

# Challenging the status quo: Floor Stock service designed for NHS savings and improved supply chain processes



Some £22bn is spent annually by the NHS on non-pay items, around £5bn of which relates to items used in clinical environments, much of which is managed as floor stock: items from gloves and bandages, to implants and needles ordered by NHS organisations, delivered and distributed locally for replenishing stocks in theatres, wards, departments and elsewhere as needed.

The NHS is attacking costs on every front in its response to the challenge to save £20bn by 2016. For Procurement Departments in NHS trusts (tasked with saving £2bn), this can vary from changing or standardising products, changing or rationalising suppliers, to encouraging new suppliers and product innovation, and renegotiating prices.

One area that NHS London Procurement Partnership (LPP) determined needed reviewing was the supply chain – and more particularly the end-to-end process provided under contract to the Department of Health by NHS Supply Chain (NHSSC, a DHL company). LPP is a collaborative NHS procurement organisation founded, funded and governed by its members, NHS organisations. As LPP chair (and Chief Financial Officer of Chelsea & Westminster NHS Foundation Trust) Lorraine Bewes explains, “The LPP steering board agreed that we should explore what savings and efficiency opportunities could be achieved by reassessing the way trusts’ supply chains operated.”

After three years of research, planning and a tender process, a framework agreement for Floor Stock Wholesaler Services was awarded to Office Depot – a ten-year agreement designed to bring much needed competition into the supply chain market for the NHS. Not only will it generate significant targeted savings (in this case an anticipated nine per cent), but it incorporates a commercial model which improves the logistics operations involved, offering committed stock and faster, timelier and more accurate deliveries. Indeed at Barking Havering and Redbridge University Hospitals NHS Trust (featured below), non-stock default delivery dates have been cut from 14 days to one day.

As Lorraine comments, “This first Floor Stock framework agreement is London-only. We started with a rationalised range of 1700 lines used by the founding trusts. However, this will grow as the contract becomes established. The commercial model provided by Office Depot should deliver immediate savings for trusts switching to the service. Clearly, savings and efficiencies will increase through economies of scale as more trusts adopt LPP’s Floor Stock contract.”

The rationale behind limiting the lines to 1700 to begin with was to establish a core range of high turnover volume lines, and the basis on which the 1700 were selected is that these are common to the participating trusts.

“We’re looking at unit price savings, a bespoke delivery service, and optional new PDA bar code reader technology - this enables direct transmission of orders to Office Depot, as well as direct to other suppliers. Ongoing savings through this contract are also expected to be achieved through supplier rationalisation, product standardisation and volume commitment.”

### Implementing the service within trusts

The process of ‘onboarding’ trusts takes a number of months depending on the size and complexity of the individual trust. In the case of Barking, Havering and Redbridge University Hospitals NHS Trust, which implemented Floor Stock as part of its Procurement Strategy, the process has taken three to four months. Onboarding is a clearly structured process:

1. **Initialisation:** a meeting between the trust and Office Depot to establish an understanding of the project and – crucially – to identify the key trust personnel who will be involved. This is followed by a matching of the Office Depot catalogue with the trust spend through NHS Supply Chain or other provider. This matching of product lines enables an identification of savings to be made by switching to the Office Depot contract.
2. **Authorisation:** once the trust agrees to move relevant product lines to the contract, the trust undertakes its local approvals process before signing an Access Agreement followed a Core Call-Off Contract.
3. **Mobilisation:** this is the scoping and planning of IT requirements to ensure trust capability to order and pay in accordance with statutory requirements for public sector bodies, and the scoping and planning of actual delivery requirements. These include the frequency of delivery to each site and department within the trust. Both parties agree go-live target dates, develop and implement internal trust PR and communications (essential to getting buy-in and support from trust staff), and undertake local testing and training of IT. Final plans are then made for go-live.
4. **Implementation:** the trust then goes live with the first range of matched products. Additional products are supplied as they are added to the Office Depot catalogue, and savings are reported each quarter.
5. **Steady state:** when all is working smoothly, the service is fully implemented within the trust and savings are realised.

