

# Budget impact projections report

Projections for: January 2024 - December 2024

Published: Summer 2023



## Overview

The Summer 2023 Budget Impact Projections report provides healthcare organizations with our best estimate of price change projections related to the healthcare supply chain. The projections cover the time-period of January 2024 - December 2024. Your organization can use these projections to assist in your supply-related budgeting process.

### Overall projected price changes

This report provides a summary of anticipated price inflation in the supply chain over the next 18 to 24 months.

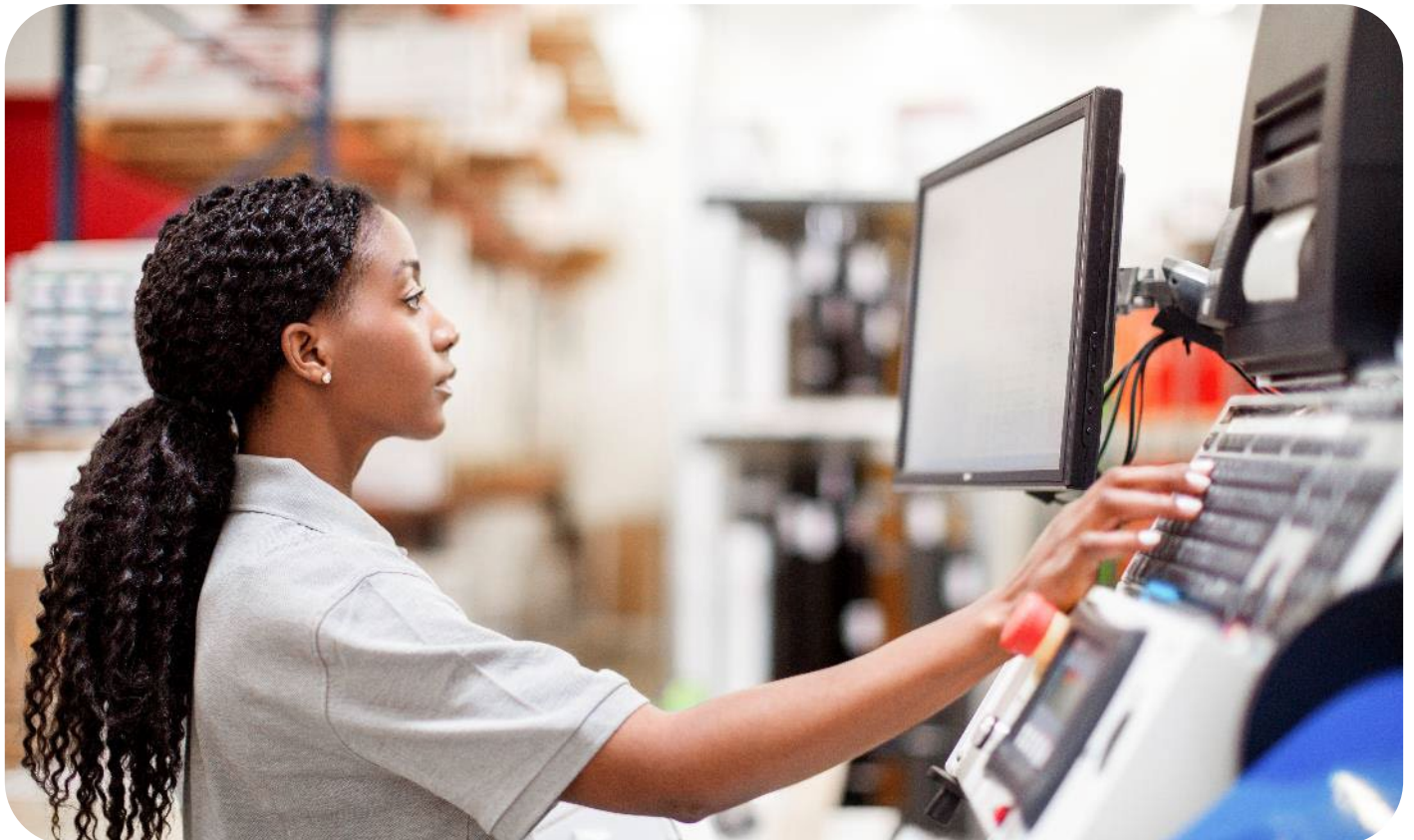
Note that the Vizient® market price projections are forecasts, not predictions. Forecasts are point-in-time estimates of price changes and are subject to changes in market conditions.

