Collaborate with surgeons and vendors to control high-end supply costs

Surgical supplies are a major component of OR expenses. In the July issue of OR Manager, we showed how controlling spending on low- and mid-priced supplies can reduce overall costs. High-priced supplies and equipment represent an even greater cost control opportunity.

Savings targets vary by specialty. In orthopedic surgery, joint replacement hardware typically makes up 50% to 70% of total procedure costs. That figure rises to 90% for many spine procedures. Even general surgery can generate high expenses. Biologic grafts used in hernia repair can cost $10,000 or more per procedure. Many high-cost operations are the strong revenue drivers that underpin OR financial performance. For these procedures, controlling supply costs is critical to maintaining profitability.

There is no single strategy for reducing spending on high-priced surgical supplies and equipment. Bringing these costs in line requires a multipronged approach.

Gain surgeon cooperation

In any effort to control OR costs, surgeon preference is the 800-pound gorilla. Surgeons rightly take a strong interest in the clinical performance of key supplies, but supply preferences can lead to unsustainable variation in procedure costs. OR leaders need to engage surgeons in the goal of cost containment.

One effective strategy is to publish cost-per-case dashboards. Use the materials management information system to identify average supply costs per surgeon for key procedures. Create a bar chart that plots procedure costs for the entire department (see chart on p 22). To preserve anonymity, identify individual surgeons by a private letter code. Present the dashboards at surgical staff meetings, and post them within the OR.

Cost dashboards educate surgeons about their individual supply spending and help them understand how they compare to their peers. This creates positive competition among surgeons to perform well on costs. It also lays the groundwork for a productive dialogue with surgeons on supply preferences. Are cost variations justified? Can surgeons adopt lower-priced items that offer the same clinical benefits? Cost dashboards roll up all procedure expenses, so they can be used to frame discussions about the whole range of supplies, from low-cost sutures to the most expensive surgical hardware.

Some hospitals have successfully used incentives to engage surgeons in cost control. One option is to give surgeons a portion of any dollars saved through supply cost reductions. Another is to ask them to lead service line operations under a Management Service Agreement (MSA). Building a revenue-sharing clause into the MSA will give surgeons a direct incentive to reduce preference costs.
Control new product entry
As you begin working to reduce spending on existing preference items, you should also take steps to control the entry of new products into the OR. Managing the point of entry is the best way to keep unjustifiably expensive items out of your department.

The first priority is to create a Value Analysis Committee (VAC) to evaluate all new products presented by vendors or requested by surgeons. The purpose of the committee is to assess the clinical and financial impact of new surgical supplies and technologies. In many cases, the VAC will find that the benefits in clinical outcomes and efficiency offered by a new product balance any cost increase. In other instances, a product will represent increased costs with no gain in utility.

The most successful VACs report to a surgical services executive committee (SSEC), and that sponsorship ensures strong surgeon involvement. If you have trouble recruiting surgeon volunteers, consider engaging a third-party value analysis group to fulfill the VAC role until a fully functioning committee can be formed in-house.

For the most expensive products and technologies, perform a complete cost-benefit analysis (CBA) to understand the total financial impact (see chart on p 23). A thorough CBA can help protect against expensive purchasing mistakes and can serve as a business plan to help ensure optimal return on a costly equipment investment.

Some new products are difficult to evaluate or offer only a marginal benefit. In these cases, request that the vendor agree to a 45-day, no-cost “evaluation agreement.” Evaluation agreements allow products into the department on a trial basis to enable staff to assess any potential benefits.

Work with vendors
Vendor representatives provide a valuable service by educating providers about new options in supplies and materials. However, they also exert steady pressure on surgeon preference and new product entry. Surgical services directors need to minimize vendor influence within the department.

Begin by developing a vendor management system with clear policies:
• Require product registration. Require vendors to register all new products with the materials management department. Create a written policy stating that any product not preregistered will be considered a donation from the vendor.
• Forbid drop-ins. Require vendors to have an appointment when visiting the hospital, sign in with materials management, and wear an ID badge while on site.
• Create a designated vendor meeting space. Tell vendors they are not allowed in the surgeons’ lounge except by physician invitation.
• Flag vendors in the OR. In the surgery suite, require vendors to wear different-colored scrubs or bonnets. Tell them they must announce the cost of an implant to the entire OR staff when they are placing it on the sterile field.