### The process in practice: how Barking, Havering & Redbridge University Hospitals NHS Trust has implemented the Floor Stock Wholesaler Services contract

BHR’s Director of Procurement, Linda Kruse, has been in the vanguard of calling for the NHS to challenge supply chains to produce better and more transparent pricing to trusts. A member of the LPP steering board, Linda has been a driving force in the development of the Floor Stock contract. The contract’s launch at the end of 2013 was timely, as Linda explains:

“BHR’s Procurement Strategy has always been to deliver an optimised inventory management solution and service; the strategy has Board-level support as it is viewed as a key contributor in achieving a solution to the Trust’s financial recovery. I have been keen to address the need for competition in our supply chain for a long time. The Floor Stock contract has addressed that competition issue (as indeed has LPP’s Neutral Warehouse contract which we also access).



“When I talk to other trusts, one of the apparent stumbling blocks is that the scale of the task appears to be too big, too cumbersome. Running a new process alongside an established way of getting the thousands of products needed by every area of a trust is of course daunting, and it requires buy-in not just at Board level but from everyone involved in buying, ordering and using stock. But it’s something that no trust can afford to ignore – and the good news is that, with the right approach, the right planning and the right communication, it’s perfectly manageable. We managed the implementation of Floor Stock with our existing resources – but even where trusts might have to invest in additional temporary resources, when they’re looking at savings of anything from £167k pa to more than £500k (as estimated for other, larger LPP member trusts), why wouldn’t you make that initial investment?”

BHR is implementing Floor Stock at two of its sites: Queen’s Hospital, Romford and King George’s Hospital, Goodmayes. “There are some very clear steps involved, including product and supplier identification, vendor engagement, analysing fitness for purpose and product usage trends. Office Depot has supported the Trust at every stage of the process.

“The biggest challenges during this process are culture change and the transition process, and the introduction of new systems, processes and ways of working. There can be some resistance to change, therefore good communication with staff is essential. Procurement Trust staff need to understand the reasons for the changes, understand the operational impact it will have upon themselves and the service, and recognise what will be required of them to support the change. Staff need to understand the efficiencies and financial benefits to be had from the change; financial and operational teams need to know that the new service will deliver, and ultimately improve patient care and experience. There will be no operational impact on end users as this is merely a change in the route of supply.

"It is essential that the transition process is seamless, however, this period does place additional pressure on the implementation team. Implementation is not simply a matter for the Procurement and Logistics Team. It requires input from Estates and Facilities, your PFI provider where appropriate (in our case to enable overnight deliveries), IT, Finance and Communications.

BHR has implemented a fully Automated Inventory Management Solution (AIMS) of which the new LPP Floor Stock contract is a part. Linda Kruse, Director of Procurement at BHR, explains that "An element of AIMS is the new Avantec PDA 'Replenish' system used by the Inventory Specialists for Ward and Department Top Up. BHR is working with the automated cabinet supplier to develop the 'Replenish' system to include additional functionality. The PDAs are currently being used in 87 Ward and Department Requisition Points across the Trust. Products are ordered via direct interface to our supply chain providers - Office Depot (through the Floor Stock contract), Squadron Medical (providers under our 'Neutral Warehouse' contract), NHSSC and BHR's P2P System (SBS Oracle). The 'Replenish' system is available through Floor Stock, but other systems are available to provide the same solution – trusts using the Floor Stock contract are not bound to use Replenish."

### Profiling products and calculating savings:

"In conjunction with Office Depot we profiled our total of 87 of our 143 Ward and Department Requisition Points, and 13 Automated Cabinet Requisition Points across our sites for Floor Stock. We initially went live with all the Automated Cabinet Requisition Points and 49 Ward and Department Requisition Points at Queen's. The 38 Ward and Department Requisition Points at King George's went live following installation of WiFi in the Supplies Department. The current position is that we are live in 100 Requisition Points across both sites.

