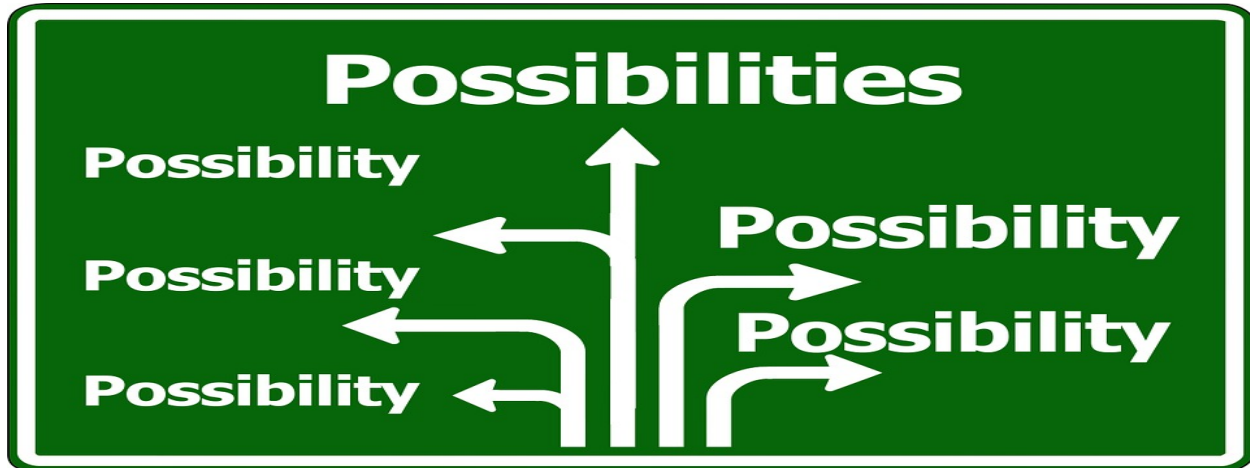


Where Hospital Value Analysis Committees Seek Possibilities for Change



By Thomas J. Williams and Glen Hall

Every hospital uses tens of thousands of individual items to provide clinical services to their patients. These products differ in function, use, size, purpose, complexity, packaging, ease of use and price. Oftentimes, products are used because they were introduced by a champion that preferred the item; others had clinical evidence that supported their use, some were the lowest price, some were bundled with other offerings and sometimes the products purchased were the most convenient in terms of price, terms and delivery at the time of purchase.

Every Value Analysis Committee (VAC) has a charter that defines their purpose. Typically, VACs look at products in categories. For example:

- **New Products/ Technology:** These products could be defined as:
 - Change in vendor/market: it is not unusual for a hospital to have two or three qualified vendors for many of their products. They often give one vendor 70% and split the balance of their buy to the two other vendors. They may keep the same three vendors but switch who gets the 70%. This is not uncommon when they cannot standardize on one product.
 - New product/new company: This occurs when the hospital buys a brand-new product from a brand new company.
 - Disruptive technology: Usually this is a brand-new product with new technology that totally causes a change in how clinical medicine is performed today. An example is the Da Vinci Robot when it was first released. It totally revolutionized how certain types of surgery are done today.
- **Contracts:** When contracts expire, there is an opportunity to re-negotiate price, terms and conditions. Likewise, any time a supplier has a price increase there is an opportunity for the buyer to re-evaluate their purchase options.
- **Existing Products:** The possibilities for the hospital buyer to make a change often occurs when there is a:
 - Standardization Opportunity: It is not uncommon for a hospital to purchase different brands of products for different departments. Think sutures, gloves etc.

