



# Hospital Purchasing & Value Analysis Evolve: Implications for Suppliers

# Table of Contents

## **Executive Summary**

## **Methodology**

### **Chapter One: Hospital Value-Analysis Goals Evolve**

- 1.1. Delivering Better Care Remains Top Goal
- 1.2. Large Hospital Systems Re-Double Product Standardization Efforts
- 1.3 Small and Midsize Hospitals Turn Their Focus to Patient Satisfaction
- 1.4. Where Value Analysis is Having an Impact

#### **Supplier Takeaways**

### **Chapter Two: VACs Struggle to Stay Abreast of P4P Rules**

- 2.1. Pay-For-Performance (“P4P”) Programs
- 2.2. Knowledge of P4P Programs
- 2.3. Commitment to Alternative Payment Models

#### **Supplier Takeaways**

### **Chapter Three: Outcomes & Quality of Care: Which Metrics Matter?**

- 3.1. Readmissions
- 3.2. Hospital Acquired Infections
- 3.3. Length of Stay

#### **Supplier Takeaways**

### **Chapter IV: VAC Challenges and Responses**

- 4.1. Physician Buy-In
- 4.2. Physician Buy-In and Physician Employment Status
- 4.3. Physician Buy-In and Financial Incentives
- 4.4. Data-Driven Value Analysis
- 4.5. Data Warehouses
- 4.6. Physician Buy-In and Data-Driven Value Analysis

#### **Supplier Takeaways**

# Table of Contents

## **Chapter V: Monitoring Results & Sharing Risk**

- 5.1 Tracking Clinical Impacts Post-Implementation
- 5.2 Risk-Sharing Agreements
- 5.3. Has the Appetite for Risk Sharing/ Gain Sharing Increased?
- 5.4 Challenges of Implementing Risk-Sharing Agreements
- Supplier Takeaways

## **Chapter VI: Engaging With the VAC**

- 6.1. Common Mistakes Suppliers Make
- 6.2. Different Roles, Different Peeves
- 6.3. The Rules-of-Engagement Crazy Quilt
- 6.4. Why the Role of Clinicians Matters
- 6.5. Differences by Hospital Type
- 6.6. Quality of Clinical Evidence

# List of Figures

## Chapter 1

- Figure 1.1. Top Value Analysis Goals, YoY Comparison
- Figure 1.2. Improved Patient Outcomes a Top Goal, by Size of Provider, YoY
- Figure 1.3. Standardization a Top Goal, by Size of Provider, YoY
- Figure 1.4. Price Reduction a Top Goal, by Size of Provider, YoY
- Figure 1.5. Improved Patient Satisfaction a Top Goal, by Size of Provider, YoY
- Figure 1.6. Improving Patient Satisfaction a Top-3 Goal, By Market Competitiveness
- Figure 1.7. Improving Patient Satisfaction a Top-3 Goal, by Population Density
- Figure 1.8. Greatest Perceived Impacts of Value-Analysis. YoY Comparison
- Figure 1.9. Improved Patient Outcomes a Top Impact, by Size of Provider, YoY
- Figure 1.10. Desired Goals Vs. Perceived Impacts of Value Analysis

## Chapter 2

- Figure 2.1. Respondent Awareness of P4P Programs, YoY Comparison
- Figure 2.2. Respondent Detailed Knowledge of P4P Programs, YoY Comparison
- Figure 2.3. Respondent Detailed Knowledge of P4P Programs, by Job Role
- Figure 2.4. Change in Commitment to Alternative Payment Models

## Chapter 3

- Figure 3.1. Importance of Various Patient Outcome Metrics to VACs
- Figure 3.2. Emphasis on Readmission Reduction, by Hospital/IDN Size
- Figure 3.3. Emphasis on Readmission Reduction, by Population Density
- Figure 3.4. Emphasis on HAIs vs. Readmissions, by ACO Participation
- Figure 3.5. Emphasis on HAI Reduction, by Population Density
- Figure 3.6. Emphasis on Length-of-Stay Reduction, By Success To-Date on Other Goals
- Figure 3.8. Emphasis on Length-of-Stay Reduction, by Population Density
- Figure 3.7. Emphasis on Length-of-Stay Reduction, by ACO Participation
- Figure 3.8. Emphasis on Length-of-Stay Reduction, by Population Density
- Figure 3.9. Approaches to Quantifying the Value of Reducing Length-of-Stay

