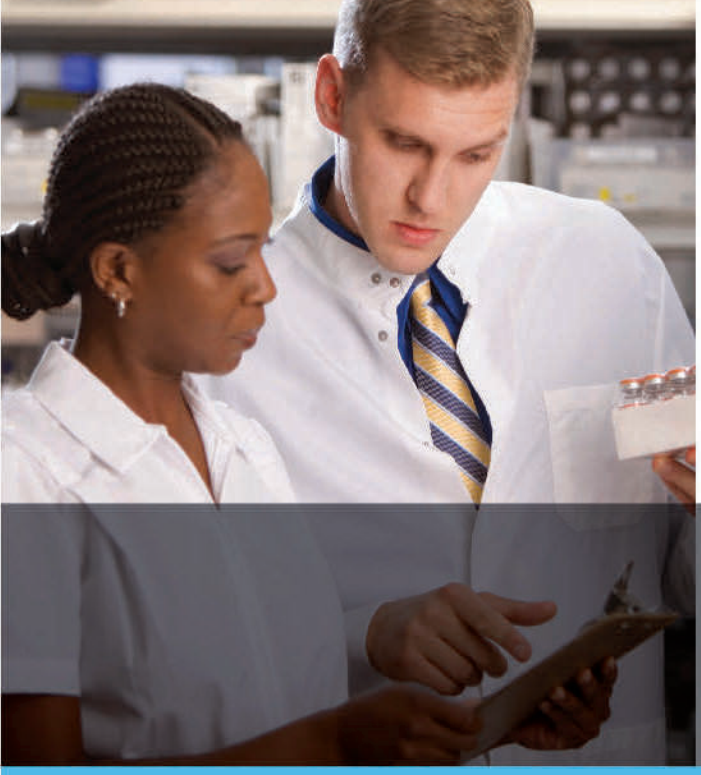

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Is Your Value Analysis Committee a Leader in Change?

Supply Chain Management Best Practices:
Insights from Leaders

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I. INTRODUCTION

This white paper is a publication developed in the spirit of collaboration and continued improvement for the healthcare community. Our objective is to share best practices with healthcare organizations that have struggled with the ever growing problem of controlling supply costs while maximizing patient care. The impetus to reduce healthcare costs in the nation without compromising patient care has forced many healthcare professionals to strive for continuous improvement and sustainable cost management success across a variety of operational functions.

Although the intent of the Value Analysis Committee (VAC) has always been that of supply cost management, it has, in many ways, become a leader of change in many organizations. Here, in this small slice of the total healthcare equation, one may see the real challenges facing the broader healthcare system today.

Through planning, benchmarking and collaboration with key participants, these organizations are well situated to weather the current economic storm.

In this document, it is our hope to provide a bird's-eye view of the challenges and successes of overcoming established and costly philosophical, organizational and operational practices in some of the most advanced and successful Supply Chain Management operations.

Note from the Editor

We would like to thank those that dedicated their time to share their VAC experiences and insights for this peer collaboration effort. The following organizations and individuals are to be especially commended for their commitment to continuous improvement in the healthcare industry:

- Providence Health & Services: David Hunter, Vice President, Supply Chain Management; David Carlson, System Director, Supply Chain Contracting; Melody Craff, MD, PhD, MA, MBA, MS (Strategy), VHA Utilization Director and Clinical Liaison

- Orlando Health/Healthcare Purchasing Alliance (HPA): Rosaline Parson, RN, BSN, CCRN, Corporate Director of Supply Chain Services; Aurelio Duran, MD; Lori Shadley, RN, BA, CNOR, Manager, Healthcare Purchasing Alliance; Angela Sorensen, RN, BSN, Manager, Clinical Resource Services Material Management

- Scottsdale Healthcare: Sue Jacobs, RN; Becky Wright, Clinical Supply Chain Analyst

Our efforts to undertake an evaluation of some of the more successful VAC operations in today's healthcare systems began just before the economic downturn. Recent events have emphasized the inconsistency in structures, motivations and standardized approaches hospitals have adopted to wrench out costs and drive organizational compliance. Supplies are the second largest component of the provider's cost structure, after labor and although supply cost management has been a major

focus for many hospitals for sometime, many VACs have not achieved their desired results. The current economic crisis is hitting the healthcare industry hard and putting pressure on every VAC participant to drive costs down.

