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Transformational value analysis:

How optimizing supply spend savings can maximize health system performance

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Overview

Traditionally, managing spend has been based on two critical goals – product standardization and reducing overall costs. However, as greater emphasis is placed on quality, patient outcomes and value of care, the value analysis process must expand beyond fee-for-service considerations like pricing to drive desirable outcomes. Transformational value analysis requires an entirely new thought process and must consider life-cycle costs and clinical outcomes.

Vizient® defines value analysis as a decision-making mechanism for all clinical products and services used and brought into an organization that brings together the right people (clinical and administrative), the right data (cost, utilization and outcomes), the right evidence (quality clinical studies), and the right processes based on standardized criteria.

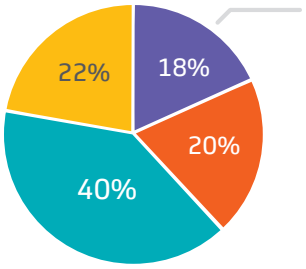
By improving value analysis processes, providers have reduced supply costs by 5% to 10%, which equates to approximately $15 million in annual cost savings for high performing organizations.

Change is needed. Health systems are struggling financially due to a slowed economy, inflation and pandemic fallout. Many are leaving substantial amounts of money on the table because of ineffective value analysis strategies. Robust value analysis tools can drive cost reductions of 20% or more. Those savings are compelling, given that many providers expect negative operating margins for 2023.[1]

With financial pressures mounting, it is crucial for hospitals to better understand and manage operating costs, starting with spend on supplies and purchased services, which represent 38% of a hospital's operating budget. Based on health systems with an average operating budget of $200[2] million, about $76 million is spent on supplies. Robust value analysis could yield savings between $15.2-$19M annually.

This report provides a model and best practices aimed at helping health systems and suppliers to transition to transformational value analysis.

Figure 1: Average hospital operating budget allocations

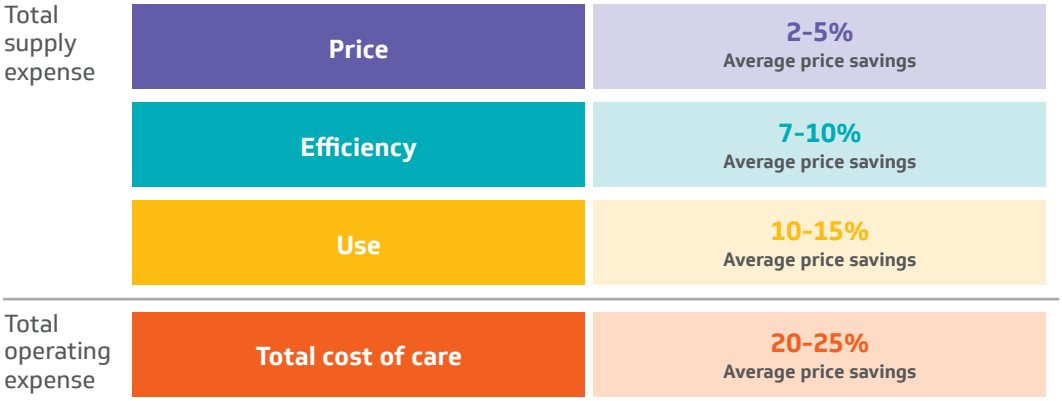


Supplies and purchased services & indirect spend account for **approximately 38%** of a typical hospital's operating budget.

- Supply and equipment cost are the second largest expenses for hospitals
- Key departments that account for the highest percentage of supply expense include:
  - Surgery
  - Cardiology
  - Lab
  - Pharmacy
  - Patient care
  - Diagnostic procedure areas

Supplies · Purchased services & indirect spend · Salaries, wages & benefits · All other

Figure 2: Potential savings expected though value analysis



Source: Clinical Supply Integration Learning Series; Driving value with your supplier partners, presented Aug 11, 2022; Deb Roy, et al.

Thorough value analysis is the key mechanism for evaluating products and purchased services. Three key focus points are crucial in advancing toward transformational value analysis:

- **Proactive and continuous:** View the process as a long-term play that is cyclical. This represents a dramatic shift from current value analysis strategies.
- **Enterprise wide:** Overhaul the organizational structure to ensure that value analysis is not solely a supply chain function, but driven by c-level support, clinician buy-in and supplier collaboration.
- **Outcomes driven:** Metrics must evolve to capture more than pricing, quantity and point-in-time outcomes. Broader metrics (life cycle costs, overall value provided, and long-term clinical outcomes) are crucial.

Regardless of an organization's value analysis maturity, the process plays a key role in ensuring a smooth and profitable transition to value-based-care delivery. No matter the health system size, region or market focus, cost savings will always remain of the utmost importance. However, to ensure savings strategies keep pace with industry and local market transitions to value-based care (VBC), value analysis must evolve to identify clinically appropriate and strategically focused savings, especially as providers and payers shift to VBC payment models.