Doing so will make surgeons more aware of the differences in price among preference items.
**Negotiate**

OR leaders should be proactive in managing vendor negotiations. Surgical services directors often take vendor price structures as a given. In fact, vendor prices are not set in stone, and the flexibility in pricing can be surprising.

First, do your homework. Talk with peers at other organizations to understand what other hospitals are being charged for orthopedic implants and other high-end supplies. Hospitals that are part of a health system can often get detailed price and volume data from sister facilities. In addition, identify your own costs and payment per procedure. Knowing your own bottom line will bolster your efforts in the negotiation room.

Next, consolidate vendors as much as possible. This strategy was discussed in last month’s OR Business Performance column on low-cost supplies, and it applies to high-dollar items as well. We analyzed implant prices paid throughout a large US health system. One vendor sold uncoated knee implants to 10 hospitals within the system, but just 3 hospitals accounted for 65% of sales. From a vendor point of view, hospital ORs that deliver high volume are extremely important to net revenue. The more market share you can commit to a vendor, the more leverage you will have in negotiating price.

Several negotiation strategies have been used effectively:

- **Establish ceiling prices.** Use price benchmarks and internal cost data to establish the price your OR is willing to pay for various products. Many organizations should not be content with paying the average price. At the system noted above, the best price on porous stem/ceramic head hip implants differed from the average price by 32%. Negotiating the lowest available rate would save the system more than $2,100 per procedure.

- **Institute a bidding process.** Choose three vendors (based on overall price/product performance) and invite them to bid on select product categories. Evaluate bids in collaboration with the VAC. In some cases, a vendor’s offer will meet your price ceiling, but it may include older implant products that may not meet surgeon expectations. Counter by focusing on your hospital’s potential commitment of volume.

- **Enforce price caps.** In some instances, an ultimatum may be necessary. Use your peer research to establish a capitated price on like items in key high-cost categories. Explain your move to hospital leadership and surgeons, and then set an effective date for the price caps. Having a strong SSEC will ensure that physicians and administrators maintain a “common front” on price caps.

The combination of price caps, vendor competition, and volume commitments usually enables you to get better prices from implant vendors.

**Contain inventory**

Orthopedic implants and other high-priced surgical supplies can have a big impact on inventory costs. If these inventories are not managed well, carrying costs can skyrocket. Large implant inventories pose additional risks. Product expiration,
obsolescence, and changes in surgeon preference can leave an OR with unwanted and/or unusable hardware.

Make it a priority to reduce existing inventories of surgical implants and other high-priced supplies. Use the materials management information system (or your annual inventory report) to identify large inventories and slow-turn products. Halt reorders, if necessary, and work directly with surgeons to consciously “spend down” high inventories. If your hospital is part of a larger health system, consider offering excess hardware to sister facilities at cost to get the inventory off your books. Sometimes you can negotiate a vendor “take back” in exchange for credit toward new purchases. Vendors will resist this option, but negotiation leverage can prevail—especially in situations where vendor pressure and tactics are to blame for high inventories in the first place.

Going forward, make it a policy to hold as much product as possible on consignment. All new vendor negotiations should include this option, and often you can renegotiate existing agreements to maximize consignment opportunities. New product entry is the perfect time to put a consignment strategy into place. However, sometimes you can work with vendors to convert existing inventory to consignment. Again, successfully using organizational leverage is the key to negotiation success.

**Coming up**
Implementing these strategies to reduce supply costs will yield significant spending reductions. The next opportunity is labor spending. In the September “OR Business Performance” column, we will outline several techniques for effectively managing labor costs. Learn how to use planning, budgeting, and schedule management to control labor expenses while minimizing staff turnover and increasing staff satisfaction.

*This column is written by the perioperative services experts at Surgical Directions (www.surgicaldirections.com) to offer advice on how to grow revenue, control costs, and increase department profitability.*