

Does Hospital Procurement Only Care About Price?

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Over the last few weeks we have had several conversations with various regional sales managers about the role of hospital procurement. With passion and raised voices, these managers argued that “hospital procurement only cares about price, you cannot sell them on value because they don’t care, they just want the lowest price!” They then asked our opinion. In our response we suggested sales representatives attempt to discover answers to the following six questions:

- What are the underlying interests, conditions or market forces driving the demand for discounts?
- What is the background and experience of the buyer?
- How do buyers define key terms and buzz words?
- What Key Performance Indicators (KPIs) drive procurement decisions?
- How do buyers perceive your product?
- What pricing options would appeal most to the buyer?

Discover the Underlying Motivation

The first step is to understand the buyer’s underlying motivation. What forces, market conditions or internal interests are driving the demand for a price reduction? When buyers say your price is too high, it’s usually for one of the following reasons:

- It’s a negotiation tactic to see if you will lower the price
- Buyers are afraid of some type of risk; (Download our Risk EBook to see the most common types of risk and how to mitigate them
<http://strategicdynamicsfirm.com/download-our-ebook/success/>)
- Buyers have found an option of equal utility at a lower price
- Buyers don’t believe they need your product or solution at this time or
- Buyers are attempting to comply with corporate expense limitations

It would be helpful to understand why price reductions are required now, why this much and why on your product. Has corporate established budget limitations? Are buyers attempting to meet incentive thresholds for achieving their bonus? Are buyers being pressured by the executive level to help fund new projects or initiatives through expense reductions?

Understand the Buyer Type and Persona

It’s important to understand the buyer type and persona. Are they a specialist or a generalist? A specialist is a category buyer and likely knows in-depth the products they purchase. In other

words, they understand how the products are used, differences in features and benefits, advantages and disadvantages, user preferences, end-user pricing etc. A generalist is privy to basic information about the product or service but understands the prevailing market price and alternatives. Without a hospital procurement buyer persona, the sales professional is flying blind. Worse, most sellers generalize a buyer profile from prior experience. These characterizations often fall short of accurately portraying the professionalism of today's hospital procurement executives. Every buying situation is different because the buyer's business is constantly changing.

Be Clear on the Hospital Buyer's Language & Key Terms

Understand the hospital buyer's language and how the buyer defines and measures key terms. This begins with an understanding of some basic terms:

- **Price** may be the dollar amount offered by the supplier or it can refer to a desired price or a future price.
- **Cost** is usually what the hospital pays the supplier, but it can refer to a broader array of costs incurred by the hospital to implement your technology or solution.
- **Payment** is the transfer of funds from the hospital to the supplier, but how well do you understand the hospital's preferred "terms and conditions"?
- **Total cost of ownership** can refer to all of the costs associated with buying and using the product over its expected life but, which specific costs are included in their calculation of TCO?
- **Value** is what the hospital gets from the transaction, but there are "soft values" that can be difficult to quantify and measure.
- **Risk** can imply risk to patients, the risk of lost time or the risk of financial loss to name a few
- **ROI** can be a financial calculation or a generic term that is used loosely to cover benefits.
- **CAPEX** refers to capital expenses, but most hospitals have a definition that includes some technology and excludes other technology.
- **OPEX** refers to operational expense usually charged against an annual operations budget. Key is understanding the line between OPEX and CAPEX.

Understand Hospital Procurement's Key Performance Indicators

Every hospital procurement department is held accountable for their decisions and recommendations. They establish KPIs to focus and guide their review and evaluation of products.

Once the sales representative understands the buyer's KPIs then they can better formulate conversations and presentations. Are they focused on reducing overall spend, percent savings off quoted price, price reductions from current vendors or, something else? Equally important

is what's in it for the buyers if they achieve their KPIs? Is it a bonus, a raise in salary or greater pressure for a discount in their next purchasing decision?

Discover the Hospital Buyer's Product Perception

How is the product perceived within the account? Is it unique, preferable or viewed as a commodity? Have you differentiated the product, your company or yourself as a professional sales representative? Have you proven its value and how it affects patient outcomes? When buyers say, "your price is too high" it often means they believe there is a substitute product available at a comparable or lower price.

Provide Product/Pricing Options

In some cases, to retain or earn new business, sellers will be forced to offer a new solution architecture that has different product configurations with different price points. In other situations, they will need to be more flexible in their pricing strategy to include one or more of the following: purchase, lease, rent-to-own, pay per use or other innovative procurement options.

The Hospital Procurement Misnomer

Many sellers share the misnomer that buyers do not care about value! They do, but not in the way that most sellers provide it. Most hospital buyers do not care about a product's features, functions and benefits. In their parlance "good is good enough" unless you can provide measurable improvement in value. They do care about the following areas because it is how they are measured:

- *Internal Customer Satisfaction:* Keeping their customers (internal stakeholders) happy by providing the right product in the right location at the right time for the right patient.
- *Product & Vendor Management:* Product availability, packaging, environmentally friendly, ease of use, assurance of supply, service (including lead times, delivery, answering questions, resolving billing issues, EDI capabilities, inventory management etc.).
- *Cost Control & Reduction:* Total cost of ownership, cost avoidance, cost reduction through supplier standardization, improved product utilization etc.
- *Risk Mitigation:* Avoidance of problems and especially during a new product introduction, when disaster strikes or a crisis occurs.

The Antidote to the "Hospital Procurement Blues:" Sell High; Win More!

When sales representatives find themselves lost in a labyrinth of procurement specialists, product testing and side-by-side comparisons with competitors, they need to ask themselves,

“Am I selling too low in the buying organization?” “Which executive will most benefit from my product, service or solution?” Savvy sellers sell to the “relevant executive.” At this level of the organization, the focus is seldom on price alone. To reach the “relevant executive”, however, usually means getting out of one’s comfort zone and selling higher within the hospital’s executive ranks.

Parting Thoughts

If the sales representative does not define and articulate value to the buying organization, they open the door to commodity selling. Every hospital buyer’s job is to discover responsible economies; it’s in their DNA and it’s part of their job description. Just because they ask for a price reduction doesn’t mean the sales representative has to provide it. Anyone can discount and win the business.

As always, we welcome your thoughts and input. Feel free to start a discussion.

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