Strategic Purchasing of Medical Devices

James C. Robinson
Leonard D. Schaeffer Professor of Health Economics
Director, Berkeley Center for Health Technology
University of California, Berkeley
Overview

- Hospitals in the fat years
- Hospitals in the lean years
- Technology strategy
  - Physician alignment
  - Technology assessment
  - Procurement and purchasing
  - Service line strategy
Goals of Strategic Purchasing

- Supply chain management and purchasing support institutional goals and strategy
  - Cost moderation and predictability
  - Patient volumes, revenues, and margins
  - Physician alignment
- Vision: Center of Excellence
HOSPITALS DURING THE FAT YEARS

- Hospitals reimbursed based on volume (per case, per diem, charges) by health insurers
  - Consolidation creates strong bargaining leverage
  - Medicare DRG rates are acceptable, if not generous
- Device intensive specialties (orthopedics, interventional cardiology) are attractive
  - Rising volumes due to demographics, new technology
  - Margins high for major acute procedures
  - Prestige attaches to technology
PHYSICIANS DURING THE FAT YEARS

- Physician autonomy is core value
  - Independent practices, splitting admissions across hospitals
  - No emphasis on cooperation across medical staff
  - Lack of interest in hospital finances
  - Widespread consulting relations with device vendors

- The medical arms race
  - Hospitals compete for patients by competing for doctors
  - New equipment, facilities
  - No interference with physician device preferences (PPI)
DEVICE PURCHASING DURING THE FAT YEARS

- Hospitals accommodate physician preferences
  - Contract with all or most device vendors
  - No rigorous assessment of device performance
  - No formal committee structure for technology assessment
- No pushback on conflicts of interest
  - No mandated disclosure or limits on payments
- Weak device purchasing leverage: high prices
- Prices passed on to private insurers through device carve-outs and supplemental FFS charges
  - Some hospitals use devices for additional mark-ups
  - Medicare DRG is the only form of payment bundling
HOSPITALS IN THE LEAN YEARS

- Insurers shift (back) towards prospective payment
  - Experiments with episode payment
  - Capitation and shared savings (ACO)
- Increases in consumer cost sharing
  - High deductible health plans
  - From copayments to coinsurance
  - Reference pricing
- Affordable Care Act
  - Newly insured patients are in low-paying plans
  - Medicaid managed care
  - Bronze and silver plans within insurance exchanges
INSURER EMPHASIS ON ACUTE PROCEDURES

- Concern for high and variable pricing
- Bundled payment in orthopedics, cardiology:
  - Medicare ACE
  - IHA: Blue Shield, Aetna
- New contracting and benefit designs
  - COE strategy: Lowes, Boeing, Walmart
  - Reference pricing strategy: Safeway, PERS
PHYSICIAN ALIGNMENT STRATEGY

- Misalignment between hospitals and physicians is no longer sustainable
  - Misalignment prevents collaboration on supply chain
    - Conflicts of interest, upselling
    - Inability to narrow range of vendors
  - Other dimensions of efficiency
    - Length of stay, complications, readmissions
    - Ambulatory procedures
- Physician practices are under financial strain and other players are willing to purchase and align with them
  - Health plans: Anthem, Highmark, Humana, BCBSFL
  - Investor-owned firms: Optum, Davita
STRATEGIES FOR ALIGNMENT

- Organizational structures
  - Employment of physicians, partnership with medical groups
  - Joint ventures, co-management for cath labs, specialty hospitals, ambulatory surgery centers
  - Integrated data systems

- Financial incentives
  - Mandates for disclosure of conflicts of interest
  - Bundled payment
  - Gain-sharing
TECHNOLOGY STRATEGY IN THE LEAN YEARS

1. Technology assessment
2. Procurement and purchasing
3. Service line efficiency
4. Centers of Excellence
Technology Assessment

- Formal committee structures
  - Leading hospitals include practicing physicians and surgeons on committees in addition to management

- All new devices must be reviewed and approved before being reimbursed by hospital
  - Formal presentations by physician champions, not by device representatives
  - Subcommittees for complex new technologies
  - All available evidence is gathered (FDA label, registries, etc.)
  - Consider price as well as clinical performance

- Committee also serves cultural function
  - Encourage identification, adoption of best practices
  - Encourage physician interest in costs as well as quality
Technology Procurement: contracting

- Assess price variation across vendors, facilities
  - Assess market shares of each vendor
    - Physician views on quality and pipeline
    - Physician financial relationships
  - Limit number of contracts for each clinical domain
    - Some hospitals use formal RFP strategy
    - Some create price targets with intention of dropping vendors
    - Have mechanism for exceptions for special innovations
- Dual, not single source contracting
- Enforce contracts
  - No reimbursement outside of contract
  - Limit ‘new technology’ exceptions
Technology Procurement: price negotiations

- Obtain pricing benchmarks
  - ECRI, MedAssets etc., across vendors and facilities
- No single best pricing structure
  - Matrix pricing
  - % of list pricing across entire product line
  - Device price as % of Medicare DRG payment
- Physician adherence is key to pricing
  - Formal or informal gain-sharing
  - Cultural alignment is more effective than financial
  - Hospital must be willing to lose non-cooperative physicians
Service Line Efficiency

- Hospitals pursue efficiency improvements beyond the device price
  - Increase OR turnaround
  - Focus on complications and readmissions
  - Focus on discharge planning and LOS
- Principles of lean management
  - The total joint dance
- Appropriateness of surgery: disease management?
Centers of Excellence

- Hospitals identify service lines for growth
- Structures: heart hospital, ortho hospital, spine institute, cancer center, cardiac valves
- Contract with national insurers and self-insured employers
  - Travel medicine: domestic and foreign
  - Bundled payment
  - Quality reporting and improvement
  - Commitment to appropriate care
- Not every hospital should offer every service
Conclusion

- From the fat years to the lean
- Technology strategy in the lean years
  - Assessment
  - Procurement, purchasing, pricing
  - Service line efficiency
  - Centers of Excellence
- Physician alignment is key to every strategy
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