PRICING OF CENTRAL SUPPLY ITEMS

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AUTHOR: P. ROGERS

COMMUNITY SYSTEMS FOUNDATION
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TO: Mr. Forest C. Thompson, Administrator
Peninsula General Hospital
Salisbury, Maryland

FROM: Mr. Philip J. Rogers
Industrial Engineer

SUBJECT: The Pricing of Central Supply Items

In April, 1966, Community Systems Foundation was asked to determine how Central Supply items were being distributed within the Hospital. The results would then be used to allocate the operating costs of Central Supply to these areas.

The first step was to obtain a complete list of all items dispensed by Central Supply. These items were then categorized as to being reusable, disposable, or sets (combination of items). The sets were eliminated from the list by subdividing them into reusable or disposable items and adding them to the list.

Two weeks of requisitions were selected at random by the Controller, and these were categorized by the recipient area. From this sample, it was found that there are nine "users"; shown below:

Nursing Units (Including I.C.U.)
School of Nursing
Accident Room
Operating Room and Recovery
X-ray
Laboratory
Labor and Delivery
Nursery
Pharmacy

It was decided that the disposable items would be priced and percentages would be calculated first since the data was
readily available and since it was foreseen that the pricing of reusable items would be time consuming. Purchasing was very helpful in assisting with the pricing.

After the percentages of disposables were calculated, a random sample of ten reusable items (approximately 7 percent of the total) was taken. The frequency of use was examined; and it was estimated that for any price the percentage for the nursing stations would be upwards of 90 percent. Another sample of five reusables was taken, and the same result was evident. Since the percentage for the nursing stations was 78 percent for the disposables, the difference (12 percent) is quite high; hence, it was concluded that the reusables would have to be priced and added to the disposables to give a time representation.

The final step was begun. A "usage per item" had to be calculated. This was done through purchases (high usage items) and estimation (low usage items). Next, a "first cost" (purchase price) had to be determined for each item. This was accomplished through Purchasing's and Central Supply's records. By dividing the first cost by the usage, the "dollars per use" was obtained. Estimated processing costs were added to the dollars per use. The result was multiplied by the frequency of use by area, yielding the net result, namely, "amount per area."

By adding these results to the previously obtained amounts for disposables, percentages for reusables/disposables by area were obtained.

Examination of the final results indicated the following: The reusable/disposable percentage for the nursing stations was 78.5 percent, as compared with 78 percent for just the disposables.
It was concluded that this small difference was due to the difference in total amounts for the disposables ($4560) and reusables ($1400).

It is evident that as more disposables replace reusables this difference will become greater, and the difference between combined percentages and disposable percentages will become smaller. It is, therefore, recommended that 1) the same procedure be repeated two or three times for different time periods to verify the results and having proven the results to be satisfactory; 2) only disposables be used for costing which should result in quite a time savings for Accounting.