



A Finance Leader's Strategic Utilization Approach for GPO Profitability



Background: While serving as a finance leader at a Group Purchasing Organization (GPO) specializing in the Long-Term Care (LTC) pharmacy space, a significant opportunity was identified to enhance customer profitability, increase rebate generation, and grow the GPO's EBITDA. The GPO provided an extensive list of products; however, purchasing behavior among LTC facilities was fragmented, leading to diluted purchasing power, missed rebates, and an overall impact on profitability.

Challenges

1. **Fragmented Product Utilization:** LTC facilities were not fully leveraging the GPO's contracted product list, resulting in a loss of volume-based rebates and reduced financial returns.
2. **Limited Profitability:** Facilities sourcing outside the GPO's network limited rebate earnings and constrained potential EBITDA growth for the GPO.
3. **Culinary Complexity:** LTC facilities had diverse culinary needs, resulting in inconsistent purchasing practices and increased costs due to a lack of standardized product utilization.

Strategy: Utilization Approach for Culinary Products

The finance leader designed a strategic approach focused on promoting the use of culinary products from the GPO's list among LTC facilities. This strategy aimed to streamline purchasing practices, drive product consistency, and maximize the financial benefits for both the facilities and the GPO.

1. **Product Standardization:** Conducted a comprehensive analysis of the GPO's product list to identify key culinary products that aligned with the dietary and operational needs of LTC facilities. Worked with suppliers to create a standardized product catalog tailored

for culinary operations, ensuring the availability of essential items like food supplies, kitchen equipment, and cleaning products at negotiated rates.

2. **Utilization Training:** Developed training programs for culinary managers at LTC facilities to educate them on the benefits of utilizing products from the GPO's list. Emphasized how standardizing products could improve operational efficiency, ensure compliance with dietary standards, and drive cost savings.
3. **Incentive Programs:** Introduced an incentive program that rewarded facilities for meeting specified utilization rates of GPO-listed culinary products. This included a tiered rebate structure, allowing facilities to earn larger rebates as their purchasing volumes increased, thereby incentivizing them to consolidate their buying through the GPO.
4. **Rebate Optimization:** Negotiated enhanced rebates with suppliers based on the increased volume commitments across the LTC network. Designed a rebate structure where savings from bulk purchasing were shared between the GPO and LTC facilities, thus improving overall profitability.
5. **Customized Reporting:** Implemented a reporting system to track product utilization at each LTC facility. This data-driven approach provided insights into purchasing trends, identified opportunities for increased efficiency, and allowed the GPO to monitor progress toward rebate targets.

Outcomes

1. **Improved Customer Profitability:** Shifting facilities to use standardized culinary products from the GPO's list resulted in reduced costs and more efficient kitchen operations, leading to improved profitability for the facilities.
2. **Increased Rebate Share:** Focusing on product utilization increased purchasing volumes through the GPO's network, significantly boosting rebate earnings for both the LTC facilities and the GPO. Facilities achieving the highest utilization rates experienced a substantial increase in their rebate shares.
3. **EBITDA Growth:** The GPO experienced an increase in EBITDA by over 5% due to optimized rebate structures, improved customer profitability, and standardized purchasing practices.
4. **Enhanced Customer Loyalty:** The strategy not only delivered financial value to the LTC facilities but also strengthened their loyalty to the GPO, resulting in higher retention rates and the potential for expanded services.

Conclusion: A Pitch for Finstru Rx Finance

This use case demonstrates how a finance leader can leverage data-driven strategies, supplier negotiations, and customer incentives to optimize product utilization and drive financial growth. **Finstru Rx Finance** specializes in offering such strategic financial leadership and expertise to healthcare-focused businesses, including GPOs and LTC pharmacies. With an in-depth understanding of the complexities of the healthcare supply chain, Finstru Rx Finance is poised to help businesses implement similar strategies to enhance profitability, maximize rebates, and achieve sustainable EBITDA growth.

If your organization is seeking a partner to help identify and execute on financial opportunities like this, Finstru Rx Finance is here to provide the tailored, impactful support you need.