

## **“I needed to make savings of over £1m this year. The best way I knew how to do this was to use Coding International – and it has worked”**

### **Case Study: Chelsea & Westminster Healthcare Trust**

#### **Summary**

Vince Pross, Procurement Director at Chelsea & Westminster Healthcare NHS Trust faced the need to make an immediate £1m saving (7%) in his first year increasing to 20% savings per annum by 2008. “First of all we needed to know what products and services we were buying, from whom and at what price, in a simple spreadsheet we could work from.” To find this out he asked Coding International Ltd (CIL) to carry out a product coding standardization exercise. As soon as this was finished, the hospital was able to seek better discounts from suppliers and improve their product sourcing. The many longer-term benefits were even more valuable.

#### **The Hospital**

The Chelsea and Westminster Hospital (C&WH) is based on the Fulham Road, in one of the most lively and cosmopolitan areas in Central London. It is a leading teaching hospital and one of five main teaching centres for Imperial School of Medicine. The current annual influenceable spend on products and services is £14.6m.

#### **The Challenge**

Vince Pross had recently joined the management team at C&WH with a remit to drastically reduce the annual revenue expenditure on Procurement. Initial research of the procurement function had revealed that better management of the Procurement Department could create major benefits in terms of efficiency and savings by:

- Reducing the stock levels which were too high compared with usage volumes
- Cutting process costs which were too high for low value, high turnover items
- Taking control of product usage with both rationalization and standardization.
- Decreasing the number of emergency orders and reducing invoicing and order processing costs

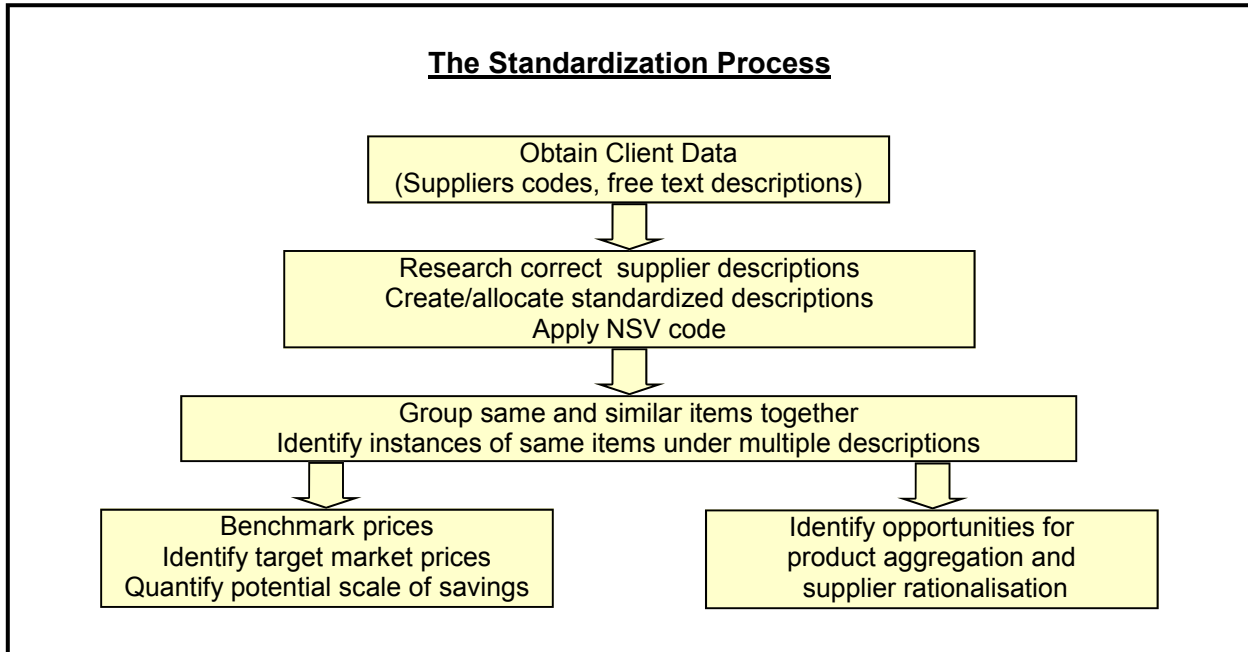


***“First of all we needed to know what products and services we were buying, from whom and at what price, in a simple spreadsheet we could work from.”***

Vince had previously used the services of CIL in his last post at Queen Elizabeth Hospital. “I knew they were a professional team that we could rely on and they would help me achieve my goals.” Vince explained, “Conventional supplier spend analysis based on financial information does not provide the necessary detail. Many people think that high level heading information such as eClass or UNSPSC is sufficient; it isn’t. What they don’t understand is that the devil is in the detail.”

