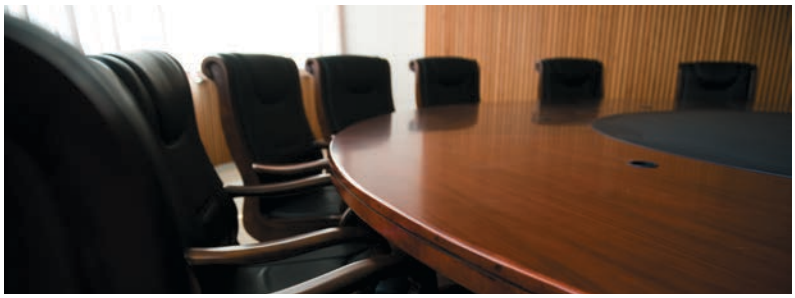
COLLABORATOR INSIGHTS

From the Basement to the Boardroom

How the Shift to Bundled Payments Impacts the Supply Chain



BY ROB AUSTIN, ASSOCIATE DIRECTOR, HEALTHCARE PERFORMANCE EXCELLENCE PRACTICE, NAVIGANT CONSULTING, PITTSBURGH

ANYONE WHO IS familiar with hospital financials knows supplies are the second largest operating expense for a health system, after labor costs. Due to ongoing pressures on operating margins, healthcare organizations have increasingly leveraged reductions in the costs of supplies, physician preference items, and purchased services over the last 15 years.

Nonetheless, healthcare supply chain often remains undervalued within provider organizations. Some supply chain departments are housed in the basement of providers' facilities and have historically been viewed merely as order takers, processors of invoices, deliverers of products — all of which are important, but fails to capitalize on the benefits that a well-functioning, progressive supply chain team provides.

With the onset of large-scale value-based purchasing and bundled payments, however, there is a catalyst for health systems to develop strategic supply chain organizations. This change in payment methods continues to push the supply chain to a more central position in the overall operations and capabilities of progressive health systems.

The shift from fee-for-service to value-based payment models is impacting the whole U.S. healthcare field, but it has specific application to supply chain. With CMS value-based programs, healthcare providers are rewarded with incentive payments based on patient quality instead of the number of procedures done.[1] Under value-based reimbursement, hospitals and physicians have a powerful incentive to provide outstanding clinical care at the appropriate costs. This payment structure creates a powerful new dynamic, putting healthcare supply chain and providers on the same financial page: aligning incentives based on the quality rather than the quantity of care they give patients, while enhancing hospital bottom lines.

Numerous studies have shown that the implant cost can account for up to 40 percent of the total cost of a case.[2] If the surgeon and the hospital are using a very expensive device, or if they do not have a competitive cost for that device, they now have a common cause to work together to negotiate a better price. That represents a big change from the past, since many clinicians traditionally have their own preferred devices and other supplies and are not necessarily impacted or responsible for the cost of the device. Historically, even though studies repeatedly show little clinical variation between types of implants among leading suppliers, the challenges for hospitals to reduce costs for these high-priced implants have been extremely difficult.

It should be noted that this supply chain/clinician alignment is about more than just the cost of the implant itself. There are also substantial costs associated with orthopedic procedures that can be attributed to use of peripheral products, such as cutting guides, antibiotic bone cement, pin guides for surgical navigation systems, disposable instruments and biologics. Ultimately, part of the success in payment bundling programs for high-cost and/or high-volume DRGs depends on decreasing clinical variation through standardization of supplies and initiation of care pathways.

The AHRMM Cost, Quality, and Outcomes (CQO) Movement offers a more holistic view of the correlation between **cost** (all costs associated with delivering patient care and supporting the care environment), **quality** (patient-centered care aimed at achieving the best possible clinical outcomes), and **outcomes** (financial reimbursement driven by outstanding clinical care at the appropriate costs) as opposed to viewing each independently. With its emphasis on the supply chain becoming clinically integrated to the larger enterprise, the CQO Movement ties directly to the shift toward value-based payments.

As previously discussed, healthcare supply chain has become successful at overseeing and managing expenses for hospitals, including both the price paid for supplies and, to a lesser degree, the processes associated with the procure-to-pay cycle. Now, however, hospitals and healthcare systems need to understand "total cost of ownership" — cost of supplies, cost of procedures, cost of delivered care, which are all dependent upon quality and outcomes, which in

turn determine reimbursement levels. As a result, the traditional supply chain function is now beginning to be supplemented by the addition of clinical personnel, primarily nurses, to generate input for utilization management and product selection committees led by physicians.

Conclusion

An integrated, cross-departmental approach to the supply chain function will continue to emerge as its role in impacting overall provider results, both financial and clinical, continues to increase with the ongoing shift to value-based payment models. To remain competitive in today's environment, organizations now need supply chain talent with unique qualifications that were not necessary in the past. Advanced education, analytics acumen, clinical knowledge, and the ability to develop strategic relationships, as well as a broadened big-picture perspective are core qualifications now required to succeed as a supply chain professional. Building a strong, cross-functionally integrated supply chain department can become a competitive advantage for health systems in their respective markets. By contrast, allowing your supply chain to remain mired in mediocrity is becoming more and more of a competitive disadvantage.

References

1. Centers for Medicare & Medicaid Services. n.d. Value based programs. **https://www.cms.gov/Medicare/Quality-Initiatives-Patient-Assessment-Instruments/Value-Based-Programs/Value-Based-Programs.html.**
2. University of Pennsylvania School of Medicine. (2017, January 3). Medicare bundled-payments model cut joint replacement costs by more than 20 percent: Savings seen largely in lower costs of artificial joints and post-surgical rehabilitation. ScienceDaily. **www.sciencedaily.com/releases/2017/01/170103122336.htm**