Value-Based Supply:
Re-imagining Value from Within

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This is the first of a series of four white papers sponsored by Mölnlycke from the Value-Based Health and Care Academy at Swansea University.

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INTRODUCTION

In the face of demographic change, rising demand and greater patient complexity, health systems across the world are seeking to achieve better health outcomes for populations and patients within the resources available, so that high quality health care remains sustainable. The paradigm of Value-Based Health Care (VBHC), first described by Porter and Teisberg [1] is being applied to episodic and longitudinal pathways of care in many health systems with the aim of disinvesting in activities of low value, harm and unwarranted variation and using the resources this releases to invest in higher value interventions that improve population health.

For a health system to be value-based it is essential that the whole ecosystem is aligned with this purpose, including the procurement of technologies, medical devices and services and any health technology assessment processes. Transformation of the fundamental operating model of complex health systems to one that is value-based requires strategic alignment of every element, however the opportunities for MedTech to help drive the change lie in a different relationship between suppliers and payers.

Procurement mechanisms should not just respond to the adoption of VBHC by the health systems they serve but they should and can act as a positive driver for value-based behaviours and thinking. More recently the MedTech industry and their respective trade associations in the UK and Europe have committed considerable effort to engage with payer procurement systems to encourage adoption of new ways of working that promote the principles of VBHC [2]. As a result, there is much spoken about Value-Based Procurement (VBP), Outcome-Based Agreements (OBAs) and Outcome-Based Pricing (OBP), but the translation of the theory into practice has been extremely slow and patchy.

PARTNERSHIPS FOR VALUE

Research into the causes of slow adoption of VBP has concentrated primarily on the barriers to adoption by the payer/health system, and we do not intend to repeat those here except to note that the obstacles can be significant if OBAs are implemented in the absence of a partnership approach to creating value and the creation of trust between the parties. Value-Based Partnerships should look beyond the technology, service or asset to the whole pathway of care and how each party will contribute to creating greater and shared value within the pathway. This involves bringing industry capabilities to the pathway that are not usually considered in traditional procurement of medical technologies, such as communication skills, pathway redesign and optimisation, big data analysis, real-world evidence and education for patients and clinicians, leading to shared value for patient, provider, payer and supplier.

VALUE-BASED SUPPLY

Whilst acknowledging that there are many actors and capabilities required to achieve VBHC, we have observed that much less has been said or written about the requirements and barriers for a supplier to enter into partnerships as part of their strategic approach to VBHC. We intend to explore these further in a short series of white papers over the next 12 months to improve understanding and encourage a lively debate, in the expectation that this will help pave the way to more effective participation by industry in VBHC. We have identified areas in supplier culture, behaviours and technical innovation that are needed to succeed in partnering with health systems as key themes and have called this concept **Value-based Supply**.

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CRITICAL SUCCESS FACTORS FOR INDUSTRY

We describe **eight** distinct areas that MedTech must activate to engage successfully with health systems in Value-Based Partnerships.

1. NEED FOR SENIOR LEADERS TO EMPOWER

We have observed that the life sciences companies that have been most successful in partnering with health systems are those that have a CEO and other senior leaders who demonstrate they are invested in the approach, wish to see it implemented across their business and empower their teams to engage in this way. Omar Ishrak at Medtronic [3] and Albert Bourla [4] at Pfizer both made Value-Based Health Care core to the company mission and in effect "gave permission" for innovative approaches to be explored. They also acknowledged that there will be failures when innovating in procurement, just as there are failures in the pipeline of technological innovation. We believe that strong leadership for customer-centric innovation is essential, given the complexity and flexibility that such partnerships require to thrive.

2. CULTURAL REQUIREMENTS

Effective and visible leadership is also required to create a favourable culture for partnership working. VBHC requires a very different mindset, and a supportive organisational culture is required, creating a more permissive risk appetite for intelligent failures and a true focus on working with health systems so that patients achieve increasingly better outcomes. We have seen examples of suppliers that appear in public to be supportive of partnership working but in practice this is a fragile veneer that is not owned by the middle management or business unit leads who still exhibit a traditional culture, based around hard selling and competition. Conversely, for companies whose Boards pride themselves on being patient-centred and entrepreneurial and whose staff are motivated by this higher ideal, VBHC, which really does place what matters most to patients at its heart, will underpin and foster the culture that they are seeking to cultivate.

