

## **How to eat the Value-based Procurement elephant?**

A Deloitte point of view



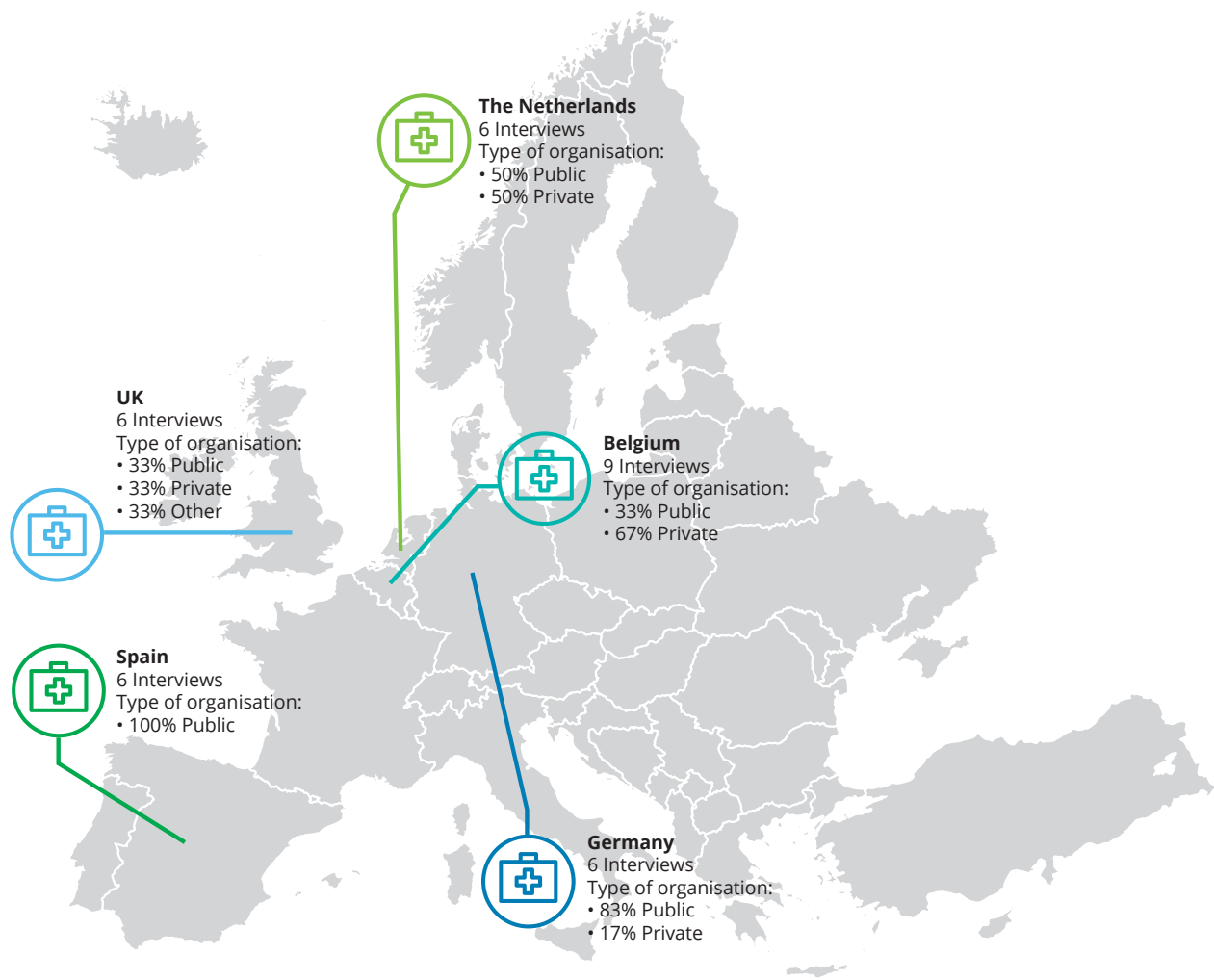
"How do you start  
eating an elephant?"

# Introduction

Without a doubt, the health care sector is in full evolution. New, but often expensive, technologies and medications give patients access to unseen quality of care. This, however, puts a growing pressure on the sustainability of today's health care systems, as demographics and an increased life expectancy drive higher health care consumption. One of the main challenges for the future is maintaining the difficult and delicate balance between costs and quality.