Why Change is Needed

The current healthcare landscape – including financial pressures, shifting care methods and consumerism – is accelerating the need to adopt transformational value analysis processes. The major drivers are identified in Table 1:

Table 1: Trends driving transformational value analysis

Industry drivers	Overview / Impact
1. Financial pressure	The year 2022 was exceptionally challenging. Margins remain 31% below 2019 and expenses are up 8% from 2021. Discharges remain 10% below 2019 levels. Financial pressures will remain in 2023; with the COVID-19 Public Health Emergency ending on May 11, hospitals will no longer receive inflated payments for treating COVID-19 patients.
2. Shifts in care delivery	Sg2, a Vizient company, projects that outpatient volume is expected to increase 16% between 2022-2032. As care shifts away from acute care settings, ambulatory sites of care become critical components of health systems. These sites are typically out of scope for traditional value analysis, requiring health systems to better manage spend across a broader care continuum.
3. Value-based care payment reform	Sg2 sees continued momentum toward value-based care (VBC) payments. Sg2's annual study of VBC competencies shows that more health systems are focusing on infrastructure, integration and scale, all leading indicators of a readiness to assume risk. This requires increased focus on cost, quality and subsequent outcomes of care across the care continuum.
4. Mergers & acquisition trends	Financial pressures have fueled M&A with the intent to build scale. Aside from mergers focused on acute care assets, a variety of players are acquiring assets across the continuum. This creates challenges regarding integration of supplies and services.
5. Consumerism	Growth in high-deductible health plans will continue, placing the cost of care with the patient. As patients bear more financial responsibility, they will look for greater transparency related to costs, quality and outcomes. Health systems that practice transformational value analysis will gain a competitive advantage in responding to consumerism trends.

Sources:

1. National Hospital Flash Report - December 2022, Kaufman Hall, accessed Dec. 2023.
2. Impact of Change®, 2022; HCUP National Inpatient Sample (NIS). Healthcare Cost and Utilization Project (HCUP). Agency for Healthcare Research and Quality, Rockville, MD; Proprietary Sg2 All-Payer Claims Data Set, 2019; The following 2019 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; Claritas Pop-Facts®, 2022; Sg2 Analysis, 2022.
3. Sg2 Accountability Readiness Segmentation Model, v 2022.
4. Sg2 Report: Working Toward a New Normal: Insurance Coverage After the Public Health Emergency, 2022.
5. Sg2 Executive Briefing, Fine-tuning Mergers and Acquisitions Focus, 2021

Value Analysis: Where Do We Need to Go?

There are four stages of value analysis, as depicted in Vizient's maturity framework (See Figure 3). With a primary focus on acute care settings, most novice programs address pricing and contract value. Advanced programs emphasize standardization, utilization and overall processes. Today's best practice value analysis strategies represent a fraction of the requirements needed to reach advanced maturity.

Figure 3: Value analysis maturity continuum

Most practiced value analysis programming

Novice
Pricing only

- Led by supply chain
- Focused on optimized contract value
- Suppliers initiate new product entry with unregulated clinical access

Emerging
Pricing and limited standardization

- Led by supply chain and supported by clinicians
- Commodity and clinical preference conversions
- Limited objective, non-financial criteria
- High volume of new product requests

Best practice value analysis programming

Intermediate
Standardization and utilization

- Led by clinicians and supported by supply chain
- Use of benchmarks and objective data
- Focused on reducing waste
- Integration of appropriate use for clinical preference items
- Alignment with performance improvement objectives

