MARKET INSIGHTS

How a broad view of value will impact health system drug and device purchasing

The health care landscape has changed immeasurably in the past few years. As such, the ways in which health systems measure the value of drugs and devices has evolved in turn.

To better understand how provider organizations are changing the way they define and determine a product's value, we surveyed over 80 leaders from health system value analysis and pharmacy and therapeutics (P&T) committees. These individuals are on the front lines of product review.

After analyzing the results from our survey, we identified four ways that health systems will update their drug/device decision-making in coming years.

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Read time – 10 minutes

Audience

- Medical device
- Pharma

Advisory Board

The trends

SECTION	TREND	DRIVING FORCES
01	**Committees will increasingly seek real-world outcomes**	As health system incentives and goals evolve, the demand for real-world outcomes will increase. Manufacturers can expect this data to carry more weight in future product decision-making.
02	**Committees will calculate the impact a product has on margin instead of just the impact on spend**	Facing tough financial and growth outlooks, health systems must determine how products will impact procedural and episodic margin holistically, as opposed to how products will impact spend alone.
03	**Financial and quality metrics alone will no longer dictate decision-making**	Health systems face a fast-changing business environment with new challenges at every turn. This will cause committees to seek product-related information outside of traditional clinical outcomes and finances metrics.
04	**Committees will rely on new sources of information to evaluate products more holistically**	Committees are considering more (and more complex) clinical, financial, and operational metrics during decision-making. Therefore, they'll increasingly rely on new internal and external parties to holistically review products.

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01 Committees will increasingly seek real-world outcomes

What is the status quo?

Providers evaluating products from a quality and efficacy perspective traditionally look at factors like:

- The product's immediate impact on outcomes
- Comparative effectiveness to existing treatment options
- The product's impact on patient symptoms/side effects

Manufacturers are well poised to generate and share these data points today. However, this information often comes from carefully selected clinical trial populations, and it's not always clear how the product will perform among the general population.

KEY DEFINITION

Real-world outcomes: Any outcomes from a medical product or intervention that come from outside a clinical trial

What forces are driving change?

Emerging organizational priorities are pushing product decision-makers to expand their view of a product's impact on outcomes when determining value.

For example, as health systems transition to value-based payment models, leaders will need to understand how products impact outcomes outside a single care encounter. Instead, they'll look for information on how products can reduce unnecessary utilization, improve episodic outcomes, or enhance long-term care.

Another emerging health system priority is improving health equity. To improve outcomes among all patient populations, decision-makers will seek information on how products impact individuals with demographics that match their local population.

Sources: Advisory Board 2022 Pharmacy and Therapeutics Committee Survey; Advisory Board 2022 Value Analysis Committee Survey.

What will the future look like?

As health system incentives and goals evolve, the demand for real-world outcomes will increase. Manufacturers can also expect this data to carry more weight in future product decision-making.

But the source of widespread, robust real-world outcomes is still to be determined. Many health systems try to gather this information themselves but often lack the time, staff, and data infrastructure needed to do so. The same goes for understanding how products impact more diverse patient populations.

This situation creates an opportunity for life sciences companies to step in. They often have sufficient resources to provide this valuable information. Life sciences companies that can ethically recruit trial participants from historically underrepresented populations and conduct follow-up clinical trials to collect real-world evidence will be able to differentiate themselves from competitors.

60%

Of survey respondents say they want to review **real-world outcomes** more during product evaluation in the next five years

58%

Of survey respondents say they want to review **how products impact diverse patient populations** more during product evaluation in the next five years

Questions to ask yourself:

1. What steps can we take to include more diverse patient populations in our clinical trials?
2. How can we work with third parties to collect data on the real-world effectiveness of our products?
3. How can we help customers track outcomes related to our products in their own patient populations?

02 Committees will calculate the impact a product has on margin instead of just the impact on spend

What is the status quo?

The role of a P&T or value analysis committee is most often to ensure the organization uses products that are safe, lead to positive outcomes, and are financially acceptable. On the financial side of that definition, the key factor committees have reviewed has historically been cost-effectiveness.

