



# Ask An Expert

## The Impact of Health Care Reform on Supply Chain Management

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America's health care system has been debated for decades and its flaws—millions of uninsured Americans unable to afford care, overburdened and underfunded health care providers, and misaligned incentives between hospitals, physicians and insurers are but a few—have been amply documented. These and other problems created a “health care system in crisis” and eventually led to passage this year of comprehensive federal health care reform—the Patient Protection and Affordable Care Act, legislation that will, at a minimum, begin to address the complexities of and problems with health care in the United States.

As president of a group purchasing organization, I have a strong interest in how health care reform will impact the *business* of health care purchasing and what its implications will be for supply chain management. But first, let's review how we got to this point.

No factors were more critical to health reform than the need to expand insurance coverage and curtail the exploding cost of providing care. Right now the number of uninsured or underinsured Americans is roughly 46 million, a startling number driven by the decline of employer-based coverage and comparable to the combined populations of half of the 50 states. And according to the Centers for Medicare & Medicaid Services, the projected average annual health spending growth of 6.1 percent for the period of 2009–2019 is anticipated to outpace the projected 4.4 percent average annual growth of the overall economy. In short, we have a health care system defined by rising numbers of uninsured Americans and unsustainable costs. Something had to give, and the eventual outcome was passage of the Patient Protection and Affordable Care Act, which when fully implemented will give 95 percent of Americans access to quality, affordable health care; bend the health care cost curve, and reduce the deficit by \$143 billion over the next 10 years with further deficit reduction in the following decade.

### Implications on Supply Chain Management

But as health care executives know, health care reform means far more than just access and cost, and several provisions of the Patient Protection and Affordable Care Act have tremendous supply chain implications. Consider the inextricably linked health care reform goals of achieving higher quality care and increasing the cost-effectiveness of the care received. Most believe that unless we link payment reforms to measurable improvements in quality, we will see a worsening trend of rising medical costs and declining health outcomes. Supply chain management can no longer be discussed in a silo, and the broader goal of more cost-effective, higher-quality health delivery will require significant changes in supply chain process and methodology. Revenue constraints, increased patient throughput, and pressures for stronger collaboration with physicians and clinicians to reduce supply costs—all while improving quality—will challenge supply chain management leadership to transform its role and assume greater importance within the C-suite.

As health care reform is implemented, executives must continue to find ways to do more with less. Effective supply chain management, in an integrated care delivery context that balances patients' expectations and the costs necessary to meet them, is integral to both an organization's economic success and the quality of the patient care it provides. Supply chain expenditures comprise a significant percentage of a health care provider's budget, and much of every dollar saved on supply acquisition or reduced utilization will circulate directly back to patient care.

The implications of the health care reform span well beyond the operational impact. Health care reform has created incentives for supply chain management organizations to aggressively pursue their own reform and transformation to adapt to the changes ahead, to address strategic issues, and strive to achieve organizational excellence.

In future issues of Hospital Newspaper I will address health care reform and supply chain management in the context of the law's medical device tax, comparative effectiveness research, and unique device identifier global standards.

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