

12 Ways Hospital Buyer Behavior is Changing! Part 1



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Remember the good old days when you could walk into a hospital and go to a specific department without a vendor credential or signing in with procurement? When physician preference mattered? When department heads or service line directors could cut a PO or sign a lease agreement? When maverick buying prevailed? Well those days are largely gone and simply reminders of how hospital buying behavior has changed.

In its place we have all seen “strong-arm controls work”. This is also called “regulated buying”. It started by limiting sales representative access to hospitals and to locations within the hospital and then proceeded to vendor credentialing. It accelerated by forcing suppliers to put their new products through the value analysis committee and by asking for evidence to support the manufacturer’s claims.

Rogue buying has been greatly reduced by centralizing spend management and by implementing strong policies and procedures that limit department and service line directors from purchasing unless it’s through the defined and structured system.

In Part 1 of this blog we will share with you the first six ways that Hospital Buying Behavior is Changing! In part 2 (next week) we will share with you the final six reasons.

1. **Power Shift to Sophisticated Buying**

The new seat at the C-Suite table belongs to one of the following titles: Strategic Procurement, Strategic Sourcing or Supply Chain. These professionals come from Fortune 500 organizations with a depth and breadth of experience in supply chain management. These new leaders think of the hospital as a factory that must take an input (a patient) and then discharge them with cost and quality targets met.

They are the hospital CEOs new best friend because every dollar they save in the supply chain goes straight to the bottom line. (For example, \$1 in cost reduction = \$20 in revenue for an organization running a 5% Operating Margin). Hospital CEOs, faced with declining reimbursement rates, have come to realize the immediate cost benefits that Supply Chain Management can provide. As hospitals continue to consolidate there will be fewer hospital customers; but they will have increased buying power. Expect Strategic Procurement to increase in stature and importance especially with healthcare systems, IDNs and RPCs.

Implication: Sellers must be comfortable selling to senior leadership. For many sellers this will require specialized training because you only get one chance to make a good first impression.

2. Analytics & Revenue Cycle Management



Expect a marriage of category, item, payment, vendor and contract analytics to drive clinical outcomes, net income and supplier management.

For example:

- a. *Category Analysis* will determine if the same or similar products/services are being purchased by different or too many suppliers.
- b. *Item Analysis* will determine if the hospital is buying from different suppliers at different prices.
- c. *Contract analysis* will determine if each supplier is complying with the terms of the contract.
- d. *Vendor Analysis* will determine what products and services are being purchased from a single vendor.
- e. *Payment analysis* will determine if the negotiated discounts are being provided properly.

Implication: Hospitals are rapidly aggregating their data and using it to their advantage to manage their suppliers with a scorecard. Suppliers must ensure that the data they have available allows them to protect and grow their existing business.

3. Demand Management

One of the easiest ways hospitals reduce spend is to look carefully at how product usage can be reduced, how lower priced products can be used in lieu of physician preference items, how rush orders can be reduced and how contract services contracts can be better managed and negotiated. Data analytics is providing this insight today.

Implication: Savvy suppliers are working in tandem with hospitals to standardize on their products, control utilization and drive clinical, operational and financial value. They are becoming true partners and not just vendors.

4. Further Supplier Consolidation



Reducing the number of suppliers and consolidating the number of products used will continue to accelerate because it lowers overall costs in ordering, handling, receiving, inventory and supplier management. This will be accomplished by hospitals purchasing through both their GPO contracts and by aggressive self-contracting.

Implication: Sellers must protect their business by having an account strategy that protects and grows their existing business and not just a must win deal strategy.

5. Self-Contracting

As health systems grow in size and proliferate they hire experienced and seasoned strategic sourcing leadership. These large organizations are comfortable using technology solutions to contract directly with suppliers. New firms like Aptitude and others have the capability of showing the hospital their supply costs and utilization by item and manufacturer thus making self-contracting efficient and attractive. GPOs will still be used for many commodity items but it will not preclude many hospitals from contracting directly for a significant percentage of their commodity purchases along with specialty items, capital equipment and purchased services.

Implication: To reduce costs in the face of declining reimbursements, hospitals are open to discussions with new suppliers that offer new ideas for cost savings. Incumbent suppliers should proactively manage their strategic accounts continuously and not just prior to a renewal of a contract. (...and as discussed earlier, with Health Care Systems and Regional Purchasing Coalitions' (RPCs) getting bigger, losing the business if you are the incumbent can be devastating).

6. Price Transparency



Like it or not, hospital strategic procurement is going to demand product and supply price transparency because technology will enable it through spend analytics and price comparisons. This will force suppliers to have consistent and defensible pricing. This will be a foundational requirement for hospitals to provide price transparency to payers and consumers.

Implication: As mergers occur, suppliers should use the opportunity to improve their relationship and solidify their market position by consolidating their pricing. In fact, many organizations are proactively looking at their pricing models before mergers occur

to access the potential impact, and explore appropriate strategies so that they can adjust quickly if the need arises.

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As always we welcome your thoughts and input. Let's start a discussion and elevate the sales profession with a thoughtful, civil and informative discourse.

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