

Tighter margins call for an elevated spend management approach

With margins under unprecedented pressure, hospitals are exploring every possible way to maximize their spend. Vizient® has worked with some of the nation's best hospitals, helping them uncover hidden costs that drag down margins and impede overall performance. Simrit Sandhu, president, spend management, shares how innovative healthcare leaders are tackling the rapidly changing demands of the healthcare industry using a holistic spend management approach.



Simrit Sandhu
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What macro challenges are hospital CFOs and COOs facing?

Unpredictability has ruled the past few years leading to the margin pressures we see today. According to Vizient strategic partner Kaufman Hall, hospital operating margins were negative from July 2022-February 2023. While they have improved since March 2023, there are still many challenges threatening stability. Patient volumes continue shifting to outpatient settings, while inpatients are sicker, resulting in longer lengths of stay. Reimbursements, especially from Medicaid, continue to decrease. Costs have increased due to inflation—which impacts everything from supplies to purchased services and labor.

In fact, Vizient data shows that non-labor expenses have increased more than 25% since 2019. CFOs and COOs are seeking rapid cost reduction, sustained cost management, and connectivity from the supply chain enterprise to the clinical/operational departments.

How are healthcare leaders developing strategies to alleviate these pressures, while maintaining their mission of delivering high quality care?

We're beyond easy savings. Top performing leaders are applying a resource management view across their operations in all areas of spend to maximize their resources. They are crossing traditional boundaries of responsibilities and removing silos to create value through data-backed collaboration with clinicians and suppliers. This end-to-end planning drives visibility and creates strategies that provide sustainable savings and new revenue.

What is an example of implementing that mindset in the supply chain management function?

The complexity of the industry requires thinking about total value. For example, value analysis is a concept that's been around for many years, but there's a way to look at it beyond the simple supply costs. We call it transformational value analysis, because we're looking at everything from product lifecycle costs to clinical outcomes that drive optimal care and reimbursement improvement. Suppliers are participating in these discussions as key stakeholders. We've found that when health systems do this well, they can save up to 20% on total costs and can prevent unnecessary CMS penalties.

What are the key steps supply chain leaders should implement now to operationalize new ways to make spend work for them?

While every provider is different, there are fundamental elements of spend management that have emerged over the past few years. First, you must have synthesized data, paired with category expertise. That is critical for developing and maintaining collaborative partnerships with administrative and clinical stakeholders. Additionally, it must connect supply consumption to clinical and operational performance.

Next, leaders must steward their precious resources responsibly and find ways of collaborating with key stakeholders to capture greater value. They must understand how to maximize hospital dollars, minimize financial and mental stress on patients, avoid undue community and environmental impact and create accountability with suppliers.

Finally, leaders must develop resource stewardship programmatically within their providers. Limited value is achieved unless they are managing cost performance over the long-term. This can be achieved by leveraging a governance model that connects category experts and stakeholders with cost, clinical, and operational performance metrics to manage and monitor spend.

How is Vizient partnering with hospital leaders to develop shared goals, improve margins and reduce complexity?

In this complex industry, we know that episodic savings-oriented projects, siloed tools or a one-size-fits-all approach to performance improvement doesn't work. We offer a configured partnership model built on category expertise, data and tools to help them intelligently allocate their limited resources for maximum impact to support reaching their goals and aspirations. Whether they are looking to transform their overall enterprise or apply actionable insights in one specific area, our goal is to help providers to do what they do best: deliver care for their patients and improve the health of their communities.



Learn more at vizientinc.com/spendmanagement

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