

# Redefining value analysis practices for a healthcare reform-minded industry

## Are healthcare organizations generating true value or spinning wheels?

by Rick Dana Barlow

**D**uring turbulent economic times and/or an arid budgetary climate, healthcare facilities typically turn to performance improvement (PI) programs to identify and eliminate, if not ratchet down, wasteful processes and spending to improve operations.

Whether it's continuous quality improvement (CQI), total quality management (TQM), lean manufacturing processes, Six Sigma, value analysis or some hybrid variation, hospital supply chain management departments need to measure their productivity and elevate their processes to justify a place in the lofty executive suite, if not their positions in the basement.

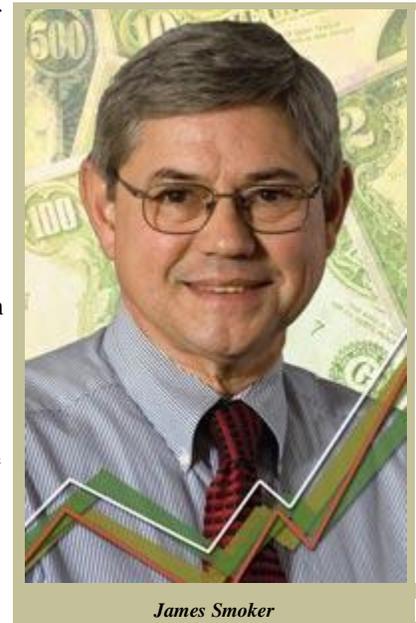
Some may argue that value analysis may not belong in the same classification as the other PI examples that will be explored in a follow-up story, but value analysis can be an effective process to determine optimal product and service choices.

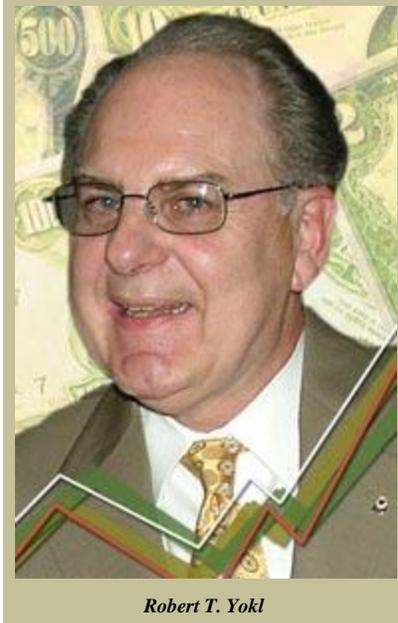
Others, however, contend that value analysis is very much a key component of performance improvement. In fact, James Smoker, MPA, CMRP, is one of them.

Smoker, who retired last month as director, materiel resource services, at [WellSpan Health](#), York, PA, after more than two decades in the industry with a clinical background in respiratory therapy, includes value analysis as part of the "process/performance improvement continuum," he said.

But the traditional definitions and impressions of value analysis, particularly in healthcare, no longer may be appropriate to succeed, Smoker continued. "Value analysis used to focus primarily on product standardization and reducing overall costs," he told *Healthcare Purchasing News*. "Drive more volume to fewer vendors and the world will spin appropriately on its axis. But the new twist involves clinical quality value analysis, which includes life cycle costs and clinical benefits to drive desirable patient outcomes."

Basically, healthcare organizations need to look at the bigger picture. Smoker cited using silver-impregnated products versus practicing effective aseptic techniques and installing scrub machines to reinforce employees returning scrubs. "Do we try to goof-proof everything, which will add costs to the system, instead of coaching healthcare professionals to use their heads as well as their hands?" he asked.





*Robert T. Yokl*

Robert T. Yokl, president and Chief Value Strategist, [Strategic Value Analysis In Healthcare](#), Skippack, PA, and one of the ardent advocates of value analysis, attributes the challenge of furthering value analysis development to an education gap.

"Value analysis has high name recognition in all hospitals in the U.S. today, but only about 1 in 10 hospitals are really practicing the classic tenets of value analysis," Yokl noted. "This fact is holding back huge supply chain savings from being implemented at most hospitals, systems and IDNs. Very few value analysis leaders and practitioners have had formal training in advanced value analysis techniques. Without this advanced training these VA team members can't or won't move to the next level of savings performance. This truth needs to be hammered home to these practitioners until they see the light of day that value analysis begins and ends with training."