Transformational value analysis

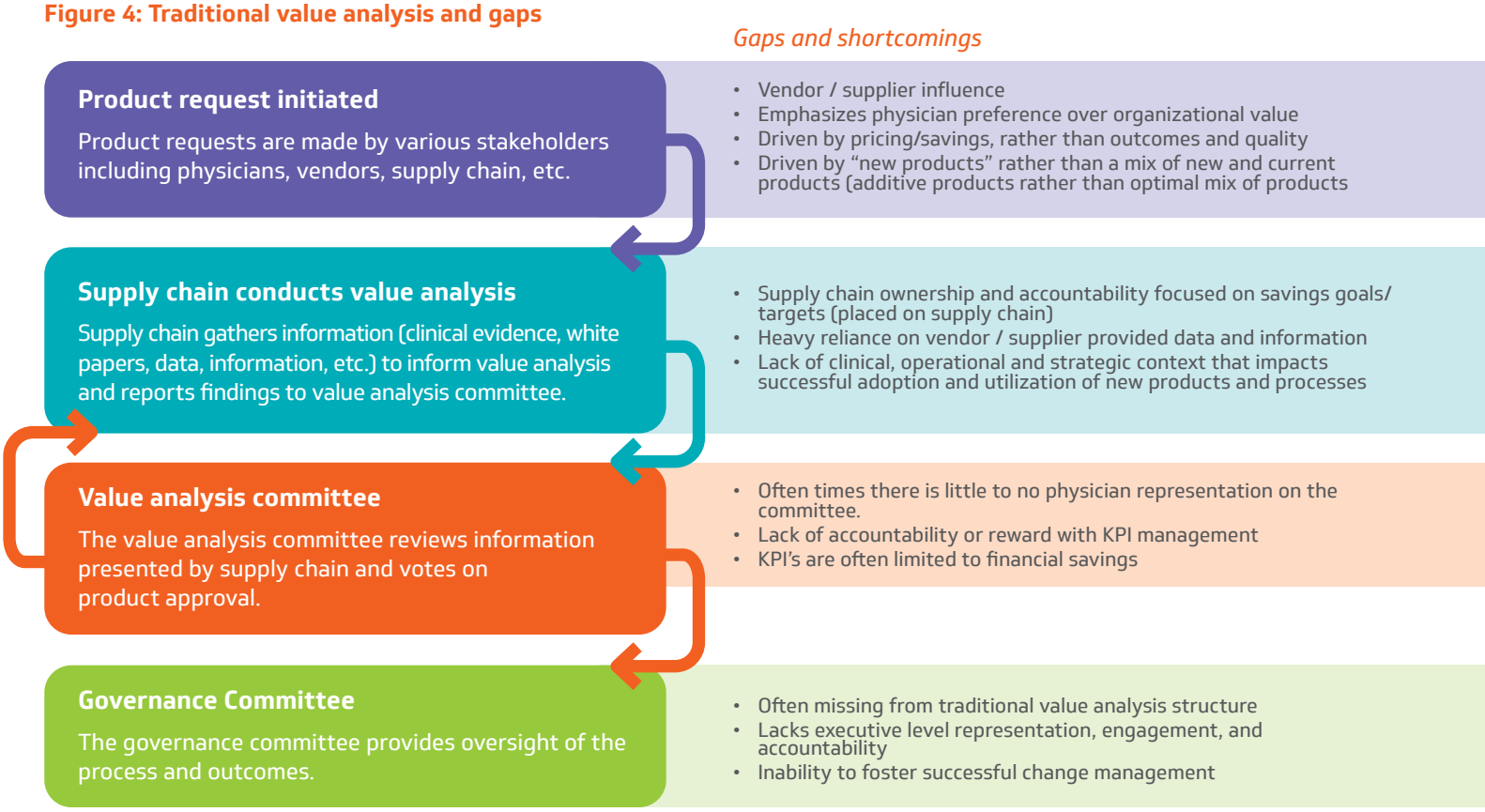
Advanced
Total value of care

- Led by clinicians via service line teams
- Decisions guided by variation in practice and utilization
- Use of comprehensive data including supply chain, clinical, financial and operational measures
- Decisions driven by outcome data
- Aligned incentives and accountability structure

Transformational value analysis: The ideal structure and process

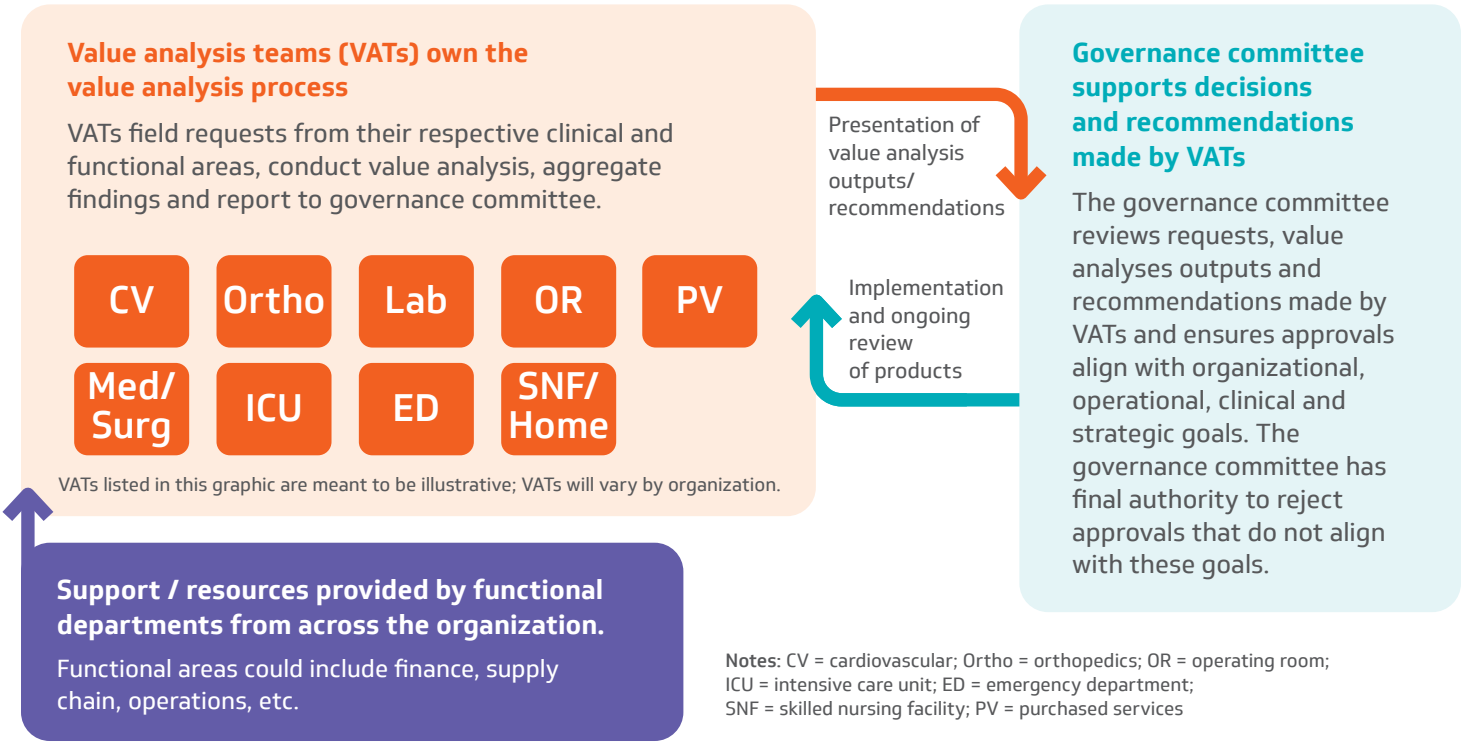
Many organizations still struggle to prioritize value analysis as anything more than a new product-driven supply chain pricing initiative. Traditional value analysis begins when a product is requested by stakeholders, such as a physician, clinician and other operational areas or presented by a supplier. Vizient's Clinical Supply Integration team has identified gaps and shortcomings with traditional value analysis (See Figure 4).

