

Transformation through Non-Labor Cost Reduction (NLCR)

Healthcare providers and their leadership teams are facing more pressure than ever to increase margins through cost reduction. Significant cost increases in recent years coupled with rising inflation and tariff implications have made non-labor cost reduction and working capital improvement paramount to success:

40% of American hospitals continued to lose money from operations as of February 2024¹

2nd biggest expense for providers are supply costs and purchased services²

Up to 15% increase in supply expenses³

Up to 15% increase in pharmaceutical expenses⁴

Our Approach:

Increase cash flow early and drive non-labor cost reduction long-term

Working capital improvements will provide efficient relief to organizations facing negative margins and increased costs, while NLCR initiatives generate ongoing bottom line impact year-over-year.

\$50-\$100M

annual non-labor cost reduction (NLCR) opportunity on \$1B in addressable spend.

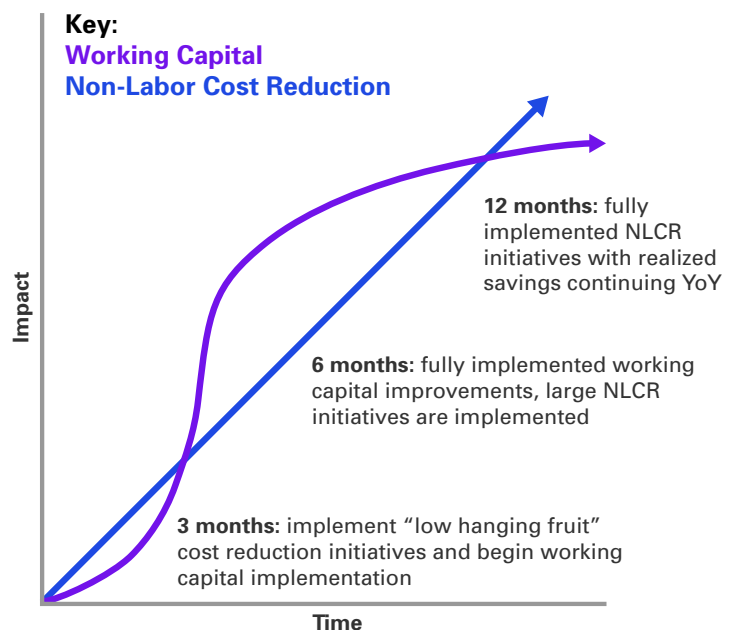
\$30-\$80M

in cash flow release on \$1B addressable AP spend.

Key:

Working Capital

Non-Labor Cost Reduction



Our working capital and NLCR improvements are identified through a variety of levers

Non-Labor Cost Reduction

Price Benchmarking: compare product and service prices to similar peers and negotiate new pricing through amendments or bid events

Vendor Consolidation: standardize spend in top categories to achieve the best pricing on both local and GPO agreements

Sourcing Events: identify categories where sourcing events or direct negotiation would result in price concessions

Inventory Optimization: adjust inventory levels to prevent excess on-hand inventory and decrease obsolescence and expiration rates

Preference Cards: standardize supply costs across similar high-cost procedures

Price Parity and Contract Compliance: help ensure all locations are purchasing products at the lowest price within the organization

Make vs. Buy: cost-benefit analysis of insourcing versus outsourcing various services

GPO Optimization: adjust GPO terms and enhance tiers across all categories

Overpayments: identify where invoice pricing exceeds contract pricing and recover funds

Working Capital

Early Payments: limit payment processing prior to invoice due date

Terms Compliance: help ensure invoice payment terms align with agreed upon contract and vendor master terms

Payment Frequency: decrease check run frequency through updated AP processes

Trigger: begin payment clock on the latter of invoice date, invoice receipt date, and goods receipt date

Term Extension: benchmark payment terms by spend category and extend terms via negotiation with low-risk vendors

Software Billing: extend subscription-based billing schedules for software vendors

Payment Term Discounts: leverage early pay discounts where advantageous



We will apply these levers to both direct and indirect spend to help drive significant results across the organization. We have extensive experience in the following categories:

Clinical Supplies	Pharmaceuticals	Professional Services
Hardware and Software	Facilities	Marketing
HR Services	Logistics	Direct Materials
Sterile Processing	Linen and Laundry	Environmental Services

Our offerings

Our offerings range from a rapid assessment to full-scale implementation of identified opportunities.