### Methodology

Inflation projection assessments derive from numerous internal and external sources. External data is gathered from the Producer Price Index and other economic data. Internally we analyze Vizient price trends and work intently with Vizient's category management team to gather insight regarding agreement pricing.

For more information, contact Jeff King, Vizient research and intelligence director, at (972) 581-5074 or [jeff.king@vizientinc.com](mailto:jeff.king@vizientinc.com).

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## Projected price changes

Overall, Vizient estimates that market prices encompassing the healthcare supply chain will increase 2.9% from January 2024 to December 2024.

Login to your member dashboard to view and download the full Budget Impact Projections report. The full report has detail information on anticipated inflation over the next 18 months covering medical devices, physician preference, capital equipment and indirect spend. Specific pricing impact may vary based on your institution's volume, procurement configuration, product mix and other factors. Refer to the Vizient Catalog to request a new tier and view pricing and other contract details

## Vizient notes

The past two years consisted of a rise of labor, logistics and raw materials costs. The market has finally started experiencing a regression of several of the price pressures through the first six months of this year.

**Projection uncertainty:** Sporadic inflation, supply chain disruptions, the Federal Reserve's rate hikes, global recession fears, China's struggling economy, China's threats toward Taiwan and the Russia-Ukraine war, all present unique market variables and supply chain vulnerabilities. Estimates and forecasts should be used with a level of caution that respects the existing unstable market. The volatility in the markets and the considerable number of unknowns currently make forecasting exceedingly difficult. Markets can change abruptly with a drastic rise or fall, daily or weekly. We suggest a conservative approach when using this data and erring on the side of caution.

**Inflation and the Federal Reserve:** Over a several year time-period, before 2022, the Fed kept interest rates low to spur growth and help maintain the economy during the pandemic. As economies recovered from the pandemic, inflation soared in 2021 and continued through 2022. The Fed has been continuously raising interest rates since March 2022 and has nearly reached a point of holding steady if inflation continues to slow. The Fed hopes to decelerate inflation to a more historical rate of 2% per 12-month period in 2024 or 2025.

**New normal:** Raw materials prices, freight and labor costs aren't expected to return to pre-pandemic levels and will continue placing pressure on manufacturing costs. A much talked about recession would contribute to temporarily lowering raw material and energy prices, but global production levels won't be able to meet projected demand growth preventing prices from returning to previous normal levels.

**Supply chain notes:** Several of the challenges facing the supply chain will persist into 2024, leading to continued shortages and rolling back orders. This will only improve when all raw materials become more available, labor shortages improve and global resolutions help clear the current issues.

The Q2 2023 survey by the National Association of Manufacturer's indicated 74.4% of respondents listed attracting and maintaining a quality workforce as their primary business challenge. Supply chain disruptions dropped to sixth on the list after occupying the second spot in the Q4 2022 report. High raw material costs have dropped from the number one challenge in Q2 2022 to fifth in the most recent survey.<sup>3</sup>

**Global supply chain realigning:** Manufacturers of products and raw materials are moving away from relying solely upon China and towards working with a variety of countries including India, Malaysia, Thailand, Vietnam, Cambodia, Indonesia and Mexico. U.S. Suppliers want to further diversify sources of materials to avoid being reliant on one country which led to many of the recent supply availability issues.

Traditional trade and economic partnerships have eroded over the last two years as China, Russia, Brazil, Saudi Arabia and other countries seek growth by supporting each other and working towards less reliance on the U.S. economy and the dollar. Much more can be found in the five reports mentioned below that are updated monthly.

