THE CHALLENGE
The prevailing climate in the healthcare industry today is one in which providers must meld cost reduction, care quality and shrinking reimbursements into a sustainable model. Yakima Valley Medical Center, a 226-bed, acute care, nonprofit, community hospital serving Central Washington’s Yakima Valley, had been working diligently to maintain and enhance its level of care to patients in its service area, and as part of its due diligence, had engaged in talks with other regional providers to explore alignment.

After months of evaluation and study by Yakima Valley Memorial Hospital and Virginia Mason Medical Center – a nonprofit regional healthcare system based in Seattle that serves the Pacific Northwest – the two systems decided to merge via an arrangement where Yakima Memorial became part of the Virginia Mason Health System, taking on the name Virginia Mason Memorial. The affiliation became effective January 1, 2016.

The affiliation allowed for two patient-centered, innovative and community-driven organizations to work together to form a comprehensive network of care. “Virginia Mason and Yakima Memorial share many of the same values and a passion for the Virginia Mason Production System’s lean methodology,” said Evan Casteel, director, supply chain management, Virginia Mason Memorial. “One of the most advantageous and beneficial areas of integration is supply chain management and contracting.”

THE SOLUTION
Casteel explained that with supply chain expenses for medical supplies, devices and implants hovering around 10 percent of an organization’s total net revenue, this is an area where economies of scale, negotiating power and collaboration come together to make healthcare more sustainable and cost effective. The Virginia Mason Health System is committed to taking advantage of these opportunities through a team-centered approach that results in better financial results and improved, focused patient care.

“Early on it became apparent that both organizations’ cultures and personalities meshed naturally and many practices and philosophies were very similar,” said Casteel. “In supply chain, this alignment was even more apparent.” One commonality shared was group purchasing partner Health Resource Services (HRS)/Intalere. This became the perfect starting point for the critical analysis of spend, contracts and opportunities for cost reduction. HRS worked closely with Intalere to synthesize and make sense of the data at hand, leading to strategy development and ultimately the implementation of opportunities.
Intalere produced a detailed roadmap and the local HRS team supplied advanced analytics to produce a project roadmap. The team instituted weekly meetings that focused on sharing best practices, analyzing standardization opportunities, identifying technology solutions and developing joint project plans. Roadmap projects were prioritized according to potential savings and cost efficiencies. During team meetings, the members analyzed the data to make sure that both organizations collectively progressed and benefited. In addition, value analysis teams between both entities vetted and evaluated the opportunities before implementation began.

THE OUTCOME

Many opportunities were available by simply taking advantage of existing Intalere and HRS regional agreements without any conversion, known as Quick Wins, or by aggregating volume and tier optimization. These Quick Wins accounted for approximately $533,000 in aggregated savings in 2016 and was accomplished without having to convert any supplies. Tremendous success ensued with this approach and the team identified more than 60 agreements and tier adjustments where aggregation benefited the collective health system. “Total savings for phase one of the project topped $1.2 million for the health system and that’s just for starters,” said Casteel.

The next phase of the project will look at the opportunity afforded by taking advantage of more committed contracting programs with both organizations aggregating as an IDN to successfully implement further savings opportunities.

“Having HRS and Intalere as partners brought significant value and accelerated the value received in so many aspects.”

Evan Casteel  •  Director, Supply Chain Management  •  Virginia Mason Memorial

Later phases are expected to focus on savings and quality outcome opportunities in more complicated, but rewarding areas around physician preference items, purchased services and other non-labor spend areas. “We are utilizing the Intalere OptiPrice Advantage Tool to help direct the team’s effort and ensure that our efforts are focused on the greatest opportunities. We have high expectations for savings,” said Casteel.

Intalere OptiPrice AdvantageSM helps balance a facility’s negotiating power with suppliers and significantly reduces the cycle time to renegotiate pricing agreements. The solution utilizes medical surgical product pricing data submitted monthly by more than 400 hospitals from across the country to the Intalere OptiPrice Advantage database, which is refreshed on a daily basis. Members can analyze spend by categories – such as stents, orthopedic implants, endomechanical, ICDs, osteobiologics, etc. – to determine the exact cost savings available in comparison to what other hospitals (based on total spend and market share) with a similar product mix are paying.

Casteel and the Virginia Mason team have set the bar high for cooperation and success at a very early stage for the new partners. This could not have been done without the contributions of Virginia Mason’s group purchasing partners. “HRS and Intalere were key joint partners for us and provide resources in project planning, analytics and contracting,” Casteel said. “Having HRS and Intalere as partners brought significant value and accelerated the value received in so many aspects.”