What forces are driving change?

The financial side of the traditional value equation is where we see some of the most dramatic shifts in product evaluation today. Many organizations are recognizing the need to look beyond *cost* when reviewing drugs and devices. Instead, they're increasingly looking at a product's impact on *revenue* and *overall margin*. The forces driving this expanded view of financial value include:

- **Site-of-care shifts changing reimbursement dynamics**: Providers will pay close attention to if new products could change the site of care for a procedure, and how that would impact revenue they generate.
- **Shrinking hospital margins**: Providers will try to boost revenue by using products that improve turnaround times or allow them to serve new types of patients.
- **Tighter payer formularies**: Providers will avoid administering expensive drugs that the patient's health plan won't reimburse.

What will the future look like?

Provider organizations will seek to understand the margin impact of drugs and devices in the coming years. But because committees already look at metrics like product cost or impact on total cost of care, the focus moving forward will be on adding revenue-related considerations to product evaluations.

As decision-making committees make this shift, expect them to:

- Include revenue cycle representatives as regular (as opposed to ad-hoc) contributors in committee meetings.
- Consider new questions during committee meetings, like:
  - Will using the product change how we code the encounter?
  - Will using the product expand the type of patients we can treat?
  - Will using the product allow us to see more patients in the same amount of time?

78%

Of value analysis leaders want to look at **how devices and supplies impact revenue** more in the next five years

66%

Of P&T committee leaders want to look at **how drugs impact revenue** more in the next five years

Questions to ask yourself:

1. How could our products increase our customers' revenue? For example, by allowing them to code differently, see additional patients, or serve new types of patients.
2. How might a shift to lower-acuity sites impact our customers' reimbursement for cases that use our products? How are we positioning our products in this lower-revenue environment?
3. How are we engaging market access teams at health plans to ensure they reimburse our customers for using our products?

03 Financial and quality metrics alone will no longer dictate decision-making

What is the status quo?

Drug and device evaluations usually revolve around the product's clinical and financial impacts. Other operational or non-product-related metrics vary in importance and often take a back seat during decision-making.

What forces are driving change?

Health systems face a fast-changing business environment with new challenges at every turn. For example, in recent years we've seen workforce shortages, supply chain disruptions, site-of-care shifts, and climate change (among other issues) become top-of-mind priorities.

As health systems develop and implement strategies that allow them to survive in this changing health care environment, product evaluation must evolve accordingly. In particular, increasing the importance of operational and non-product-related metrics will help solve many of the above emerging challenges.

What will the future look like?

Committees will not only seek an expanding set of information *related to* clinical outcomes and finances, but also an expanding set of information *outside of* these categories. Some examples include:

- Suppliers' supply chain reliability
- Patient and clinician satisfaction
- Clinician training required to use the new product

Many of these factors will soon have power to sway decisions themselves, as opposed to being ancillary value propositions that support clinical or financial benefits. For example, a product that reduces costs but comes from a company with unreliable logistics may not be valuable to an organization focusing on business resilience. Or a product that claims marginally better outcomes but requires massive changes to workflows may not be valuable to an organization struggling with clinician burnout.

More niche metrics may also gain steam as the industry's overall priorities change. One example is environmental sustainability. The health care supply chain is a major contributor to carbon emissions and waste. While relatively few committees review this factor today, many supply chain leaders want to consider this metric more often in the next five years.

4

Of the top 10 most common metrics in medical device decision-making are **not directly related to the product's financial or quality impact**[1]

74%

Of value analysis leaders want to **increase the amount they look at environmental sustainability** when reviewing medical devices and supplies in the next five years

Questions to ask yourself:

1. What customer pain points are we addressing beyond improving outcomes and margins?
2. How will using our products require customers to change their established workflows?
3. How can we communicate difficult-to-quantify metrics like being a reliable and easy organization to work with?

