Hospital Purchasing & Value Analysis Evolve:

Implications for Suppliers

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Abstract

While most salespeople realize value analysis committees (VACs) are fully in control of hospital decision-making and sourcing, for many these committees remain a bit of a "black box." To help suppliers understand how their goals and strategies are evolving, for the second year in a row Kotler Marketing Group and MedTech Analysis surveyed VAC decision makers. This year's 175 respondents all sit on at least one value-analysis team or committee (VAC) at their organization.

Last year's study explored the mechanics of value analysis – how these committees are structured, how they make decisions, what their goals are, and how they measure success.

In this year's study, we wanted to delve deeper into several areas of particular interest to suppliers:

- The "rules of engagement" when engaging with VACs, including:
  - How supplier reps are allowed to interact with VAC members; and
  - Specific actions supplier reps need to avoid in order not to annoy VAC participants;
- The specific clinical metrics that are driving VAC decision making;
- How VAC decision processes are evolving to meet key challenges – e.g., getting physician buy-in, leveraging data, and managing risk.

What is the Most Common Mistake Reps Make?

"Making unsupported projections and failing to provide compelling clinical evidence" is the most common annoyance (cited by 61% of respondents), but there are several other sales "mistakes" value analysis professionals find objectionable.

(See the full report for other common annoyances and mistakes, as well as which were cited most often by different types of respondent.)

Engaging with the VAC: How Close are Reps Allowed to Get?

The study looked at four "rules of engagement" that VACs often use to control supplier interactions with decision makers.

For example, less than half the respondents (44%) say they will allow salespeople to present directly to the value analysis committee. However, study findings show that certain types of hospitals, for example those in ACOs, are more flexible in this regard.

(See the full report for findings on all four VAC approaches to controlling supplier interaction, and which hospital segments are more inclined to engage with suppliers, versus being more restrictive.)

Which Clinical Metrics Matter the Most?

"Improving patient care outcomes" was the most common overarching goal for hospital value-analysis for the second year in a row. However, "patient care outcomes" encompasses a wide range of

specific clinical objectives. We asked hospitals to rate the importance of the following clinical metrics when they are making product evaluations and sourcing decisions:

- Reducing hospital readmissions
- Reducing hospital-acquired infections (HAIs)
- Reducing patient length-of-stay (LoS)
- Improving OR efficiency
- Improving patient flow in the emergency department (ED)

Respondents rated reducing HAIs as the most important clinical metric to their sourcing decisions, with 54% of respondents rating it as a "Top strategic goal." This is clearly driven by pay-for-performance programs that target infection reduction.

Yet only 23% of respondents say they have a detailed understanding of the specific programs that penalize HAIs. A surprising disconnect exists between the importance hospitals place on P4P programs and how well they understand them.

(See the full report for details on how much different clinical metrics effect VAC decisions, and how each one's impact differs across hospital segments.)

How do Hospitals Quantify the Value of Reduced LoS and Improved Patient Satisfaction?

In addition to reduced infection rates, two metrics suppliers often claim they can positively impact are:

- Length-of-stay (LoS); and
- Patient satisfaction.

To guide suppliers on how to discuss improvements in these areas, we asked VAC respondents how they prefer to quantify the financial impacts related to these metrics.

The findings may be surprising to some supplier reps. For example, it is tempting to site average charge-per-day or revenue-per-day numbers when discussing LoS reductions. However, only 7% of respondents see this as a valid approach to quantifying the value.

(See the full report to learn the most common approaches to quantifying reduced LoS, as well increased patient satisfaction).

Responding to Challenges: Steps Hospitals Are Taking to Manage Risk

Risk-sharing and gain-sharing (RS/GS) arrangements, as they are generally known, continue to see increasing interest from providers. This year's survey found that RS/GS activity grew modestly but significantly, versus a year ago. This year a combined 40% of respondents say their organizations have either tried RS/GS, or are investigating an agreement currently, compared to 29% last year.

(See the full report for an analysis of the three different types of RS/GS arrangements and the type of hospitals that are more likely to want to pursue such agreements.)

