

Better rapport is the payoff for vendors who play by the rules

Vendors who circumvent materials management to sell supplies and equipment directly to operating room (OR) doctors and clinicians can disrupt daily hospital activities and cause significant cost overruns. Jim Smoker, director of materials resource services, WellSpan Health, an integrated health network, York, Pa., describes how an OR sale to a doctor caused problems with his hospital's budget last year.

"About 18 months ago we approved the limited use of a product used in kyphoplasty procedures. The original estimate in annual expenditures for this new product was expected to be in the range of \$100,000 to \$200,000 per year versus approximately \$400,000 per year during fiscal year '02," he explains.

Smoker says products sold directly to doctors in the OR run the gamut from low-priced gauze and stents, to high-priced orthopedic implants, pacemakers and defibrillators. "You name it, the product is sold to physicians," he says. "Unfortunately, physicians have nothing on the line financially. Health care organizations pay the freight," he says.

Accessing the back door

Materials managers and vendors alike say it's some sales representatives of commodity item manufacturers who give other sales people a bad name.

These suppliers, often working on a commission basis, loiter in the OR for hours for the opportunity to peddle sutures or wound care products to doctors and nurses.

"You'll see a lot of sales guys sitting in the OR break room all day to get 10

minutes with a surgeon," says Will Cruz, corporate accounts manager for Andromed, a St. Laurent, Quebec-based medical equipment manufacturer. "Companies put these guys in that position because they pay them straight commission."

Estimates of how often vendors pay sales calls to the OR vary according to an institution's size and structure. Kerry Sides, materials manager for the McFarland Clinic based in Ames, Iowa, suspects that vendor visits to his facility's 23 offices happen weekly.

Smoker estimates that unauthorized sales visits to the OR occur "a few times each month in a health system of our size." WellSpan Health consists of two acute care facilities and one ambulatory surgical center that serve the residents of Adams and York Counties, Pa.

Jack Gallagher, director of materials management, Harrison Hospital, a 297 bed acute care community facility in Bremerton, Wash., says vendor sales in the OR are not much of a problem, but he acknowledges that "we don't have control over vendors going to see doctors in their offices."

Smoker suspects that vendors who circumvent materials managers, possess an acute awareness of who actually sells a product to the hospital.

A white paper entitled, *Engaging Physicians in Supply Cost Reduction*, published by VHA, a national health care alliance based in Irving, Texas, confirms his suspicion.

According to the white paper, "In the traditional setting, physicians are the drivers of product choice, especially for high-preference items. Suppliers realize this and use their services to influence physician choice via sales, technical support and other incentives.

Suppliers have been very successful in creating strong relationships between their representatives and physicians. Supply representatives often provide a level of support and service that physicians do not receive from anyone else."

Vendors know these sales tactics effectively build brand loyalty and product preferences among doctors.

"Because doctors are fastidious about the products they use, salesmen are trained to go straight to the doctors," comments Cruz, who adds that companies that push the envelope often portray materials managers as road blocks to sales.

Gallagher agrees that the pressure's on for sales reps to produce results in order to justify their existence to a company. He adds that the consolidation of major health care manufacturers fuels intense competition among corporations to make their margins.

"There used to be from five to eight major distributors-now we're dealing with just a few, and the stakes are higher. These are publicly traded companies fighting for market share and good stock values," he says.

Smoker feels that physicians are increasingly under pressure to bend to consumer pressures because of direct-to consumer marketing. The VHA white paper states that "in 2000, pharmaceutical companies

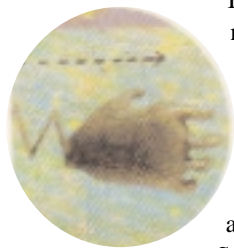




spent more than \$2 billion in direct-to-consumer advertising and the results have been tremendous.”

Cruz observes how effective these sales tactics can be at driving consumer demand for specific drugs.

“How many times have you seen a TV commercial telling consumers to ‘Ask your doctor about this purple pill?’” he asks. “People have access to so much information. They’re educated and aware of what’s out there.”



The white paper also notes that medical device manufacturers ... have ventured into direct-to-consumer advertising [as a way] of building brand awareness.”

Smoker says a full-page newspaper ad, which extolled the benefits of heart rate monitoring technology, exemplifies this marketing trend. The ad, which appeared in a recent edition of *USA Today*, wasn’t aimed at physicians, he notes, but consumers.

Outside marketing pressures aside, materials managers admit their reluctance to turn down a doctor’s purchasing request, particularly for high-preference items. “If a doctor wants to try something, who are we to try to prevent that? It’s difficult to say, ‘No you can’t have that,’” says Gallagher.

