

CUTTING COMMODITY COSTS



at FAIRVIEW HEALTH SERVICES

Many health systems are looking for new and creative ways to lower supply costs, especially with increased financial pressures resulting from sequestration, reimbursement cuts and healthcare reform. Since supplies are the second largest health system expense (after labor), it is a prime area for focus.

When Fairview Health Services (Minneapolis, MN) began dealing with new care delivery and payment models, the system's supply chain leaders searched for partners willing to go at-risk with them to reduce costs.

"As the Affordable Care Act gained momentum several years ago, it made us think differently about what kind of health system we would be in this new environment," said LeAnn Born, Fairview's vice president of supply chain. "In turn, I began reaching out to suppliers to identify those who were really ready to try something new.

"Fairview's been engaged with Medicare and various payer partners on shared savings and at-risk care delivery models, such as our Pioneer ACO (accountable care organization). We look

at the cost to care for the population and ask ourselves 'if we meet these quality standards, how can we drive down cost?' We took that same approach when looking at supplier partners."

Fairview found its first partner in Covidien, a company more committed to helping Fairview's providers select the right products instead of aiming to sell the most. "One of the most interesting things about the shared-savings model is that Covidien's sales representatives are now utilization managers," noted John Carrico, Fairview's senior director, supply chain operations. "They will be paid based on appropriate utilization of products, not on the amount of product they sell."

Sharing savings on commodity items

To pilot the program, Fairview focused on Covidien products already on its Premier contracts. That helped supply chain managers from a contract perspective and also limited the scope of the program to 220 SKUs.

According to Carrico, commodity items are a good starting point, since they are easier to change than physician

preference items (PPIs). "Commodities end up being a good test for future program additions, like PPIs," he explained. "With Covidien, we can expand this to PPIs in the future and build off the relationship we have."

Born said the availability of benchmarking data also influenced Fairview to start with commodities. "We had a lot of the necessary information, from our own databases and from Premier, to determine what products are used, how, in what quantity, and for which procedures. Then we were able to match that data with the data the supplier has about us."

Metrics play a major role in the project. Using resource utilization data, Fairview looked at line-by-line product use against drivers of activity – surgery volume, adjusted acute discharges, patient days and related items – to identify providers, nursing departments and services with the highest use. Pinpointing areas of unnecessary variation helped Fairview determine standards and create best practices for its caregivers.

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Keys to success

Engagement is a vital part of Fairview’s program, and quite likely, will drive its ultimate outcome. An initiative that began with collaboration on a new opportunity continues with the increased involvement of physicians and utilization managers.

Carrico pointed out that Fairview has clinically integrated project managers embedded in the supply chain who can educate others about unnecessary variations. “With Covidien’s representatives who will now serve as utilization managers and our great clinicians, who are very aware of their role in managing product expense, we’ve really tried to create the right culture to support our cost-reduction efforts.”

The development of the commodities program has also spurred discussions about future opportunities for shared-savings programs. “The first step is to establish a routine for managing use of these products, which means establishing a good relationship with the utilization managers and our clinicians,” added Carrico. “That gives us a broader understanding of how we’re all working together

to drive down costs and improve outcomes and patient experience.”

In addition, Fairview has involved senior leaders, as members of an executive steering committee, in both the commodities program and other supply chain cost-reduction projects. This has helped to establish the right culture for change, both in the supply chain and throughout the organization.

As Born said, “These changes can’t happen quietly, so we’re trying to bring more visibility to leaders across the organization. Engagement across broad groups helps gain support for our projects and creates a culture that is focused on this type of work. Leadership awareness can lead to success elsewhere in the health system.”

Connecting across the continuum of care and with external partners is critical if projects are to change the way things have always been done. “Our health system needs to be willing to do things differently to reduce overall costs,” said Carrico, “and that’s a two-way street. It’s important for us to be engaged with our own providers in order for them to be engaged with us. And it’s important for us to engage

with other healthcare stakeholders that are also willing to change how they’ve done things traditionally.

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Long-term vision

Fairview’s commodities program with Covidien is projected to produce \$100,000-\$200,000 annually in hard savings. The supply chain team expects additional soft savings from changing the way providers think about product utilization while increasing patient and nursing satisfaction through best practice utilization of Covidien products.

In the long term, Fairview expects to expand its commodities program and develop similar risk-sharing initiatives with other suppliers and external partners. The health system is betting that its efforts will result in innovative and much needed supply chain cost savings.