There are some organizations that have maintained a steady pace over the last five years to evolve their VAC into an integrated entity that optimizes organizational investments in material and equipment, while improving the overall care of their patients. Well before the recent economic downturn and the renewed call for healthcare reform, these organizations recognized early that cost management and quality of care do not necessarily have to be mutually exclusive. Through planning, benchmarking and collaboration with key participants, these organizations are well situated to weather the current economic storm. Their current successes and their commitment to continuous improvement has established credibility amongst their peers and provided a strong model for consideration. It is from these organizations that we have generated key insights to form the basis of this white paper. As you evaluate your own VAC, we hope that the best practices noted provides a catalyst for change, as well as inspire you to achieve and take your organization to the next level.

HISTORY OF THE VALUE ANALYSIS COMMITTEE (VAC)

	1980's	Today
VAC Product Adoption:	Multidisciplinary approach, collaborative	Driven collaboratively by supply chain organization, physicians and clinical liaisons
VAC Goals:	Cost, safety, efficacy	Comprehensive, quality patient care with keen attention to cost containment in the short and long term.
VAC Processes:	Informal and inconsistent	Formal and consistent
VAC Scope of Collaboration:	Broad focus, included key stakeholders	Reliance on data vs. non-ascertained preferences, and Inclusive of all key stakeholders

The "First Generation" of the hospital VAC started in the late 1980's, where they were affectionately described as "Product Evaluation Committees". Multidisciplinary in focus, they often consisted of hospital administrators, infection control practitioners, risk managers and product users, as well as key purchasing personnel. It enabled every stakeholder in the purchasing process to decide collaboratively which products are best suited to facility goals such as cost considerations, safety and efficacy. These committees also gave individual department representatives the opportunity to voice their opinions — and concerns — about a specific device. They helped steer purchasing decision criteria beyond mere personal preference. Product evaluation committees also helped facilities pinpoint weaknesses in the procurement process, such as lack of product and manufacturer standardization. In fact, discovering four or five similar products that each offered similar features and benefits from different manufacturers was not uncommon.

Today's VACs continue to evolve and many organizations can benefit from understanding where their organization is most accurately represented within the wide spectrum of VAC operations today.

The financial and patient care benefits of a successful VAC can be significant, so understanding how your VAC compares to other institutions will provide a foundation to evaluate organizational opportunities and establish development goals.

A VAC that operates at an advanced level is, in some institutions, called a Medical Economic Outcome Committee (MEOC) and serves three critical functions: 1) facilitate product acceptance process for Physician Preference Items (PPIs) 2) assist with compliance and final contracting and 3) administer product purchasing and utilization of information requirements across the hospital system.

II. EVOLUTION OF VACS

A. Emerging Roles within Hospital VACs

Through our discussions with leading experts from various VACs, we observed relationship dynamics that provided a pivotal element to the individual success of each organization. One of the most notable dynamics is the placement of clinical specialists whose role is to objectify and interpret the relative value of a new product and effectively bridge any communication gaps between physicians and cost-minded business managers. These are not simply representatives of clinical departments or functions, but rather liaisons with clinical backgrounds who help foster dialogue, understanding and comprehensive consideration to VAC decisions.