# 2.9%

estimated supply chain inflation rate

## Price Assurance

Expense management is challenged by growth in labor and non-labor expenses, while access to raw materials remains a concern. Vizient is connecting healthcare suppliers, providers, and other stakeholders to increase the reliability, affordability and quality of care, equipping you to plan and working to protect you from the price of the unexpected.

### Proactive, collaborative approach that yields results

Vizient combines agile partnerships, market insights and unique contracting strategies to create new ways for providers and suppliers to exchange value. We also offer hands-on change management support covering each spend category that ensures access to inventory, effective outcomes and the best value.

### Enhancing agreements and alignment

Our approach to achieving price assurance includes:

- Forecasting models, methodologies and raw material data attribution.
- Favorable contract terms and conditions that balance price, product access, supply availability and clinical effectiveness.
- Market analysis and expert insights based on the largest spend and clinical data sets in the industry.
- Ongoing price and contract governance model to ensure the cost performance of the GPO, advancing price changes for review by our councils and networks.
- Price alignment, verification and audit services throughout the procurement cycle to increase visibility and validate pricing across provider, supplier and distributor data sets.

### Assurance with accountability

Our category managers and contract experts use both public and proprietary data to assess any requested price increase. Our teams continually manage the price performance of Vizient-contracted spend to ensure our portfolio consistently and significantly outperforms off-contract spend on inflation. Providers are involved in our pricing review process through our councils and networks as is our Supplier Performance team.

For the increasingly small percentage of price increases Vizient accepts, we do so for a limited time, after which suppliers must reapply.

Often, we accomplish additional enhancements for our providers. We work intentionally to minimize administrative burdens where we can while managing price performance across bids, extensions and any mid-term requests.



## Vizient Supply Analytics solution

### Supply Analytics

Inflationary cost pressure, supply availability and fluctuation in demand have made it difficult to understand the impact each of these market dynamics had on healthcare providers, especially at a category level. Through our **Supply Analytics tool** providers can see key trends in spend, average unit price and units purchased at an overall spend view, at a category view and product level view (Figure 1). This level of insight helps compare quantitative measures to market dynamics. Vizient's **Supply Analytics** is available to all group purchasing providers who provide automated data submissions to Vizient.

### Category Insights

Beyond the market impact for an individual provider, understanding crucial trends in the market at a category level is an important perspective when trying to accomplish strategic category management. A macro scope view of market price trends across hundreds of providers and all suppliers reveals inflationary impact, an understanding of market price trends and shifts in supplier market share. Category Insights, a module of Supply Analytics, uses a metric called Category Index to simplify understanding of market trends. Category Index is a weighted average market price for products in a category and measures whether market prices for these products are rising or falling, and by how much. A view of Category Index can be seen by clinical sub-categories and suppliers to understand the primary drivers of market movement. Insights like these aid in strategically planning sourcing activity within a category. **Category Insights** is available to any provider with automated data submissions to Vizient and subscribes to price benchmarking within our Supply analytics.



## References

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1. Producer Price Index. U.S. Bureau of Labor Statistics. Published on July 13, 2023. Accessed July 14, 2023. <https://www.bls.gov/ppi>
2. Short-term Energy Outlook. U.S. Energy Information Administration. Published on July 11, 2023. Accessed July 27, 2023. <https://www.eia.gov/outlooks/steo/>
3. 2023 Second Quarter Manufacturers' Outlook Survey. NAHM. Published June 7, 2023. Accessed July 28, 2023. [2023 Second Quarter Manufacturers' Outlook Survey | NAM](#)





**vizient**<sup>®</sup>

290 East John Carpenter Freeway

Irving, Texas 75062

(972) 830-0000

[vizientinc.com](http://vizientinc.com)

Vizient, Inc. provides solutions and services that improve the delivery of high-value care by aligning cost, quality and market performance for more than half of the nation's healthcare providers. Vizient provides expertise, analytics, advisory services, and a contract portfolio representing more than \$130 billion in annual member purchasing volume, to improve patient outcomes and lower costs. [www.vizientinc.com](http://www.vizientinc.com).