It can be of no surprise that Value-based Healthcare (VBH), where patient and treatment results are measured against the cost of care, is and will stay high on the agenda. It seems that Value-based Procurement (VBP) – a concept used for the implementation of 'value' thinking in the procurement process - has become its equally fashionable partner.

It is in this context that Deloitte conducted an international survey on Value-based procurement, using a methodology of qualitative interviews with key stakeholders involved in the sourcing process at the health care providers. The objective was to get insight into to what extent Value-based procurement has already been implemented, how it is done and the difficulties encountered in the implementation process. The survey focused specifically on the implementation of Value-based procurement in relation to MedTech purchases, but most of the conclusions are also relevant for other medical purchase categories. The survey was conducted in five countries (Belgium, Germany, Spain, UK and the Netherlands) and in total 33 interviews were carried out with different stakeholders who play a role in the sourcing process: procurement, hospital management and medical staff.



# Value-based procurement – A new paradigm still on the verge of practical breakthrough

Procurement in the health care sector is clearly moving away from traditional lowest price procurement strategies and product buying. Instead, it is moving its focus towards quality, services and solutions.

True Value-based procurement, however, remains in its initial stages of practical implementation as the level of understanding differs among stakeholders and health care providers are still struggling with practical implementation hurdles.

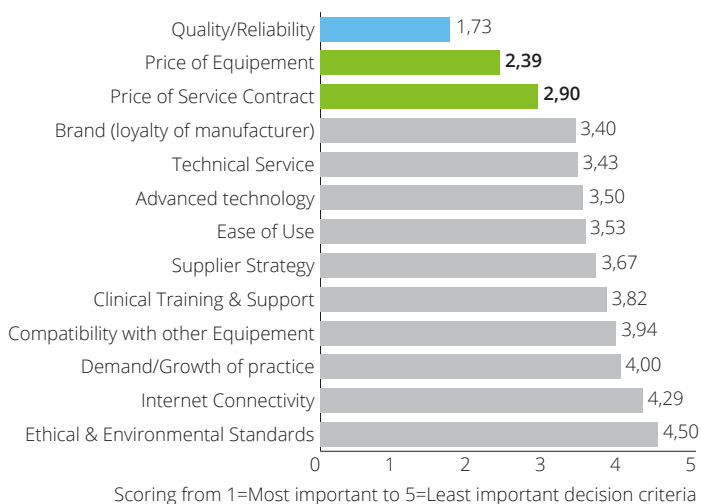
**Health care procurement is growing in maturity and the days of price as the sole factor influencing the buying process and product buying lie in the past. Quality is already the main criterion for selecting suppliers, and there is a clear shift towards buying services and solutions.**

Interviewees confirmed the increasing importance of 'value' in the procurement process, which translates into a clear trend away from using simple price-based sourcing strategies towards an increased focus on quality. Quality was indicated as the number one criterion when selecting a supplier. Next to an increased focus on quality, health care providers are sourcing more and more services and solutions, moving away from traditional product buying.

The graph below shows that quality and price are the two main criteria when selecting a supplier.

This is an overall conclusion that needs further nuance and it should be understood that is certainly not true for all purchases. The relative importance of quality versus price will differ between specific types of purchases:

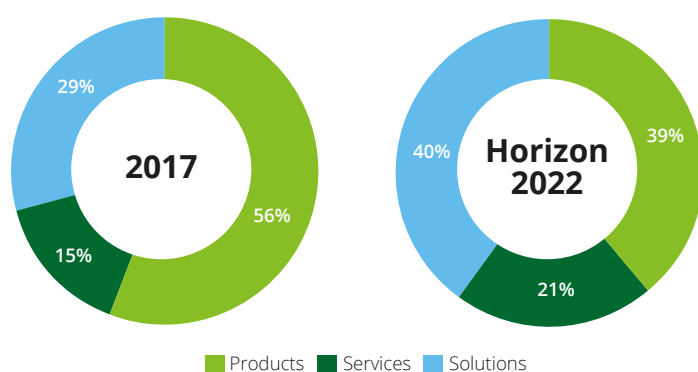
- Overall, price is important for both high and low-end products. However, price is a greater influence when selecting a supplier for low-end, commodity products or services; or in mature markets with many high-quality suppliers. Quality is more important for high-end and innovative products or services, where an important variation in quality is available on the market.
- Price and quality are not always complementary in the sense that there is not always a willingness to pay more for extra quality. Quality is often considered as a threshold criterion: a minimal quality standard is defined upfront, that health care providers will try to source against the lowest price.
- Last, there are some differences between the typology of health care providers. Public hospitals and university hospitals focus more on quality and innovation than private hospitals where financial value (profitability) is still the key decision criterion.