The clinical liaison most often reports directly into supply chain services and is an experienced professional whose credentials are substantiated from a variety of clinical areas such as critical care of perioperative services (e.g. nurses) in conjunction with administrative function expertise from the area of supply chain management. The most effective clinical liaisons have been provided with extensive training in business administration and are familiar with the fundamentals of supply chain management. Not only do they provide independent clinical and supply chain interface with the VAC product review process, but they facilitate representation of critical information and foster participation, collaboration and physician level peer-to-peer dialogue. *Melody Craff, MD, PhD, MA, MBA, MS (Strategy), VHA Utilization Director and Clinical Liaison for Providence Health & Services said, "One of my goals is to make sure surgeons have all the information they need to review a potential new product."*

Experienced Clinical Liaisons have become so important to the supply chain process, that some GPO's and supply chain alliances, such as VHA, have offered clinical liaison consultants as a partner solution. Dr. Melody Craff represents a highly experienced clinical and supply chain facilitator from VHA. Dr. Craff provides essential on-site services to Providence Health and Services and collaborates with their physicians to ensure information sharing and collective decision making.

B. Advanced VAC Environments

The Next Level

Some hospital VACs have evolved and currently apply a sophisticated, surgeon-chaired and data-driven approach to their VAC product review processes. One such example was observed at Orlando Health. Their organization has instituted a MEOC process.

Rosaline Parson, RN, BSN, CCRN, Corporate Director of Supply Chain Services for Orlando Health/HPA sees this as a trend, where more VACs are evolving to a higher. level. "Particularly with larger IDNs who want to take control of supply chain costs. Florida happens to have three or four such organizations and I see this as an upcoming trend. Success with this process takes commitment – it requires the right mix of expertise and dollars to invest."

Orlando Health's VAC is a physician-chaired committee, initially created for high dollar new technology PPI items. This process was based on a physician's request which was often influenced by exposure to an item at a trade show. Their MEOC focuses on exclusively high dollar PPIs for each medical/surgical specialty area. New product requests are assessed by cross-functional teams using formal processes. Each specialty-focused MEOC is run by physicians; however decisions are made in conjunction with cross-functional representatives. Cross-functional representation is provided from materials management, contracting reimbursement and finance departments. Collective assessments are based on internal and external information and anticipated down-stream impact influences the final decision. Clinical liaisons also play an integral role in ensuring that MEOC processes are consistent at a corporate level. Orlando Health has realized significant supply cost savings over time since they established and implemented MEOCs.

III. THE IMPORTANCE OF VAC RELATIONSHIP MANAGEMENT

Relationship-oriented corporate cultures appear to be more influential implementing changes across multiple boundaries and in sustaining these changes over time. *David Hunter, Vice President of Supply Chain Management for Providence Hospital, says that "building relationships to garner support, especially at the clinical or physician level, is key."* There are formal and informal aspects of collaborative, relationship management behaviors. These behaviors are supported by active executive-level support that cement processes and play a role in ensuring compliance at the local, regional and corporate levels. Individual ownership and accountability play a large role in supporting dynamic interactions between VAC members and fellow employees within their own functional areas, and these interactions transcend cross-functionally into other parts of the organization. If your VAC is a strong proponent of managing relationships, you are contributing to its success.

A. Physicians

The importance of securing physician buy-in has been one of the common threads and a fundamental best practice for VACs involved in this customer-based research on successful hospital VACs.

In this function, the ongoing challenge lies in the ability to maintain equilibrium between gaining reliable access to products deemed most appropriate for each procedure and taking a more active role in helping hospital meet their cost containment objectives. This equilibrium must be attained without negatively impacting the time needed to manage active case loads. The onus falls on the VAC members and the degree of collaboration in place to articulate what type of information is necessary in conjunction with the product request form, in order to support a favorable outcome through the VAC review process. For the process to work well, it is important that physicians understand and vet the process, according to representatives from leading VACs.

Many VACs fail to achieve effectiveness and sustainable momentum with the physician. There are three primary challenges facing the VAC in relation to MD involvement:

1. Apathy: Many physicians are affiliated with multiple hospitals and lack the motivation to participate in any one hospital VAC. Some find the demands of VAC participation unappealing and only increase their workload while taking them away from treating patients.

2. Alignment: Physicians may lack the interest or fail to acknowledge the importance of applying new product adoption decision making procedures. Some may not have an appreciation for the overall cost implications multiple of redundant preferred physician item (PPI) demands.

