



GS1 Standards

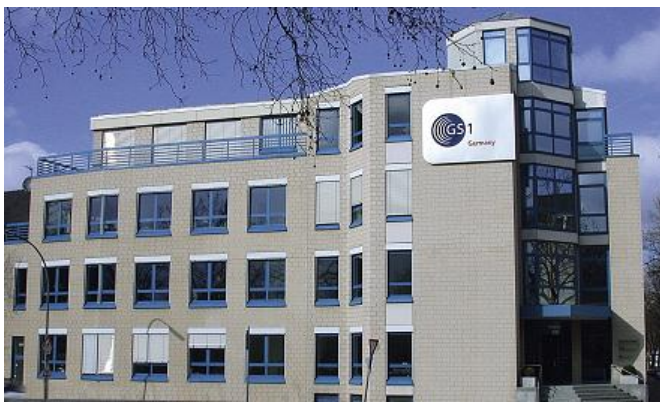
# Recommendation for Consignment processes in the Healthcare Sector

Recommendation



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The German Markenverband and the EHI Retail Institute hold equal shares.

### About this document

This document was created by GS1 Germany together with the working group “EDI in Healthcare”. It was developed with Experts from Suppliers of Medical Devices and Pharmaceuticals, Hospitals, GPOs and Service Provides in the Healthcare Sector. Members of the Working Group are:

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# **GS1 Recommendation for the Consignment process in the Healthcare Sector**

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## **GS1 Recommendation for Consignment processes in the Healthcare Sector**

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### 1 Introduction

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#### 1 Introduction

In the consignment process, the manufacturer/supplier stores his products in a (central) warehouse of the hospital. The products remain the property of the supplier or manufacturer. When the products used by the hospital their ownership transfers to the hospital. This results in an Invoice from the supplier to the hospital. The price for the items has been negotiated and agreed prior to the invoice transaction.

The settlements are made using either - invoicing or self billing.

There are a number of different ways of processing consignment stock depending on the how the goods flow and how the ownership of the goods are transferred. This publication focuses on two relevant models used in the healthcare sector.

The models are based on the stock control in the warehouse. The transfer of ownership can be performed by the manufacturer/ supplier - Vendor Managed Inventory (VMI) or by the hospital - Buyer Managed Inventory (BMI).

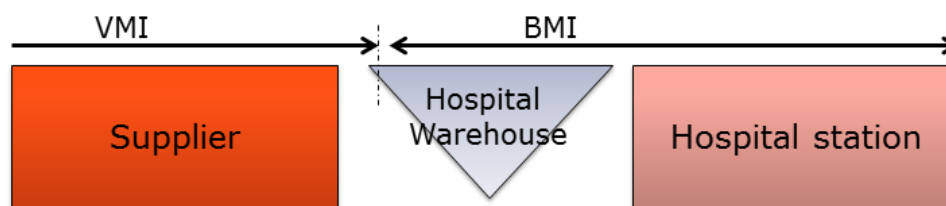


Fig. 1: Separation VMI / BMI

#### 1.1 Prerequisites for the Consignment

Consignment processes require strong links in terms of goods and information flows between the parties. The following are required to ensure smooth processing and should be agreed and established in prior to beginning processing consignment stock :

- Use of standardized identifiers for products (GTINs) and location (GLNs) Implementation of a correct and synchronised master data between the parties
- The ERP System, communications and hardware are capable of supporting the consignment process
- GS1 eCOM messages, EANCOM<sup>®</sup> Messages are used for exchanging standardise electronic messages as required in the text below

The consignment process can be controlled by either the hospital (BMI) or the manufacturer/supplier (VMI). Timely exchanges of information about the removal of products as well as regular inventory reports are recommended to support both consignment processes. Both parties should maintain the accurate and synchronised stocks records in their respective databases.