## The current shift from product buying towards service and solution buying is expected to continue.

Participants indicated a shift from sourcing products and devices to sourcing more services and solutions<sup>1</sup>.

% of products, services and solutions as a total of the procurement budget\*



Four main drivers of this shift were identified in the survey:

### 1. Cost reduction

Respondents indicated that sourcing services and, to a larger extent, integrated solutions are considered as an opportunity to simplify and reduce the supplier base. Sourcing solutions allows to combine devices, consumables and related services in one contract which automatically optimises the total cost of ownership inherently.

### 2. Risk reduction

Risk reduction is another argument that respondents use to substantiate this shift. First of all, services and certainly solutions allow to allocate risks to the supplier side.

Compatibility risks are reduced when the device and the related services and consumables are sourced from the same supplier under the form of solution.

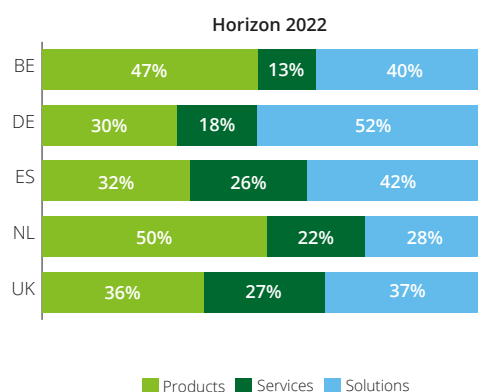
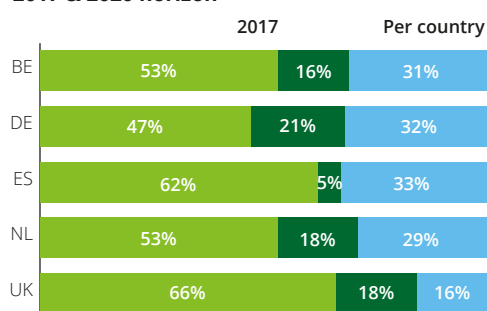
### 3. Improved solution offering from the supplier side

A third driver, identified with the interviewees, is the increased maturity in the supply market, with a better approach to offering high-quality services and solutions, tailored to the needs of health care institutions.

Price transparency is important to increase the acceptance of solutions by health care providers. Health care providers like to have a clear cost breakdown of the different components included in the solution or service:

- This builds trust in the supplier as solutions are sometimes perceived or effectively used as a strategy for being deliberately intransparent and generating pricing margins;
- For the health care provider, price transparency is often a necessity for practical implementation and financing a solution;
- It is necessary to facilitate a discussion between supplier and health care providers to tailor a solution to the specific needs and the financial capabilities of the health care provider.

## 2017 & 2020 horizon



\* Average % of procurement, budget spent on solutions, service and products, respectively, across all countries (UK, Spain, Germany, Belgium & The Netherlands) based on 33 respondents

## 4. Stricter quality and safety requirements from regulators and for accreditation purposes.

Stricter quality and safety requirements result in hospitals increasingly looking at services and solutions to ensure compliance. Numerous regulatory requirements and changes in regulation drive hospitals towards services and solutions in order to place the ownership and follow-up of compliance with the supplier.

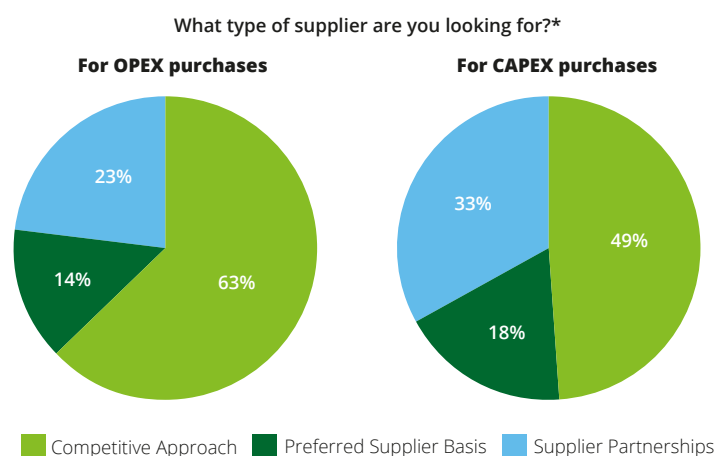
It should be noted that on top of these drivers, which are inherently linked to the difference between a solution and product or service, there are also some important financial drivers:

