

At the heart of savings

Reduce high supply chain costs in the cardiovascular unit

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QUICK TAKE>>>

Cardiac rhythm management supply costs are one of the biggest supply chain issues faced by both hospitals and materials management departments. Two consultants adept at dealing with this issue provide real life experiences and insight on successfully implementing a cost-savings program. One of the most crucial deciding factors in accomplishing this goal is ensuring that both administration and physicians are properly educated because such a program will be difficult, if not impossible, to implement without their support.

As clinical supply chain consultants who work with hospitals, we find that one of the biggest issues our clients face is how to adequately control cardiac rhythm management



(CRM) supply costs. It is a challenging initiative, given high device prices, the sophistication and complexity of certain devices, and physician preferences and alle-

giance to specific vendors.

Tackling a CRM initiative can be a challenging task, but not an impossible one.

One such client who recognized stunning success with the CRM initiative is St. Vincent's Catholic Medical Centers (SVCMC).

When we began this project in 2004, SVCMC was a network of five separate hospitals located in Manhattan and three adjoining boroughs. Each of the hospitals housed between 200 to 500 beds, and each possessed its own electrophysiology (EP) lab.

As a network, they spent \$6.4 million dollars on CRM supplies annually, across several vendors. By the close of the initiative, we created new sourcing strategies and device-tracking mechanisms for the network that resulted in more than \$1 million dollars of annual savings, or a 16 percent annual cost reduction.

The success of this initiative rests upon several key factors: the dedication and hard work of the SVCMC employees, a sound methodology to garner support for the initiative and vendor will-



ingness to negotiate for improved savings. Successful initiatives like these have taught us there are steps that both materials management and administra-

tion can follow to ensure successful implementation of CRM cost containment practices.

The first step toward resolving any materials issue will be an honest acknowledgment and assessment of the issue. Without doing so, "it's going to be almost impossible to rectify the problem and recommend a credible solution," says Henry Tomasuolo, vice president of supply chain management, SVCMC. "As an organization, we needed to take a hard look at ourselves if we were going to make lasting improvements."

SVCMC merged with Catholic Medical Centers in 2000, and the EP labs at each of the facilities operated independently of one another without standardization, much less a purchasing strategy, across the CRM material spectrum. For example, no CRM contracts existed at any of the facilities and vendors operat-

Photo at left by Tino Lee; photo at right by Brad Hess

ed freely in each of the hospitals with no clear vendor policy to manage vendor practices. Physicians often requested products with no knowledge of cost, and to complicate matters, no clear bridge of communication between the physicians and the materials management staff existed. As such, the operating cost of business was exorbitantly high.

Identify the players

The clinical nature of the initiative mandates that both MDs and clinicians be intimately involved, since the prospective changes will affect how they deliver patient care.

Physicians and clinicians who possess intricate product knowledge will ultimately point materials personnel in the right direction to help shape the procurement strategy.

To move the SVCMC initiative forward, we worked with many parties under its network umbrella. Each of these parties played an important role in managing the change.

Their participation was required to ensure a complete and comprehensive success, which will ultimately be measured by improved care and service and cost reduction.

As illustrated in Fig. 1, this included many staff, vendors and the GPO.

Implement a methodology

The materials management group assumed ownership of the initiative and responsibility for the task. As consultants, we actively collaborated with them to help direct and support the process.

We worked with one another to set up a methodology that would provide a means to further investigate the problem at SVCMC and discover the solution. Below are a few of the key steps in the project work plan we followed:

- **Assess the issue:** The first step in addressing any problem is to recognize the issue. As we mentioned earlier, there were no executory contracts at any of the SVCMC facilities, no procurement strategy in place to control costs and no finan-

cial tools to track costs. SVCMC spend spiraled out of control and totaled \$6.4 million per year, with greater increases on the horizon.

- **Justify the initiative:** Identifying a sound and justifiable reason for a CRM initiative is crucial to its adoption by hospital staff. In this case, the SVCMC network was in a pre-bankruptcy state with less than 48 hours' cash on hand. The administration and physicians understood the need to radically modify current business and operational practices.

- **Identify a savings target:** At the outset of any project, it is important to attach a dollar figure to the initiative. SVCMC forecasted a modest percentage of savings based on invoice audits, benchmarking and price parity analyses.

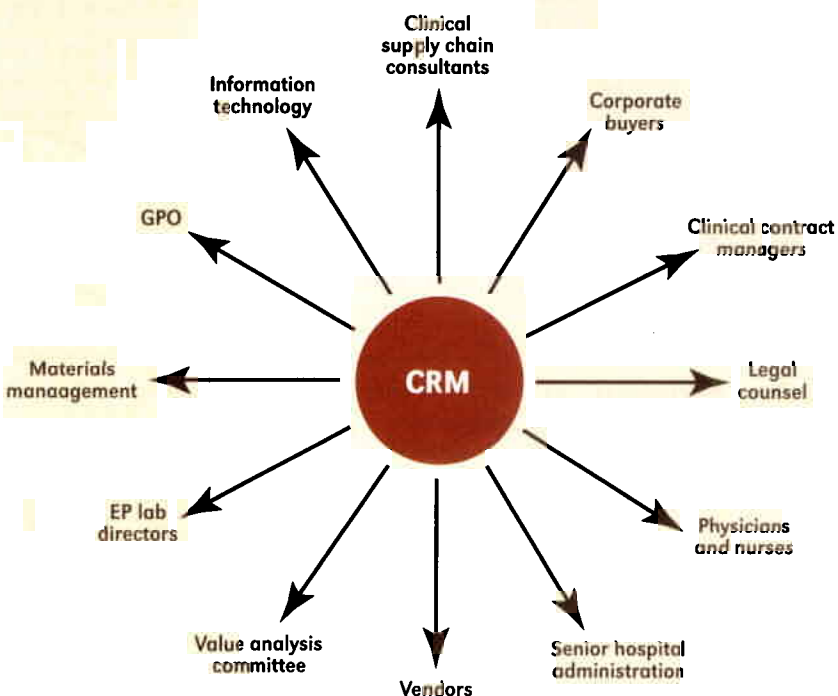
The results were encouraging. It was determined that, at the very least, the network might achieve a 2 percent savings target, or \$128,000 per year, if each facility simply negotiated to pay the same price for the same product.