Figure 4: Traditional value analysis and gaps



Addressing these gaps requires leveraging a decentralized, service line approach that includes an on-going process for rigorous, data-driven assessment of current and new products and processes. Transformational value analysis extends across functions including strategic planning, clinical evidence, clinical outcomes, process improvement, finance, population health and others to create transparency, ownership and accountability for resource stewardship. (See Figure 5). Although this requires a strong leadership commitment, a myriad of benefits are possible for organizations willing to invest the time and effort to achieve transformational value analysis.

Figure 5: Transformational value analysis process



Notes: CV = cardiovascular; Ortho = orthopedics; OR = operating room; ICU = intensive care unit; ED = emergency department; SNF = skilled nursing facility; PV = purchased services

Moving the needle: Structure, stakeholders and metrics

Work in three key areas enables organizations to successfully advance their value analysis programs.

Structure

A robust, programmatic focus lays a solid foundation for transformational value analysis. Dedicated teams underpin this advanced structure.

1. **Transition value analysis processes to service line and site of care- centered value analysis teams (VATs)**

   Creating value analysis teams that have both administrative and clinical representation is paramount. Successful VATs are:

   – Clinically focused on service lines, procedural areas and sites of care

   – Consist of 10-12 multidisciplinary stakeholders (e.g., physicians and nurses, supply chain leaders, budget owner(s), quality and infection control staff and site-of-care leadership)

   – Operate under a triad leadership representing clinical, administrative, and operational areas (e.g., service line administrator, physicians, nurses, pharmacists and nursing unit managers)

   – Assume accountability for new and ongoing product and process requests, compiling evidence to support and review requests

   – Deliver toward departmental budgets, spend and potential savings

   – Assess and aggregate data to inform their decisions, including pricing, cost and revenue per case, utilization and clinical outcomes. Operational teams within the service line will provide operational and utilization data.

   – Report decisions regarding product and service requests to a governance committee comprised of executive and organizational leaders (CEO, CFO, CMO, pharmacy leadership) for support and sponsorship

2. **Shift budgetary accountability to value analysis teams**

   Value analysis teams have full insight into their portion of spend for service line-specific products and processes and provide valuable insight into how new products and processes compare to those currently in use, as well as guidance on clinical quality and outcomes. Clinical, financial and operational transparency fosters broader stakeholder buy-in, facilitating more successful implementation and achievement of intended utilization and outcomes.

3. **Extend value analysis process into implementation, tracking and management**

   Transformational value analysis is an ongoing process that does not end with product or process approval.

   – Implementation: Thorough work at this phase drives desired clinical and financial outcomes. This may include end-user training and utilization management of existing products and processes. VATs, organized at the service line level, must ensure a plan for implementation is developed and embedded into the actual value analysis process.

   – Post-implementation management and tracking: Metrics that go beyond short-term financial savings will support the value proposition advanced to the governance committee. That includes the current state as well as desired state with adoption of a new product or process. Successful tracking will continuously monitor variance between pre-implementation and post-implementation metrics. Routine updates for the governance committee enable reevaluation when metrics indicate performance shortfalls.

4. **Regularly assess existing products and processes to optimize savings opportunities**

   Extreme product variation and vendor complexity can undermine potential savings. Vizient experts recommend working with a handful of vendors for major service lines, creating an opportunity to optimize savings. In one Vizient Clinical Supply Integration (CSI) study, an organization worked with upwards of 30 vendors for one service line, instead of the optimal five or six.

   Transformational value analysis must focus on new and existing products to fully understand performance as it relates to service line goals. However, only a small portion of the value analysis process is devoted to savings opportunities for existing products. Utilization and variation reduction may account for up to 80% of the workload for a mature and high functioning VA committee, whereas a newly forming program might have 80% of their projects involving new product requests.

5. **Closely examine purchased services contracts**

   Purchased services such as environmental programs or food services can drive significant cost savings. Because many of these categories do not go through central supply chain processes, the opportunity to leverage scale is usually missed. Quite often, savings can represent 20% or more, which is significant considering that there are well over 100 categories of purchased services within most health systems. Many large and well-respected health systems tell Vizient of purchasing contracts for laptops, for example, that have not been updated for years. These common occurrences represent fertile ground for savings driven by transformational value analysis. Health systems should start by first examining their oldest contracts, or those set to expire soon.

6. Ensure value analysis teams are representative of the full care continuum

As patient care shifts from the acute to the non-acute environment, value analysis representation must follow suit. According to Sg2's 2022 Impact of Change Forecast, the major care shifts discussed in Table 1 require all hospital and health system assets to be represented within the VATs process and program structure. For example, an Orthopedic VAT should be inclusive of any ambulatory surgery center (ASC) sites of care since a large volume of orthopedic procedures are performed in those settings, outside of the hospital walls. But for sites of care that span multiple service lines or are considered separate business units, a VAT should be created to ensure spend is optimized across the board. While these VATs will vary by organizational need and profile, potential inclusions might be skilled nursing, rehabilitation and home health.

Stakeholders

Aligned and engaged stakeholders are essential to the value analysis process. The ability to identify and recruit the appropriate team members is fundamental for optimal decision-making. It is crucial to identify and engage key stakeholders for the most valuable transformational value analysis experience.