1. Includes: Impact on patient experience (#2), Clinician training required to use products (#5), impact on clinician experience (#7), and supply chain/logistics (#9).

04 Committees will rely on new sources of information to evaluate products more holistically

What is the status quo?

Historically, the process of gathering and analyzing data for product decisions was straightforward. P&T and value analysis committees considered fewer categories of data, and that information was often readily available from manufacturers, peer-reviewed journal articles, and internal hospital sources.

What forces are driving change?

Committees are considering more (and more complex) clinical, financial, and operational metrics during decision-making to better understand the holistic value that a product provides. In fact, more holistically evaluating products' impacts on the organization and patients is one of the most common goals of both P&T and value analysis committees.

However, all these new considerations create more work and complexity for committees given they are adding to, rather than replacing, existing factors. Committees will therefore need more help gathering, analyzing, and making decisions based on an increasing set of metrics.

#3

Third most common goal of value analysis and P&T committees is to "**Holistically evaluate products' impact on the organization and patients**"

46%

Of respondents say they want to increase the extent to which they consider **more than half of the clinical, financial, and operational considerations** provided in the survey over the next five years

What will the future look like?

To review products more holistically, manufacturers can expect committees to increasingly rely on the following internal and external parties.

- **New internal stakeholders**: This includes revenue cycle reps who call out margin implications, nurses who speak to workflow implications, and medical ethicists who raise ethical considerations.
- **Independent evaluation agencies**: Also called health tech assessments (ECRI, ICER,[1] Lumere, etc.), these tools help committees analyze comparative effectiveness, cost-effectiveness, and outcomes-related metrics. They can even compare products head-to-head. While most of these tools had small user bases a few years ago, they are much more widespread today.
- **Group purchasing organizations:** Organizations often rely on their GPO for data on a product's financial impact. Supply chain leaders also use GPOs' spend benchmarking tools and consulting offerings to help with product reviews that they have little experience with. Health systems' reliance on these groups is likely to grow in coming years as major GPOs continue to invest in data and analytics capabilities.
- **Life sciences organizations:** Few survey respondents noted they want to increase the extent to which they rely on manufacturers during decision-making. However, committees will still look to suppliers to provide information on outcomes-related metrics like real-world evidence, or non-product-related metrics like supply chain performance or environmental impact.

52%

Of survey respondents report that **independent evaluation tools** are one of their top sources for product information today

Questions to ask yourself:

1. What data are customers asking for that we can't provide right now? Who are they turning to for that information?
2. What new, internal stakeholders could our customers bring into their committee meetings? How can we form relationships with individuals in these roles?
3. How are we working with independent evaluation agencies today? How can we better work with them to ensure they share relevant and up-to-date information on our products?

1. Institute for Clinical and Economic Review

Closing thought: Remember that each purchasing committee is different

Every decision-making committee is different. They all review different categories of metrics and assign unique weights to each. This leads to various definitions of value, with some organizations looking primarily at product cost and safety, while others take time to review products more holistically. While our survey data highlights trends that point to certain factors generally becoming more popular, we're still far from an industry-wide consensus of what product "value" means.

On an individual health system's level, an organization's goals and structure will influence their definition. For example, organizations that participate in accountable care organizations value long-term outcomes more often than those that don't participate in risk-based payment. Or providers with a payer arm consider total cost of care more often than those without one.

Therefore, as life sciences leaders form relationships with customers, it's important to consider both emerging purchasing trends along with the unique priorities of the organization they're working with to ensure that value propositions will resonate.

Questions to ask yourself:

1. How are we tailoring our value proposition when working with organizations that participate in value-based care arrangements or have a payer arm?
2. Which definitions of value are most favorable for our product?
3. Which definitions of value are least favorable for our product?

13%

More likely that a provider participating in an ACO will **always/frequently consider long-term outcomes** when evaluating products than a provider that doesn't participate in non-mandatory value-based payment programs

15%

More likely that a provider with a payer arm will **always/frequently consider total cost of care** when evaluating products than a provider without a payer arm

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