- Tax reasons, in particular in the UK. In the current tax regime, a significant tax benefit of up to 20 per cent may be realised by customers who opt for a fully operational and managed healthcare service which provides staff presence and expertise from the supplier alongside equipment, consumables, and devices;
- Capital versus operational expenses: Solutions and services can be categorised as OPEX expenses. Limited capital expenditure budgets within health care institutions sometimes results in a creative solution where a traditional investment is retailored into a service or solution contract. This driver differs between organisations and is linked to the specific financial context of the organisation.

\* In the framework of this study, the following definitions have been used: 1. Products: Any physical goods offered alone in one offering (e.g. equipment). 2 Services: Any service offered alone in one offering (e.g. maintenance). 3. Solutions: Any combination of products and services in one offering tailored to the needs of the customer (e.g. specific maintenance contract with a laser, managed services).

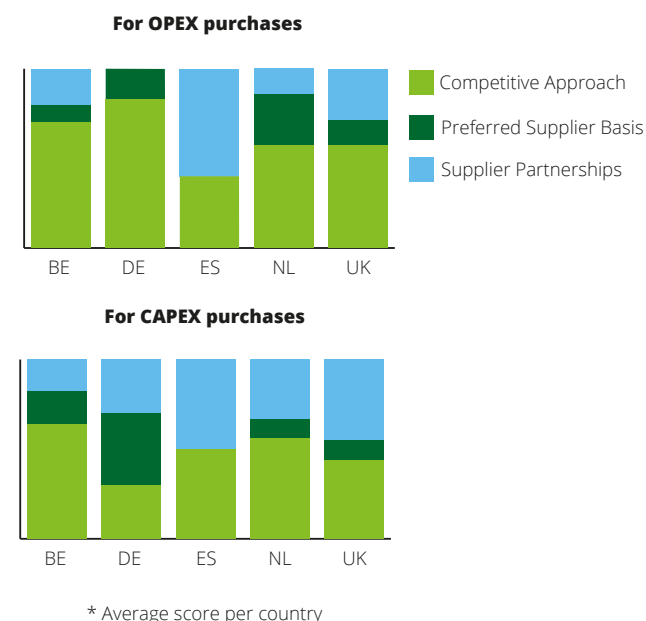
**Health care providers remain reluctant to establish partnerships with suppliers. A competitive sourcing approach remains preferred and partnerships are only considered where relevant.**

While the importance of quality and service/solution buying has clearly increased, we notice that health care providers are more reluctant to establish partnerships with suppliers. Interviewees indicated they have a more competitive minded market approach for both Capex and Opex purchases.



\* Based on the number of times the supplier type was mentioned by 33 respondents across UK, Spain, Germany, Belgium and The Netherlands

**What type of supplier are you looking for?\***



Several factors drive this reluctance.

First of all, a pure economic rationale can be identified. For standardised products and services where the entire market is considered to be of a high or competitive quality level, health care providers will systematically apply a competitive market approach to get/buy the best quality against the lowest price. This is the main reason why for OPEX purchases, most of which are commoditised, there's a higher focus on competitive strategies.

The second factor is compliance with public procurement legislation. The organisation of competition is one of the ground rules; deviating from this rule and the set-up of long-term partnerships should be clearly motivated from the health care provider's side.

Finally yet importantly, scepticism and trust play a role. Establishing partnerships requires trust between parties. Respondents indicated that engaging in a partnership comes with the risk of the health care provider at a certain point becoming too dependent on its partner.

