Walking the tightrope of costs, preference

Purchasing managers are used to walking a tightrope between tough bargaining with suppliers and respect for the product preferences of physicians. Eventually, purchasing professionals, as well as physicians, realize these goals need not be inconsistent.

The best value often is in the best product.

At many ambulatory surgery centers (ASC), meeting both financial and clinical goals is even more critical as well as more difficult. What if the owners are the practicing physicians, and they do not agree on the best product or vendor? What if each prefers a different product, even if it means forsaking the discount that could result from higher volumes with fewer vendors?

Physician-preference items typically are the high-priced products, such as orthopedic implants, that take up a large portion of the nonsalary expense budget. For these items, surgeons often develop strong loyalties to the vendor representatives they work with and become accustomed to using a particular vendor’s products.

Sharing supply duties

According to an informal survey at the 2009 meeting of the Ambulatory Surgery Center Association, only about 30% of ASCs have full-time materials managers. At the rest, certain staff members take on supply chain duties in addition to their other responsibilities.

According to Armand Paladino, a consultant with the group purchasing organization (GPO) VHA, Inc, in Irving, Texas, it is usually a nurse who handles materials management. Generally, he says, “Oversight falls on the administrator or director of nursing, and ordering of supplies falls on the surgical technologist (ST), who spends half the time scrubbing and half the time doing inventory management.” That is because at ASCs the staffing focus is clinical, he adds.

As an account executive for nonacute care services at VHA, Inc, Paladino works with member ASCs to develop supply chain strategies.

Reviewing purchasing

At many ASCs, the person who addresses physician preference issues is typically the administrator, he says. The administrator tracks the center’s financial data and monitors costs along with individual physician records.

Most surgery centers have software for billing, which also contains inventory management data and physician preference cards.

With supply cost data in hand, the administrator then works with the materials management specialist, who is likely an ST, to review purchasing patterns and identify potential savings.

Armed with results of that analysis, the administrator sits down with the
physicians or other center managers. Education is the key, Paladino notes. “Most physicians [at ASCs] are investors, so they have an incentive to keep costs down.” In addition, ASCs are vulnerable to supply price variations, he notes, because they are paid by procedure.

**Strategies for saving**

He advises the use of what he calls “procedure-based supply modeling,” in which the administrator compares average case costs by physician and uses the results to argue for standardization on one or two brands that offer the best value for the price.

“A number of surgery centers are going with that model,” he says.

Standardization allows the ASC to return to the selected vendor with a demand for better pricing in return for a larger volume of business.

If the physicians cannot agree on a preferred vendor, an alternative is what is often termed “shelf pricing” or “capitation.” The ASC reviews its case costs and industry benchmarks and determines the top price it is willing to pay for various products.

Surgeons are then free to use any products they wish but with the understanding that the ASC will not pay more than its set price.

A 2006 survey by the newsletter *Hospital Materials Management* found shelf pricing for hip implants, which had been out of favor for several years, was making a comeback as overall prices rose. The arrangement allows surgeons to select the newest technology or higher-end models under contracts that limit prices to those for standard models.

**Savings over preference**

If the surgeons are on board with the idea of standardization, an ASC can reap major savings through GPO contracts; most are accessible to ASC members. VHA, Inc, for example, has its own orthopedic contracts. The problem, Paladino notes, is that an ASC usually does not have the leverage with physicians that a hospital does so it is important to make the case for savings over preference.

As Paladino explains, “Physicians tend to come in with a clinical approach. Now [in an ASC], they are investors. It is the responsibility of management to communicate the business side and their financial responsibility.”

Along with contractual price limits and volume discounts, Paladino says ASCs also can save by paying for implants and other expensive items on a consignment basis. “Typically, with high-cost items, we try to consign,” Paladino says. Consignment allows the ASC to have a range of items, such as implant components, on hand while paying only when each item is used.

As Paladino points out, ASCs try to keep inventory levels low because of storage space limits, so often a better alternative is just-in-time delivery.

**More art than science**

The Capital Region Surgery Center (CRSC) in Albany, New York, decided about a year ago to draw the line on physician preference, and the effort netted savings of nearly $250,000 on endoscopes used in joint arthroscopy, which were among the most expensive preference items. Reaching that point, however, was a complex process.

“It’s more an art than a science,” explains Jay Barringer, RN, a supervisor and team leader who is responsible for materials management.
CRSC, which opened in 2000, is owned by a group of orthopedic surgeons and performs about 8,500 cases a year. “Because of the number of cases, we are able to standardize on supplies and equipment and purchase at a level to achieve the best possible pricing,” Barringer says.

First, he and his staff examined the preference cards on file for each surgeon. “You need to understand the full range of the different supplies and specifications they are looking for,” he notes.

After identifying the products favored by most of the surgeons, Barringer began to look for a GPO that could provide the most favorable contract terms for them. Management decided to use contracts from Novation, the purchasing arm of VHA.

The number of vendors varies by product. Physicians retain their choice of suture (a high-preference but relatively low-priced product) and implant materials. But for powered equipment there is only one contracted vendor: ConMed Linvatec in Largo, Florida.

CRSC buys custom packs for each type of surgery, such as knees, shoulders, and upper and lower extremities. Cardinal Health in Dublin, Ohio, delivers the packs twice weekly to the center’s small storeroom, and staff pull the packs 24 hours prior to surgery.

### Convincing physicians

As Paladino warned, education was the key to convincing physicians that it would be in their own best interest to standardize. “Our owners are our users,” Barringer explains. “We know what every procedure costs down to the penny. For every doctor who performs a procedure, we can tell them exactly what the procedure costs are.”

The center’s board meets monthly to review financial results, he says, and when outliers appear with costs that vary widely from the average, often peer pressure brings these physicians into line with their colleagues.

Peer pressure continues to be critical as new physicians join the growing organization. “Our experience here is that we’re a very progressive orthopedic group,” he says, “and every year we add new physicians to the group. These new doctors have been trained on the latest technology. Our process is to indoctrinate them into our system, that we take our costs very seriously.”

### Getting started

Barringer says CRSC’s experience can help any ASC that would like to tackle the preference issue. He recommends the following steps:

- Obtain the preference cards and study them carefully.
- For each product, determine if a majority of physicians favors a certain model or vendor.
- With a list of preferred products in hand, contact GPOs to find the one most able to meet your needs though its contracts.
- Work with that GPO to establish par levels.
- Select a distributor that carries products from the GPO.
- Set up a delivery schedule.

When most or all of the physicians agree on most product choices, standardizing is fairly easy.
Open dialog

Problems arise when one or more insist on their choice for clinical reasons, even if their colleagues disagree. The answer is communication.

“It’s OK to have differences,” Barringer says, “but the surgery center needs to know the true cost, including staff and overhead, and the physician needs to be open-minded.”

If the center has precise knowledge of all of its costs, management will be in a position to work out compromises or make exceptions in special cases without sacrificing the bottom line, he says.

“You can make exceptions if the physician is otherwise profitable,” he advises. “Any smart surgery center is going to look at the big picture. It’s all about showing them the data and having an open dialog.”

Meanwhile, he says, managers must not lose sight of the fact that clinical priorities must always come first.

“Patient safety and patient outcomes are the number one priorities; everything after that will take care of itself,” he says.

—Paula DeJohn