BROADJUMP
Spend Wisely.

Thought Leadership

Why is the Hospital Sourcing Model in Dire Need of Transformation?

Featured in Modern Healthcare

Problems with the Current Model

In a situation where up to fifty percent of a hospital's operating budget is consumed in medical-surgical supplies, pharmaceuticals and purchased services, paying fair prices for products and services is vital to controlling costs. The traditional hospital sourcing model is outdated, no longer sufficient and was exposed at the onset of the COVID-19 pandemic.

Lack of Transparency

To start, there is a major lack of transparency in pricing across the marketplace. BroadJump sourcing applications show there is more than 300% variation in costs for the same products in various categories. Currently, twenty to thirty percent of supply purchases are made without a contract or current market pricing visibility, which commonly results in obtaining out-of-market pricing. Additionally, with Physician Preference Items (PPI) representing up to fifty percent of total supply spend, paying out of market pricing for costly devices creates a significant chance of overspending and a healthy reduction in procedure margin and operating cash.

Lack of Resources

Another issue lies in the lack of resources available to effectively manage sourcing activities on a timely basis. Most hospital and health system sourcing teams are understaffed and do not have access to the technology to provide real-time data that provides them with actionable market pricing intelligence to swiftly achieve available cost savings. Most hospital supply chain teams have historically been stretched thin, dealing with product procurement, product shortages and demands for purchasing the latest technologies. This leaves little time for the data analysis and negotiations required to realize available cost savings through obtaining competitive market pricing. What supply chain teams need is a model that makes their tasks much more manageable, while giving them back precious time required to build a cost-competitive product contract portfolio to gain control of supply spend.

GPO Contracts

Lastly, but perhaps most significant, are GPO contracts. These typically apply to about thirty-five percent of a hospital's non-labor expenses. GPO contracts generally carry a three-year to five-year term with fixed tier level pricing that often do not offer best market pricing from the onset of the contract. These lengthy contracts unintentionally trap hospitals into unfavorable product pricing positions, with very limited resources to negotiate better pricing, thereby causing one to miss out on years of savings opportunities. It is quite possible that a newly negotiated GPO contract could have out-of-market pricing as early as within the first 90 days. The traditional model design, using long-term GPO contracts, especially for high-dollar purchases, creates a pricing disadvantage and a reduced operating margin.

Solutions for More Efficient Sourcing

Achieve Marketplace Pricing Transparency

Despite the pitfalls of the traditional static sourcing models, there are ways to evolve to a dynamic sourcing model that allows you to benefit from current market pricing. The first step is achieving full pricing transparency across the marketplace. To do this, hospitals need access to technology that captures the last price paid from closed receipt data from hospitals across the country representing national and regional GPOs. Technologies that compare purchasing data from thousands of hospitals at the category and SKU level based on purchase volume and market share allow hospitals to achieve marketplace pricing transparency and deliver the knowledge and leverage to obtain better pricing.

Obtaining Competitive Pricing through Marketplace Pricing Data

Such data provides first-hand insight into and marketplace intelligence of what peer organizations are paying for the same supplies as your organization, as well as the evidence needed to support your pricing negotiations. The fastest way to secure cost savings is by paying market-appropriate pricing from your incumbent supplier. The slowest way to secure cost savings is through convincing your medical staff to use products they do not prefer. Rather than asking your physicians to switch to more cost-friendly products, take advantage of available sourcing technologies designed for obtaining competitive marketplace pricing on an ongoing basis.

Moving to a Dynamic Sourcing Model

In order for hospitals to achieve savings goals most efficiently and effectively, hospitals need to take advantage of available sourcing technologies and resources to employ a dynamic sourcing model. This allows hospitals to transition from a traditional static contracting model to a dynamic sourcing model that facilities periodical pricing negotiation, which results in securing best available market pricing from contracted and non-contracted suppliers. Additionally, a dynamic model will virtually eliminate the need for requests for proposals (RFP), reduces supplier negotiation time by as much as seventy percent and allows for the securement of competitive, current market pricing to reduce annual supply spend by as much as fifteen percent.