Differences can be identified between countries:

- In Belgium health care providers are and will stay relatively competitive for both OPEX and CAPEX purchases, mainly driven by public tender requirements requiring a systematic organisation of competition;
- German health care providers apply strong competitive approaches to OPEX purchases, driven by the large Group Purchase Organisations, but are more willing to explore preferred supplier and supplier partnership strategies for CAPEX investments compared to other countries;

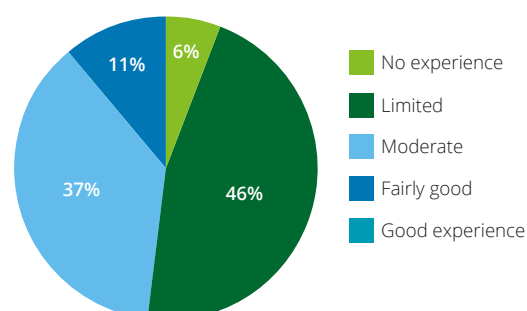
- Spanish health care providers, who are progressive in terms of their purchasing not product solutions, opt for a balanced approach (supplier partnerships and competitive approach);
- Health care providers in the UK and Netherlands are also likely to engage in a competitive supplier market approach overall. In the UK this can be explained by the high cost pressure that currently exists within the health care system.

### Value-based procurement is not yet fully on the radar

More than half of the survey respondents indicated having no or only limited experience with Value-based procurement, with public hospitals having less experience than private ones. None of the interviewees claimed to have good experience.

When interviewing stakeholders and procurement professionals on Value-based procurement, it became apparent that they had varying levels of understanding. Some interviewees consider including qualitative criteria in the sourcing process already as a

What is your experience with value based procurement?



\* Average score calculated across UK, Spain, Germany, Belgium and the Netherlands based on answers of 33 respondents  
 No experience: no knowledge of concept and no experience;  
 Limited: knowledge of concept, no experience;  
 Moderate: knowledge of concept, some experience;  
 Fairly good: used in several procurement categories;

form of Value-based procurement, while others do the same but only speak about Value-based procurement when the impact on the end-to-end care path, patient comfort and treatment outcomes are evaluated in the sourcing process.

### Point of view: Value-based procurement versus economically most advantageous offer procurement strategy

	Priced-based procurement	Economically most advantageous offer strategy	Value-based procurement
Specifications	Product or service specification focusing on the core of the device or the service	Multidimensional specification of needs including qualitative and service elements Open specification/functional specification of requirements is used to a certain extent	Multidimensional specification of needs including qualitative elements, with an explicit focus on patient impact (eg. treatment results and patient comfort) Usage of open specifications/ functional requirements
Evaluation Criterion	One dimensional evaluation methodology with price as the only/main evaluation criteria	Two dimensional evaluation methodology with: - Commercial criteria - Qualitative criteria	Three dimensional evaluation methodology with: - Commercial criteria - Qualitative criteria - Criteria measuring patient impact
Costing model	Purchase price of the device or service	Total Cost of Ownership (TCO)	Total Cost of Care (TCC)
Strategy	Ad hoc purchases not driven by a strategy Focus on price and short term benefits	Strategic purchases driven by a category strategy Focus on quality & technical performance versus a Total Cost of Ownership	Strategic purchases driven by a category and organisational strategy Focus on getting a maximum patient result & impact against Total Cost of Care

Key components that distinguish Value-based procurement from other sourcing strategies are:

- The explicit focus on patient impact in the evaluation methodology and the definition of specifications; and
- A financial analysis going further than just the total cost of ownership of the goods, services or solutions purchased, but looking at the impact on the cost of care.

### **Barriers to implementation**

If we return again to the reasons for the low implementation level, several practical hurdles are mentioned by the interviewees:

#### **1. Organisational maturity and capacity of the health care providers**

- Value-based procurement requires the involvement of a substantial number of stakeholders, which makes it an intensive and multidisciplinary process that calls for sufficient means and time to manage it properly.
- Value-based procurement is seen as the way forward for certain types of purchases, but is not the highest priority on the agenda yet within procurement organisations. Many health care providers still focus on compliance, cost reduction and simply organising competition on certain contracts.
- Value-based procurement requires the organisation to have a certain procurement maturity as well as a certain 'scalability' to manage the process. This is an argument we identified mainly with smaller procurement organisations and health care providers.
- Referring to the latter, it is very likely that large health care providers with an already established procurement maturity will take the lead in the implementation of Value-based procurement, develop practical methodologies and run pilots. Smaller health care providers will follow and benefit from the lessons learned from the larger health care providers.

#### **2. Legislative obstacles**

- Public procurement rules require transparency, equal treatment and objectivity in the sourcing process performed by health care providers. This requires solid evaluation methodologies supporting a fair evaluation between candidates and suppliers.
- A fair evaluation is relatively easy to implement on commercial and price components (e.g. price, TCO, etc.) and technical specifications. However, for many qualitative and value aspects it is more challenging. How can you objectively measure and compare patient comfort, pain experience, success ratios of treatments and procedures, and the cost reduction related to efficiencies?

