

DON'T BE FOOLED: COMPLIANCE DRIVES STANDARDS



Do you standardize on products and services, rationalize sources of supply and then install systems to drive compliance? Or is it the other way around? Believe it or not, the correct sequence continues to be debated.

Let's be clear: compliance is foundational. While other supply chain priorities can shift, compliance is a constant. If a provider is unable to consistently drive it, then thoughts about rationalizing sources of supply and negotiating better contracts are an exercise in futility. The average contract utilization for healthcare providers is 57%¹, which means a typical provider is fortunate to realize half of the savings negotiated in the contract. Working twice as hard to realize half the benefit hardly seems like the best way to drive savings. If providers can't create an environment that eliminates maverick spending—one that not only forces utilization of existing contracts, but also drives the behavior that triggers negotiated price incentives— then what's the point?

The ultimate lever in any game is an unwavering commitment to its rules. But knowing the rules and playing by them are two very different things. No group knows this better than suppliers. Suppliers are often willing to concede on price incentive terms during a contract negotiation since they know many of their trigger points will never be achieved. They understand the reputation and capability of the provider better than the provider itself —so they behave accordingly. As an example, many clinical contracts embed price tiers based on a provider's commitment to growth, purchase volume or overall vendor market share performance. This is particularly relevant for high value Physician Preference Items [PPI] which make up 30-40% of the Clinical spend in Healthcare. If we cannot consistently direct the spend to preferred PPI contracts then negotiating

¹ KPMG, Power of Procurement 2012 & AHRMM study via GHX

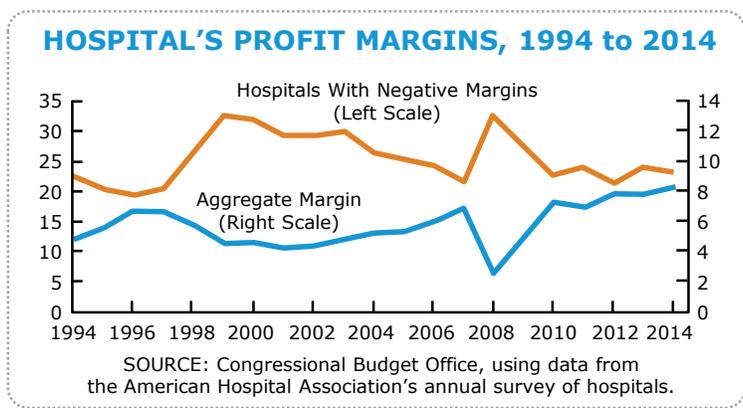
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price incentives based on volume, growth and market share will not realistically impact the provider's total cost of care. Too frequently the cost savings anticipated during the contract negotiation are eroded over time due to the provider's inability to continuously monitor and manage spend at the Point of Service (POS). This problem is systemic in healthcare, not only impacting PPI but also other areas of clinical, non-clinical and purchased service spend.

DRIVING COMPLIANCE AT THE POINT OF SERVICE (POS)

A willingness to acknowledge that all stakeholders in the healthcare supply chain – manufacturers, distributors, GPO's and providers – are driven by competing priorities is an essential starting point. Therefore, driving compliance at the POS, from the demand side of the supply chain, is imperative for providers facing declining reimbursements and rising operating costs.



The Congressional Budget Office (CBO) predicts that the share of hospitals with negative profit margins will increase from 25% today to 60% by 2025 if they cannot get their rising operating costs aligned with declining revenues². With the margin pressure in healthcare, the time to act is now.

From a revenue cycle perspective, inpatient/outpatient POS control is commonplace, so why a similar philosophy hasn't been adopted by procurement professionals is a fair question. One answer is that short-term savings objectives sound much less daunting than initiatives aimed at mid-to-longer term systemic improvements. And because of that, investments in tools that serve short-term interests tend to survive budgeting, where more foundational supply chain compliance systems, designed to enforce standardization, seem to find their way to the back burner.

40% of providers report a growing IT budget. 50% of that growth is dedicated to on-premise solutions (ERP, clinical systems, etc.). Of the remaining growth, the top areas cited are: patient engagement, CRM, cyber security, and analytics

² CBO, Projecting Hospital Profit Margins Under Several Illustrative Scenarios Working Paper -2016.04

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According to a study by International Data Corporation (IDC), 40% of providers report a growing IT budget. 50% of that growth is dedicated to on-premise solutions (ERP, clinical systems, etc.). Of the remaining growth, the top areas cited are: patient engagement, CRM, cyber security, and analytics³. Clearly, these are important areas of development and no one would argue with investments in clinical systems, patient engagement, security, and analytics. But, what's clearly missing is the linkage between clinical systems + analytics and patient care—the clinical supply chain – the point of entry for data, items and services consumed in the patient care event.

