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The business school that thinks and lives in the future

# Problem-solving in healthcare services procurement

Rebecca Morris talks with Erik van Raaij and Finn Wynstra

**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 ▶

# Problem-solving in healthcare services procurement *(continued)*

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and supply management), and the *Journal of Purchasing & Supply Management*. The centre boasts an esteemed team of academics including Merieke Stevens, who has done extensive research in the automotive sector in Japan, Melek Akin Ates, Erick Haag, Robert Suurmond, and Fabian Nullmeier.

‘More and more organisations are buying services,’ explains Wynstra. ‘This is becoming a much larger part of total expenditure, which means it is having a much bigger impact – financially and otherwise.’

One important challenge for organisations buying services is how to accurately evaluate and reward a provider based on performance when the company is not the end user, he says. For example, if a software company outsources its helpdesk services to a third-party call-centre, the service interaction is between the customer and the call-centre, not between the customer and the software company, even though the customer has a contractual relationship with the software company.

This is the unique challenge of “triadic relationships”, say Wynstra, where a buyer is contracting a supplier to deliver services to the buyer’s customers.

Little or no research has been done on performance-based contracting in these triadic relations – and therefore on the well-publicised benefits of performance-based contracting that could well apply in a triadic relationship. It’s something researchers at the centre are determined to change.

‘Suppliers are reluctant to share the risk because there are factors that affect their performance that are outside of their influence,’ says Wynstra.

One solution researchers have studied at KPN and other companies is the introduction of performance indicators that incentivise the buyer to support the performance of the supplier: so the more support the company gives the supplier in performing their service, the less bonus the supplier gets, and thus the larger share of the reward the buyer gets in the end.

Performance-based contracting is a key theme in the healthcare procurement research stream. ‘Healthcare

costs in most countries are unsustainable,’ says Van Raaij. ‘While governments are changing policies, healthcare 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 he collaborated with The Boston Consulting Group and the Karolinska Institutet in Stockholm, Sweden, to form the ICHOM – a massive initiative to create standard outcome indicator sets for different treatments, allowing for the global comparison of different healthcare providers. The first four indicator sets were presented last year, and eight more were announced at this year's annual conference at Harvard Business School. While the groundwork is being laid for a transformation of the healthcare landscape, RSM researchers are helping to ensure Dutch insurance companies stay at the front-line of these changes.

The RSM pilot at Achmea, the biggest healthcare insurer in the Netherlands, is a first step in this effort to achieve what RSM calls performance-based healthcare procurement. Researchers work with a performance-based procurement process model, where a distinction is made between two pre-contractual and two post-contractual processes. Best-value procurement is a method that is used in the pre-contractual selection process. A next pilot will examine the contract management phase and how they can attune this process to a focus on outcomes rather than inputs or activities.

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 [WEB www.erim.eu.nl/psm](http://www.erim.eu.nl/psm)**

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