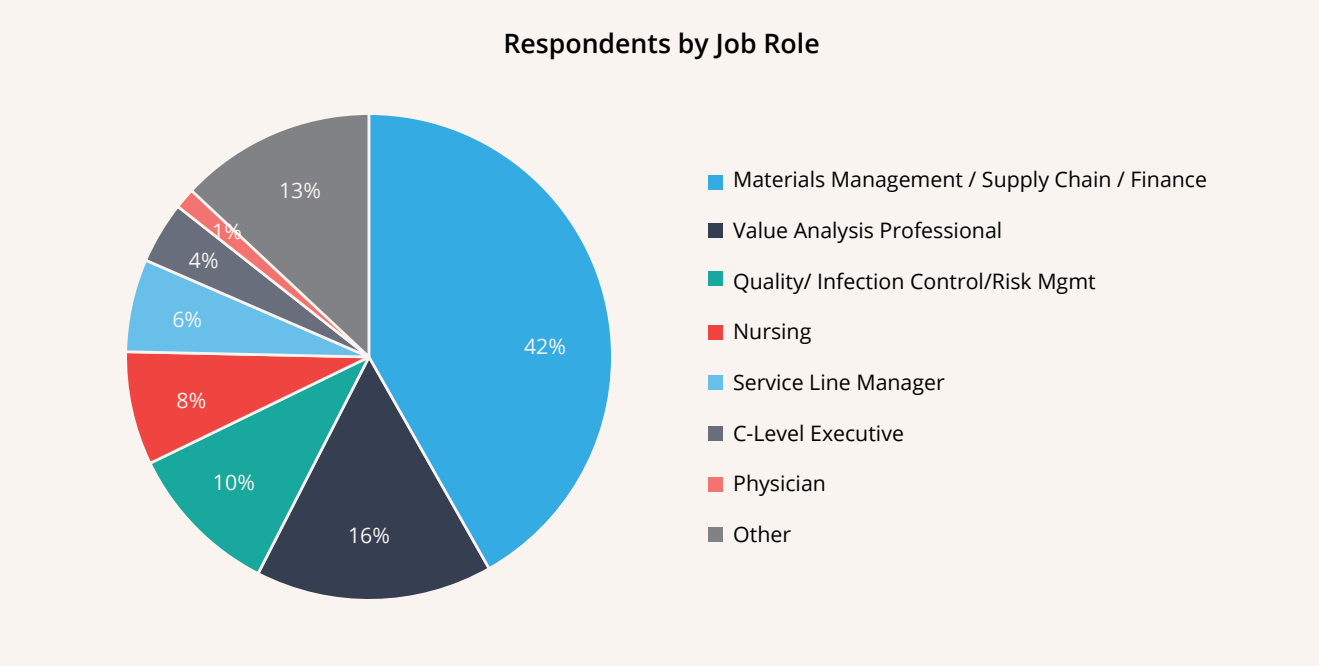
Methodology

The online survey was fielded to personnel involved in hospital value analysis, between July and September of 2018. Responses from hospital personnel not directly involved in value analysis were omitted.

In order to prepare for this survey, Kotler Marketing Group conducted 12 in-depth interviews with managers and executives in value analysis, materials management, and supply chain roles at U.S. acute-care hospitals. These interviews informed the development of the online survey instrument.

Respondent Profile

In total, 182 respondents participated, and 175 responses had sufficient data to be included in the analysis. Respondents all participate in value-analysis decisions, but work in a range of job roles, as shown below.

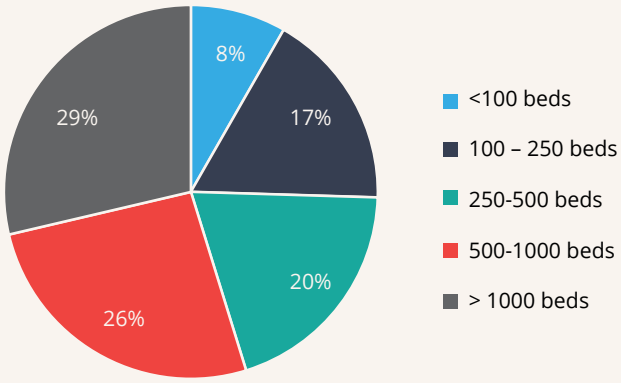


For the purposes of some analyses in the study, respondent job roles were grouped as follows:

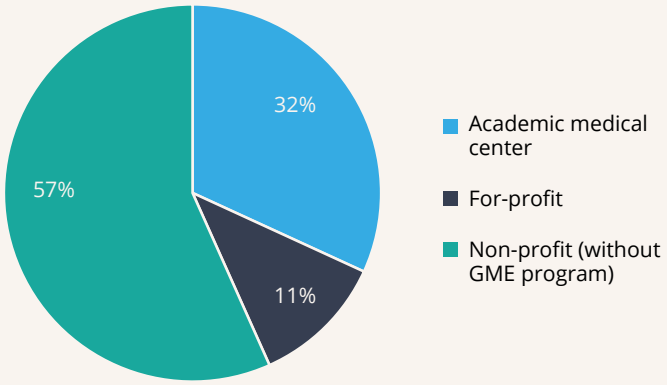
- Supply Chain & Finance – Includes Material Managers, Supply Chain, Finance, and Purchasing Agents.
- Clinical – Includes Physicians, Nursing, Value Analysis Professionals, Service Line Managers, Risk Management, Infection Control, and Quality.

Respondents reported working for a wide range of hospitals and hospital networks. Characteristics of the organizations they work for are shown below, with breakdowns by organization size, hospital type, and market footprint.

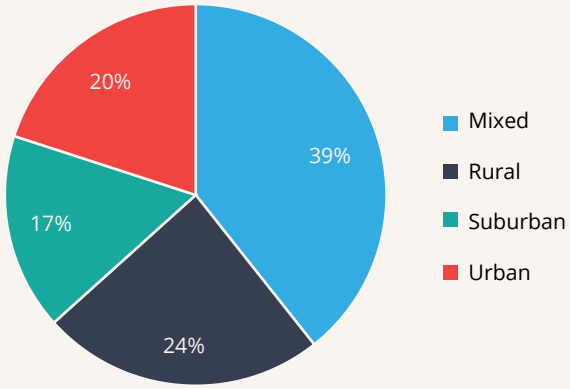
Respondents by Size of Hospital/System (Number of Staffed Beds)



Respondents by Hospital Type



Respondents by Market Density



About Kotler Marketing Group

Kotler Marketing Group is a consulting, research and training firm, specializing in solving sales and marketing challenges for suppliers to the healthcare industry. Our philosophy is based on the work of Philip Kotler, the world's leading marketing thought leader. For more on Kotler Marketing Group, please go to www.kotlermarketing.com

About MedtechAnalysis

MedtechAnalysis is a market and industry research and consulting group that provides in-depth analysis of the medtech sector. The team's research methodology includes primary research (interviews and panel surveys) and economic and trend analysis, along with a deep examination of technology and corporate developments. For more on MedtechAnalysis, please go to http://www.medtechanalysis.com/