"We matched 574 existing lines from the 1700 lines to be offered by Office Depot – this equated to a £4.3 million spend with NHSSC to be transferred to Office Depot, which would generate initial savings potential of £387,000 per year."

Initially BHR piloted the system with 44 lines, representing a £45k spend. Following a successful trial period BHR went live with the 13 Automated Cabinet Requisition Points on 2nd August 2013. The 13 cabinets held 96 SKUs in 511 bin locations.

"The next stage was to complete the development, build and implementation of the new PDA system. The analysis of the 87 Ward and Department Requisition Points identified a total of 14,181 bin locations covering a total of 2328 SKUs. 59 of the 87 Requisition Points have in excess of 100 SKUs. We went live with the PDA system on 7th January 2014."

It was also vital to carry out an Impact Analysis on the workload being imposed on staff during the change. The Logistics Management Team identified that there would be an increase in workload during the transition period but assessed that this could be absorbed within current resources. The biggest change was cultural, especially when the existing BHR system and process has been in operation for many years. As Linda says, "We take a proactive approach to culture change through communication, it is essential (subject to confidentiality) to inform staff of developments in the service. The team from the outset of the AIMS concept to the point of implementation was encouraged to make suggestions and comments on the planned operational changes - after all, they are the ones working at the operational end of the service and it is they who will be using the system, not the management team. Their knowledge is invaluable, it is important to utilise it."

The key operational pressures identified and mitigated were:

- **Goods Receiving/Distribution - products previously coming from one supplier now coming from two suppliers.** This was mitigated by mapping the Office Depot deliveries to coincide with NHSSC deliveries. For example where the Distribution Officers previously delivered three NHSSC cages, they now deliver two NHSSC cages and one Office Depot cage.
- **Inventory Specialists – operating the new inventory system, amending the top up books with new bar codes and mapping the supplier of the products from the new supply route.** These issues were mitigated by ensuring the team received the required training from the system supplier, including a competency assessment; ensuring that the system data was accurate and the bar codes for the top up books were all amended; conducting a controlled test of a limited number of products in selected Requisition Points to ensure the system and processes worked before going live. Lastly, BHR implemented a phased go live over a few weeks to ease the transition process and ensured there was on-site support from the system supplier throughout the transition period.
- **Programme Analyst and Logistics Management –** this required a big time investment, and covered analysis of all the data, checking the viability of the concept operationally and financially (a cost/benefit/risk analysis), arranging meetings for staff, customers, and all other departments required to deliver the project with Avantec, Office Depot and LPP.

Operationally, BHR needed to review the IT Interfaces required for the Automated Inventory Management Solution (Cabinets and PDAs), BHR interfaces needed to work with Office Depot, NHSSC, Squadron and P2P. Linda points out that "The P2P (SBS) interface was essential to enable a reduction of the non-stock default delivery date from 14 days down to one day, a huge beneficial impact, reducing our overall storage and stock management requirements. This was achieved because the products were brought under Logistics management, removing the need for the hierarchical authorisation process and so releasing valuable clinical time from the approval of requisitions."



## Steps BHR took included:

- checking Wi-Fi connectivity at Queen's and installing Wi-Fi in the Supplies Department at King George's.
- installing bar coding for Materials Management ordering books and reconfiguring bar code labelling (in conjunction with Avantec) to contain bin location, Supplier code, Manufacturer's code, par (minimum stock) level, and a product description. (These can be duplicated for shelf display.)
- data cleansing – configuring data fields within required parameters, i.e. 32 digits for the description column (a process managed jointly by Avantec, Office Depot and BHR).
- mapping the replenishment programme to align it to the existing NHSSC programme.
- transferring the mapping onto the PDAs per requisition point – this was supported by Avantec.
- designing invoice templates with Office Depot to meet the HMRC managed service VAT reclaim compliance.
- developing an electronic feed for invoices.
- reconfiguring the replenishment programme and Inventory Specialists' work schedules to increase replenishment in the Automated Cabinet Requisition Points for which no additional resource is required.
- replacing original Totes and Palleys with Cages and Totes, better equipped to manage the external ground conditions in some areas of the Trust.