## Chapter 4

- Figure 4.1. Percent Reporting Good Success Getting Physician Buy-In, By Size of Hospital/System
- Figure 4.3. Good Success Getting Physician Buy-In, By Physician Employment

# List of Figures

- Figure 4.2. Good Success Getting Physician Buy-In, Academic Medical Centers Vs. Others
- Figure 4.4. Physician Financial Incentives Vs. Success with Physician Buy-In
- Figure 4.5. Percent Reporting Good Success Using Clinical Data in VAC Decision Making
- Figure 4.6. Good Success Using Clinical Data in Decision Making, AMCs Vs. ACOs Vs. Others
- Figure 4.7. Good Success Using Clinical Data in Decision-Making, By Size of Hospital/System
- Figure 4.8. Does Your Organization Have a Data Warehouse?
- Figure 4.9. Good Success Using Clinical Data in Decision Making Vs. Data Warehouse Progress
- Figure 4.10. Success Getting Physician Buy-In Vs. Success Using Clinical Data

## Chapter 5

- Figure 5.1. Percent Tracking Clinical Impact Post-Implementation
- Figure 5.2. Success Getting Physician Buy-In Vs. Success Using Clinical Data
- Figure 5.3. YoY Growth in Experimentation with Risk-Sharing / Gain-Sharing
- Figure 5.4. Respondents Participating In RS/GS Agreements, Or Currently Investigating, by Size
- Figure 5.5. Percent Participating In, Or Currently Investigating, RS/GS Agreements
- Figure 5.6. Product Categories Where Respondents Have RS/GS Agreements
- Figure 5.7. Respondent Ratings of Their RS/GS Experiences
- Figure 5.8. Barriers to Implementing RS/GS Agreements Cited Most Often

## Chapter 6

- Figure 6.1. "The most annoying mistake(s) supplier reps commonly make are..."
- Figure 6.2. "The most annoying mistake(s) supplier reps commonly make are..."
- Figure 6.3. "The most annoying mistake(s) supplier reps commonly make are..."
- Figure 6.4. How Often Do Supplier Reps Interact with Key Decision Makers?
- Figure 6.5. Percent Allowing Various Supplier Interactions with VACs
- Figure 6.6. Percent That Allow Reps to Provide Marketing Materials to the VAC
- Figure 6.7. "During a product evaluation at your organization, how do supplier reps typically interact with value-analysis committee members?"
- Figure 6.8. "During a product evaluation at your organization, how do supplier reps typically interact with value-analysis committee members?"
- Figure 6.9. % Saying Suppliers in Each Category Usually Present Sufficient Clinical Evidence