### **Defining moments**

What effective value analysis strategies lead to cost-efficient tactics? That depends on how you define and implement value analysis. Certainly, the definition has changed since the concept's earliest incarnation outside of healthcare in the 1940s.

Smoker referred to the classic perspectives of such management engineering experts as Larry Miles and William Edwards Deming. Miles merely coined the idea that anything not adding value to a product or service adds costs, according to Smoker. Miles applied his theory to the successful development and production of "Liberty Ships," which were designed to move materiel and personnel to the European and the Pacific Theaters during World War II.

Meanwhile, Deming picked up the charge and advocated his treatise that "quality is free," Smoker indicated, in that "tight tolerances promotes quality and quality control assures near zero defects."

For Smoker, a self-referred student of Deming, that means it shouldn't cost so much to do something right the first time. "If we are efficient and effective in our processes, that speaks to a higher standard of quality that overall reduces our costs, whether in support services operations, such as supply chain management, or in clinical operations," he said. "Case in point: Nosocomial post-op infections. If you work to eliminate them on the front end you improve the quality of patient care and the resulting organization and system costs."

But Smoker lamented the lack of standards in healthcare – and not just in supply chain. "There are so few standards of practice that any individual can look to and cite standard operating procedure by which we should be operating and performing our tasks," he said. "When you look at where supply chain management has come over the last 20 years, we're way far ahead of where we were as box kickers in the basement that beat up vendors for a better price. And we are being recognized as margin menders or makers by the C-Suite. We're getting there."

Smoker cited efforts by the Association for Healthcare Resource & Materials Management, Strategic Marketplace Initiative, Arizona State University and other organizations as making a difference in "professionalizing" the supply chain through standardized business processes, performance improvement programs and key performance indicators, certification and a standardized lexicon.

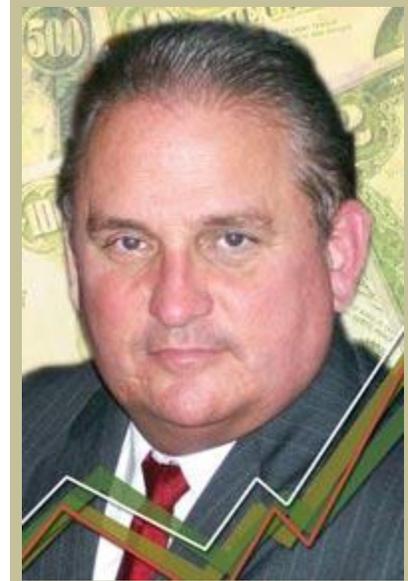
"We have so much anecdotal stuff but so little empirical data to work with," Smoker continued. "Read the production and retail industry trades and you'll see they're talking about the same stuff we are, but they're steps ahead. Maybe we aren't quite as different as others but we have a long way to go."

Unfortunately, too many continue to pigeonhole value analysis without incorporating current events as context, key considerations in separating what it is versus what it is not.

Terry Cox, MA, MS, FAHRMM, CMRP, director, supply chain services, [Texas Children's Hospital](#), Houston, defined value analysis as "a process to evaluate equipment, supplies and services based on total cost, quality and safety to make sound clinical and business decisions by selecting the most cost-effective, clinically and operationally acceptable solution.

"Supply Chain can either play the lead or have a supporting role in the process," Cox continued. "It is not a process to determine the least expensive item on the market."

Others delineated the price and product elements, too.



*Terry Cox*



*Pat Klancer*

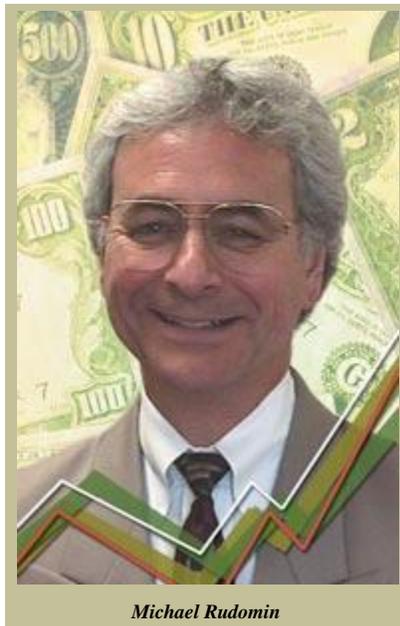
"It involves a team approach to developing creative solutions and should be rooted in maintaining and enhancing effectiveness and efficiency, quality and ultimately patient satisfaction," said Pat Klancer, senior director, Supply Chain Diagnostix Services, [Amerinet Inc.](#), St. Louis. "It should be comprehensive, and function-based, i.e., breaking down all processes into functions and evaluating each activity or element within that function. It is not about just finding the right, or cheapest price, but should balance reducing costs and improving quality."

