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EXCLUSIVE: NJ Hospitals Seek Savings, Nix GPOs
 Wednesday, January 12, 2000

Companies:
 Virtua Health



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THE NEW JERSEY COALITION DOESN'T NEED GPOs AND HAS DESIGNED A PURCHASING SYSTEM BASED ON DEALING DIRECTLY WITH MANUFACTURERS

by Robert Neil, Healthcare Purchasing Analyst
 Medical Data International

An alliance of five acute-care hospitals in southern New Jersey is charting its own course by disregarding group purchasing organizations (GPOs) and traditional benchmarking methods. Additionally, Virtua Health (Marlton, NJ) is not interested in new Internet companies that offer only what one official characterizes as an additional layer to an already crowded and inefficient supply chain.

Formed October 14, 1998, Virtua brings together Memorial Health Alliance (Mount Holly, NJ) and West Jersey Health System (Camden, NJ), two non-profit hospital systems that operate in the Philadelphia metropolitan statistical area (MSA). Together, they account for 1,152 staffed beds and more than 49,000 annual acute care admissions, according to MDI's proprietary "MCIQ Provider & Payer database."

In the first of a two-part exclusive interview, MDI talks with Virtua Vice President of Strategic Support Services Nick Toscano, whose purchasing department is setting up partnering opportunities manufacturers may want to explore.

Part 1

INTERVIEW

MDI: You're buying for all the hospitals in the alliance. Are you using a GPO?

TOSCANO: Because of our co-op's initiatives, we are removing ourselves from all group purchasing, ultimately. One of our hospitals (Memorial) was a VHA Inc. (Dallas) shareholder, and we have used other regional groups in the past, but the real focus with our co-op is to flatten that out and to create some contracts directly with manufacturers.

MDI: Can you explain the co-op? What are you trying to move toward?

TOSCANO: We're proposing a volume commitment to the manufacturers of product--both in the pharmaceutical and the medical/surgical side--that is able to drive some savings on the unit price, but also is able to leverage some of the value-added resources that a supplier can bring to the table. Obviously that gets beyond the unit-price issue and gets to the total delivery cost issues. It's really an opportunity to create the strategic relationships we need with suppliers, and it also allows us to control our own destiny, based on our market conditions in this region, and the things we need to do with products and services to provide a differentiated product to our community.

MDI: You're talking about dealing directly with the manufacturers and the suppliers and cutting out the intermediaries completely?

TOSCANO: Yes. We're set up to do that. We have a distribution facility that's 34,000 square feet, geographically located to services all of our entities, and it's doing that today in the lowest unit of measure distribution.

MDI: That's impressive, but are you finding you can get the same kind of discounts, the same kind of pricing as you would if you went through a group purchasing organization?

TOSCANO: No, we're finding we can get better. I think it's a matter of offering the supplier solid market share opportunities in this region and true commitment per volume. We also are dealing with some suppliers that have historically been carved out of GPO contracting that have good products and are obviously able to provide them to our clinicians. Some of these manufacturers have not been able to get into the group purchasing process, and we have opportunities for

them to sell their wares here.

MDI: Can you get everything you need using this method?

TOSCANO: Oh, sure. And we're talking about everything-- pharmaceuticals, med/surg, outsourcing services, everything.

MDI: Are you only working with suppliers based in your area, or is a manufacturer's location not a factor?

TOSCANO: It doesn't matter where they're based. What matters is that they share our vision and share our strategy and are willing to participate in it. I think there are some suppliers that see they need to change, they need to evolve into direct contracting, or at least get closer to the provider community so they have an understanding of what the customers' needs are.

MDI: What is the criterion for suppliers you'd like to deal with? Do they have to be of a certain size or at a certain level of sophistication?

TOSCANO: The criterion is that they (can) create value for us, and that can be in simply delivering a product or leveraging a lot of the value-added resources. ... They don't have to be a certain size; they just really have to understand our strategy and direction and find their contribution to it. We don't want a supplier that simply delivers a product without all the other things that go along with that product's total cost, and that means they need to participate with our resource management teams, they need to understand how utilization and waste is affecting our total cost and really get fully integrated into our activities.

MDI: How does the ordering process work? Does every hospital order directly from the manufacturer?

TOSCANO: No, the way it's set up now--and you've got to remember we've just started this process--we do some direct contracting right now, we also use some distribution and (into 2000) we'll probably continue to use some distribution for some items, but for our high-volume, high-priced items, we are focused on a direct contracting process.

MDI: Do you know of any other hospital systems in your region doing something similar?

TOSCANO: No, we're kind of out-of-the-box with this model, and we've really benchedmarked outside the industry. We've spent time trying to understand within the industry

what was going on, and we couldn't find something we could benchmark so we went outside the industry. CVS Corp. (Woonsocket, RI), which is the pharmacy retailer, helped us understand how they manage their supply chain. In our local region we used Subaru of America (Cherry Hill, NJ) in the automobile industry and benchmarked some of their activities to see how they moved automotive products and parts to their automobile agencies and things like that. We've also looked at the traditional retailers who have done very well--companies like Wal-Mart Stores Inc. (Bentonville, AZ), Sears, Roebuck and Co. (Hoffman Estates, IL) and some others.

MDI: What do you think you can save by going outside of what has been considered the traditional method-- purchasing through GPOs?

TOSCANO: Our business plan--and it's just a piece of the puzzle--calls for a \$10 million cost-reduction program over the next three years.

ANALYSIS

Virtua has embarked upon an enterprise that many hospital systems are believed to be monitoring, and any measurable success is likely to influence other networks' actions. For the very same reason, GPOs are likely paying attention to Virtua, and so, too, should suppliers, who may need to consider partnering directly with more provider networks as the new year unfolds. Additionally, as Toscano pointed out, direct relations open new opportunities for manufacturers not able to participate in GPO contracts. However, suppliers truly must work to make deals under such circumstances, because any hospital system willing to invest the funds and personnel to set up direct purchasing probably will expect quantifiable value and savings that can be shown to executives all the way up the company's corporate ladder.

NEXT WEEK

For suppliers, understanding the model Virtua is using is important, along with keeping current on alternatives proposed by e-commerce companies, and Toscano also has views on those operations.

"When you look at what (the dot-com companies) are doing today with GPOs and even with distributors, you get a sense there's not a lot of a focus to reduce overall supply chain steps," he said. "It's just a focus to maybe put an 'E' in front of something."

Next Wednesday, MDI will continue the discussion with Toscano and talk about the Internet and e-commerce in the supply chain.

Resource: Medical Data International's "Managed Care IQ Provider & Payer Database," January 2000

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