



# COVID-19's Impact on Hospital Purchasing: Implications for Suppliers



Kotler Marketing Group Report  
Published February 2021

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# Abstract

The COVID-19 crisis has had a profound impact on hospital purchasing priorities, cost-reduction efforts, vendor relationships, and the role of vendor sales reps. These are the key findings of a new Kotler Marketing Group survey of 155 hospital decision makers sitting on their organizations' value analysis committees or teams (VACs or VATs).

This is our third bi-annual survey of value-analysis and purchasing trends. Prior studies explored the mechanics of value analysis – how these committees are structured, their leadership, top goals, measures of success, and modes of engagement with sales reps.

This year's survey, fielded 10 months into the global pandemic, focused on areas of particular interest to suppliers, where COVID-19 could be expected to make major impacts:

## *Steps hospital VACs are taking to manage risk:*

- Changes to spend reduction targets;
- Interest in further consolidating spend versus diversifying the supplier base;
- Entering into accountable-care (ACO) and risk-sharing/gain-sharing (RS/GS) arrangements.
- Shifts in other goals and purchase criteria:
- Improved patient outcomes
- Operational efficiency
- Staff safety

## *The move to virtual VAC meetings & the impact on vendor relations:*

- Are they an effective substitute for face-to-face meetings?
- Will they continue after healthcare workers have been vaccinated?
- The future of in-person sales calls.

## *Level of satisfaction with vendors' response during COVID-19:*

- How suppliers have shown flexibility, and how they haven't;
- Which vendors have stood out?
- What makes some vendors the targets of cost-cutting efforts?

## *The "rules of engagement" when calling on VACs, including:*

- How supplier reps are allowed to interact with VAC members; and
- Specific actions by supplier reps which VAC participants find particularly annoying.

## Steps VACs & Purchasing Are Taking to Manage Risk

The vast majority of hospitals increased their spend-reduction goals, with an average reduction target dramatically higher than what was typical prior to Covid-19. However, spend-reduction goals vary significantly based on hospital size and type.

*(See the full report for specific spend-reduction targets, as well as learn which factors influence how aggressively providers pursue price reductions from vendors. Breakdowns are provided for different hospital segments)*

In pursuing their spend reduction goals, hospital purchasing faces a trade-off between consolidating spend versus diversifying their supplier base. The study found that product standardization has become less important to many VACs, depending largely on which departmental function chairs the committee.

Another risk-mitigation strategy, entering into risk-sharing arrangements with vendors, continues to see interest from providers. This year 25% of respondents say their hospital has experience with these arrangements, and another 20% have serious interest.

*(See the full report for an analysis of the four different types of risk-sharing arrangements, and which types of hospitals are most likely to want to pursue such agreements.)*

## Has Covid-19 Permanently Changed the Way in Which Value Analysis Committees Meet & Engage with Vendor Salespeople?

We asked respondents, “Once the COVID-19 crisis is over, do you think you will do as many face-to-face meetings with vendor reps as you did prior to COVID?” A majority say they probably, or definitely, will do fewer. Only about one-third say they probably or definitely will do as many as they did pre-COVID.

Hospital decision-makers are also openly questioning the nature of their interactions with vendor salespeople.

“There isn't much value in most supplier meetings. They just need them to check a box with their organization.” – Supply Chain Director, 1000+ bed system

The transition to virtual meetings has caused hospitals to realize that face-to-face meetings with salespeople are only necessary in specific situations.

*(See the full report to learn which hospital segments are most interested in reducing interactions with vendor reps, as well as which types of meetings are likely to still be conducted online in the future.)*

## How Do VACs View Suppliers' Response to the COVID-19 Crisis?

Vendors offered a variety of help to providers during this difficult period. From helping to secure PPE, to offering creative financing, to relaxing purchase-volume requirements. We wanted to understand how common these actions were, and whether hospitals perceive them as helpful or not. And if not, why not.

Overall, respondents appear underwhelmed by many suppliers' offers of help and assistance, though there are vendors who continue to impress hospitals with their capacity for creativity and problem-solving.

*(See the full report to learn which hospital segments saw value in which supplier offers. Also, see which suppliers received special praise for their support and assistance during the COVID crisis.)*

## What is the Most Common Mistake Reps Make?

In our previous study in 2018, respondents were asked to identify the one or two most annoying mistakes suppliers make in their sales efforts. This year's survey shows suppliers have not made much progress moderating their behavior. While vendors and their reps have become more restrained and careful about “Making unsupported projections about their product's performance” they have failed to make improvements in other important areas.