### **1 Introduction**

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#### **1.2 Out-of-Scope – Goods Return**

The goods may be returned by the hospital to the manufacturer/supplier. This is out of scope and is not described in this recommendation. However it will be considered in a future release of this document

#### **1.3 Consignment contract**

Consignment goods processing is a specific type of inventory strategy. Hence, it is recommended that, for consignment processing the contract includes specific details and agreements by the parties involved. These should be clearly detailed and recorded and may include the following:

- Storage location, coverage of the costs, delay in acceptance
- Warehouse operators (possibly third parties), obligations and rights of the parties
- Transfer of ownership
- Frequency of removal of goods message, respectively the settlement process
- Period for the transition of the goods in the inventory / property of the hospital
- Define the minimum and maximum stocks
- Liability aspects (loss / theft)
- Inspection of the goods
- Insurance
- Enter into force, Termination
- Other regulations



2 Consignment processes

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The consignment process can be controlled by either the hospital (BMI) or the manufacturer/supplier (VMI). Timely exchanges of information about the removal of products as well as regular inventory reports are recommended to support both consignment processes. Both parties should maintain the accurate and synchronised stocks records in their respective databases.

2.1 Consignment processes with BMI

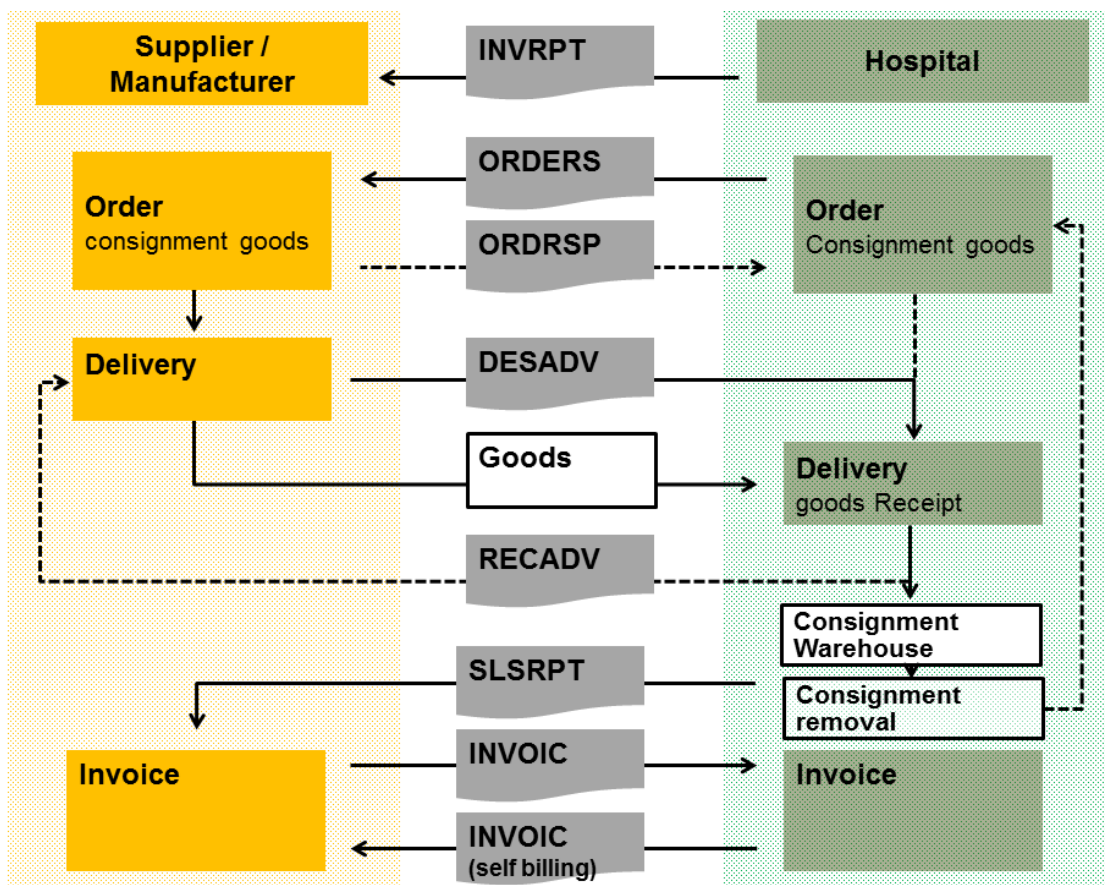


Fig. 2: Data and goods flow Consignment processes (BMI)

2.1.1 Basic Requirements (BMI)

The basic requirement for a Buyer Managed Inventory (BMI) consignment process is for the hospital to create an Order for the selected products and transmit the ORDERS message with the qualifier 227 = Consignment Order to the manufacturer.

