

12 Ways Hospital Buyer Behavior is Changing! Part 2



Thomas J. Williams and Ron Lee

This is Part 2 of our blog that discusses 12 Ways that Hospital Buying Behavior is Changing. If you missed Part 1 Click here <http://bit.ly/13Hx4t> and the link will take you to the article. In Part 1 we discussed the Power Shift to Sophisticated Buying, Analytics & Revenue Cycle Management, Demand Management, Further Supplier Consolidation, Self-Contracting and Price Transparency. This week we will discuss six additional reasons hospital buying behavior is changing.

7. Supplier Management

One of the areas that hospitals have a significant opportunity for cost savings is through the aggregation of purchasing from their largest suppliers of capital equipment and/or supplies. Right now most of these organizations sell to the hospital in departmental silos.

In fact, it's to the supplier's advantage to sell this way because they maintain higher gross margins and they don't jeopardize a sale or increase their sales cycle when a hospital prefers one of their products but not another. The fact remains, however, that there are significant savings to be made when hospitals bundle sales together with the same supplier.

Look for hospitals/health systems to demand their strategic suppliers enhance their relationship by providing a strategic account executive thereby increasing mutual value and decreasing overall costs. To be a strategic supplier will require a category leadership position as opposed to breadth across multiple product categories.

Implication: Sellers will be forced to perform strategic account management and offer savings for consolidated purchases. Many firms are using this strategy today to increase their wallet share within an account and force small niche competitors out.

8. Reduced Loyalty & Regulated Tendering



As hospitals continue to aggressively remove costs expect to see more RFPs and tougher negotiations for existing suppliers to keep their business.

Suppliers will be classified as a commodity, partner, developmental or exploitable. If you fall into the commodity or exploitable category watch out because you can be displaced without warning by whoever offers

a lower price at equal to or better value.

Many suppliers will be asked to participate in reverse auctions that will drive prices down and provide shorter term supply contracts that will be put out to bid frequently. This will allow the hospital to get the best pricing available. Loyalty will be preserved for the few organizations that are category leaders, provide a wide range of value or cannot be easily displaced.

Implication: Mergers and acquisitions will allow suppliers to offer multiple products and create a bundling pricing strategy. This will provide them with a distinct advantage.

9. Proliferation of Category Buyers

These are specialty buyers that group related products or services together so that “pools of spend or group buy “for the entire System and/or RPC are managed in a more precise manner to cut overall spend. Category buyers are experts in understanding the technology, needs of buyers, selection criteria, marketplace alternatives, sourcing, negotiation and pricing. As these specialists emerge they will drive acquisition and overall cost utilization down further.

Implication: We have already seen the emergence of category buyers. The next wave will be their proliferation to drive down costs everywhere. This will be especially important in purchased services (non-labor spend), which is the next horizon for major cost reductions.

10. Capital Budget Reductions



Capital asset utilization will continue to be scrutinized carefully by RFID technology and sharing of equipment between facilities will continue with increased regularity. Since hospitals are providing care for patients across the continuum of care (out-patient, skilled nursing, LTACs, etc.) because of bundled payments - some companies with a diversified product line will see an increase in capital

sales to these alternate site markets.

One thing is certain.... for the immediate future the medical arms race is over. Hospitals won't buy the latest high-technology product to compete with the hospital down the street because it's not necessary. In most communities there will only be 1-2 hospital systems available to the population to choose amongst.

Clinical information technology will continue to be a focal point for investment to ensure hospitals have data available across their healthcare continuum to manage population health.

Since clinical information technology encompasses 25%-35% of a typical hospital's capital budget that doesn't leave much funding for other departments. Savvy sellers will have to be creative with ways to get what equipment is required into use; such as through lease, pay per use, risk based contracts etc.

Implication: As hospitals create Centers of Excellence there will be a product pooling of assets into one area where percent utilization of capital assets can be easily measured and tracked. Also, new hybrid technologies will create a different type of medical arms race. It will be more of a "technology" race that has multiple ways to treat the same illness or do the same procedure. Think of the camera pill for endoscopy and colonoscopy - as this technology gets better and better it could change the way the entire procedure is done.

11. Bring Evidence or Go Home

There are many types of evidence from in vitro studies to case reports to cohort studies to systematic reviews and meta-analysis. In some cases, the product is brand new to the market and the only evidence that exists is FDA approval, unpublished clinical data or opinions from thought leaders. For software solutions there often is an ROI model with a plethora of financial calculations, graphs and tables. In today's marketplace, evidence is king to prove that your product contributes to clinical outcomes. Without it you will be a commodity and relegated to a purchase decision based on the lowest price, terms and conditions.

Implication: Marketing will need to be very pro-active during product development to determine the best ways to provide clinical and financial evidence for the new product.

12. New Models



We have watched with interest the emergence of the Rep-Less sales model. As hospitals look to drive out costs associated with implants we expect that many will buy sales representative services as they require them. Some hospitals won't require them at all while others will value some portion of them. Overall we expect prices for these products to continue to drop.

Implication: Within healthcare today there are no "sacred cows". Suppliers must think strategically and look at the supply chain from their customer's perspective and ask themselves where would they cut costs if they were the customer? They should ask where are we vulnerable to be replaced? In today's healthcare climate it is not enough to provide value. The customer must acknowledge the value and be willing to pay for it.

Parting Thoughts

Payers are placing increasing pressure on the hospital C-Suite to adopt risk-payment models such as bundled payments and shared savings models. These models are forcing hospitals to look at new ways to lower their costs. Procurement is now viewed as a strategic weapon in the arsenal of the hospital CEO. Suppliers have a unique opportunity to change the way they sell to become more collaborative and show hospitals how to save money using their products, services and solutions. For those that do so the future is bright.

Authors: Thomas J. Williams and Ron Lee

As always we welcome your thoughts and input. Let's start a discussion and elevate the sales profession with a thoughtful, civil and informative discourse.

If you enjoyed this post, please share it with your social network and connect with us on:

- Blog: <http://strategicdynamicsfirm.com/blog/>
- LinkedIn- Tom Williams: www.linkedin.com/in/thomasjwilliams
- LinkedIn Publisher: <https://www.linkedin.com/today/author/8734131>
- Twitter: https://twitter.com/sd_firm

Photos courtesy of Google Images.

©Strategic Dynamics Inc. All Rights Reserved. 2015