- **Meet with physicians and clinicians:** It's crucial to involve clinical staff to achieve success. We met individually with each of the EP lab directors and department chiefs to explain the need for the initiative and seek their buy-in. We asked for their input with respect to helping us formulate a purchasing strategy that would standardize network use and improve payment terms, while ensuring product safety and access to high-quality devices.

The physicians suggested that we negotiate our prices based on the use that occurs under the three major umbrella CRM categories—pacemakers, defibrillators and cardiac resynchronization therapy devices—and their preferences within these categories.

- **Establish a CRM task force:** Form a committee with representatives from each department of your facility to ensure clear cross communication. Each of the hospital facilities appointed several staff members to sit on the task force, including

FIG. 1 Cardiac rhythm management participants



FEATURE 2 [cost control]

department chiefs; directors of the EP lab; the vice president of materials, together with his corporate and regional counterparts; the clinical contract manager; and the consulting team.

The purpose of setting up the task force was to address the current materials and clinical issues in an open forum and appeal to the various perspectives of each staff. Next, the group worked together to draw up solutions and communicate those solutions to their respective groups throughout the network.

• **Draft the request for proposal (RFP):** You are ready to draft an RFP after suitable research, discussion and agreement, which helps to identify your hospital's material and service-oriented needs. At SVCMC, with no contracts or standard pricing existing across the integrated delivery network, the task force committee agreed the next step was to draft an RFP. Using the counsel provided by the task force and earlier physician recommendations, materials management recommended a dual-sourcing strategy.

For SVCMC, this approach made the most sense for several reasons. Materials management insisted on the need to consolidate the purchasing volume across the five hospitals, since it was not apparent, from a materials perspective, as to why one device was selected over another.

Without device consolidation, the likelihood of cost-containment was nil. The physicians and clinicians liked this strategic approach because it provided them with a measure of free will to select other vendors' items, something that was important to them.

Speaking to the success of the team approach, Anthony Gagliardi, M.D., chief medical officer for St. Vincent's Manhattan states, "Our physicians recognized the need to work with administration as a team to increase savings targets, while delivering high-quality patient care."

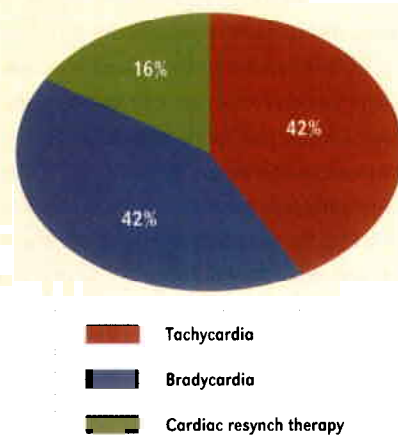
• **Analyze the RFP response:** RFP results are key in figuring out which vendors will best suit your hospital's needs. After ana-

lyzing the vendor response to the RFP, the materials management staff worked with the consultants to conduct further due diligence with respect to item pricing and contractual terms.

Materials management waited to call the next task force meeting until the vendors vetted out some of the finer points of their proposals. Several sets of meetings occurred with vendors to renegotiate points and reconstruct the proposals.

When the task force met for the second

FIG. 2 CRM device type spend distribution



(Data based on first quarter results of CRM initiative.)

time, the materials management department was able to present a thorough analysis, which not only answered the physicians' questions, but also presented the forecasted savings opportunities. Vendor selection was completed after the group reconvened to follow up on additional items.

Required follow-up

As most materials managers know, there are key tasks necessary to ensure a successful implementation of an initiative.

We worked with SVCMC to develop a timeline and implementation plan to integrate the selected vendors' products into each of the facilities.

Input from the group purchasing divisions included the creation of purchase

templates in their materials management information system. The buyers were set up as a last line of defense, checking CRM purchases on a regular basis to ensure compliance and guard against renegade acquisitions that might damage compliance.

"Setting up the initiative was half the battle. Ensuring compliance was the other half," says Tomasuolo.

Several financial tracking tools were developed to monitor spend and savings on a monthly basis. Additional tools were created to track market share compliance and device-use data.

This information was shared with the SVCMC executive directors and vice presidents of operations at each of the facilities, together with the hospital value analysis committee. To ensure sustainable success, all parties were kept in the communication loop.

Lessons learned

Implementing a CRM initiative is not always an easy task, especially when a hospital, or a network of five hospitals, shifts from a select group of vendors to another select group. Expect resistance and many obstacles; however, a sound implementation methodology coupled with support from senior clinical staff and administration will allow you to overcome those obstacles. At SVCMC, it took one year to complete this initiative.

While this was certainly a major commitment of time, it was well worth the labor involved to save more than \$1 million, increasing employee morale and contributing to SVCMC's mission of delivering quality care. **MMHC**