# 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.)*

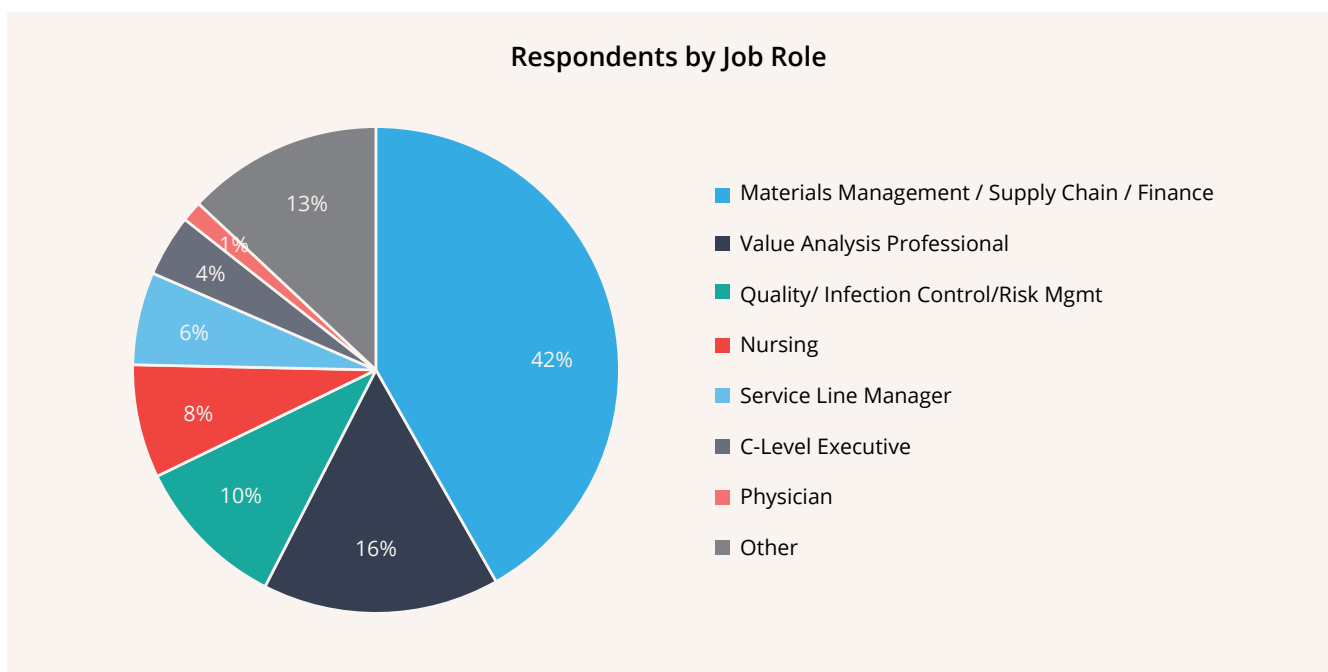
# Methodology

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.



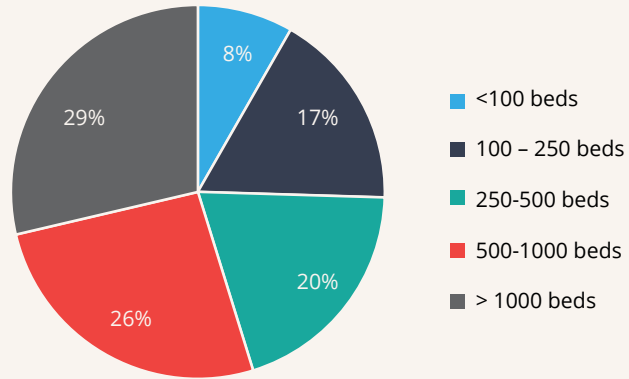
For the purposes of some analyses in the study, respondent job roles were grouped as follows:

- 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.

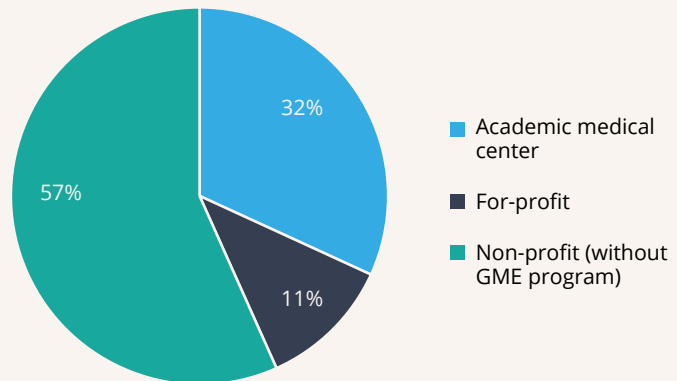


Respondents reported working for a wide range of hospitals and hospital networks. Characteristics of the organizations they work for are shown below, with breakdowns by organization size, hospital type, and market footprint.

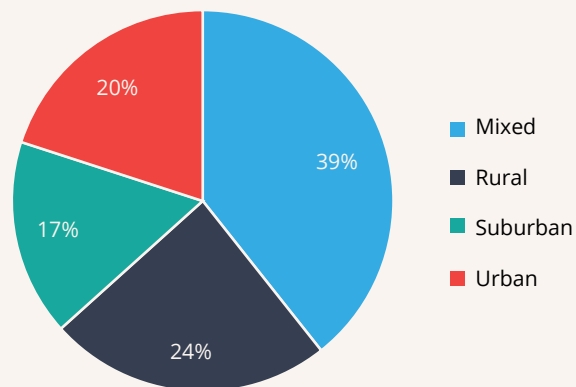
**Respondents by Size of Hospital/System (Number of Staffed Beds)**



**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](http://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/>