3. Time: Some physicians are reluctant to participate because of a perceived lack of time or overriding desire to dedicate their time exclusively to patient's activity. These physicians, often for reasons mentioned above, don't embrace the notion that active participation in VACs as product champions or advocates provides them with an opportunity to voice their preferences and weigh in on the larger discussion of product assessment. *"There needs to be a commitment by physicians and administration with a clear understanding of the process to make any VAC a success." – Sue Jacobs, RN, Scottsdale Healthcare*

Surgeon collaboration and participation in VACs is essential and is considered by many to be the fundamental reason for the VAC's success or failure. Although it is not the solely responsible for the particular success of a VAC, it is fundamental to the effectiveness and representation of that body of professionals

According to Aurelio Duran, MD, Cardiologist from Orlando Health, "Physicians are highly encouraged to participate in the MEOC process from the beginning, so that opinions can be heard and taken into account – but always with the patient's best interest in mind."

B. Supply Chain Representative

In this function, the objective is to strike a balance between having a variety of products available at competitive prices, and compliance with ever-shrinking budgets and cost containment requirements simultaneously. Insight derived from successful VACs is they communicate how anticipated savings grant access to incremental funding which essentially provides cash to invest in capital enhancements which fundamentally support physicians. They have re-invested in capital in the past and improved return over time and these types of tangible outcomes help support collaboration. To meet cost containment objectives, the perspective of supply chain tends to be squarely based on variables that offer tangible ways to document, calculate, and monitor savings over time.

As a best practice, supply chain representatives from successful VACs take the initiative to spend time with VAC representatives in pivotal roles such as surgeons and contract administrators. This level of collaboration helps them become more familiar with the facts and rationale behind all areas of the product request and provide additional pieces of information that is used in conjunction with financial analysis. This gesture innately compels collaboration. Another best practice finding is that C-Suite level of support is instrumental in ensuring that compliance cascades through the various functions in the organization. This type of support needs to be consistent, visible and ideally have financial ties to the outcomes of cost reduction initiatives.

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C. Clinical Liaison

As previously mentioned, the clinical liaison is instrumental to achieving success within the VAC by merging clinical and business perspectives based on education and experience. According to Rosaline Parson of Orlando Health/HPA, "Due to this unique combination of skills, business knowledge and clinical expertise, there's a valuable opportunity for an expert in a position, such as an operating room nurse, to bring their clinical experience to the business side of hospital administration." For example, nurses can leverage their knowledge and transition into a clinical liaison role as a second career option within healthcare. Nurses are also ideal for liaison types of positions because they typically maintain good working relationships with physicians.

D. Challenges between VAC Members

Every organization has to take into account the different roles and personalities that make up their VAC. By identifying and addressing common challenges among members (some listed below) you have already taken a proactive approach to productive relationship management.

VAC Key Constituent Challenges:

VAC Representatives	Primary Challenge
Surgeons:	• Dedicating time to participate and chair committee meetings • Changing perceptions that MDs are oblivious to price concerns • Providing objective feedback and opinions on products • Delivering effective, product champion services
Supply Chain Representatives:	• Credibility among surgeons • Value MD VAC participation • Consensus among VAC members • Gaining and maintaining C-Suite support • Implementing standardization • Adherence to established SOP • Enforcing contract compliance • Measuring success overtime
Contracting Directors:	• Streamline quantity of new product requests • Maintain flexibility in contracts to adopt innovative solutions • Work with GPO to customize contract to address changing needs

IV. BEST PRACTICE ESSENTIALS

In summary, insight shared by representatives from leading VACs on what they consider invaluable to success are as follows:

8 Best Practice Essentials for Today's Hospital VACs	
Build Relationships	Gain C-Suite Support
Measure Successes	Establish & Maintain Collaboration
Establish & Enforce SOPs	Science Behind Budgeting
Get the Facts	Avoid Inertia

A. Gain C-Suite Support

Unquestionably the most cited caution from VAC member representatives we interviewed was the need to gain C-Suite support. It is important to note that this level of support extends beyond a token head nod from the executive office. This involves on-going dialogue, education, alignment and the C-Suite's willingness to vocalize and communicate their support of the supply chain managers need to challenge the status quo and break down cost barriers to help the VAC attain objectives.