VRA research indicates that “Hospitals seek to obtain patients via physicians by providing physicians with facilities, staffing, supplies and equipment.” It adds that “physicians may threaten to discontinue admitting to a hospital if that hospital does not stock certain products.”

Money isn’t the only cost

Besides unexpected expenditures, sales in the OR can disrupt routine hospital procedures and breach facility and public policies. Smoker, who usually receives a phone call from a department manager after a vendor visit, believes the problems

associated with unauthorized sales calls resonate throughout a hospital.

“The practice is extremely disruptive to OR directors, materials managers, accounts payable and patient accounting personnel. It causes misunderstandings between physicians and vendors, materials managers and OR directors across the board,” he says.

Vendors who visit the OR to demonstrate products on patients, may compromise patient confidentiality. Smoker says surgery consent forms don’t always contain the type of disclosure language needed to inform patients of what will transpire in the OR with regard to new products being used during a surgical procedure and who might be present.

He adds that the Health Insurance Portability and Accountability Act (HIPAA) of 1996 now requires vendors, “who have direct contact with confidential information,” to sign a Business Associate Agreement.

HIPAA’s Privacy Rule states that entities covered under the rule, such as a health plan, a health care clearinghouse or health care providers that transmit any health information in electronic form in connection with a HIPAA transaction, generally cannot disclose protected health information on Medicare beneficiaries or other patients without the permission of a patient. Circumventing materials managers also poses a security risk to hospitals. A Vendor’s Guide to Harrison Hospital requires sales and service representatives to “come first to the appropriate buyer who will issue you a temporary ID badge to be worn during your visit. [This helps] provide a secure environment for our patients and staff.”

Cruz says sales representatives, who run afoul of a hospital’s security guidelines, risk expulsion from that facility. “They’ll [hospital security] call the company and say, ‘If that guy comes in here one more time

and doesn’t have a badge, he’s out of here.’”

A vendor’s level of professionalism can influence a materials manager’s willingness to conduct business with that supplier or distributor. Bad vendors create a bad rapport between themselves and hospital staff members, says Gallagher, who recalls sanctioning a persistent, but not highly regarded, vendor from Harrison Hospital.

“There are other companies that provide better products at better prices. It all comes down to doing business with someone you trust and this guy was not trustworthy,” he says.

Shutting the back door

The ability of materials managers to contain unauthorized OR vendor sales largely depends on the operational structure and purchasing policies of individual institutions.

WellSpan’s Health Materials Resource Services Policy & Procedure stipulates that “buyers and senior buyers may execute contracts/price guarantee agreements with an annual estimated value of up to \$5,000 without review.” However, contracts that “cause an operating expense budget variance in excess of \$25,000, must be reviewed by the director, materials resource services and financial services.”

Harrison Hospital’s vendor requirements state that “every product or service requires an authorized purchase order. We are not liable for goods delivered without one, and such goods may be returned at the vendor’s expense or — if necessary—discarded.”



Vendors, who fail to comply with WellSpan’s OR Materials Management New Product Review Procedure, risk having the unapproved product becoming a hospital donation, says Smoker. who,



notes a decrease in this activity since the adoption of this policy two years ago.

Sides too says, “No purchase order can be approved without going through the purchasing office.”

But unlike other health care facilities, he says, board members at his hospital are also physicians who have department heads responsible for capital budgets. Sides runs interference between vendors and doctors.

“I research who the big players are, what models are available and average costs. When department heads are talking to vendors, they have that information at their disposal. Once they propose it to the board, I have the authority to purchase it,” he says.

Smoker has noticed a difference in the purchasing habits among doctors

whose fiscal well-being is directly linked to the success of the hospital where they practice.

“We have found that the same physicians, who have an ownership stake in our for-profit ambulatory surgical center, behave differently with regard to product preferences than the products they request of us at the primary acute care hospital,” Smoker says.

The VHA report states that, “hospitals can save millions of dollars in expenses by engaging physicians in supply cost reduction efforts.”

It suggests “replacing the old supply chain paradigm, which frequently pit physician preferences against hospital cost control efforts, with a new paradigm that places hospitals in the middle of physicians and suppliers.”

This new paradigm “broadens opportunities for collaboration among hospitals, physicians and suppliers with hospitals playing an integral, strategic role in the exploration and development of such opportunities.”

Cruz supports developing collaborative relationships between suppliers and hospitals. He believes that setting up distribution channels helps vendors build longterm credibility and relationships.

“If you circumvent a materials manager, you’ve blown any chance of selling your products,” he says. “Materials managers change hospitals all the time. So, the names change, but the faces remain the same.”

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