### Supplier and Trust roles were clear:

**Trust:** Ensure Office Depot provided with all usage history and demand forecasting. Confirm all system data is accurate and cleansed. Confirm all mapping is accurate. Confirm equipment is fully operational. Confirm all staff are trained and competent in the use of the system and processes (and build in to personal development plans). Confirm all stock is available at OD. Agree implementation plan and go live date(s). (Avantec was on site for Go Live to check all compliance and robustness of system.)

**Avantec:** Ensure all equipment in place. Software and Hardware operational and robust. Contingencies and processes all compliant. Ensure data build is accurate, cleansed and complete, Bar coding, purchase orders and reports are all built according to requirement. Confirm all interfaces are functional and fully tested. Provide system training on-site pre and post go live.

**Office Depot:** Build the catalogue, ensure all products are coded and mapped to Requisition Points; ensure invoicing/listings are all compliant. Replenishment programme is mapped by Requisition Point and vendor replenishment in place. Just In Time formula agreed for replenishment of stock reflective of usage. Stock levels established and maintained to agreed Trust commitment level. Confirm all stock available on the shelf.

## The position after six months: £167k savings, 14 days to 1 day non-stock deliveries

Currently, Office Depot is managing 299 product lines across 15 vendors for BHR, equating to a £1.856m annual spend. With target savings of nine per cent over the first year, BHR is on track to achieve £167,000 savings.

These savings figures do not include the major cost and time savings associated with greater accuracy and reduced ordering times BHR now enjoys with this automated process. They also do not take into account the cost associated with the release of valuable time.

Phases 3 and 4 are underway, and Office Depot is working with BHR to assess additional lines for inclusion. Once the Procurement Council is up and running, this task will be managed by the Council.

BHR is monitoring and reviewing the operational and financial benefits, KPIs (as detailed in the call off contract), and reporting on usage, spend and savings. This will be further supported through the AIMS Dashboard, which is currently being finalised to BHR's specification. When complete, the dashboard will provide a six week rolling trend analysis of all inventory managed through AIMS. All data will be held on the system to enable analysis of any chosen time periods.

Linda adds: *"Future developments will include expansion of our non-stock inventory management, stationery and printed stationery transferred to top up, tracking of all goods within Goods Receiving, Distribution, Courier Transport, Office Depot cages and totes and the implementation of a Patient Level Costing solution, enabled through the capture of all data through a single solution - AIMS."*

*"Floor Stock has enhanced BHR's Total Inventory Management Solution and we look forward to the Procurement Council being formally established, sharing our experience with other trusts as they come on board, and evolving the Floor Stock contract to deliver major time and cost efficiencies across participating trusts."*

### NHS London Procurement Partnership

LPP is a membership organisation for and funded by NHS trusts, designed to leverage value and quality from the annual NHS procurement budget.

LPP works alongside NHS organisations to make the most of the commercial size of the NHS to deliver savings and improvements which enhance patient care. Our main focus is to drive collaboration, maximising our members' purchasing power.

LPP has a proven track record of delivering a range of commercial projects in a short timescale, and has demonstrated the capability to identify, develop and deliver commercial opportunities to the benefit of members and patients alike. LPP has established significant project management capability, and provides access to a range of procurement and commercial specialists.

Over the last seven years, LPP has delivered more than £650m in savings in the following areas:

- Agency and Temporary Staffing
- Estates and Facilities
- Medical, Surgical and Supply Chain
- Medicines Optimisation and Pharmacy Procurement
- Professional Services
- Technology

For more information contact LPP at:

Telephone: 020 7188 6680

Email: [lpp.comms@nhs.net](mailto:lpp.comms@nhs.net)

Website: [www.lpp.nhs.uk](http://www.lpp.nhs.uk)

July 2014