

The Strategy of Economic Benefits for the Hospital

Maria Shepherd • Data Decision Group

While it has been debated and discussed for quite some time, there have been few clear explanations of the phrase “medtech economic benefit for hospital administration.” Here is how we have been defining and proving it for our clients.

Why It's Important

At the recent IN3 Medical Device 360 meeting in Boston, Mass., IN3 managers developed an expert panel of venture capital professionals to discuss and define this topic. The panel said hospital administrators are becoming much more sophisticated in demanding proof of an economic benefit differentiator when choosing medtech companies they will partner with going forward. It is important that hospital administrators choose carefully among competing companies, keeping in mind that fewer vendors reduce their internal and working capital costs. In addition, and perhaps most importantly, standardizing a procedure for the clinical staff, including the medical devices they use, increases quality and clinical outcomes as well as reduces cost. This is supported by data from a 2009 survey of more than 300 hospital CEOs and physician group practice managers stating that improving quality and patient safety were the top provider priorities, far surpassing revenue cycle management, cost reductions and improving reimbursement.¹

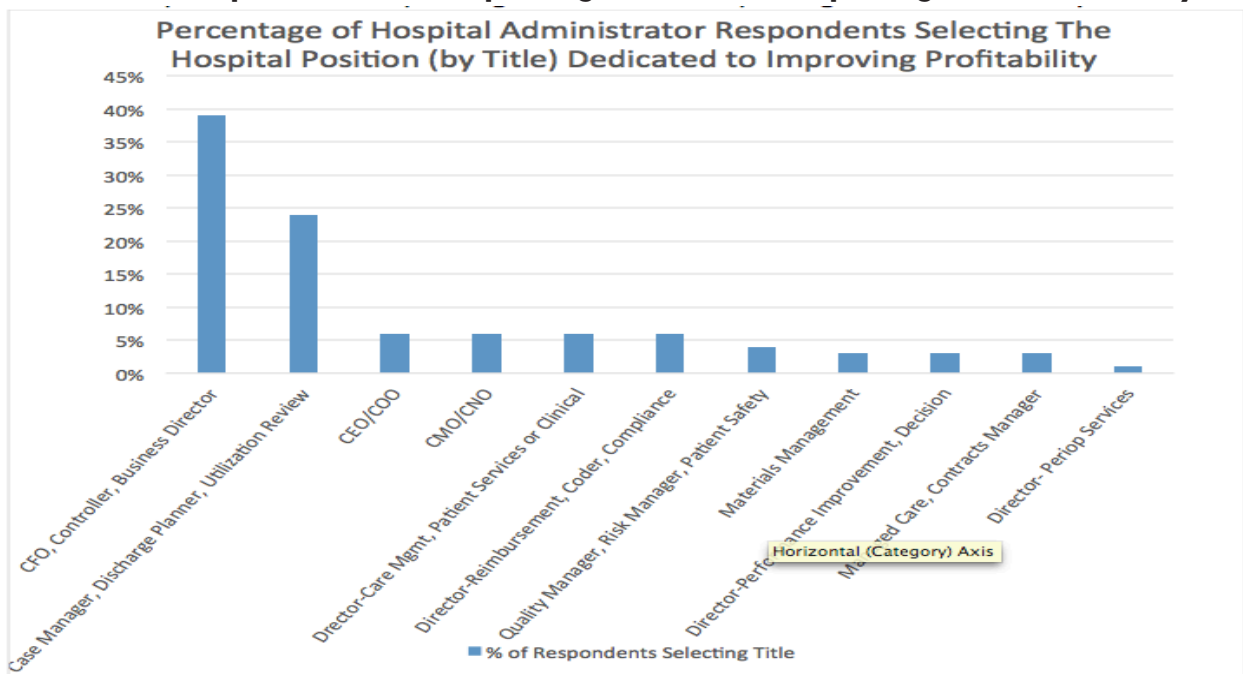
The Challenge: A Multi-Faceted Shifting Economic Landscape for Hospitals