Laura Archer, senior vice president, The Preference Group, [Broadlane Inc.](#), Dallas, concurred. "Value analysis is not a vehicle to add new products or simply some form of a new products committee. While value analysis should be used to help manage the introduction of new vendors, products and practices, it is not the sole purpose of it," she said.

Lisa Dietz, director and Six Sigma Black Belt, [Aspen Healthcare Metrics](#), a [MedAssets company](#), emphasized the balancing act that value analysis engages between cost and quality.

"Value analysis means many things to many people, such as standardizing supply decisions or making decisions about evaluating new products," she noted. "Fundamentally, value analysis is a process to analyze and find opportunities to improve the value of any product or service where value equals quality divided by cost. While the term can be confusing and has become overused, value analysis is an incredibly important activity, not just for supply chain, but for all areas of healthcare. We hear daily about the cost problems that exist within the U.S. healthcare system. Many future changes on a global level will be based on maximizing the value side of the equation, value = quality/cost."

### Clinical conversing



As a mechanism to assess and balance supply costs and benefits, value analysis typically works to answer two fundamental questions, according to Michael Rudomin, principal, [HealthCare Solutions Bureau](#), LLC, Bolton, MA. "Can the hospital get greater value in buying a supply that costs less than the one currently in use – or is easier to use – yet produces the equivalent result? Is a more expensive supply acceptable because it produces an identifiably better result that is of value to the organization?" Rudomin indicated.

"Value analysis is not simply standardization, as a hospital might standardize on an item that is unnecessarily expensive, produces no enhanced benefit over the current item, yet is the choice of the clinicians," he continued. "One would hope, however, that the result of a good value analysis program would include standardization on the supply that has proven to be the best balance between cost and benefit."

Yokl dismissed a flurry of common impressions about value analysis that border on misperceptions. "Value analysis is not a committee of 20-plus members reviewing and approving group purchasing contracts or negotiating, bidding or doing something else to reduce supply cost," he said. "VA is not standardization, new product, service, technology conversions or introductions or approving new products, service or technology requests. It isn't any of these things that most healthcare organizations call value analysis."

Mike Alkire, president, [Premier Purchasing Partners L.P.](#), Charlotte, NC, emphasized the clinical motivation that drives successful value analysis programs.

"Value analysis is neither a way to bypass the traditional purchasing channels nor a way to flood a facility with multiple products filling the same need," Alkire indicated. "As healthcare facilities struggle to face the challenges of today's economy, value analysis is evolving as a structured, coordinated effort between purchasing and clinical end-users to take a 360-degree view of their supply and equipment requirements. The goal is to work as a multi-disciplinary team making product decisions based on a holistic, educated understanding of how a given product will impact patient care, financials and support a facility's strategic goals.

Terry Murphy, director, supply chain management, [Lee Memorial Health System](#), Fort Myers, FL, agreed.



*Mike Alkire*



*Terry Murphy*

"Lee Memorial Health System focuses on the clinical acceptability of a product or products. It is critical that we do not carry forward with the sometimes held belief that value analysis is about getting the least costly – or cheapest – product," Murphy emphasized. "The focus of a true value analysis should be to determine the clinically acceptable products or vendors and from there create a competitive contracting environment that will result in the best economic opportunity for the facilities."

That's why Lee Memorial retooled its value analysis process nearly two years ago among its variety of facilities operating in sister cities.

"In my 20 years of experience in supply chain, value analysis teams or clinical and surgical products committees were pretty good-sized groups making decisions – or indecision," Murphy told *HPN*. "We wanted to take the personal preference out of the equation and focus on the clinical opportunity."