Rapid Assessment—2 weeks

Assess price parity, contract compliance, vendor consolidation, sourcing events, overpayments, and all working capital opportunities. Forecast high-level net opportunity

Present opportunity to accounts payable and supply chain leadership

Full Assessment—12 weeks

All “rapid assessment” levers with full benchmarking exercise, make vs. buy analysis, inventory optimization, GPO optimization analysis, and preference card optimization

Phased implementation plan based on opportunity volume and feasibility, in addition to recommended implementation steps for each initiative

Implementation support materials such as vendor communication templates

Implementation—12 months

Full assessment and ongoing review of in-flight initiatives such as bid events and expiring

Full negotiation support and vendor communication support

Drive end-to-end sourcing events in conjunction with client stakeholders

Collaboration with clinical staff, value analysis, sourcing team, and accounts payable to implement initiatives

Tracking of realized savings on an ongoing basis

Our Tools

Working Capital

We have developed a proprietary working capital model that forecasts all cash flow improvements across five major levers. With proper data, we can forecast a full range of opportunities within each lever in under 48 hours.

Non-Labor Cost Reduction

KPMG has pre-configured linked data sets to categorize spend using our analytic tools in collaboration with BroadJump for deeper clinical spend analysis. We enable rapid drill-down into the largest potential spend savings opportunities, with the KPMG Benchmark Database providing additional category-specific insights to help define achievable savings targets.

Feasibility and Sustainability

KPMG LLP brings a balanced and collaborative approach that includes collaborating with key stakeholders such as clinicians, value analysis committees, and operational managers to identify and understand critical needs and nuances when managing cost reduction and working capital improvements. As much as we look for savings and cash impact through analytics, we prioritize identifying initiatives that are feasible and sustainable.

Our transformational approach that allows your organization to “move up” the supply chain transformational curve, increases the velocity of value received to the organization and shifting down the operational cost of providing patient care.

Qualifications

Non-labor cost reduction assessment at a large Western US health system

Situation: Client was seeking to optimize supply chain operations around spend management. Client wanted to identify cost reduction initiatives and operational changes to sustain cost savings long term.

Approach: KPMG identified and validated \$32M of annual savings opportunity with client stakeholders on \$461M of addressable spend. Cost savings initiatives spanned across 12 savings levers and were presented in a phased implementation plan. Throughout the engagement, 20 categories were reviewed and 14 client interviews were held, which led to 37 detailed operating model improvements in addition to savings identification.

Non-labor cost reduction assessment and implementation at a non-profit public health system

Situation: Client faced significant inflationary pressure which caused increased clinical supply and purchase services costs. Juxtapose to economic conditions, high rates of category manager turnover prevented the completion of strategic initiatives.

Approach: KPMG identified 45 cost savings initiatives across clinical supplies, purchased services, and pharmacy. Upon identification, KPMG executed cost savings initiatives by negotiating directly with vendors, leading sourcing events, and driving value analysis meetings. Over \$7M of savings were implemented across \$150M of purchased service and clinical supply spend.

References:

- 1 Kaufman Hall, a Vizient company (2024, February 21). The Numbers Behind the Numbers <https://www.vizientinc.com/insights/all/2024/the-numbers-behind-the-national-hospital-flash-report>
- 2 Definitive Healthcare (2025, January 21). What is a hospital's biggest expense? <https://www.definitivehc.com/resources/healthcare-insights/biggest-hospital-expenses>
- 3 Becker's Hospital Review (2025, March 27). <https://www.beckershospitalreview.com/supply-chain/hospital-finance-supply-leaders-predict-15-increase-in-tariff-related-costs/>
- 4 Kaufman Hall, a Vizient company (2024, December 9). National Hospital Flash Report: October 2024 Data. <https://www.kaufmanhall.com/insights/research-report/national-hospital-flash-report-october-2024-data>

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