

VALUE-BASED PURCHASING IS THE NEW NORMAL: OPPORTUNITIES FOR SAVINGS IN THE SUPPLY CHAIN

EXECUTIVE SUMMARY

Earlier this year, the Department of Health and Human Services ("HHS") announced significant changes to Medicare by setting quantitative goals for its value-based payment programs. This payment reform is not only accelerating the shift away from fee-for-service toward a value-based system but also driving fundamental changes in how care is delivered. Health care entities must leverage their procurement operations to adapt to this new era of value-based care in order to remain profitable while increasing the quality of care.

VALUE-BASED PURCHASING PROGRAMS

In August 2014, HHS announced Medicare's new value-based payment goals for FY 2015, which marked the first time that Medicare-the single most influential payor in the U.S.-established concrete objectives for implementing value-based payments to providers. Then, in January 2015, HHS announced that it would tie 85 percent of Medicare payments to quality or value by 2016 and 90 percent by 2018¹. Since the announcement, CMS has taken steps towards the implementation of these goals, including the most recent **proposed rule** issued last month updating the Home Health Prospective Payment System.

In addition to updating programs, CMS has also created new programs, including the **Hospital Value-Based Purchasing ("HVPB") Program**². The HVPB Program provides financial incentives to hospitals based on the value delivered to patients receiving inpatient care, measured by both the outcome of the care as well as the patient satisfaction regarding the care. Starting in 2012, Medicare began rating hospitals' performance on quality of service and patient experience measures and tied these ratings to payments of claims. Hospitals are currently being evaluated on 12 clinical process measures; 8 patient experience criteria; 3 mortality measures; a patient safety indicator; a health care-associated infection measurement; and an efficiency measure³. The payment algorithm is complex, and as the HVPB Program becomes more effective at assessing the value of services and reducing Medicare costs, it will be expanded to more medical conditions and will increase pressure on hospitals to perform better across a broader range of treatments.

INTERPLAY OF SUPPLY CHAIN AND VALUE-BASED PURCHASING

The HVPB Program is one of the many ways private and government payors impose performance-based metrics on health care entities to improve services. Given the growing emphasis on value-based payments, health care entities must evaluate the performance of their supply chain according to the current quality measures as well as future metrics that have been proposed by HHS. Any health care entity's procurement department is uniquely situated to make purchasing decisions that can maximize reimbursement. However, the challenge is to factor in patient care metrics when evaluating supply chain initiatives and purchasing options.

Shifting the manner in which supply decisions are made will take time, but health care entities should consider the following approaches for introducing quality care metrics into a health care entity's procurement operations: (1) the creation of value-based initiatives; (2) adjusting the value analysis ("VA") process; (3) increasing the demand for value-based services offered by the entity's group purchasing organization ("GPO"); or (4) working with vendors to shift their proposals from a cost-based to a value-based dialogue.

Value-Based Care Initiatives. Procurement departments can implement initiatives tied to achieving performance-based benchmarks. For example, by developing a utilization initiative to identify product misuse or wasteful or inefficient consumption, procurement departments can work to automate ordering and inventory processes, which assists the entity in tracking purchasing volume and product usage. Such automation further assists in standardizing product usage, especially in cases where product usage differs widely across the entity. In cases where the variety of product usage heavily depends on physician preference, clinicians can be engaged so procurement decisions are based upon products that drive better performance. Hospitals can also apply product standardization initiatives beyond the inpatient setting, including at offsite physician offices and clinics, which often rely on distribution or supplier representatives to make purchasing decisions rather than conducting their own assessments.

Another hospital initiative can involve implementing or re-structuring the hospital's co-management arrangements, in which physician

groups (or joint-ventured entities) are tasked with managing day-to-day service line operations in exchange for compensation by the hospital. Co-management arrangements often incorporate quality metrics such that the overall compensation is tied to the manager's ability to satisfy or improve upon defined quality metrics. The metrics could take the form of standardizing care processes, improving operating room efficiencies, improving start-times for scheduled operations or increasing patient satisfaction. Although co-management initiatives represent opportunities for the hospital to maximize efficiencies, proper attention must be paid to the legal issues surrounding the arrangement, such as ensuring that any performance-based bonus fee is not distributed based on the volume or value of referrals. Co-management arrangements that comply with applicable regulations can be an effective mechanism for aligning physicians with the hospital's goals of improving patient care and maximizing efficient processes.