3. KNOWLEDGE AND SKILLS OF THE SYSTEM-FACING WORKFORCE

A further barrier to partnership working that we see is a lack of understanding of the value-based paradigm amongst MedTech sector colleagues. It is a commonly held view within the sector that VBHC is poorly defined, whereas we would argue that in fact it is well defined for both US and European Health markets [5] [6], but that it is poorly understood, resulting in variable interpretation and application which causes confusion and can impact adversely on relationship-building with health systems.

There is also an expectation by a growing number of payers that suppliers will embrace the concept of value more broadly than originally described, with an increasing focus by procurement teams on the societal value domain, by including environmental sustainability of sourcing, manufacturing, supply and disposal as part of green health strategies, and the potential for beneficial impacts on the foundational economy of the communities they serve and the social value of investment in goods and services. Health systems are major contributors to carbon emissions and supply chain is a major part of that [7], so there is enhanced scrutiny on these aspects to improve environmental sustainability [8]. It is clearly not good societal value or morally acceptable for health systems to be responsible for worsening the health of communities through climate change and environmental burden in the process of delivering care. Payers are addressing this through multi-faceted approaches including requirements for suppliers to reduce their carbon footprint throughout the supply chain of their technologies and services, creating opportunities to collaborate on this in longer term partnerships for value; for example, by developing localised supply chains, improved recycling and reduced packaging waste.

In our experience it is common for senior and executive managers to be offered developmental learning in VBHC through courses and conferences, such as those run by the VBHC Academy in Swansea and Harvard Business School in Boston, but for their colleagues who engage directly with the health system to be excluded from these opportunities. This is not helpful for the cultural change needed or for successful engagement with health systems because it can lead to dissonance between the rhetoric and reality, resulting in further degradation of trust between supplier and procurer. Effective partnership requires trust to be established between the parties and this can be in short supply.

4. INCENTIVISATION AND RISK APPETITE

There is often a tension within MedTech companies to balance the need for a stable operating model and predictable revenues against the wish to innovate and be entrepreneurial. Alternative payment models usually require the sharing of risk but have the potential for establishing longer term partnerships with upsides that co-create meaningful data and shared value over time and provide opportunities for technology development and enhancement.

It is self-evident that incentive schemes are intended to prioritise particular behaviours by the workforce. Unless business incentives are aligned with the aim of creating shared value through partnership, then colleagues will behave in the way that is most likely to capture the incentives on offer. Put simply, rewarding colleagues on the volume of sales will be a very effective barrier to a move towards contracts with payers based on holistic patient outcomes and total value where operational and supply chain efficiencies, quality outcomes, clinical safety and patient experience are all part of the equation [9].

In particular, the salesforce will be keen to understand how their total remuneration will be impacted by this transformation. This requires careful design of reward systems to incentivise the move from volume-based to value-based contracts and may well require new metrics to underpin them.

5. SKILLS WITHIN BUSINESS FUNCTIONS

It is easy to assume that it is only the customer-facing workforce that require the skills and knowledge of VBHC for successful implementation of Value-Based Partnerships, but this is far from the case. We are aware of several potential partnerships that have foundered when a carefully co-created innovative partnership proposal is presented to business area leads or the contracting, finance and legal teams. In the same way that the whole ecosystem needs to be aligned within the health system, similarly all contributors within the company need to work together to get the proposal over the line. They need to recognize that some risk-sharing and flexibility are likely to be features of the contract and that it can take time to develop, but success will bring significant other benefits to the company that also should be considered. It is therefore essential that market access, financial, legal, compliance, medical affairs, contracting and marketing teams are aligned with the organisation's partnership ambition and the need for a new approach to customer engagement.

This is not a simple task and requires sustained customer-centric commitment to make the change and investment in workforce development. It will often require some realignment of roles. The deployment of robotic process automation and machine learning within the supply chain, manufacturing, research and development, finance and other support functions can improve internal efficiency and release resources within the company to enable this investment within the overall resource envelope.