*(See the full report for other common annoyances and mistakes, as well as which were cited most often by respondents in different job roles.)*

## 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, and which became more or less common since 2018. For example, among some hospital segments it became more common to allow salespeople to present during VAC meetings, while in other segments the situation became more restrictive.

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

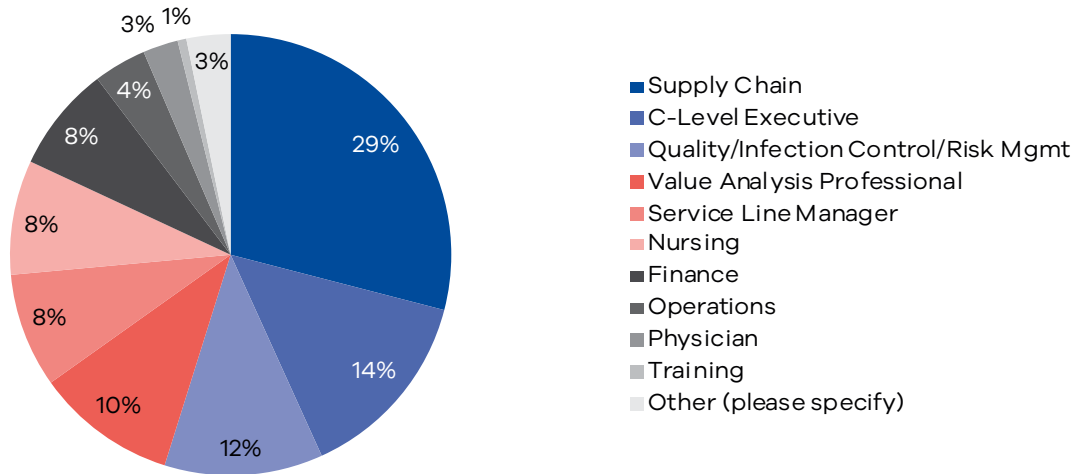
# Methodology

The online survey was fielded to personnel involved in purchasing and hospital value analysis, during November and December, 2020. Responses from hospital personnel not directly involved in value analysis were omitted.

## Respondent Profile

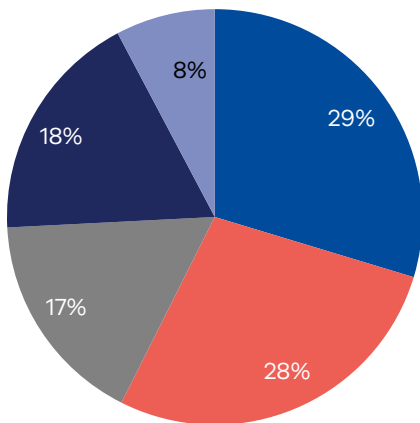
In total, 177 respondents participated, and 155 responses had sufficient data to be included in the analysis. Respondents all participate in value-analysis decisions, but work in a range of job roles, as shown below.

**Respondents by Job Role (n=155)**



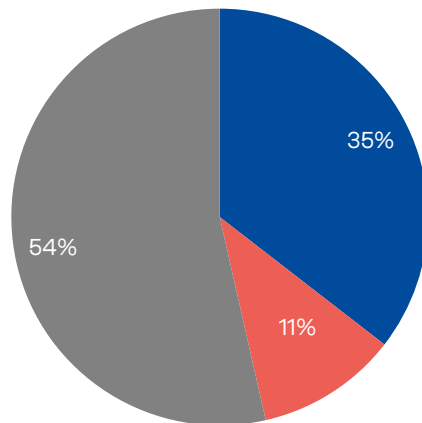
Respondents reported working for a wide range of hospitals and hospital networks. Characteristics of the organizations they work for are shown below, with breakdowns by organization size, hospital type, and market footprint.

**Respondents by Size of Hospital or System (n=155)**



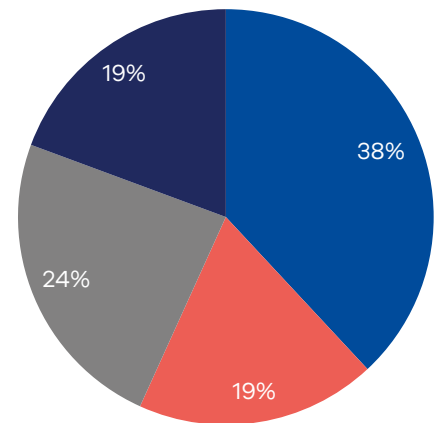
- > 1000 beds
- 500-1000 beds
- 250-500 beds
- 100 - 250 beds
- <100 beds

**Respondents by Hospital Type (n=155)**



- Academic medical center
- For-profit
- Non-profit (without GME program)

**Respondents by Market Density**



- Mixed
- Rural
- Suburban
- Urban