

THREE SUPPLY CHAIN STRATEGIES TO IMPACT THE BOTTOM LINE

The supply chain continues to be the second largest and fastest growing expense for health care systems, second only to labor costs, making this an area of untapped cost savings opportunity and an area ripe for leveraging supply chain as a strategic driver of savings. Because the procurement of goods and services impacts nearly every aspect of a hospital's day-to-day operations, executives are becoming increasingly aware of the unique role supply chain plays in their organization. With these factors in mind, health care systems have an opportunity to utilize and adapt their supply chains to achieve cost savings and should consider doing so in three innovative ways.

- 0. Data-Driven Decisions.** Supply chain departments capture significant amounts of data such as pricing, quantity and cost-drivers in their everyday operations, and health care organizations can utilize this valuable data and tailor it to evaluate ways to cut costs, improve patient care and end wasteful practices. A multi-industry survey in 2014 identified that 97 percent of senior executives reported having an understanding of how data analytics can benefit their supply chain, but only 17 percent implemented ways to utilize such data. This data can assist in operational decision-making that exceeds beyond basic pricing determinations, such as identifying products and practices that provide the best patient outcomes as well as identifying inefficiencies and wasteful processes by tracking use and instituting standardizations and control measures. Further, supply chain data can also be leveraged towards future supply chain decisions to assist organizations in making informed and quality decisions with regards to trends and new technology.
- 1. Alternative Payment Models.** Health care organizations are actively seeking ways to address the challenges presented by new value-based payment models as the Centers for Medicare & Medicaid Services ("CMS") has previously announced a goal of moving 50 percent of Medicare payments to alternative payment models by the end of 2018. The Comprehensive Care for Joint Replacement ("CJR") model represented the first mandatory bundled payment model, and since that time, CMS has proposed three episode payment models related to services for heart attacks, coronary bypass surgery and surgical treatment of hip and femur fractures. These bundled payment models require hospitals to review these episodes of care and seek ways to control costs and Medicare spending, while still preserving or even improving quality of care. As hospitals are required to work quickly towards these goals, supply chain can play an integral role in identifying procurement strategies and cost-saving opportunities. Certain procedural costs such as the provider and medical staff services may not have significant room for decreases, so instead clinical decision makers and supply chain executives can evaluate these episodes of care and look to sourcing solutions in an effort to generate clearly identifiable cost savings, thereby positioning themselves to take advantage of the proposed risk-sharing and financial incentives offered by these alternative payment models.
- 2. High Cost and Never Events.** Changes in reimbursement have changed how health care organizations view high cost events of care as well as those events that are categorized by CMS as "never events." Because CMS no longer reimburses for certain complications of care such as hospital-acquired infections or hospital-acquired pressure injuries, health care organizations must look for ways to significantly reduce or eliminate these events not only from a patient care perspective but also to simultaneously reduce the significant costs associated with these events that are no longer reimbursable. By engaging clinical directors and supply chain executives, these teams can work together to identify supplies that reduce infection rates, prevent falls and other never events and create practical solutions to produce measureable results and improvement in reimbursement.




PRACTICAL TAKEAWAYS

As health care organizations continue to adapt to shrinking reimbursement margins, their supply chain teams are uniquely situated to not only identify cost savings but also to assist in implementing savings. Utilizing your supply chain may help your organization achieve cost savings but may pose legal considerations. Entities looking to take advantage of these opportunities should seek assistance in understanding or implementing the following:

- Standardizing terms and conditions for procurement agreements to curb unnecessary fees and mitigate risks;
- Improving the health system's general understanding of clinical and financial integration around purchasing;
- Providing purchasing departments training on best practices for negotiating procurement agreements; and

- Analyzing compliance and risk considerations under the Stark Law, Anti-Kickback Statute and Civil Monetary Penalty laws as they relate to a health system's arrangements with vendors.

If you have any questions or would like additional information about this matter, please contact:

- Jennifer P. Viegas at (317) 977-1485  or jviegas@hallrender.com;
- Chad J. Wilson at (317) 977-1473  or cwilson@hallrender.com;
- Allison N. DeYoung at (317) 977-1427  or adeyoung@hallrender.com; or
- Your regular Hall Render attorney.

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