1. Empower physician leaders to own physician preference item decision-making

40 – 60%[3]

Physician preference items (PPI) as a proportion of total supply chain spend

80%

PPI decisions driven by physicians

Many hospitals overpay for physician preference items (PPI) and carry the burden of unjustified variation because of a failure to integrate physicians in the value analysis process. Unjustified variation occurs when a hospital has more suppliers or products in a clinical space than can be clinically justified. Fragmented decision-making leads to fragmented market share which, in turn, results in poor pricing and increased risk. Physicians are the most important stakeholders in the PPI space and are well-positioned to bring a scientific perspective to discussions based on evidence and data. They should be empowered to make clinical product decisions based on a thorough and comprehensive discussion with their peers, guided by standardized decision-making criteria. At Ochsner Health System, an organization steadily transitioning into value-based care, physicians are empowered to make, and be accountable for their decisions.[4] To better align incentive and empower physicians, hospitals and health systems should do the following:

– **Time matters**

Meetings and meeting preparation required for value analysis are time consuming and physicians will struggle to participate in functions that detract from revenue-generating activities. Providing physicians with paid administrative time for those employed, or creating medical directorships or other paid roles for independent physicians enhances participation. Asking non-employed physicians to devote uncompensated time to clinical product decision-making is asking them to make a charitable donation of their time.

– **Accurate data and clinical evidence**

Accurate utilization and cost data is key for physicians to anticipate the downstream effect of their decisions. Data transparency enables physicians to understand the scope and impact of actions. The availability of high-quality clinical evidence may determine whether a trial or product evaluation is required prior to making a permanent decision. Arming physicians with this knowledge enables them to make informed decisions based on standardized decision-making criteria.

– **Incentivize success**

Incorporate outcomes of the value analysis process and organizational-wide metrics (e,g,, clinical outcomes, savings, resource stewardship goals) into physician compensation packages. Creating non-monetary rewards for hitting savings targets at the service line level (e.g., first right of refusal for extra operating room (OR) block time, access to a budget reserve funded through a portion of savings for the purchase of equipment or supplies or additional staff) also can encourage aligned incentives.

Empowering physicians as owners of the value analysis process requires full data transparency regarding utilization, financial, quality and outcome data.

2. Governance

Governance should be provided by an executive steering committee. Health systems should:

– **Build a steering committee with hospital/system leadership**

Executive authority, support and engagement are crucial to value analysis success. Key areas of focus include:

- Approval of the overall structure and process of the value analysis program
- Setting value analysis goals (savings targets, budget, variation management)
- Monitoring performance of teams with quarterly dashboards
- Enforcing accountability
- Resolving disputes
- Supporting program decisions
- Leading change management to facilitate successful transformational value analysis

– **Expand executive goals to include enterprise-wide performance toward savings and resource stewardship.**

To do so, health systems must understand their current state and have a sharp vision for what they hope to achieve. Well-crafted goals bolster strategic and financial efforts.

– **Recalibrate incentive and compensation packages.**

Connect a portion of upside incentives to value analysis success, including savings goals and performance improvement (e.g., reduction in length of stay (LOS), increase in appropriate admissions, reductions in cost per case/discharge, etc.).

– **Elevate supply chain leadership.**

Supply chain executives are key to establishing transformational value analysis. Creating a dedicated seat at the table for supply chain, preferably through a Chief Supply Chain Officer (CSCO), serves three primary functions:

1. Reinforces that supply chain, specifically value analysis, is critical to overall performance.
2. Provides direct line of communication to the board and other stakeholders who make resource and investment decisions (e.g., human capital, technology, etc.) that impact an organization's ability to build and maintain a strategic value analysis program.
3. Creates a designated accountability function within the executive leadership team.

3. Leverage suppliers as key contributors

The role played by the supplier in the value analysis process is changing dramatically. Health systems expect more from the suppliers they work with, including better data, product comparisons and greater product innovation.

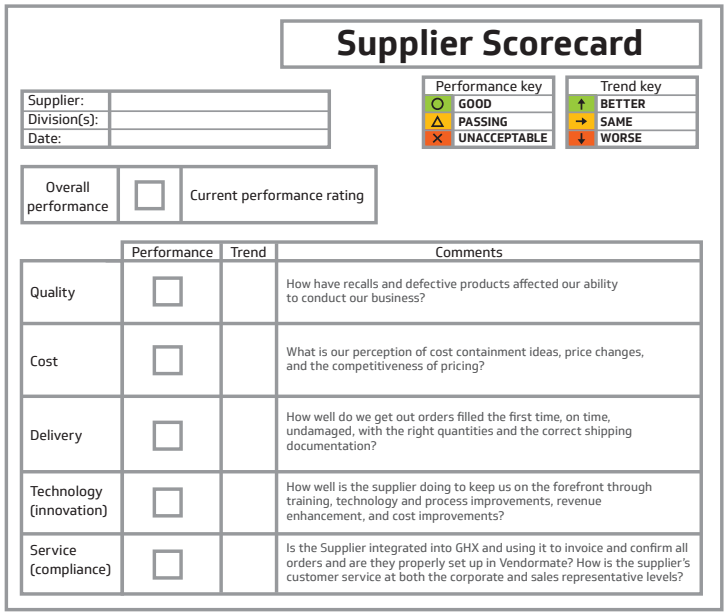
– **Create transparency regarding provider expectations of suppliers**

Providers should create a "supplier handbook" that outlines the rules of engagement for suppliers participating in the value analysis process. In addition, clearly define metrics for product measured with a standard scorecard (Figure 6).

– **Expand preferred supplier criteria to include supply assurance and sustainability**

Supply shortages and disruptions continue to be pervasive across many products. These disruptions not only wreak havoc on providers' ability to reduce variation, but also impact care delivery. At the same time, environmental sustainability is a top priority for many hospitals. Providers should emphasize supplier partnerships that promote transparency regarding sourcing raw materials and an overall positive environmental impact.

