



# Healthcare reform: Aligning clinicians and supply chain

by Dr. Nick Sears

**H**ealthcare reform is no longer an abstract concept. With new reimbursement policies putting additional pressure on margins, the supply chain plays a pivotal role in gaining that extra edge to control costs. No matter the outcome of recent jockeying, a greater understanding will help supply chain managers influence the future of healthcare delivery and are key in working with your clinicians.

## Quality and innovation

In addition to cost-containment strategies expected to achieve \$417 billion in savings over the next decade, reform encourages quality improvement and promotes innovation:

- A national strategy for quality improvement to develop priorities that improves care delivery, patient health and population health
- A center for innovation within CMS to test new payment and service-delivery models that improve the quality of care and reduce spending
- Demonstration projects for new payment models – monies for which hospitals can apply
- An Independent Payment Advisory Board to mitigate the influence of politics and stakeholders on CMS decisions – and reduce the per-capita rate of payment per patient
- Comparative effectiveness, which gives clinicians improved access to information about the relative effectiveness of different medical interventions, and heightens clinical efficacy by matching medical care more precisely to individual patients
- A non-profit Patient-Centered Outcomes Research Institute to identify research priorities, compare the clinical effectiveness of medical treatments, analyze new technology, examine supplier-conducted research, and either validate or countermand pathways and protocols in existing literature – all to help physicians make more-informed decisions

## What it means to you

For supply chain managers, effective product cost management is integral. The concepts of clinical value analysis, as well as pathway and protocol development for

service lines, are directly tied to effective supply-cost containment. Additionally, cost management to the lowest reimbursement is central to provider success under new payment strategies, such as bundled payments and value-based purchasing.

## Clinical value analysis

The supply chain plays an important role in clinical value analysis (CVA), examining how both non-clinically sensitive and clinically sensitive products, as well as physician preference items, are used in the delivery of care. CVA takes the evaluation process from subjective to objective, measuring qualitative differences between manufacturers and similar products in the areas of quality, technology and utilization.

Applied consistently across organizations, CVA brings an organized approach to decisions about products in the context of cost-effective, safe and quality patient care, while providing a collaborative process to reduce and manage expenses.

## Pathways and protocols

Developing successful pathways and protocols for clinical service lines is another essential building block for controlling supply costs. If one physician performs a procedure one way, while a colleague conducts the same procedure another way, it may result in the need for multiple types and brands of products to support those differences.

Clinical protocols reduce variability and put physicians on the same page for a given procedure, allowing for consistent, predictable supply usage – and the resulting cost efficiencies. Even more importantly, pathways and protocols based on verifiable data improve quality and outcomes by outlining the preferred treatment process, and given the new emphasis on value-based purchasing, also maximize reimbursement opportunities.

## Bundled payments

CMS has been authorized to introduce payment bundling, in which one global payment is made for acute hospital services for an episode of care. The concept is designed to align reimbursement incentives for both providers and physicians, with both parties left to determine how those funds are allocated.

Bundled payments have the potential to improve quality, drive margin improvements, build price and quality transparency, and increase collaboration among all providers involved in an episode of care. Their introduction requires hospitals to use the power of group purchasing organizations to lower supply costs and achieve optimal clinical resource utilization through treatment protocols and improved physician/provider alignment.

## Value-based purchasing

A value-based purchasing program for Medicare reimbursements has also been established, based on providers' performance on selected core quality measures, such as the frequency of hospital-acquired conditions, readmissions within 30 days of discharge, and Never Events (hospital errors). The program is funded by a 2-percent withhold from the total Medicare budget, to be distributed to the better-performing facilities at fiscal-year's end.

It is based on several components, including a Total Performance Score – an objective annual assessment of a provider based on a set of measures that cross domains, from clinical practices and patient satisfaction, to 30-day mortality and outcome data. Scores are used to determine the level of incentive payments that providers receive, with highest scores receiving full payments and lower scores receiving a sliding scale of percentages of the full payment. Implementation will occur over a three-year period, which began in October, 2010.

## Sustaining focus

As key elements are implemented, supply chain management strategies must adjust accordingly. One guiding concept – a continued focus on clinical margin management – will remain as reform evolves. In the long run, providers will be in better shape financially because of that sustained focus – and will gain a better understanding from materials managers of how supply cost and usage contributes to their success in meeting the challenges of a leaner, more quality-driven system. **HPN**

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