#### **3. Supplier capabilities**

We also find factors on the supply side that impede the application of Value-based procurement:

- Value demonstration is still lacking in the MedTech industry and needs further improvement. Above all, this value demonstration should be tailored to multiple stakeholders: not only medical staff, but also hospital management and those responsible for procurement.
- Suppliers lack the initiative or capability to develop supporting business cases to demonstrate/explain the economic value of the solutions and technologies that are offered.
- Conventional selling: eating the Value-based procurement elephant also requires suppliers to reconsider their selling capabilities, often driven by shifting the focus from price to value but mainly as a result of moving away from interacting with clinical stakeholders only to a mix of both clinical and non-clinical counterparts. This eventually will also lead to another shift from transactional interactions to long-term relationships that value the long-term benefit more than short-term success.
- Implementing and actively managing Value-based procurement will ultimately also require some fundamental groundwork to assure the supporting tools and processes evolve in parallel and truly enable MedTech suppliers to execute their strategy. In this context, the potential impact on Quote-to-Cash (QtC), Procure-to-Pay (P2P) and Record-to-Report processes (R2R) can be significant.



# To implement Value-based procurement, health care providers and suppliers have work to do.

It is clear that Value-based procurement is not relevant for all purchases and where relevant, some practical hurdles that exist today need to be worked on. Health care providers will have to grow their capabilities to implement Value-based procurement, but to make it work, suppliers will also have to adjust their current way of serving the sector.

## Health care providers require a plan for the implementation of Value-based procurement

Taking into consideration the practical implementation challenges and the effort needed, Value-based procurement requires a systematic approach and strategy for implementation, including sufficient means, the necessary organisational buy-in and a clear focus.

To make your Value-based procurement implementation a success:

- Use a focused approach  
Value-based procurement is not relevant for all purchases. Assess which categories are most relevant to implement Value-based procurement, and make the necessary resources available for the implementation. The following aspects should be taken into consideration:
  - The potential impact or benefits that can be generated;
  - Readiness and openness of internal stakeholders for change;
  - Complexity and number of stakeholders involved: start 'easy' and grow in the methodology.
- Implement Value-based procurement step-by-step  
Start with a few pilots, learn and further roll out the methodology in the organisation. Collaboration in the sector and sharing of best practices/experiences can facilitate and accelerate the implementation of Value-based procurement.
- Obtain cross-function support within the organisation  
The successful implementation of Value-based procurement requires a multidisciplinary approach and high involvement of internal stakeholders, who must be open to change. Active stakeholder strategies will need to be implemented on both a management and operational level. Also, provide content on the value specific to your organisation. The procurement organisation should have sufficient maturity to drive change related to Value-based procurement.

## MedTech suppliers need to demonstrate their value

MedTech suppliers need to pick their battles and follow a divide and conquer strategy. Value-based procurement is not a one-size-fits-all concept and becoming a true Value-based supplier is the result of understanding how you as a supplier are positioned vis-à-vis customer expectations and competitive offerings:

A. How do customers define value and what are their corresponding expectations and needs?

B. What are competitors offering to meet customers' needs and expectations?

C. What are you offering today?

Bringing these three elements together, as illustrated in the table below, will give MedTech suppliers clear insights into how to position products, services and solutions.

	Customer need?	Competitive offering?	Do you offer it
1. Nice to have offering			
2. Your unique selling/value proposition			
3. Untapped opportunities			
4. Must have offerings			
5. Critical offerings currently missing			

Nice-to-have offerings, which looking at the survey results correspond to for instance 'regulatory and procurement updates & support' or 'procurement training', will be difficult to position as a value driver. 'Online ordering', 'patient experience management' and 'risk-sharing mechanisms' on the other hand are only a few examples of services that could create value but are currently unsufficiently tapped into by MedTech suppliers. Whether a MedTech supplier should buy or build the required capabilities, how to innovate the current offering, or how to balance a customer's willingness to pay with the supplier's pricing mechanisms, are critical, strategic elements MedTech suppliers should reflect upon.