Figure 6: Example supplier scorecard



Supplier Scorecard

Supplier:	
Division(s):	
Date:	

Performance key	
○	GOOD
△	PASSING
✕	UNACCEPTABLE

Trend key	
↑	BETTER
→	SAME
↓	WORSE

Overall performance	☐	Current performance rating

	Performance	Trend	Comments
Quality	☐		How have recalls and defective products affected our ability to conduct our business?
Cost	☐		What is our perception of cost containment ideas, price changes, and the competitiveness of pricing?
Delivery	☐		How well do we get out orders filled the first time, on time, undamaged, with the right quantities and the correct shipping documentation?
Technology (innovation)	☐		How well is the supplier doing to keep us on the forefront through training, technology and process improvements, revenue enhancement, and cost improvements?
Service (compliance)	☐		Is the Supplier integrated into GHX and using it to invoice and confirm all orders and are they properly set up in Vendormate? How is the supplier's customer service at both the corporate and sales representative levels?

Metrics

Traditional metrics, such as clinical quality, alone are inadequate to drive transformative value analysis. Provider metrics must cover expanded financial indicators, broader utilization numbers and operational effectiveness.

1. **Financial indicators should go beyond price to consider both cost and reimbursement factors:**

   Life-cycle cost: The initial cost of a product or service, or the price a provider initially pays for a product or service after contractual discounts/rebates are accounted for, has always been at the forefront of value analysis. However, organizations must understand the life-cycle cost. This requires an understanding of the total life expectancy of a product, initial cost, service costs, preventative maintenance, operating costs and any other cost associated with the utilization of a product or service over its lifetime. This is critical when introducing new products into an organization but can also be used to compare currently used "like" products and services, or even similar products that are not being used. This is especially important when organizations are seeking savings opportunities.

   Projected revenue: Understanding projected revenue, both inpatient and outpatient, associated with a product or service is imperative to understanding value. This requires in-depth expertise of how a product or service is coded for billing (e.g., does a code exist or is a new code required?). Once the proper reimbursement code is identified, it is static (i.e. reimbursement amount does not change regardless of increases / decreases in charges). The VAT should weigh current and projected volume and payer mix to fully understand reimbursement potential.

   Estimated contribution margin: Contribution margin is the best indicator of profitability (or lack thereof) resulting from use of a product or service as it considers elements of the life cycle cost and reimbursement potential. Estimated contribution can be used to compare the use of products or services and build the financial preference for one product or another, holding all other considerations (e.g., quality, operations, etc.) constant.

   Cost to the patient: Since transformational value analysis seeks to understand the total cost of care, health systems must not overlook direct and indirect cost to the patient. While this metric is often challenging to quantify, consider the following:

   - Payer coverage: To what extent is a product or service covered by payers at your facility? To what extent can reduction of variation and improved outcomes drive payer contracting?
   - Out-of-pocket cost considerations: Are there other patient costs to be considered?

2. **Utilization metrics should indicate resource stewardship**

   At its core, resource stewardship is the appropriate allocation of resources for patient care which considers both benefits, risks and overall costs. Simply put, it is the optimization of every dollar spent, where the product or service fulfills the function it is intended for at the lowest cost, without providing anything extra. Careful assessment of functional utilization versus aesthetics and features should be leveraged as an indicator of resource stewardship.

   While traditional value analysis looks at utilization of any given product or service as part of the value analysis strategy, transformational value analysis seeks to understand use and aesthetic function or clinical outcomes relative to cost.

   - **Functional utilization** refers to the adequacy of a product or service in fulfilling the desired function. Does it do what it is intended to do? Are there better clinical outcomes? Is it superior or inferior to competitive products? What are the cost comparisons, for example product price and life cycle cost between this product and competitive products?
   - **Aesthetics/features** refers to the look, feel and ease of use of a product: What are the additional features, and are they needed across the organization?

3. **Quality metrics should account for episodic and longitudinal operational effectiveness**

   Transformational value analysis includes quality and variation but also seeks to understand a product or service's broader impact on operations including process, workforce, downstream/upstream use of services.

   - **Process:** Does this product or service create greater efficiencies by reducing the number of steps, touchpoints, or stakeholders involved with an overall process? Does it decrease procedure time enough to add another case?
   - **Workforce:** Is there a reduction in the number of clinicians, techs, etc. used in a process?
   - **Patient outcomes as measured by downstream and upstream utilization:** Does this product reduce length of stay, the number of follow-up visits, acute care readmissions, or prevent further utilization of other costly services?

As value analysis teams weave traditional and transformational metrics, it may seem that quantifying value is a combination of art and science. While traditional value analysis considers one dimensional, concrete metrics, transformational value analysis spans many dimensions to understand if overall value outweighs the cost, creating an ongoing stream of clinical-cost-benefit data and analyses. Similarly, accounting for all relevant metrics and connecting them in an actionable format is a complex process. As organizations transition to include transformational metrics, value analysts must be equipped to provide recommendations leveraging complex and varying data sets.

- **Leverage technology (e.g., supply chain value analysis software, artificial intelligence (AI), etc.)**

  Leveraging automation and supply chain data software frees up time for value analysts to assess outputs, weigh metrics and work with VATs to provide data-driven recommendations.

- **Select products based on supply cost impact**

  Organizations should be selective when determining which products to include. Assessing current spend data will identify the top spend categories. Then, create a list of products and services that are prime for the value analysis process. In addition, set the baseline dollar amount to be included.

