

Problem-solving in healthcare services procurement
Rebecca Morris talks with Erik van Raaij and Finn Wynstra

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Problem-solving in healthcare services procurement

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With the recent founding of the Purchasing and Supply Management Centre at RSM, solutions are becoming available for the growing number of companies who are investing in the complex territory of services procurement.

Netherlands-based insurance giant Achmea recently piloted a procurement method called “best-value procurement” to select and contract nine Dutch hospitals for breast cancer treatment and cataract surgery – the first time this method has been used to select healthcare providers anywhere in the world.

While the outcomes of the pilot will only become available in the next two years, Achmea’s decision speaks volumes: of its willingness to remodel its procurement process as a tool for getting the best care for the best price for its clients, and its readiness to embrace the expertise of business and management academics to do so.

The pilot is being executed by Peter Dohmen, a policy advisor at Achmea Zorg and a part-time PhD student at RSM’s Purchasing and Supply Management (PSM) Centre – where a major healthcare procurement research initiative is under way that combines best-practice knowledge from purchasing management with that of healthcare management, two fields which have thus far developed separately.

“This pilot is a first step in implementing a performance-based model of procurement for healthcare insurers,” says Associate Professor Erik van Raaij, scientific co-director of the PSM Centre and project leader of its healthcare research. “Professional purchasing of care is a key element if we are to secure a sustainable financial future for healthcare both in the Netherlands and worldwide.”

Unique challenge
These challenges are not isolated to the healthcare sector alone, says director of the PSM Centre, Professor Finn Wynstra. “Every organisation procuring services is facing similar challenges,” he says.

The PSM centre is sponsored by the Dutch Association for Purchasing Management (NEVI), which includes the chair of its director, Finn Wynstra. It is the largest of its kind in the Netherlands and amongst the leading in its field worldwide. Research focuses on category sourcing strategies, healthcare procurement, buying business services, and governance mechanisms for inter-firm relationship management, on which it collaborates with other top schools around the world.

Teaching is a core activity and spans both pre- and post-experience programmes. Numerous external partners collaborate in both teaching and research including IPSERA (the academic association for purchasing...
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Professional purchasing of care is a key element if we are to secure a sustainable financial future for healthcare both in the Netherlands and worldwide. Costs in most countries are unsustainable, says Van Raaij. ‘While governments are changing policies, health care insurance companies must also play their part in bringing costs down.’

Healthcare solutions
To achieve this, researchers are applying management concepts from purchasing and supply chain management theory to help innovate existing processes in the healthcare sector.

‘We want to combine the best of both worlds,’ says Van Raaij. ‘We bring concepts from management – performance-based contracts, the triad concept, service procurement – and adapt them to help make the healthcare sector more financially sustainable.’

The triadic relationship in healthcare is between the insurance company, the healthcare provider (such as a hospital), and the patient. The insurance company pays the hospital to treat the patient with whom it has a contract – but the treatment happens outside the insurer’s view. ‘It is difficult for anyone in the triad to know exactly what is going on, but all of the relationships impact each other,’ he says.

Most insurers currently evaluate providers using process indicators rather than outcome indicators – such as speed of treatment, or whether certain activities are done. But an outcome measurement approach would give insurers a more accurate view of their patients’ vitality outcome down the track.

Strategist Michael Porter has advocated for years what he calls value-based healthcare. Several years ago, Porter wrote about the need to redefine healthcare as a product in which the goal is not merely to prevent or cure illness, but to improve the health status of the population and enhance the quality of life. ‘Professional purchasing of care is a key element if we are to secure a sustainable financial future for healthcare both in the Netherlands and worldwide.’
A key difference between best-value procurement and the traditional procurement methods used by health insurers is that in best-value procurement insurers select the best and reward them, as opposed to setting minimal requirements and excluding those who don’t meet them.

For 2015, Achmea has now contracted nine hospitals using this procedure to identify the best providers. Instead of a one-year contract, providers are rewarded with a three-year contract. They are also top of the list if a client asks an insurer where to go and, unlike in the past, won’t have a volume cap.

But perhaps one of the most interesting findings thus far, says Van Raaij, is that the best providers did not have the highest prices. ‘We often assume excellent care costs more, but this is not the case,’ he says. ‘If you’re really good, you also do it more efficiently. So we know that if we focus on quality, and with these providers’ prices at the lower end of the price spectrum the total cost should go down – so long as volume is shifted from the lower performers to the best.’

The pilot also provides the world’s first example of how best value procurement can be used to attain optimal results in cases where more than one provider is required.

‘Best value procurement is used quite a bit in the Netherlands but only when you need the one single best contractor,’ says Van Raaij. ‘As far as we know we’re the first in the world to use best value procurement not just for healthcare but in an environment where the company needed more than one provider. We know the value of contracting the single best provider. Now we will have an example of how you can contract the best providers in situations where you need more than one.’

For more information on the activities of the Purchasing and Supply Management Centre at RSM, go to www.erim.eur.nl/psm

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