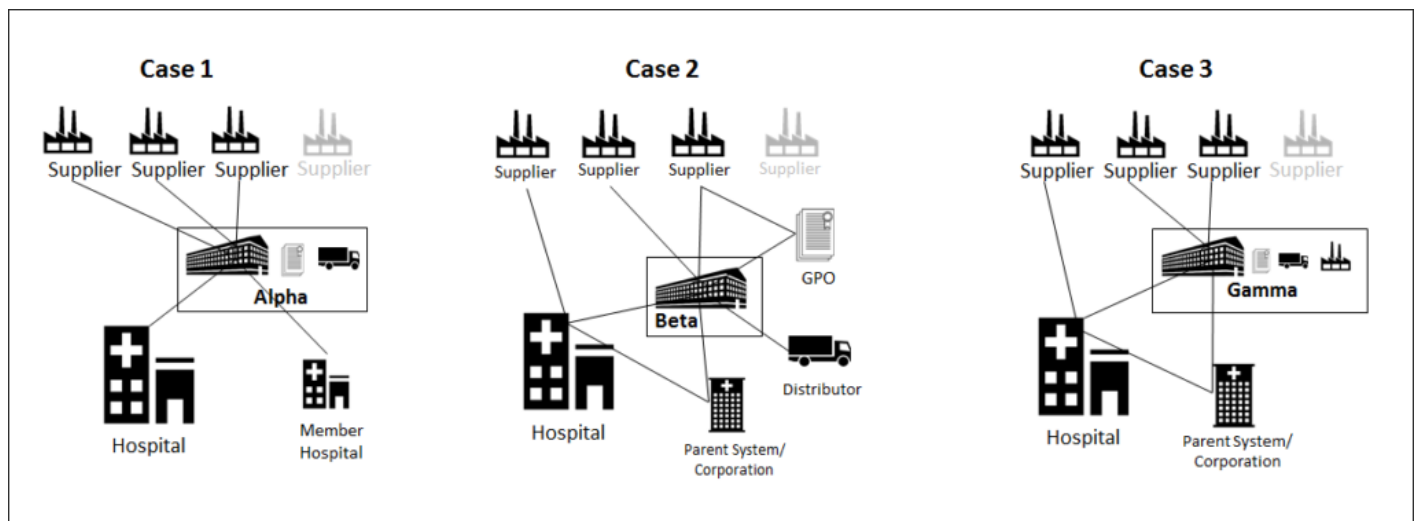
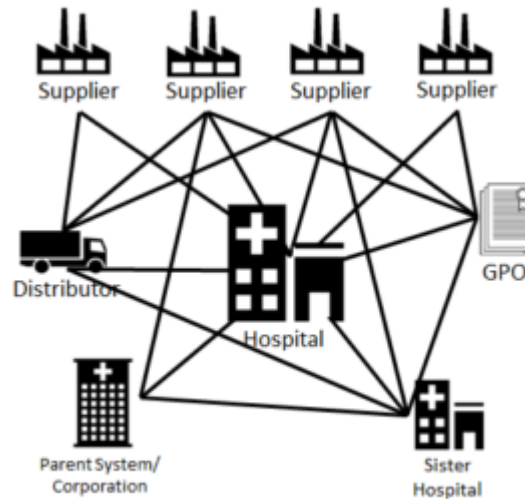
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Introduction

Throughout North America and beyond, consolidated service centers (CSCs) are emerging as important actors in the health sector supply chain. CSCs seek to reduce supply chain complexity. National distributors, group purchasing organizations (GPOs), and other health sector supply chain intermediaries are integrating features of CSCs as they attempt to deliver higher levels of service to their customers. As the health sector increasingly engages with this supply chain model, it is important to understand how CSCs manage complexity.

CSCs help simplify complex supply chains



The study highlights three conclusions about the complexity of the supply chain landscape.

First, the three CSCs in the study created measurable reductions in supply chain complexity and staffing.

- **Medical/surgical suppliers:** Reduced by 10% to 20%
- **Medical/surgical direct contracts** (non GPO): Reduced by 10% to 90%
- **FTEs at the hospital:** Reduced by 3 to 15 FTEs

- **FTEs needed at CSC to service the hospital:** Additional 1 to 8 FTEs (net reduction: 2 to 7 FTEs)

Second, the CSCs created supply chain benefits by reducing components in the system and managing inter-relatedness.

- **Fewer components:** CSCs reduce the number of components in the hospital supply chain by facilitating supply base reduction initiatives.
- **Managing inter-relatedness:** CSCs address inter-relatedness in the hospital supply chain by disintermediation and resource consolidation.

Third, three characteristics of the CSCs helped them smooth the hospital supply chain landscape.

- **Customer selectivity:** The CSCs in the study were cautious about adding customers, preferring to grow through increased volume with existing customers.
- **Contract compliance:** Over 80% of hospital supply spend was through the CSCs, compared to traditional hospital supply routes that incurred 50% to 70% of spend through direct contracts.
- **Reporting realignment:** Hospital supply directors changed their reporting relationships to a matrix structure that included reporting to CSC leadership.

Discussion

To date, hospital supply chain functions have achieved lower uptake of shared service strategies compared to functions such as finance, IT, and HR (Deloitte, 2013). The emerging self-distribution strategy in health care, including CSCs, is beginning to reverse this delay. By aggregating supply chain components under one locus of control, the CSC can achieve wider “arcs of integration” with suppliers and customers (Frohlich & Westbrook, 2001).

The study has limits based on examining only three CSCs. Nonetheless, this article highlights the potential for CSCs to lead cross-functional coordination that integrates purchasing, logistics, and operations. In doing so, CSCs can both reduce cost and improve reliability in the health care supply chain.

References

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Health Sector Supply Chain Research Consortium

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