Table 2: Value analysis requires both traditional and transformational metrics

Metric category	Traditional metrics	Additional transformational metrics		
Financial	• Price • Supplier tiers • Class of trade • Rebates, warranties, etc.	**Revenue / Reimbursement** • Expected reimbursement by payer class • Expected reimbursement by site of care • Estimated Payer mix (e.g. overall and by site of care) • Estimated contribution margin (i.e. average reimbursement less direct cost)	**Cost / Contribution Margin** • Cost of utilization • Life-cycle cost of the product (including total life expectancy of the product, service, maintenance, etc.) • Direct cost of utilization • Cost variation by Physician (i.e. for procedure)	**Cost to the Patient** • Payer coverage dynamics • Estimated out-of-pocket cost
Utilization	• Volume • Market share (of product or service within an organization)	• Site of care utilization • Inpatient volume • Outpatient volume • Clinical function / output	• Features (beyond primary function) • Volume by physician • Variation across physician stakeholders	
Clinical quality and operational effectiveness	• Length of stay (LOS) • Readmission • Rate of complications • Patient demographics (e.g. age, gender, comorbidities, etc.) • Patient mortality	**Process** • Clinical variation • Time to implementation • OR minutes • Procedure duration • Throughput	**Workforce** • Physician / clinician experience • Physician / clinician satisfaction • Ability to work at top of licensure	**Patient Outcomes** • Patient (and caregiver) experience • Number of follow-up visits • Downstream / upstream impact

Supplier Insight: Suppliers Can Gain a Competitive Advantage by Functioning as Collaborative Partners

Suppliers must understand how hospitals and health systems approach value analysis and the rules of engagement for collaboration, including VAT structure (leadership, composition, cadence for meeting) and methodology for rating competing products, such as supplier scorecards. Doing so enables suppliers to create a unique value proposition by contributing relevant data and information to the value analysis process. Partnerships between suppliers and hospitals or health systems provides a collaborative opportunity to work together to achieve the goals each wants to achieve.

In an example of collaborative value analysis, Johnson & Johnson helped Banner Health to reduce shipments to its consolidated service center (CSC)[5]. By analyzing purchasing patterns, Banner and J&J reduced daily shipments by several hundred and standardized on stocked products in the CSC versus one-off shipments. This drove service improvements and cost reductions.

To provide similar value, suppliers must possess an intimate knowledge of the corporate culture, size, scale, sites of care/assets, clinical capabilities, strategic goals, clinical quality and outcome goals that are unique to specific health systems. Suppliers that fail to participate in transformational value analysis strategies risk losing stature with motivated providers.

Collaborative supplier value-add

Invest in data and improve information gathering: As product decisions evolve to include much more than physician preference, suppliers must compile data and metrics for a broader stakeholder group. Suppliers seeking to build a competitive advantage should:

- Invest in independent, scientifically designed research studies that connect product performance to clinical outcomes and other quality metrics. Robust literature containing clinical and scientific data to support clinical efficacy is what drives informed clinical decision-making over white papers.
- Develop a strong knowledge of financial reimbursement trends under varying payment models and communicate these to clients.
- Conduct comparative analyses of competing products that demonstrate pricing advantages and outcomes (clinical quality, utilization and financial metrics).
- Promote the economic impact of new product enhancements and innovations.

Facilitate data and information sharing: Suppliers must facilitate discussions that extend beyond physician and supply chain relationships. Product value must be articulated across a broad spectrum of VAT stakeholders, including service line managers, quality and infection control, finance and population health. Products are assessed and reviewed based on key criteria and input generated by these other critical stakeholders and therefore must be included in the product discussions.

Provide ongoing support through implementation and tracking initiatives: Transformational value analysis positions suppliers to have an ongoing role within the implementation and tracking process. This includes providing support to end users to ensure proper knowledge and use of products as well quick resolution to any concerns during implementation. Tracking following implementation ensures the key metrics are trending as intended. This ultimately benefits the supplier and provider.

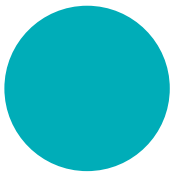
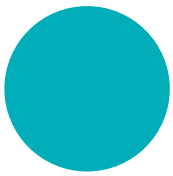
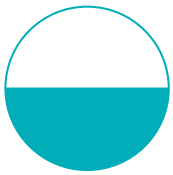
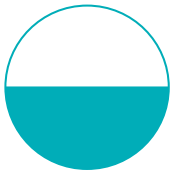
Become a preferred supplier: Build “stickiness” by taking steps to ensure successful implementation of products. For example, develop and facilitate educational events for clinicians and work with physician champions to develop clinical usage protocols. In addition, drive product performance data sharing and aggregation and provide best-practice guidance to increase staff response rates. Leverage this data to support clinical evaluations and case study development.

Assume risk: Suppliers should deploy risk sharing/gain sharing to cement a collaborative relationship throughout the value analysis process. Potential examples include:

- Money back guarantees
- Performance guarantees that provide rebates on a portion of the full cost of a product or service if performance objectives are not met
- Outcomes-based risk sharing in the form of compensation to the provider if a product or service falls short of defined outcomes.

Spend category and impact

Transformational value analysis will impact all major spend categories. Organizations should be aware of nuances to ensure they are getting the most out of their value analysis process.