The Accountable Care Act is just one of myriad challenges currently facing hospitals. Healthcare reform has added 30 million additional U.S. patients to the nation's insurance and delivery system. Competition from other hospital systems or physician practices is increasing dramatically and hospitals are treating higher acuity patients at a higher cost. There also are increased regulatory hurdles, the pain and cost of hospital consolidation and the ongoing universal axiom: decreasing reimbursement. For many, the recession is not over and hospital endowments have been decimated. Benefactor contributions are decreasing, and are expected to remain low if Congress approves the Obama administration's proposal to reduce charitable donations levels allowed as tax deductions.²

Who are the Decision Makers?

We all know the Value Analysis Committee (VAC) is the hospital-based team judging economic benefits provided by the medical device community, but who are they? Hospital purchasing, materials management, operations and a cameo appearance by a clinician; these all are players on the VAC, but who are the real deci-

Chart 1. Hospital Professional Spending the Most Time Improving Patient Profitability³



sion makers? In a 2009 survey (n=70) of hospital administrators, the hospital professionals spending the most time improving patient profitability were ranked from 1 to 11. Survey respondents were asked to identify the title of the one person at their hospital spending the most time improving the profitability of every discharged patient. The results are shown in Chart 1.

In the same report, survey respondents identified the most important reasons to evaluate new technology (Table 1, below).⁴

Chasing the Big Picture

Hospitals constantly assess medtech technologies to improve clinical outcomes, maintain a competitive edge and sustain financial health. Lately, hospital administrators also have begun to align the larger strategic objectives of their facilities and their medtech vendors, ensuring that adoption of new technologies is united with the higher priorities of the institution and its mission.

Hospital administrators are becoming more sophisticated and a comprehensive approach to technology assessment is a critical step to fully appreciate the value of the technology. A thorough review of the true economics of a technology and the long-term outcomes is essential to avoid a limited focus on reimbursement and the hospital's power structure as well as to assess the big picture. Chasing reimbursement and cutting supply costs is not the only way to improve profitability and performance. Ask yourself, will my technology stand up to the scrutiny of hospital administration? How can I strengthen our medtech economic value proposition? ❖

Readers are invited to submit market data and trend questions to Maria Shepherd. Periodically, selected questions will be presented in this column, with answers from Maria. Send your questions to mshepherd@ddecisiongroup.com.

References:

1 CEO Industry Survey conducted by HealthLeaders Media, a division of HCPro Inc., 2009

2 philanthropy.com/article/Obama-to-Renew-Call-to-Limit/138425

3 *The New Economics of Healthcare*, Frost & Sullivan

4 *Ibid.*

Maria Shepherd has 20 years of leadership experience in medical device/life-science marketing in small startups and top-tier companies. After her industry career, including her role as vice president of marketing for Oridion Medical, where she boosted the company valuation prior to its acquisition by Covidien plc, director of marketing for Philips Medical and senior management roles at Boston Scientific Inc., she founded Data Decision Group. Data Decision Group provides whitespace research and critical data to support medical device decision making. The firm quantitatively and qualitatively sizes opportunities, evaluates new technologies, provides marketing services and assesses prospective acquisitions. Shepherd has taught marketing and product development courses, and is on the board of the MSBiV Medtech Investment Committee. She can be reached at (617) 548-9892 or at mshepherd@ddecisiongroup.com.

Rank	Reason to Evaluate New Technology	Frequency of Reason
1	Clinical need (as observed by clinicians)	Common
2	MD demand (physician champion)	
3	New revenue generation opportunity	
4	Improved productivity and efficiency of care	
5	Potential for risk/liability reduction	
6	Need for cost reduction	
7	Regulatory mandate	
8	Expansion of service lines	
9	Competitive pressures	
10	Opportunity identified by non-clinician	
11	Sentinel event	
12	Interest from donors	
13	Required for clinical research	