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Tough times force look at supply costs

Health care facilities like other businesses face tough economic headwinds. Tightening credit, plummeting investment values, and the prospect of less philanthropic giving make for a difficult financial climate. There's also likely to be more uncompensated care as unemployment rises, and state Medicaid programs cut back.

OR directors and business managers, no strangers to cost cutting, are going to be challenged anew. Supply and equipment prices aren't going down despite the tough times.

Premier, the alliance of hospitals and other facilities, is asking for suppliers' help. In a letter to about a thousand of its suppliers in October, Premier urged suppliers to hold the line on prices and assist in other ways to save on supply expense.

A survey by Premier of its contracted suppliers found estimated price increases of 3% to 40% through December 2009. Some examples were:

- capital equipment: 3% to 8%
- OR laparoscopic supplies: 3% to 10%
- orthopedic implants: 4% to 8%
- materials management: 3.5% to 40%.

Such price hikes would be hard to absorb even without current economic pressures, Mike Alkire, president of Premier Purchasing Partners, said in an interview. "Many hospitals are already operating on razor-thin margins. We wanted to send a message that hospitals couldn't continue to absorb these increases."

What's been the response?

"Actually, it's been quite positive," he says. About a dozen suppliers have contacted him saying they have special offerings or are willing to work more closely with hospitals on costs.

Pricing not enough

Attacking pricing isn't enough. It may be time to take a new look at the whole supply chain from beginning to end. Suppliers are also under severe cost pressure. They face higher raw material costs, and many haven't passed on fuel-cost increases from earlier this year. Harsh economic conditions are an opportunity for providers and suppliers alike to go back to basics like improving inventory turns and limiting overnight shipping.

Alkire said supply chain efficiencies are part of Premier's plans.

"There's a huge interest in inventory turns at hospitals to be sure products are being used in a timely manner," he said.

Other strategies he said Premier plans to pursue are greater supply standardization with some sole sourcing for some members; standardization on distributors; and a continuing effort to manage costs and use of expensive items like orthopedic implants.

Better alignment with MDs

Implants have been one of hospitals' biggest cost issues, and better alignment with physicians is needed.

"We've been seeing much more of this," Alkire noted, "including hiring physicians directly into hospitals and more joint ventures."

He expects momentum to pick up as new global-payment arrangements are introduced that pay hospitals and physicians a single fee for certain procedures. Medicare is conducting a demonstration project on global payment for cardiac and orthopedic surgery.

Taking physician alignment a step further, he said Premier plans to roll out a registry to track outcomes of some implant procedures not only in the hospital but also after discharge. The aim is to be able to compare outcomes and costs of different treatments and implants. "We have great data from our acute care hospitals," says Alkire. "What we really need are the physicians' office data so we can begin to track clinical effectiveness." He said a group of physicians is working with Premier on the project.

Tracking outcomes is part of a trend toward value-based purchasing, which pays hospitals a little more in exchange for improvement on outcome indicators. Premier has been participating in a value-based payment demonstration project with Medicare since 2003. ❖

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