B. Science Behind Budgeting

Supply chain managers often conduct annual top down cost reduction budget commitments without actually identifying the source of those reductions. They often look at big procedural expense reduction opportunities in areas such as orthopedics and assign seemingly arbitrary cost reductions objectives. Many advanced VACs have adopted methods to accurately commit to budget cuts that go beyond obvious cost reduction opportunities. Benchmarking, utilization trending, proactive evaluation of procedural and product innovation, and contract re-negotiations are their bottoms-up means to establish more accurate annual budgets. This goes a long way in managing expectations with the C-Suite and establishing credibility with other functions.

C. Avoid Inertia

It is difficult to 'move the needle' on change so expect some level of resistance. The supply chain manager that oversees residing VACs is challenged to maintain a good balance between flexibility, discipline and relationship management. Even when you have achieved success, the work does not stop there. Maintaining adherence to standard operating procedures is an ongoing effort.

D. Establish and Maintain Collaboration

When groups get together with naturally opposing objectives (surgeons want their preferred products, supply chain managers want reduction in costs), the only means to gain collective consideration is through collaboration. Collaboration can not begin unless mutual respect is established. The objective is to get everyone at the table and review the facts, respect but explore opinions and gain consensus. *"Any physician that is impacted by a committee decision has the ability to participate in the process of evaluating a new product. Physicians need to be able to say that they would like certain items available to patients", according to Aurelio Duran, MD, Orlando Health.*

E. Get the Facts

Having essential new product information available to decision makers in a timely matter is important to avoid repetitive and inconclusive product evaluation efforts. It also helps filter and classify the product as a truly new product, as a procedural innovation or refinements to existing products. Surgeons interested in adoption of a particular product should be armed with both clinical and non-clinical product information. This will help them effectively champion the product or determine early in the process whether the benefits and efforts of acquisition outweigh the business costs to adopt the new product within the organization's limitations.

F. Establish and Enforce Standard Operating Procedures

Standard Operating Procedures are critical to maximize efficiencies and ensure surgeons and other clinical professionals are not unduly spending valuable time away from primary healthcare service obligations. It is also necessary to ensure the supply chain management team is not needlessly chasing down every product evaluation request without requiring some investment in time and due diligence on the part of the requesting party. Enforcing your SOP can be difficult because most hospitals are recruiting new surgeons and allied health professionals each year. The influx of new participants often impacts enforcements as these individuals are often unaccustomed to the procedures and collaborative nature of product adoption efforts.

G. Measure Achievement

Ongoing tracking compliance, product utilization and cost impact oversight over one, three and five years is typical for advanced VAC organizations. Testing earlier assumptions on product adoption requires access to integrated data systems that are available to many hospitals today. Celebrating success and measuring effectiveness should be a key topic of discussion with your C-Suite.

H. Build Relationships

A critical component to the success of a VAC is the relationships established among VAC participants and the key stakeholders they serve. How supply chain managers are perceived by surgeons, how surgeons are motivated to participate and how clinical liaisons manage perspectives of both significantly contribute to positive, supportive relationships that embrace progressive change.

V. BENEFITING FROM SUCCESS

Our observations during the development of this document provided encouraging, tangible signs that VACs can work and deliver essential cost reductions. Whether your VAC is just forming, struggling to gain traction or deep in the adoption of advanced tactics such as centralized distribution, we have seen that each VAC at some point has faced the same challenges.

There is no better time than now, in this difficult economic environment, to drive innovation in cost management and leverage the insights and experiences of others. No other time in recent history has there been the strong economic incentive and opportunity for the healthcare industry to eliminate waste, drive patient care and establish progressive relationships among healthcare professionals. Old traditions, long standing behaviors and professional relationship dynamics are all challenged in an attempt to address the unsustainable increases in supply costs. The cross-pollination of clinical and business practices provide encouraging signs that sustainable cost savings and improved patient care are within reach.