For Value-based procurement to work or to be possible, some effort is also required from MedTech suppliers. MedTech providers will need to demonstrate and objectivate the value they are delivering:

- Suppliers need to be able to share patient treatment outcome information;
- Suppliers need to deliver models to quantify total cost of ownership and total cost of care related to the services and products they are offering.

Value-based procurement support might be a way for MedTech suppliers to differentiate themselves from the competition and build strong relationships with health care institutions. Good knowledge of the health care providers and the trust of hospitals are key to fully enable Value-based procurement. A basic requirement here is transparency.

As Value-based procurement is a multidisciplinary process within the health care provider organisation, it is important for the supplier to be aware of this multidisciplinary and sell the value of their solutions and services taking into account the various perspectives of the different stakeholders, and not only focusing on medical staff.

#### **What comes first: Value-based procurement or Value-based health care?**

An interesting discussion is whether Value-based procurement should come before or after Value-based health care. This discussion is probably not relevant as both might be true. In certain areas and disciplines, Value-based procurement can be the initiator of the implementation of some Value-based health care principles. In other disciplines, Value-based health care principles and thinking should already be implemented before Value-based procurement.

As such, Value-based procurement can be an accelerator or initiator for the implementation of some Value-based health care concepts and methodologies within the organisation. Again, a focused and cautious approach should be used to evaluate when to start and implement Value-based procurement.

#### **Are public procurement rules and Value-based procurement conflicting?**

Public procurement legislation requires a fair evaluation of several suppliers and the systematic organisation of competition to give suppliers equal opportunities to win contracts in government funded sectors. The main challenge is that this fair and systematic organisation of competition is organised within a strong legal framework, giving suppliers significant rights to retaliate against decisions they do not agree with.

This strong position of suppliers causes some conservatism related to the sourcing strategies and methodologies followed, but should not block the implementation of Value-based procurement.

Neither should Value-based procurement mean a significant change to the practical organisation of sourcing processes, it is just an evolution and further elaboration of, not always often used, but existing methodologies.

Special attention should however be paid to managing supplier relationships. An important challenge is posed during contract execution when the supplier is not always incentivised to invest, especially towards the end of the contract. Economic rationale might in a competitive approach impede suppliers to invest and improve during contract execution. It is the task of the health care providers to anticipate this and to put good and correct contract governance models in place.

##### Health Care Provider

- Identify opportunity areas to implement Value-based procurement
- Use a focused approach for implementing Value-based procurement and to build capabilities in the methodology
- Ensure sufficient means for implementation and multidisciplinary support within the organisation

##### MedTech supplier

- Improve understanding of value for and value perception by health care providers, and further improve existing offering of products, services and solutions based on these insights.
- Apply a multi stakeholder approach to managing health care providers
- Build trust to engage health care providers in longer-term relationships (e.g. transparent and clear service offering).

# Conclusion

Procurement in the health care sector is clearly moving towards procurement of “Value”. The concept “Value” being addressed in many ways as addressing specific needs and requirements depending on the institution but always focused on quality and shifting from products to services and solutions. In this context, it needs no saying Value-based Procurement will be high on the agenda of both health care providers and suppliers for at least the next few years. Key question however; how to start eating this Value-based procurement elephant?

Deloitte’s survey demonstrated that successfully implementing Value-based procurement is a journey where both purchasers and suppliers play a crucial role. Moreover, with Value-based procurement being on the verge of practical breakthrough there is a unique momentum for both parties to join forces, in particular as both have work to do. MedTech suppliers require a profound understanding of customer (purchaser) needs, to focus on the right value drivers whilst adapting internal capabilities accordingly. Health care providers require a clear strategy and action plan that embeds Value-based procurement in the broader health care ecosystem. Amongst other by strengthening multi-disciplinary capabilities to obtain cross-function support within the organization and a clear strategy stipulating for which product categories to apply Value-based procurement.

# Contact



**Joris Bulens**  
Partner, Risk Advisory  
jobulens@deloitte.com  
+ 32 2 800 22 38



**Koen Segers**  
Director, Consulting  
kosegers@deloitte.com  
+ 32 2 800 23 73



**Pieter Naegels**  
Director, Risk Advisory  
pnaegels@deloitte.com  
+ 32 2 800 23 08



**Ben Desmet**  
Senior Manager, Consulting  
bdesmet@DELOITTE.com  
+ 32 2 749 54 45

# Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms.

Deloitte provides audit, tax and legal, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 244,400 professionals, all committed to becoming the standard of excellence.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.