Spend category	Transformational value analysis impact	Key Trends	Strategic considerations
Capital and imaging		Demand for imaging services is expected to grow nearly 7.5% over the next five years. Advances in technology and robotics across surgical specialties have driven demand. The positive impact of robotics on quality, patient safety, and outcomes will entice clinicians to request these items.	• Transformation value analysis should be required for all physician preference items (PPI) and all utilization-driven components required for big-ticket, capital and imaging equipment (e.g. attachments, disposables, etc.) • Leverage concepts of transformational value analysis as part of your capital review process, especially as it relates to stakeholders and metrics • Use a standardized evidence request template to ensure all relevant data, analyses, and clinical information is submitted • Understand the process, workflow, and workforce impacts • Assess savings opportunities associated with implementation (e.g. what is the current process, procedure, product used for the same purpose? How does the product compare? What can be discontinued as a result?)
Physician preference items - clinical preference, CV, Ortho		Clinical preference items will continue to be a primary focus of transformational value analysis with the goal to reduce variation and increase savings. Clinical preference items account for 40-60% of a total supply spend, representing huge potential to optimize spend.	
Purchased services (IT/EVS/ Outsourcing)		This category represents 20% to 25% of the average operating budget. As more organizations grapple with financial challenges, they are assessing insourcing, outsourcing and hybrid approaches.	• Apply transformational value analysis to all outsourcing decisions • Assessment should consider: – A cost comparison of in-sourcing vs out-sourcing – Impact of quality and operations • Leverage expiring contracts to seek immediate savings
Med/Surg		Overall acute care med/surg growth will remain flat, but the mix of patients will skew towards higher acuity with increased length of stay (LOS). Therefore, historical supply utilization benchmarks might not be a true indicator for future supply need and budgetary allocations.	• Monitor utilization shifts and related changes in supply needs • Focus on saving opportunities for commodity items related to med/surg by reducing the number of vendors and SKUs • Leverage functional analysis to identify standardization and savings opportunities • Leverage expiring contracts as an opportunity for savings
Lab		Advances in technology and testing protocols lend to more testing options, albeit costly ones. This has fueled interest in value-based laboratory medicine, which seeks to qualify value determined by patient outcomes in conjunction with cost. Lab will be an increasing focus of value analysis especially for systems with mature transformational value analysis.	• Lab operations must become an increasing focus of transformational value analysis • Understand current spend on laboratory services as part of the organizations total spend; Likewise, determine which testing protocols are tied to specific services/ services lines. • Compare and benchmark laboratory testing / utilization to understand spend increases and variation (i.e. new tests) • Consider creating a specific VAT for lab services should size and scale of your organization support a standalone team
Freight management, distribution and logistics		This category is not assessed as part of transformational value analysis as a stand-alone product or service. However, with increasing costs and a focus on supply assurance, expect spend in this area to be treated as products and services that are evaluated by value analysis processes.	• Understand how shipping and distribution costs factor into the value analysis process for new and existing products • Aggregate this information as part of supplier scorecards and preferred supplier determination • Weigh supply assurance against cost

Greater shading = greater application and impact of transformational value analysis

Sources:

1. Impact of Change®, 2022; Proprietary Sg2 All-Payer Claims Data Set, 2019; The following 2019 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; Claritas Pop-Facts®, 2022; Sg2 Analysis, 2022.

Getting Started

Transitioning to transformational value analysis may seem daunting. Regardless of where an organization sits on the maturity continuum, there is opportunity to strengthen the value analysis process.

1. **Assess where your process is today:** Understanding where the organization is on its value analysis journey is a critical first step towards transformational value analysis. Conduct a simple SWOT assessment (strengths, weaknesses, opportunities and threats). This will bring greater insight into where the biggest gaps are, and where the most impactful opportunities may lie.
2. **Include transformational value analysis in strategic plans:** Identify a concise list of goals, objectives and initiatives that will impact your 1-3-year strategic planning cycle. Doing so acknowledges that an organization's value analysis program is a strategy required for sustainability and growth. Likewise, it allows an organization to make incremental changes and track wins.
3. **Develop specific value analysis key performance indicators (KPIs):** KPIs is a short list of metrics intended to quantify and monitor performance. They should be targeted at the overall process as well as outcomes.

- Process KPIs: time to product approval, meeting attendance, adherence to scorecard completion, implementation metrics, etc.
- Outcomes: Savings (actual vs. target), spend benchmarks, new product approvals, reduction of SKUs, reduction of vendors, etc.

4. **Seek external expertise to jump start transformational value analysis programming and / or fill organizational gaps:**

- Leverage strategic partners to evaluate the current state of your value analysis program to better identify gaps and understand dynamics that are either helping or hindering your program's success.
- Supplement your value anlaysis teams with external value analysis experts and professionals to fill interim gaps, educate and train your value analysis team, and assist with the your programmatic structure.
- Leverage external data sources / subscriptions and decision support tools to support and inform decision making.

References

1 Kaufman Hall Flash Report January 2023 : https://www.kaufmanhall.com/insights/research-report/national-hospital-flash-report-february-2023

2 Definitive Healthcare (Source Medicare Cost Report; Data is from the Definitive Healthcare HospitalView product. Data is sourced from the Medicare Cost Report. Results based on 5,145 U.S. hospitals with reported NPR and 5,324 U.S. Hospitals with reported OpEx data each year from 2015 to 2020. Accessed March 2022.): https://www.definitivehc.com/blog/revenue-trends-at-u.s.-hospitals

3 Definitive Healthcare: https://www.definitivehc.com/blog/reigning-in-hospital-supply-costs-and-physician-preference-item-spending

4 Fierce Healthcare: https://www.fiercehealthcare.com/

5 Gartner: https://emtemp.gcom.cloud/ngw/globalassets/en/supply-chain/documents/trends/gartner-healthcare-supply-chain-top-25-for-2022.pdf

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