The shipment of goods is notified by the manufacture/supplier to the hospital using a despatch advice (DESADV) using a qualifier YA7 = Consignment despatch advice which

### **2 Consignment processes**

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cross-references to the originating order and to the SSCC(s) identifying the logistics units contained in the shipment. The hospital can acknowledge the delivery by sending a goods receipt or receiving advice message RECADV to the manufacturer/supplier. If the delivery quantity deviates from the advised quantity, the hospital can detail these variances in the receiving advice messages by using the qualifier 194 (received and accepted quantity).

#### **2.1.2 Additional deliveries / Invoice (BMI)**

Dependent on the stock-on hand in the warehouse and the stock consumed data the hospital determines the quantity and date for replenishment orders and deliveries. These items are ordered similarly to the basic requirement in section 2.1.2 above. The same process applies with the goods-related messages (DESADV / RECADV).

Consignment stock used by the hospital is reported by hospital to the manufacturer by sending a sales data report (SLSRPT). At this point, the ownership of the stock is then transferred by the manufacturer to the hospital. Details relating to the item such as batch/lot numbers and serial numbers included in the messages to enable accurate stock reconciliation.

Regular inventory reports (INVRPT) may be exchanged using the inventory report message between the hospital and the supplier/manufacturer. These messages are used to facilitate stock accuracy and reporting. If stock variances are detected by the hospital or the manufacturer, these should be handled in accordance to Chapter 2.4.

An invoice messages using the invoice message (INVOIC), based on the usage reports, is generated by the manufacturer and sent to the hospital. Alternatively self-billing may be used.

