Sharing Risk with Strategic Suppliers

A creative solution to improving hospital efficiency through productivity and financial management

Every facet of the U.S. health system is affected by transformational change: volume to value, sick care to wellness, and inpatient to outpatient treatment sites.

It is generally expected that the market will demand very significant improvements in efficiency in the next five years. According to a survey conducted by the American Hospital Association, 56% of top hospital executives placed "improving efficiency through productivity and financial management" as their very top priority.[1]

How can independent hospitals and small healthcare systems attain these goals and remain competitive? While achieving economies of scale through integration is one strategy, some organizations have maintained independence and found success through well conceptualized and executed strategies involving performance improvement, asset rationalization, and sharing risk with a wider set of stakeholders.

How do long-term, shared-risk partner-ships make key suppliers as committed to the hospital's success as the hospital itself?

Sharing Risk

Much has been written about the increased risk being taken by the healthcare system to foster population health. Accountable Care Organizations (ACOs) and physician employment are two of the strategies being deployed to mitigate these risks. In contrast, a novel approach being led by Georgia Regents Health System in Augusta, GA shares risk with Philips Healthcare, their strategic supplier of medical devices, healthcare services and IT, and lighting solutions. Georgia Regents has challenged Philips to evolve and share risk with them, just as the health system itself must do. The point is that in a long-term, shared-risk partnership, key suppliers are as committed to the hospital's success as the hospital itself. Following are some of the key aspects of this relationship.

Episodic to Strategic

The 15-year alliance formed between Georgia Regents Health System—a regional public academic health center—and Philips Healthcare—an industry leader in diagnostic imaging, patient care and healthcare IT— is a risk-sharing model. Whereas traditional vendor-hospital relationships revolve around procurement transactions, in the Georgia Regents-Philips alliance, both organizations work in synchrony with a focus on securing the long-term success of Georgia Regents.

Through the agreement, Philips provides Georgia Regents a comprehensive range of consulting services, advanced medical technologies, and operational perfor-mance, planning, and maintenance services. These services are provided with predetermined monthly operational costs over a 15-year term.

PHILIPS

the past, but they study the design and workflow of our processes," says Tad Gomez, RPh, Vice President, Professional Services, Georgia Regents Medical Center. Gomez notes that in the hospital's imaging work, Philips is working with Georgia Regents clinicians to identify ways to use the equipment more efficiently and create a better patient experience.

Steven M. Scott, Chief Operating Officer, Georgia Regents Medical Center, believes that the long-term, strategic nature of the alliance helps create new value. "Unlike many typical vendor arrangements, with Philips we aren't squared off against a problem statement or the market," he says. "Instead, we are constantly, mutually engaged in issues like efficiency and quality from a strategic and mutually beneficial perspective."

The alliance helps create new value as both parties are mutually engaged in improving efficiency and quality.

Negotiations to Shared Risk

When healthcare providers purchase products or equipment in an episodic manner, both organizations can often feel as if they are in a constant state of negotiation. But the Georgia Regents-Philips alliance revolves around shared purpose and shared risk. "Our success is dependent on the success of Georgia Regents," says Brent Shafer, Chief Executive Officer, Philips North America. "Our alliance is based on contracted metrics that are tied to improving patient outcomes, increasing patient satisfaction and reducing costs."

With a long-term, shared-risk agreement in place, both organizations benefit financially by removing sales and marketing costs and eliminating the RFP process, which can be resource-consuming for hospitals. "The partner-ship does have room for Georgia Regents to use other vendors because we obviously cannot provide everything the organization needs," says Shafer of Philips. "But we are responsible for that procurement, and we do so based on the needs of Georgia Regents. Allowing us to manage all equipment and service takes the weight of that responsibility off the hospital so they can execute on their expertise and focus on patient care."

Unpredictable to Stable

The alliance provides predictability in Georgia Regents' capital budget, giving the hospital control over a variable that is typically a challenge to manage. "Having unexpectedly to replace an imaging system is a huge endeavor and can wipe out an entire capital budget for a year," says Gomez of Georgia Regents. "At the most fundamental level, with the Philips alliance there are no surprises—we know what we're getting, and we are controlling the factors that can up-end our stability."

Why It Works

A comprehensive level of commitment is integral to the alliance. The foundation for that commitment is a deeply held trust between the partners, without which a synergistic relationship would be impossible.

Another factor that makes the alliance successful is the total alignment among all key stakeholders: the hospital, university, physicians, researchers and even the mayor of Augusta. An example of this alignment in action is that Philips works collaboratively with Georgia Regents on population health across the

"Philips works with us not only to install equipment as with vendors in continuum of care for the citizens of Augusta, 20% of whom are at or below the poverty level.

Looking Ahead

Sharing risk with Philips Healthcare helps to insulate Georgia Regents from many of the ups and downs of the business cycle. As it evens out many aspects of what would otherwise be volatility for capital expenditures, it also provides the hospital system with greater long-term financial predictability. Fewer "surprises" in turn enable the system's clinicians to focus on delivering the best possible care to their patients.

How does reducing hospitals' financial volatility help improve patient care?

"It's no longer a supply-and-demand business model," says Scott of Georgia Regents. "Our goal is to foster an atmosphere of meaningful innovation that will have a significant and positive impact on the health of our patient population."

---

[1] American Hospital Association, "Survey of 1,100 hospital executives (95% CEOs, 5% Strategy Execs.)," April 30, 2014.

Better by design

Philips Design Healthcare combines an exceptional healthcare experience with organizational insight to deliver innovations that improve outcomes, increase value, and expand access across the continuum of care. When you team up with us, you gain a partner who shares your goals and passion for excellence. Our collaborative, people-focused approach allows us to discover actionable insights, design meaningful experiences, and deliver creativity with speed and flexibility.