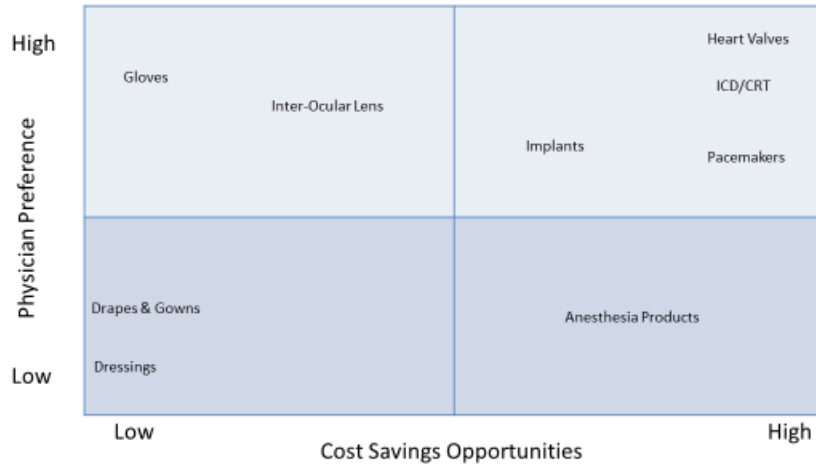
Economies of scale can be accomplished by consolidating the hospitals total spend with 1-2 primary suppliers.

- Feature or Price Changes: Oftentimes, a manufacturer will improve their product, service or solution slightly or markedly and then demand a higher price. This is an opportunity to re-evaluate whether purchasing the enhanced product is worthwhile.
- Physician Preference Item (PPI): Sales professionals are excellent at convincing physicians that their product and subsequent service is the best in the industry. This is done through a variety of ethical ways that provides the physician with confidence. Once the product is installed it is very difficult to get a physician to change their habit and practice to accommodate a new albeit different or cheaper alternative than their original choice.
- Utilization Management: Let's face it. Many hospital products in use today are being over-utilized while others are being under-utilized. There needs to be a balance and VACs can provide the unbiased analysis and recommendations.
- **Major Spend Categories:** These often provide possibilities for change and are a focal point for cost reduction with every organization.
- **Capital Aggregation:** One of the areas that hospitals have traditionally been very poor at is aggregating all their spend with one vendor and then negotiating a price based on the cumulative purchase. Time and again we see hospitals negotiating in silos and paying more than they should with the same manufacturer. VACs cannot solve this problem but they can bring it to the C-Suites attention and many are doing so with increasing frequency.
- **Purchased Services:** This is an area of increasing frequency for VACs. It has been relatively untouched and is ripe for cost savings through a VAC analysis. Leaders in this area that are attempting to provide hospitals and VACs are ECRI, MD Buyline, MedPricer and Valify. When Healthcare systems deploy the right combination of people, tools, and processes, they are realizing between 20-40% cost reductions in this area.

Typical Analysis That Drives Value Analysis Priorities

It is no secret that Physician Preference Items (PPIs) account for a high percentage of the supply spend of a typical hospital. Reducing this spend without compromising clinical quality and clinical outcomes is paramount. Shown below is a simple 2x2 quadrant that is very popular to show everyone at a glance where the possibilities are for huge savings.

Opportunities- Some Examples



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The graph shown plots Cost Savings Opportunities from low to high on the horizontal axis and Physician Preference Items (PPIs) from low to high on the vertical axis. When this analysis is followed by spend analytics in total and for each surgeon, it is very easy to create a laser focused project for the VAC team to tackle for cost savings and standardization. This is especially important if the clinical outcomes are the same or equal for the products being compared.

Keep in mind that in general surgeons don't know what the products they are using cost the hospital or the differences in products between manufacturers.

Parting Thoughts

Every dollar saved by a hospital VAC or Supply Chain Management drops straight through to the bottom line. Because hospitals work on a very thin margin of 1-5% every dollar saved is huge. Savvy sellers need to understand where their product, service or solution fits as a savings potential from their VACs perspective and be prepared to defend your value. We will be talking more about that topic in an upcoming blog. This is the second in a series of blogs on Value Analysis Committees.

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

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