6. THE SUITABILITY OF TECHNOLOGIES, SOLUTIONS AND OTHER ASSETS FOR VALUE-BASED PARTNERSHIP

That a Value-Based Partnership must include an OBA is a common misapprehension and we are aware of successful partnerships between MedTech companies and health systems that have no such arrangement within them. Partnerships can take many forms and can help to build the trusting environment needed for the more challenging innovative payment approaches that OBA can require. Equally, not every technology, service or asset lends itself to these forms of engagement. Any OBA needs patient outcomes that are readily measurable (indeed preferably already available) and that will manifest themselves over an appropriate timescale. For example, it would be very difficult to design such an agreement for an intervention that results in something adverse not happening over the next 20 years, without resorting to proxy measures of outcome, which is less satisfactory.

It is also natural for a supplier to think that the best technology for an OBA is one where they are confident about a strong evidence base for its adoption, offering them comfort that the risk sharing is minimised. We contend that whilst it is perfectly possible to develop a value proposition for such technologies, OBAs are in fact ideally suited to the uncertain environment, where evidence is less developed and gaining access to the market is more challenging without an opportunity to partner for shared risk and reward. This may be helpful as more technologies are incorporating digital capabilities such as machine learning (ML) and artificial intelligence (AI) for which good evidence of real-world benefit is yet to be established and where the performance of the technology is expected to improve during the life cycle of use.

7. NEED TO UNDERSTAND THE ECOSYSTEM MATURITY

The natural progression of Value-based Partnerships is that they move the relationship away from a simple transactional negotiation about technology and price to one about that is providing solutions to problems that health systems or organisations are facing. This requires suppliers to listen carefully, observe and to spend time with the customer to fully understand the details of the pathway of care that needs to be improved to achieve better outcomes. This may mean bringing more clinical expertise into the system facing team. It also requires trust to be developed between partners and openness about what each partner hopes to achieve through the relationship. Not all health ecosystems have the system maturity, infrastructure or culture to engage in this way [10] and so suppliers need good market intelligence to know where best to initiate discussions and how to assemble the right personnel with the right skills in their internal cross-functional teams.

8. LEARNING AND SHARING ACROSS THE ORGANISATION

Finally, another feature of Value-Based Supply is the willingness and mechanisms to share learning of success and failures across the different business areas, divisions and regions in the company. There is evidence that some countries and regions are more favourable environments for innovative solutions and partnerships and that others hold additional barriers. This also applies to technologies and service lines.

For most people, partnerships for value are still a very different and new way of working, accelerated to some extent by the successful suspension of "normal rules of engagement" during the pandemic. It is essential that learning is shared so that mistakes are not repeated, and confidence grows in this approach. Companies need internal repositories of successful and failed ventures and one of us has called for a register at European level [11] (stripped of commercial and sensitive data) so that the entire sector can learn from each other how best and when to enter into innovative partnerships with health systems so that the benefits of VBHC to patients, suppliers and payers can be realised at pace.

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James has over a decade working in the medical devices industry, obtaining a broad procurement, NHS and industry perspective through roles in the public and private sector. His journey has identified a passion for value and understanding what this means to health care providers and clinicians.

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SUMMARY

Value-Based Health Care is a very different paradigm that after some delay is now gaining traction in many health economies across the world. The approach is seen as an enabler of financially sustainable health systems with better patient and population health outcomes in an increasingly resource-limited environment. MedTech companies that understand and embrace this changed relationship will be able to achieve shared value for themselves and payers and at the same time play their part in improving the outcomes that matter most to patients.

This approach certainly requires changes by payers and procurement specialists, but it also means significant change for suppliers if they are to succeed. We think this requires greater discussion and have set out in this first of four white paper series what we consider to be the key elements of Value-Based Supply.

DISCLOSURE

The VBHC Academy receives funding from Welsh Government and industry partners. The views expressed in this paper are the personal views of the authors.

Please join with us in the debate and share your views online using #valuebasedsupply and join our Linkedin group ***Value-based Supply***.

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