Murphy recalled a committee debate about surgical clippers in which clinicians at Lee Memorial's group of facilities used multiple brands, but each facility complained about another's choices. "We found that all of these surgical clippers were clinically acceptable," he said, "because people were actually using them."

Murphy's boss, Bob Simpson, CMRP, president and CEO LeeSar Regional Service Center and Cooperative Services of Florida, urged senior executives that if the system standardized to one clinically acceptable surgical clipper it would save thousands of dollars – a single example that could be replicated for other products and processes.

Lee Memorial's new Supply Management Action Teams (SMATs), infused with high-end clinical support, focused on rapid decision-making and turnaround, according to Murphy, generating nearly \$2 million in "delivered product cost savings" to date.

## **Recruitment roulette**

While some maintain that choosing the right people within their facility and department to participate on any value analysis project may be more of a science than an art, there's an art to the science.

"It is important to include a representative of each department or function that is involved with, or touches a particular product, service or process," noted Amerinet's Klancer. "The group must be multidisciplinary, and also include participants from different levels of departments, from the front-line employees to managers and administrators, in order to provide a variety of knowledge, perspectives and approaches. The team should include influential leaders as well as informal leaders, whose opinions are valued and respected by other employees."

While the group certainly would include representatives from the departments who use or will be affected by an item, as well as an array of supply chain and administrative and financial managers who can speak to the costs and processes involved in obtaining/using that item, according to HCSB's Rudomin, that may not suffice when it comes to high-end devices.

"In some scenarios with expensive supplies, it might be well to include a reimbursement specialist who can speak to potential impact – positive or negative – of that item from a revenue perspective," he said. "Many hospitals also feel that having a clinical committee member who is part of the supply chain organization is helpful and can be an effective liaison between the two perspectives."



*Laura Archer*



*Peg Tinker*

Peg Tinker, MSA, LAC, LSW, senior director, VHA Performance Services, [VHA Inc.](#), Irving, TX, concurred.

"Supply chain leaders should look to those who are major stakeholders," Tinker said. "Those who use the product or service know best how it should perform. As they review initiatives they may determine that not all appropriate stakeholders are at the table, such as [biomedical engineering] and finance, when there are reimbursement considerations, [information technology], etc. Often teams need training around healthcare economics and the goals of the organization. For example, most clinicians at a staff level are not aware of how healthcare is reimbursed. They might think that if this product is a patient charge item then we get paid. Other qualities they should look for include critical thinking skills, positive communication skills and the ability to review and interpret data."

Aspen's Dietz indicated that participants should be classified into current and future active members and sponsors, as well as ad-hoc resources and interested parties that need to be kept in the loop.

"Generally, core team member skill sets include at least one person with subject matter expertise, someone with systems/process knowledge and also a change agent," Dietz outlined. "Resources often include decision support or other IT/data support. Finally, executive sponsorship is critical to success. Going through this process is very important as well-defined roles help ensure smooth working relationships within the team and with key influences in the organization."

Hospitals should turn to senior management to initially drive and lead the process before focusing on the trench work, according to Broadlane's Archer. "From a best practice perspective, a hospital's senior management team should lead the process and select people to be accountable for this process as opposed to the materials management executives," she said. "By having an executive leader in the organization sponsor the value analysis efforts and

appoint individuals to the value analysis committee, they can hold these assigned leaders accountable for driving results against whatever financial targets have been established during the annual budgeting process."

But avoid the obvious, Yokl cautioned.

"It's been our experience that supply chain managers traditionally select their VA team members by title or by their power and influence in their organization to participate in value analysis projects," Yokl said. "We have found this type of selection method to be a roll of the dice that you are going to get the best people for your VA teams. Healthcare organizations need to be more scientific in their VA team selection, if they want them to be peak performers.

"The best method we know of to select value analysis team members is to do so by their unique characteristics to do value analysis work, i.e., computer-literate, highly organized, analytical thinker, welcomes challenges and change, reliable and dependable, enthusiastic, and looking for growth and recognition. By selecting VA team members utilizing this methodology, supply chain managers will then have the right people with the right attitude, aptitude and fortitude to do this important work."

Aside from bridging the clinical and financial backgrounds, Cox at Texas Children's concentrates on dedication. "The most important factor is to have members that are engaged in this process and are willing to make the commitment to attend meetings," he added. **HPN**