



# NHS Supply Chain

## Innovative procurement and logistics model drives substantial savings for UK's National Health Service

As the cost of quality healthcare continues to escalate, governments and private enterprises alike are struggling to find new and innovative ways to curb this upward trend. Although healthcare payers and providers try to rein in these costs, their primary mission must be to provide the highest quality care to their patients. Many organizations do not have the expertise, resources or funding required to implement the sweeping changes needed to drive significant savings. In the United Kingdom (U.K.), the National Health Service (NHS) felt these pressures firsthand, and looked for an innovative outsourcing model. DHL Supply Chain earned the opportunity to deliver the savings and quality needed.

### The Challenge

Serving a population of more than 55 million people, NHS Logistics managed six regional distribution centers across England. The NHS needed to have the capacity to store and move around increasing volumes of products without having to invest in the infrastructure required to run a national logistics operation, such as inventory management, vehicles and IT systems.

The NHS Purchasing and Supply Agency also managed purchasing contracts with hundreds of suppliers. It managed the procurement of a wide variety of products from heart valves and orthopedic joints, to surgical equipment and gowns, to food and janitorial supplies. A greater commercial focus and more innovative approach were needed to underpin all procurement activity to ensure that the NHS received better product prices.

The NHS needed a new way of thinking about procurement so that it could handle increases in product demand volume without having to invest in activities outside of patient care. Reorganizing procurement teams around product groups to leverage knowledge about specific product areas, and encouraging management teams to better communicate commercial objectives and inspire their teams to drive savings wherever possible, were substantial opportunities. Not only did the NHS need a more progressive approach to end-to-end supply chain management — it needed transformational change.

### The Solution

DHL took over the existing procurement and logistics operations — NHS Purchasing and Supply Agency and NHS Logistics respectively — and maintained the existing workforces, while establishing the work procedures and philosophies necessary to deliver efficiency savings. Under the newly formed NHS Supply Chain, DHL:

- Reorganized procurement teams to be focused around product groups;
- Renegotiated supplier contracts to drive cost savings;
- Adopted new purchasing methods, including online auctions, to leverage aggregated procurement and generate further savings;

### Challenge

Outsource NHS Logistics and parts of the NHS Purchasing and Supply Agency

Centralize and standardize the procurement function to reduce costs

Improve operations at six existing NHS Logistics distribution centers across England

Generate savings for the NHS and manage financial risks

### Solution

Create team of dedicated procurement experts focused around product groups and knowledgeable about specific medical products

Expand the range of products offered through a centralized online procurement catalogue

Redesign supply chain to enable direct sourcing and generate product cost reductions (direct-from-manufacturer)

Deliver substantial inventory improvements through an integrated stock management system

Implement new procurement system to support tender processes and regulations

### Results

↑ Generated savings for NHS

↓ Reduced product prices

↑ Improved customer satisfaction

↑ Increased procurement savings





- Integrated logistics facilities to reduce inventory;
  - Introduced new products to generate revenue; and,
  - Implemented new procurement systems help support open and transparent tender processes and compliance with European Union (EU) procurement regulations.
- To ensure a successful transition, DHL established a core team of seasoned supply chain executives, and supplemented the group with strategic procurement experts.
- Dedicated account managers and specialist resources are now able to focus on specific markets and ensure that every doctor, nurse and clinician receives high-quality service.

## The Results

In the nearly four years that DHL has operated NHS Supply Chain, the organization has seen a significant increase in both volumes and sales value. The organization has achieved this by employing a more commercially-driven procurement process and by bringing innovation to a number of critical areas to improve patient care delivery. This has been underpinned by DHL's core capabilities in successfully managing change and providing a consistently high level of service in terms of product availability, thereby allowing hospital staff to focus on patient care. More specific results include:

Healthcare Savings	\$170 million in the first three years; projected \$1.2 billion in savings over 10 years
Products Offered	More than 500,000 products
Hospital Services	Serve 450 hospitals with 110,000 deliveries per year; technology solutions and off-site consolidation
Home Delivery	NHS's largest home delivery service provider for continence products
Sourcing Specialist	Remodeled the procurement supply chain to enable direct sourcing; forecasted \$150 million in savings over the contract
Logistics Capabilities	Eight locations, 2,400 employees, 240 vehicles
Value-Added Services	U.K. government's pandemic plan provider

**Delivering exceptional patient care is the driving mission of any healthcare organization, but demands on the system and government priorities can often compete for attention. By driving savings through an outsourced procurement and logistics partner, the NHS can stay focused on providing frontline patient care, which is core to its purpose.**

**"Reducing cost is an objective all healthcare systems have in common. And one major cost area for medical facilities is the day-to-day procurement of supplies: everything from rubber gloves [to] office furniture ... you name it. These items need to be supplied continuously to all medical facilities ... By leveraging DHL's supply chain expertise, we will save the U.K. government over \$1.2 billion over the span of our contract. This is an example of product innovation and smart public-private cooperation — in short: a 'win-win' for all."**

**- Dr. Frank Appel,  
CEO of Deutsche Post DHL,  
in an April 2010 speech  
at the U.S. Chamber  
of Commerce**



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