***Coding International - at the heart of your procurement efficiency***

**Case Study: Chelsea & Westminster Healthcare Trust Continued**



**Information**

C&WH have an Oracle Procurement System, but purchase orders had all been entered as free text, so were not standardized and therefore completely inadequate as useful data. They were able to export the previous years of data to Excel but before the data could be analysed the descriptions needed standardizing so that like could be compared with like. A coding structure needed to be applied properly, permitting identification & classification into product families or groups. The classification needed to be simple but effective. The information then needed to be created in report format to point the way to the savings and be used to populate the Oracle database with good quality data.

**Standardized Data**

The C&WH data was sent to CIL for processing. The work consisted of creating standardized descriptions, built up from the manufacturer's catalogue numbers (MPCs), from which the correct information could be found. Appropriate National Supplies Vocabulary (NSV) codes were then added. All this new information being cross-referenced to the original data. NSV headings are finance based and comprise three alphas, creating a three level classification: section, group and subgroup. Four numerics are added to the alphas to create the NSV code.

These headings are in the clear but simple family groups needed to analyse C&WH's supply data. Each coded item relates to a standardized description, e.g.

NSV Code: BWK1134

Description: Gown; theatre, surgeons, breathable fabric, extra large, standard protection, disposable.

**Free Text Descriptions**

These are created by buyers and are usually brief and non standard, with a different description being created each time the product is purchased. For the above example C&WH had created 46 different descriptions.

As a result of standardization, CIL could then inform C&WH that during the year they had ordered 1073 of these items, with a total order value of £68,886.

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## **Case Study: Chelsea & Westminster Healthcare Trust Continued**

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### **Reports**

Using their programming ability to create detailed reports in various relevant formats, CIL developed reports showing the whole picture of C&WH's previous year's spend. The main reports could be divided into either totals at heading level, or totals at the detailed, code level. The reports were then transferred into Excel spreadsheets for ease of use by C&WH staff. These included:

- Heading reports - totals by NSV Group Headings, spend by NSV Groups and Subgroups, totals by Suppliers.
- Detailed Reports, such as full details of all products (showing the saving that could be made if the lowest price was always used) and full details analysed by NSV code only, similar to the above but allowing a direct comparison of prices.

### **How C&WH used the Reports**

1. In the short term, the Supplier reports allowed information to be sent to the relevant Suppliers with a demand for a discount structure by product line. This was to list current price, previous C&WH price, and newly offered discount price. The benefits to both C&WH and the Suppliers were that the information was based on accurate history, so the discount structure could be based on a known level of annual expenditure.
2. Using the detailed reports C&WH can achieve other short-term savings by:
  - Buying the same product from a different, cheaper supplier
  - Reducing the number of small orders placed
  - Deciding which items to place in stock
  - Deciding stock levels
  - Comparing prices with colleagues in other local hospitals for possible change to cheapest source

### **Longer Term Strategic Solution**

Heading Reports in NSV format showed C&WH which areas to direct staff resources, so they could concentrate on large spend areas. This means that longer term, C&WH will be able to gain further savings, using the detailed information, in areas such as:

- Better catalogue management
- Variety reduction and price tracking
- Reducing the number of Suppliers
- Developing commitment contracts so that partnership agreements can be achieved, which should result in better prices and services. (This has benefits to the Suppliers as well)

***“As a bonus, the data provided also allows our department to simply upload a catalogue into whichever eCommerce system the Trust decides to use”***

### **Other benefits**

Vince Pross was very pleased with the reports. He said, “As a bonus, the data provided also allows our department to simply upload a catalogue into whichever eCommerce system the Trust decides to use. In addition, the data can now be sorted in many ways to provide the information to enable quick price comparisons and quick change-over to alternative products or suppliers. This data can also be shared with other Trusts who together can seek detailed quotes from Suppliers. The resulting searchable database will enable us to easily locate products and agreed prices to convert requisitions into purchase orders. Additionally this methodology enables transparent reporting of savings achieved and can therefore be used to obtain budget reduction agreements from budget holders.”

### **Conclusion**

Vince has reported that through the information provided by CIL, he was already ahead in making his first year's savings and was very confident of achieving his long-term goals.

***Does your Organization need to save over a million pounds per annum? If so contact Terry Ashmore at Coding International Ltd. 023 8055 4111***

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