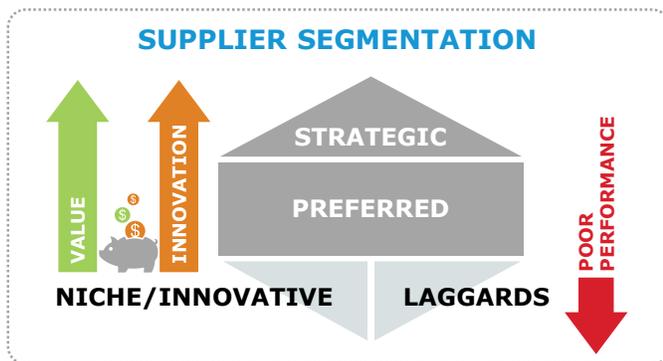
Providers who gain control of their supply chain are better able to implement necessary clinical changes, thus maximizing the rewards of their clinical investments.



Among other reasons, it's why 69% of healthcare IT leaders indicated that supply chain systems are "the most valuable asset for actionable data mining⁴."

SUPPLIER RATIONALIZATION REVISITED

Rationalizing a supply base is defined as picking the right suppliers and the right number of them. But in common practice, it has simply come to mean consolidating a supply base in a search for



more cost reductions. However, in the current inflationary landscape, where most of the margin for product price reduction has been removed, traditional crisis approaches to supply chain rationalization are having less impact. Negotiating lower prices and discounts [rebates, GPO admin fees] are no longer sustainable drivers for achieving cost saving

initiatives. New innovative, connected and collaborative supply chain relationships are needed, between all stakeholders, to combat healthcare cost escalation.

³ 40% of U.S. Healthcare Providers Report IT Budgets are Growing, According to IDC Health Insights. February 1, 2016. <https://www.idc.com/getdoc.jsp?containerId=prUS40997316>

⁴ Belliveau, Jacqueline. 3 Most Common Healthcare Supply Chain Management Challenges. <https://revcycleintelligence.com/news/3-most-common-healthcare-supply-chain-management-challenges>

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Especially in acute care, providers are revisiting their attitudes toward supplier rationalization with many fearing they have gone too far in their reliance on the largest, cross category suppliers. They are discovering that less is not always best. We tend to forget that supplier rationalization can also mean increasing the number of suppliers you use and changing the types of suppliers you select.

The fear is, healthcare sourcing professionals who intentionally limit their selections to large suppliers with cross-category capabilities are inadvertently setting a stage that will ultimately limit their cost controls, reduce their visibility into technology developments and insulate them from market information.

We are living in an era of reform and need to remind ourselves that supplier rationalization is a continuous and evolving process. It's not about how many, rather, it's about maximizing the value of relationships. Now, more than ever, learning to collaborate in meaningful ways with a changing mix of suppliers is an essential skill. Policies and processes that keep the fresh blood out invariably limit perspective.

If a platform capable of controlling the POS is not established or sufficiently agile to drive evolving "standards" across the thousands of clinicians and staff who buy supplies and services on a daily basis, then procurement professionals will look to external sources to solve the problem. For example, asking a GPO to take on more responsibility to drive operational improvements or increasing dependence on distributors are common responses. However, neither of these – when implemented without appropriate controls – produce the desired impact. Even if such supply chain partners share the same objectives as the provider –which is rare– the problem doesn't go away. The inability to control the POS remains a common denominator.

STANDARDIZATION REVISITED

Driving utilization to preferred contracts and/or embedding the ability to drive compliance are inseparable and essential to improving your supply chain performance. If control can be enforced at the POS where product options are presented in ways that drive the required user behavior, then the process for managing change across products and services can be standardized as natural, practical steps.

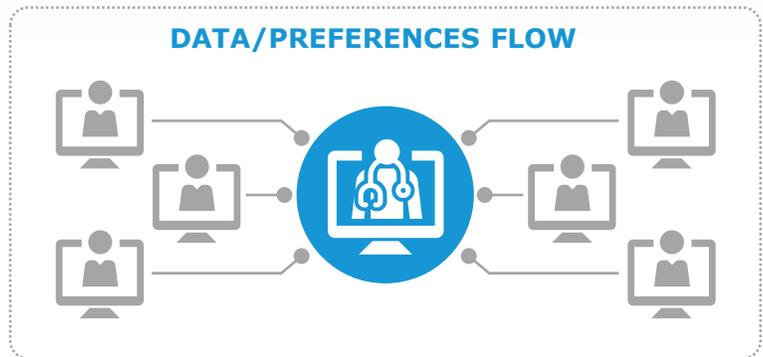


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Noting that there will always be a lag between standards as published and as adopted, we can no longer afford to accept such long lead times. Although we must learn to see standards as targets, and moving ones at that, our supply chain practices must become more agile and responsive.