Value Analysis Process. Many health care entities have utilized a procurement process that focuses on reducing costs. Procurement departments, which may work in conjunction with or include the VA team, typically consider the cost of new products presented to them relative to the associated clinical research to determine whether the product is a "good buy." In a performance-based world, VA teams should focus on specific outcomes they would like to achieve and how different products on the market fare in relation to that outcome. Stated differently, VA teams must become actively engaged purchasers of products by asking whether their purchases deliver quantifiable value in the form of better patient care. The VA process can also leverage the data generated by the health care entity's EHR database, if applicable, to assess which devices and procedures have the greatest impact on patient care relative to cost and build purchasing initiatives around those findings. Similarly, health care entities can work with private insurers to cull claims data across a broader range of measures to arrive at a more reliable finding of a product's impact on patient care. This partnership opportunity is available as a result of value-based programs simultaneously developing in the insurance industry, which incentivizes insurers and health care entities (especially providers) to coordinate incorporation of value-based metrics into their payment and procurement operations.

Group Purchasing Organization Services. Procurement departments can also work with GPOs, including integrated delivery networks and other group purchasing entities, to procure products and services that ultimately will achieve higher performance-based scores. GPOs are widespread in the health care industry and are in constant competition to deliver the best and most comprehensive services in order to retain their members and secure a larger customer base. Health care entities have traditionally looked to GPOs to reduce costs by securing discounts as a result of the greater purchasing power, but GPOs can similarly leverage their bargaining power to look beyond discounts. The data and resources available to GPOs allow them to assess a product's or service performance across a broader range of metrics, including markets, providers and patient populations, which can assist health care entities in locating less costly products that deliver better care. GPOs will increasingly offer these performance-improvement services as the demand for these services rises. Health care entities can, in turn, capitalize on this access to data when making purchasing decisions.

Negotiating with Vendors. Finally, procurement departments can modify the way in which they engage vendors by emphasizing the importance of cost, quality and outcome. Sales representatives frequently communicate a product's value utilizing cost measures and clinical research data. Procurement departments must adjust this negotiation to focus less on clinical research and cost of the product and more on the product's impact on patient outcomes. In the provider setting, for instance, patient outcome measures can range from EHR and billing data to medical sensor data, the time it takes to make an accurate diagnosis, the length of stay in a hospital, the rate of prevention of medication errors or infection, the quality adjusted life years, mortality rates, readmission rate, health care-associated infections, and surgical outcomes and complications, to name a few. In other words, procurement departments can shift negotiations from a discussion about transactions (i.e., the cost of the product or service) to one about performance (i.e., the product or service's effect on the hospital's cost per adjusted patient day). This shift in dialogue is achievable as the health care entity need only scrap the introductory "name your price" inquiry and instead ask the vendor to "name your value."

PRACTICAL TAKEAWAYS

These are only a few ways in which a health care entity's procurement department can adapt to the changing payment landscape of value-based care, and there are numerous opportunities to manage the entity's balance between cost, quality and outcome. Many initiatives will pose their own legal considerations, and entities might seek assistance in understanding or implementing the following:

- Identifying sources of performance data between the organization and the vendor and securing reasonable audit rights to such data;
- Translating patient care measures into implementable contractual language and tailoring such language specific to the kinds of services or products offered by the vendor;

- Advising procurement departments as to the kinds of value-based inquiries that should be asked of vendors in the course of procurement discussions;
- Improving the health care entity's general understanding of clinical and financial integration around value-based purchasing;
- Navigating the new compliance implications of increased quality measurement and reporting; and
- Analyzing compliance and risk considerations under the Stark and Anti-Kickback statutes and Civil Monetary Penalty laws as they relate to incorporating quality-based metrics in contractual documents, including for instance, co-management arrangements.

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¹ <http://www.hhs.gov/news/press/2015pres/01/20150126a.html>

² http://www.cms.gov/Outreach-and-Education/Medicare-Learning-Network-MLN/MLNProducts/downloads/Hospital_VBPurchasing_Fact_Sheet_ICN907664.pdf

³ <https://www.medicare.gov/hospitalcompare/data/total-performance-scores.html>; <http://khn.org/news/value-based-purchasing-methodology/>