What your medical supply vendor doesn’t want you to know

5 ways supply costs sneak up on your health care organization — and how to avoid them

It’s an unpleasant reality, but providers who fail to properly manage their supply inventory or engage physicians in the economics of the care they deliver can be leaving themselves open to surprises in their supply costs — even with recently negotiated contracts. Bryan Grossman, a principal consultant with Vizient® who spent time as a corporate accounts director on the supplier side, pulls back the curtain on five of the top blind spots that health care providers face on cost containment. Importantly, Grossman shares strategies that end inefficient spending and bring new leverage to the negotiating table.

Blind spot #1: Who has your physicians’ ear?
Supplier representatives spend a great deal of time training physicians and surgical staff on how to perform procedures using specific implantable devices. Their expertise helps deliver quality patient care and good outcomes, and as such, it’s not unusual for some reps, dressed in scrubs, to stay in the operating room for the entire procedure. Needless to say, such regular proximity in the high-pressure O.R. builds real comradery over time. That comradery is fine — until you find that your physician is the supplier’s chief negotiator during contract negotiations.
Smart countermove: Transparency goes a long way in creating physician advocacy.

As Grossman notes, implant devices typically account for 40 percent or even more of the total cost of a surgery.¹ “Physicians should be included in the negotiation of such essential—and expensive—supplies, but often have little insight into costs and associated outcomes. To that end, providers should make transparent to physicians the total cost of care for their cases, and if the outcomes merit higher costs,” he advises.

Some key metrics to study: Is length of stay or readmission rates lower than other physicians who have similar or lower costs of care? What is the spending/cost of the physician’s cases compared to his or her peers? The answers to these questions are crucial, credible information to physicians. Certain databases that aggregate information from hospitals across the country can assist here by providing data that ties cost, quality, financials and outcomes to individual physicians, procedures and service lines.

Grossman offers another compelling reason to make cost and performance transparent to physicians. “The cost associated with manufacturing implantable products are a fraction of what they are being sold for, and I think a lot of that is starting to come to light in the market. There’s a much bigger emphasis now on showing clinically why the device cost is what it is,” he says.

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Blind spot #2: How much fire is fueling your RFP’s “burning platform”?

Requests for proposals (RFPs) sometimes include a request, or even an edict, that costs must be reduced by a certain percentage. Yet if there’s nothing in the RFP that will hold suppliers accountable to this so-called burning platform, it may very well be ignored. “It’s just how business works. The supply vendor’s profitability depends on more spending by the health care organization,” Grossman says.

Smart countermove: Make cost reductions a requirement versus a goal.

Here, it is important to establish a setting where suppliers believe there is a real credible threat to their business if they don’t come back with a bid that reflects the provider’s cost-reduction objective. This involves a few key steps. First, organize a live meeting with all potential suppliers. Articulate the burning platform: “A 20 percent reduction is a requirement, not a goal.” Make sure the highest levels of the organizations are represented—the provider’s C-suite—and prepare them in advance. “Don’t be surprised if at least one vendor, maybe even a regular vendor you do frequent business with, ignores the burning platform during actual negotiations. Should this happen, it can be very effective to advise a physician to switch to a different vendor for a set of bread-and-butter products in a case that a physician is accustomed to performing. The other vendor will soon find out and may make a rapid change in negotiation,” Grossman suggests.

Finally, it is essential for hospital leadership not only to voice expectations of doctors to move the needle in cost reduction, but to set the same tone with vendors. One way to do this is to send RFPs with set pricing and a yes/no option to vendors—no negotiating.

“And if you inform a roomful of suppliers that anyone who can’t meet your cost requirement will be penalized with a 120-day lockout in business, follow through. Even if the vendor quickly reverses course and agrees to submit a bid that meets your price points, stick to the penalty,” Grossman advises.
Blind spot #3: Do you know what supplies are included in your contract?

Vendors are often tasked with prepping the supplies for a physician’s procedure, and it’s very common for them to pull the most expensive screw or plate for each and every procedure. Over time, that adds up—fast. But if your contracts allow for this level of latitude, it’s a perfectly acceptable practice.

**Smart countermove: Again, Grossman advises to set limits and enforce them.**

“Negotiate contracts with supplies whittled down to two or three options per item. Educate physicians that these are the only approved options. As a general best practice, put particularly expensive supplies through the rigor of a physician committee before including them as an approved item,” he adds.

Blind spot #4: Do you know where your inventory is (and who’s charged for it?)

In some hospitals, suppliers have full control of the inventory, effectively using the hospital as a garage to park their consigned/vendor-owned supplies. With a lot of leeway to go in and out of the supply room, some reps will remove an instrument or device, take it to another hospital for a procedure, then bill both providers for its use. It’s a surprisingly common practice.

**Smart countermove: Implement inventory checkout and tracking protocols.**

These can be facilitated with a blend of software programs and best practices. Collectively, such tools enable provider visibility and control over vendor consignments and owned inventory, and assure that hospital-owned inventories are used first (and not charged for again).

Blind spot #5: What’s your reputation for sustaining any of the above cost-reduction measures?

Suppliers can often rely on hospitals to disregard cost-reduction initiatives, or not be current on pricing and market trends due to resource or bandwidth constraints. This leaves you vulnerable to higher prices creeping in long after your contract is signed.

**Smart countermove: Partner with an experienced medical supply negotiator to help cement Grossman’s recommended measures into foundational practices.**

This partner should have a proven record of success, along with tools that help to create permanent changes for the provider. “Chief among them: databases that show physician performance across cost and outcomes. Inventory solutions are also a must, especially those that provide transparency into real-time levels of supplies and their costs, and flag when off-contract supplies are ordered,” Grossman explains.

Have this partner organize RFP processes and meetings, and coach the C-suite and physicians in engagement. Most importantly, select a partner whose expertise becomes crystalized in the health care organization’s own inventory governance and physician engagement strategies.

In an era of declining reimbursement, hospitals cannot afford to let high-cost physician preference and implant items get out of hand. Now is the time for health care organizations to leverage their most formidable asset in reducing costs: the physician. “When given the right information about cost and outcomes, physicians can become your most powerful—and informed—partner at the negotiating table,” Grossman concludes.

1 Vizient. (n.d.). *Surgery Exchange Platform, Executive Summary*
For more information or to discuss ways to find PPI savings in your organization, please contact Bryan Grossman at bryan.grossman@vizientinc.com.