2 Consignment processes

2.2 Consignment processes with VMI

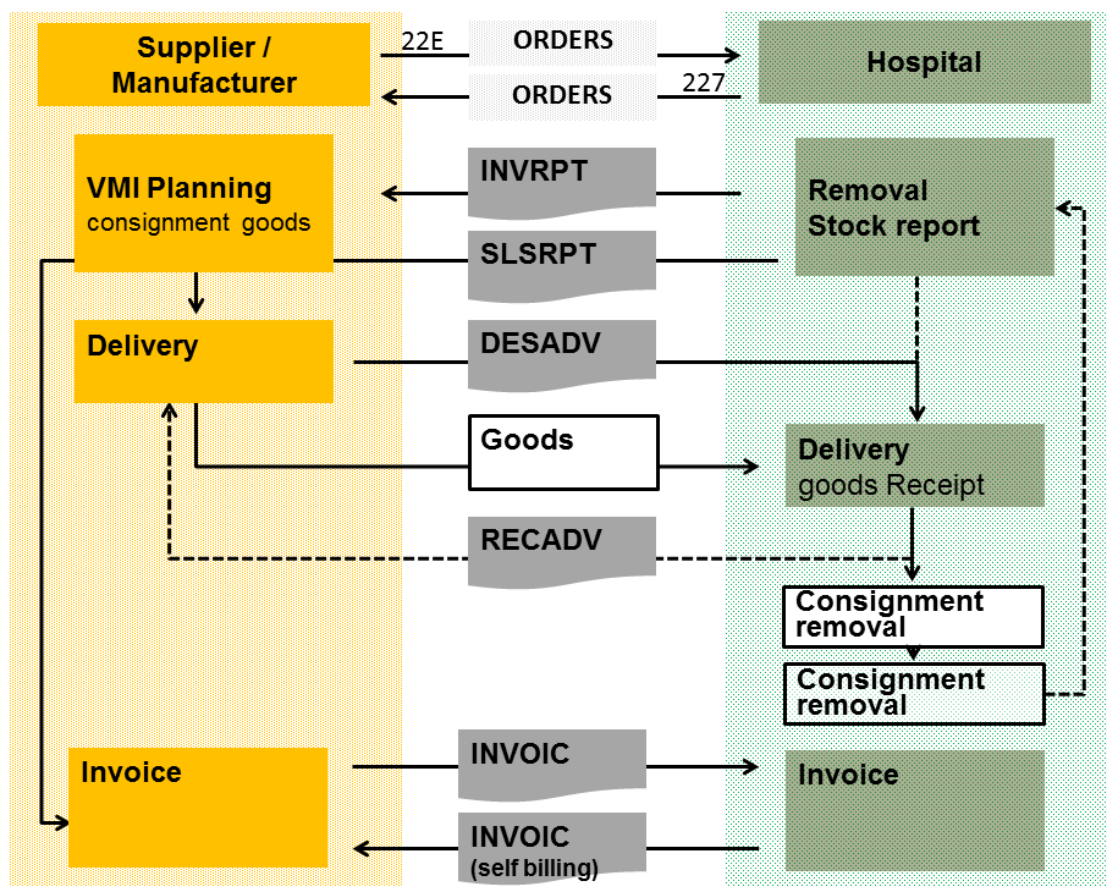


Fig. 3: Data and goods flow Consignment processes (VMI)

2.2.1 Basic Requirements (VMI)

There are two possibilities for VMI to arrange the basic requirement for consignment stock

1) The basic requirement for consignment stock using Vendor Managed Inventory (VMI) is for the manufacturer/supplier to raise an order (ORDER) and transmit it to the hospital with the qualifier 22E = "Manufacturer raised order" From this, the hospital creates an internal order on its system with the same reference number (or referencing the manufacturer's order).

2) Alternatively, the hospital can raise the order (ORDER) using the qualifier 227 = Consignment order to the manufacturer and send it to the manufacturer/supplier.

The shipment of goods is notified using a despatch advice (DESADV), with the qualifier YA7 = Consignment despatch advice, which cross-references to the originating order and to the SSCCs identifying the logistics units contained in shipment. The hospital can

### 2 Consignment processes

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acknowledge the delivery using a goods receipt or receiving advice message RECADV. If the delivery deviates from the advised quantity, the hospital can detail these variances in the receiving advice message.

#### 2.2.2 Additional deliveries / Invoice (VMI)

Consignment stock used by the hospital will be reported to the manufacturer by sending a sales data report (SLSRPT). The ownership of the consignment stock is transferred from the manufacturer to the hospital. Details relating to the item such as batch/lot numbers or serial numbers may be provided in the messages for reconciliation and planning purposes. The goods-related messages (DESADV / RECADV) are to be utilised similarly to the initial VMI order.

Based on the removal from the consignment stock (SLSRPT) the manufacturer can manage the VMI planning.

Regular reports may be exchanged between the hospital supplier/manufacturer to facilitate stock accuracy and reporting see section 2.4 below.

An invoice (INVOIC) based on the usage reports is generated by the manufacturer and sent to the hospital. Alternatively self-billing may be used.

#### 2.3 Inventory of consignment stocks at the hospital

As the operational inventory management is performed by the hospital, and as the ownership of the goods remains with the manufacturer, a contractual agreement about any inventory variances and their financial reconciliation is recommended.

Normally, inventory checking of the consignment stock in the hospital is performed by the hospital at the request of the manufacturer. Depending on the legal or regulatory requirements it may be agreed that the counting and classifying can be carried out by the manufacturer.

The hospital usually issues to the manufacturer:

- an inventory balancing report on the counted stock quantities.
- an inventory monitoring confirmation that the inventory was carried out correctly.

### **2 Consignment processes**

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#### **2.4 Inventory messages / deviations and stock differences**

Inventory reports may be prepared after the end-of-day reconciliation reports on deliveries and on the usage of items have been completed. The reporting periods and dates when the regular inventory reports (INVRPT) will be issued, shall be bilaterally agreed between the parties. The reports to reconcile stock are sent on the agreed dates after stock-checks are performed.

If products have a batch/lot or serial numbers this information may also be provided in the messages.

If for any reasons, there are variances arising during in the stock reconciliations these may be resolved by issuing additional inventory reports and raising Invoices or self-billing to make the necessary financial adjustments.

## **Masthead**

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