Well-established VAC organizations continue to drive change and achieve further success in supply chain cost reductions. Centralized distribution solutions, process automation, standardization and Evidence-Based Technology Acquisition strategies are all examples of the next wave of supply chain optimization opportunities. These organizations hold the promise to further lead the healthcare industry in shaping a new model that balances collective cost management and optimum patient care.

VI. VAC SELF-ASSESSMENT QUIZ

Take a moment to respond to the following VAC Self-Assessment Quiz. You may choose to respond as an individual or you can bring some external discussion into your next VAC meeting by taking this quiz as a team. Assign the following points to the response options: Strongly Agree = 6 points, Agree = 5 points, Disagree = 2 points and Strongly Disagree = 0 points. Upon completion, your responses are aggregated and weighted to help provide a suggestive categorization of your current VAC practices.

Select one response to each of the 14 questions below:

1. Our current VAC structure, strategy and tactics are a product of good planning and execution.	Strongly Agree	Agree	Disagree	Strongly Disagree
2. Our VAC leadership has been consistent over the past five years.	Strongly Agree	Agree	Disagree	Strongly Disagree
3. Everyone who interacts with our VAC process follows our Standard Operating Procedures.	Strongly Agree	Agree	Disagree	Strongly Disagree
4. Our VAC's ability to secure consistent levels of participation from physicians in our VAC has always been a challenge.	Strongly Agree	Agree	Disagree	Strongly Disagree
5. Our ability to consistently foster collaboration across all primary VAC roles within our organization can be improved.	Strongly Agree	Agree	Disagree	Strongly Disagree
6. Our VAC process outcomes ensure product compliance and standardization across our organization.	Strongly Agree	Agree	Disagree	Strongly Disagree
7. Our sales representatives know and follow our product introduction SOP.	Strongly Agree	Agree	Disagree	Strongly Disagree
8. Our external communication about the criteria we use to assess products by category has some room for improvement.	Strongly Agree	Agree	Disagree	Strongly Disagree
9. The ability to automate the collection of supporting information pertinent to product decision-making is valuable and will save us some time and speed up the product review process.	Strongly Agree	Agree	Disagree	Strongly Disagree
10. Our C-Suite leadership recognizes the importance of the VAC's efforts to improve the organizations bottom line and strongly supports it.	Strongly Agree	Agree	Disagree	Strongly Disagree
11. Our capacity to balance the "hard" and "soft" variables behind new surgical product selections will contribute to higher levels of satisfaction with product review outcomes cross-functionally.	Strongly Agree	Agree	Disagree	Strongly Disagree
12. Our VAC success criteria is established and documented but there is still some room to enhance our success measurements.	Strongly Agree	Agree	Disagree	Strongly Disagree
13. Data from external peer VAC benchmarking will be useful to evolve and advance our organization's VAC initiatives.	Strongly Agree	Agree	Disagree	Strongly Disagree
14. We currently use techniques such as Evidence Based Technology Acquisition (EBTA) and horizon scanning to ensure we make the best decisions.	Strongly Agree	Agree	Disagree	Strongly Disagree

Score up to 49 points

Mostly "Agree" some "Disagree" and a few "Strongly Disagree" responses may suggest your VAC may still be challenged by traditional supply chain cost barriers and may have limited success meeting the committee goals.

Score between 50 points and 64 points

Proportionate responses between mostly "Agree" "Disagree" may suggest that your VAC is well-established and evolving, with opportunity to optimize your processes in a few key areas.

Score over 65 points

Mostly "Strongly Agree" some "Agree" and a few "Disagree" responses may suggest that your VAC is well advanced with opportunities to serve as a role model for the industry.

This educational Supply Chain Management Best Practices White Paper was produced and published by Covidien in cooperation with Blueprint Media, LLC.

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