



## **Transformational value analysis:**

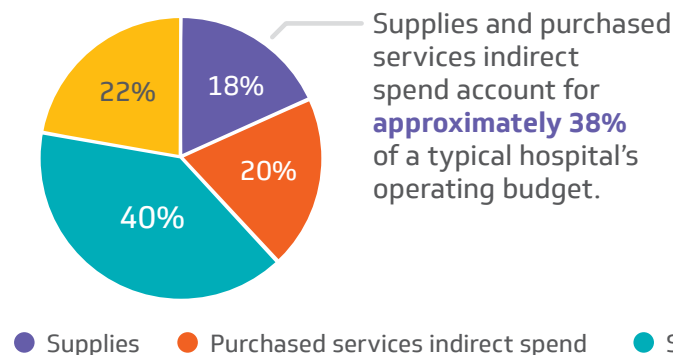
How optimizing supply spend savings can maximize health system performance

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.*

**Figure 1: Average hospital operating budget allocations**



- 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

Source: based on engagements with Vizient

Change is needed. Health systems are struggling financially due to a slow 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.

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 million, about \$76 million is spent on supplies. Robust value analysis could yield savings between \$15.2-\$19 million annually.

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. The Vizient Clinical Supply Integration team has identified gaps and shortcomings with traditional value analysis (See Figure 2).

**Figure 2: Potential savings expected through value analysis**

Total supply expense	Price	2-5% Average price savings
	Efficiency	7-10% Average price savings
	Use	10-15% Average price savings
Total operating expense	<b>Total cost of care</b>	<b>20-25%</b> Average price savings

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

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. Although this requires a strong leadership commitment, a myriad of benefits, along with substantial savings, are possible for organizations willing to invest the time and effort to achieve transformational value analysis.

## 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 are 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 analysis 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.



To learn more about best practices aimed at helping health systems and suppliers to transition to transformational value analysis, contact [viewpoints@vizientinc.com](mailto:viewpoints@vizientinc.com)

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## References

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