

## Fixing the Weak Link in the Healthcare Supply Chain

Anyone who has been involved in purchasing supplies for the healthcare industry knows that the pricing structure is shrouded in mystery. Actually, that may understate the problem: Researching healthcare supply pricing is like peering into a huge black hole. Unlike consumer markets, where online pricing data are readily available at the click of a mouse, or the touch of an app, the healthcare supply chain offers no such points of reference. But that's in the process of changing, and it can't happen too soon.

### Hospitals as Smart Shoppers

The need for healthcare systems to manage costs efficiently to preserve operating margin has never been greater, especially as the market shifts toward prospective payments for value-based care. Supplies represent nearly 40 percent of a hospital's budget and are a prime place to look for cost-cutting opportunities. Of course, the fastest way to save money in the healthcare supply chain is to reduce the cost of the products you are already purchasing.

Unlike a few years ago, technology is not the problem. Today's cloud-based processing capabilities enable the assimilation of massive quantities of data. Web-based analytics can create complete market transparency, previously unavailable to hospital executives. The real challenge: Coming up with good data in the first place.

But is all this information truly necessary? Well, yes, it is.

It should be obvious how helpful comparative pricing information would be in negotiating with suppliers, especially when correlated to purchasing volume and commitment level. Whether you are looking up one item or evaluating data for entire product categories (e.g., orthopedics, cardiac rhythm management, drug-eluting stents), this type of information drives informed, analytical decision making.

There are hundreds of categories for which hospitals must typically conduct lengthy bid processes, and they are normally driven by the expiration date of current contracts. Conducting a request for proposal (RFP) process for a particular category can take months to complete and includes:

- Launching the analysis process
- Meeting with physicians/clinicians
- Crafting and sending out RFPs
- Analyzing RFP responses
- Loading pricing into an ERP system
- Implementing and confirming the new pricing

The RFP process requires time, drains resources, and delays attainment of price savings. Unfortunately, even after completing this process, there is no assurance that the provider has secured competitive pricing.

As consumers, if we want to lower our rates on car insurance or our mortgage, we can access the Internet, and with a few clicks, we are presented with savings opportunities. The question is: What is preventing hospitals from similarly benefitting from the market intelligence available to and employed by consumers?

Hospitals need trusted, unbiased access to real market pricing, just as consumers do. For accountable analytics, data must be accurate, easily accessible, and current. Yet most hospitals rely on individual group purchasing organization (GPO) data, fragmented data, or internally driven organizational data, resulting in a partial and incomplete view of the market.

### **Woe Is Us**

There is no argument that consistent and logical pricing structures found in other industries have been absent from healthcare practices and processes. How has health care fallen so far behind other industries and direct-to-consumer practices for purchasing? Health care has never had access to extensive market intelligence—referred to as “free trade” knowledge; rather, the industry has been blindly trusting in a process that historically was designed to be vague, complex, and convoluted.

Findings of a recent internal study identified surprising variations in pricing across all GPOs and supply networks. There is significant and pervasive variation—typically represented by 20 to 50 percent pricing bands—in what hospitals pay for their medical/surgical devices and supplies. Typical savings opportunities for hospitals are around 10 percent but have been as high as 20 percent, reflecting pricing opportunities on the exact products they are currently using.

### **Crafting a New Normal**

Implementing the following best practices will help your health system achieve its savings goals.

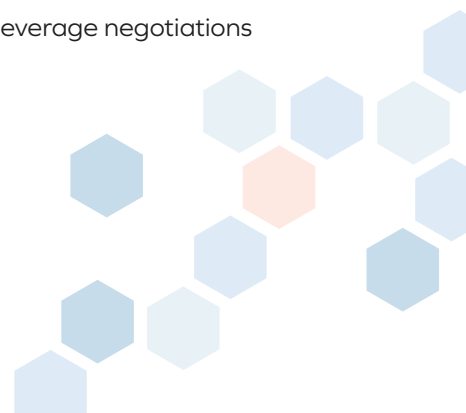
**Empower supply chain leadership to negotiate based on current market share and spend with incumbent suppliers.** Supply chain leaders should conduct negotiations and leverage the overall business portfolio with suppliers that have significant penetration within the organization. Buyers also should have incentives to use available data to reduce the price of non-file purchases before purchase orders are cut.

**Have the CFO actively participate in key supplier negotiations and provide additional pressure when suppliers aren't cooperative.** Demonstrating a unified front among supply chain, clinicians, and the C-suite is extremely powerful and often results in pricing concessions.

**Ensure pricing is addressed in contracts.** All contracts should include a clause allowing the health system to regularly review market pricing and amend contract pricing when market pricing shifts.

**Avoid signing supplier pricing confidentiality clauses.** These clauses benefit only the supplier and do not result in better pricing for your organization.

These best practices are most successfully accomplished when supported by strong analytics and technology resources, including technology that is incorporated into everyday practice at the operating level and market information and analytics that are routinely used to leverage negotiations with suppliers.



When establishing data resources, the organization should seek four features:

- Rapid access, via a few keystrokes, to comprehensive market data comparisons by price, volume, and commitment level
- Capability to calculate savings quickly by comparing utilization and prices with prices paid by other hospitals
- Category schema emulating hospital contracting practices, allowing for expedited price negotiations
- Peer filters allowing users to compare pricing among a wide variety of health systems

### **Words of Reassurance**

The old supply chain purchasing processes are being redesigned; analytical information is a cornerstone. No longer do hospitals have to work in the dark.

With the power of market-based pricing intelligence, all organizations, regardless of size, can benefit from a balanced playing field. Supply chain technology is advancing rapidly, and information is power. Strategies must be supported and driven with unbiased and comprehensive information and analytics.

Implementation will require some resources, but there are real benefits of market intelligence, including:

- Knowledge of exact prices other hospitals are paying for the same items
- Access to current portfolio of contracts to ensure market competitiveness
- Price checks for products that are new, or are not listed, in the item master
- Ability to leverage actionable intelligence to enhance negotiation power and reduce supply costs
- Understanding of the changes in supply spend through powerful reporting tools and target work plans based on categories with the largest savings opportunities

Although information about market-based pricing has been elusive within the healthcare supply chain, technology and sophisticated software now being deployed are bringing about a disruptive, but also welcome change to the strategic contracting process. Thought leaders in health care are using unique, innovative software and technologies to transform processes, strengthen negotiation strategy, improve productivity, and dramatically reduce cost. The time has come to provide health care the same market intelligence and power long enjoyed by consumers.

### **Footnotes**

a. Gaspar, K., Holland, J., and Crittenden, S., "Unraveling the Mysteries of Healthcare Supply Chain Pricing," hfm Blog, posted Jan. 27, 2016.

b. *Modern Healthcare's 2012 Survey of Executive Opinions on Supply Chain Issues*, August 2012.

c. Internal analysis of closed invoice data obtained from more than 400 acute care hospitals.

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