With this in mind, it's time to re-consider POS control in such a broader context because it engages thousands of requisitioners at the point of decision. For that reason, it is among the most efficient and effective ways to drive organizational change and shorten the path to value. If thoughtfully orchestrated, organizational



preferences can be expressed at the POS in ways that smooth the related product and service transitions. The opportunity to concurrently reduce adoption lag times from months/years to weeks/days and improve the end user experience is a winning formula.

There is no standardization option without understanding that data integrity is key. And that's because standards continuously evolve in response to new technologies and shifting health care needs. This adds pressure on legacy systems and technologies. These systems are notoriously inflexible and restrictive in their ability to respond to the changing requirements. In addition, without data standards, the required levels of transparency and performance monitoring cannot be achieved. In this context, data quality is not just a central pillar in driving down the cost of care but also, is directly correlated to quality of care and patient outcomes. For real transformation to happen, the adoption of data standards needs to be at the forefront – for all stakeholders.

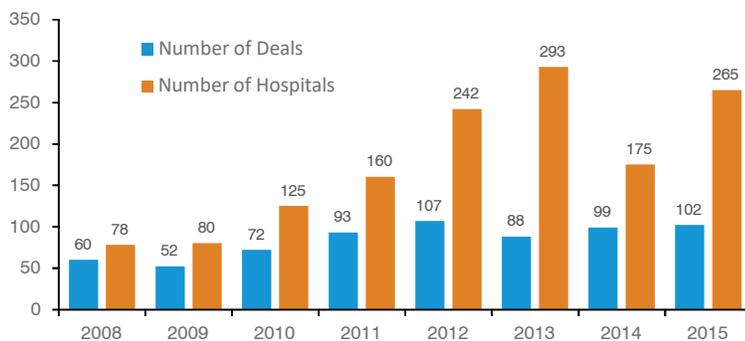
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ACCELERATING SUPPLY CHAIN INTEGRATION IN CONSOLIDATING MARKETS

In merger and acquisitions (M&A), supply chain integration accounts for a total cost savings of 3-8%⁵ —that's about 50% of the value of overall M&A deal synergies.

ANNOUNCED HOSPITAL MERGERS AND ACQUISITIONS, 2008 - 2015



SOURCE: Irving Levin Associates, Inc. (2016).
The Health Care Services Acquisition Report, Twenty - Second Edition.
In 2013, consolidation of several investor - owned systems resulted
in a large number of hospitals involved in acquisition activity.

What processes and systems have the acquiring entities developed to measure and implement such prized savings opportunities?

Whether a provider is seeking to expand to another location, integrate a facility and/or acquire another entity, modern POS systems can be lifesavers. As a forensic application, the items, services and pricing data of the new entity can be

quickly matched against the same or equivalents of the acquiring entity. The rationalization and savings opportunities can be quickly identified and assessed, with the POS serving as both the catalyst and mechanism for realizing the identified savings.

Providers still live in a world where less than 60% of routinely purchased items are even bought under a valid contract, so by definition, rebates and discount opportunities are regularly missed.

POS systems not only get this under control for the mothership but speed the integration and consolidation of disparate supply chain systems, organization[s] and ERP system[s].

⁵ O'Daffer, Eric. Gartner. What Industry Consolidation in the Healthcare Supply Chain Means to You. August, 27, 2017.

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The specter of M&A activity is forcing financial and supply chain leadership to angle their thinking and proactively address a broad range of important issues, including:

- Redefining supply management operating models and organizational structure;
- Identifying the right complement of people, technology, and best practices;
- Standardizing systems, processes, policies, and performance metrics;
- Investing to build/scale to support an extended business;
- Focusing on data quality to realize greater supply chain transparency.

It's said that clinically rich data from a patient's medical chart benchmarked with other hospitals is what physicians, surgeons and hospitals need to drive improvements. And while that may be true, consider how an organization's ability to drive compliance becomes its best change lever.

For the clinically integrated supply chain to become real, the impact of thousands of individual procurement decisions being made each day must be managed. The ability to drive compliance across that continuum is a game changer yielding quick results, as clinical integration can evolve into a standards-based plug and play activity. Change management ceases to be the bottleneck. Indeed, it becomes a derived function of that same capability.

If a provider can keep its commitments both internally and externally, it can manage change of all stripes. And if it can do that, then it can not only drive standards across the full spectrum of products and services it consumes but also adapt to new standards when improvement opportunities present themselves.

Standards don't drive compliance. It's the other way around.

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ABOUT PRODIGO

Prodigo Solutions is a healthcare transformation company that improves provider financial control and reduces supply chain cost through guaranteed savings solutions made possible by supply chain technology, people and process. Prodigo Solutions' savings technology has been developed by healthcare supply chain experts to deliver tangible results across a continuum of care.

Prodigo is proud to receive awards and recognition for our supply chain solutions built for healthcare.