

# Healthy purchasing

by David Mayerovitch

## Old and new compete in hospital marketplace



**F**rom tongue depressors to scalpel blades, from disposable infant diapers to mortuary shroud packs, Canadian hospitals depend on a steady daily flow of thousands of specialized medical and surgical products provided by a wide variety of suppliers and distributors.

What business relationships and technological solutions will best meet the needs of buyers and sellers while reducing costs to Canada's health care system? What e-procurement tools will prove to be the most successful?

The answers are far from clear. The health care supply-chain market is in a state of flux, with old and new business models and technologies jostling each other, often within the same institution.

Transactions may involve an individual hospital, a regional grouping of hospitals, a group purchasing organization (GPO), or an e-marketplace entity under hospital- or supplier-based ownership. Technologies include traditional phone and fax ordering, electronic data interchange (EDI) over a value-added network (VAN), and Internet-based e-marketplaces.

All three technologies are in play at Lakeridge Healthcare Corporation, which comprises five hospitals serving the Durham Region of Ontario east of Toronto.

About half of the purchase orders generated there still go by traditional phone and fax, says Patrick Soo, director of Materials Management. The other half goes electronically, and until recently, was all handled through CareNET, the largest Canadian provider of EDI services in the health care field, whose trading partners include both hospitals and suppliers. The CareNET system uses dial-up modem access to transfer purchase orders, acknowledgements, invoices and payments in a standard data format; it relies on BCE Emergis to provide carriage of the documents and other technological and supporting services.

CareNET, which has been operating since 1990, links 277 hospitals with 100 suppliers and has devised 25 interfaces into the commonly-used hospital materials management systems, according to Herb Martin, director of Electronic Commerce at BCE Emergis and manager of the CareNET system.

Lakeridge has begun to move some of its ordering to the Web-based portal offered by Canadian Health Marketplace (CHM), of which Lakeridge is also a member. "Through CHM we can track our purchase orders online," says Soo. "We can immediately see any problems such as back-order or discrepancies in price or product code. For example, if there's a discrepancy between the price on our records and the supplier's price, we can get that rectified before the supplier sends the invoice out. That avoids a delay in payment and saves us some extra work for our accounts payable people."

Soo reports that, for Lakeridge staff, it was a simple and seamless transition to the CHM system, though as yet only a few of Lakeridge's suppliers are participating. "When we have a majority of our suppliers on board," he says, "we expect definite gains in speed and efficiency."

CHM was created by Medbuy – a major Canadian GPO, owned by its hospital members, which leverages the aggregated demand of its members to negotiate favourable contracts with suppliers and distributors. Medbuy CEO Doug McVeigh is something of an evangelist for the benefits of buying groups and the e-commerce concept, and confesses to some frustration with the slowness of the health care industry to get the message. "Health care has always looked at procurement as something in the basement," he says.

Another player in the new generation of online health care supply-chain players is Global Health Exchange (GHX), the Canadian branch of an international organization recently merged with Medibuy, Inc. of Colorado (not to be confused with Medbuy). Where CHM, through Medbuy, is hospital-owned, GHX is owned by a group of major suppliers; both, however, declare themselves neutral and open to any organizations wanting to remove costs from the supply chain.

GHX offers members a range of connectivity options to suit their existing systems. It has also created the industry's first online standards-based product catalogue contain-



ing normalized data owned, verified and maintained by suppliers. It currently claims connections with hospitals representing over 20 percent of the Canadian market by operating budget.

One of them is Ontario's Kingston General Hospital, which like Lakeridge has been handling procurement through an EDI system. With EDI, says director of Material Management Gordon Manning, "the vendor is picking up the order but they only review it and enter it into their system at some later point. With GHX, you know in real time if there's some problem like a back order. That's a big deal for hospitals because we can't afford to run out of critical items. We can react immediately, ordering something else or securing the product elsewhere.

Kingston General initially implemented the GHX connection with two major vendors. "It went remarkably well for an IT project," says Manning, "Putting a few more key vendors on the system, we hope to be able to transact well over 50 percent of our volume, and I see it going higher in the future."

Herb Martin of BCE Emergis acknowledges the real-time capability of the Internet-based approach, but questions how much of a real gain that is over the CareNET EDI system. "Our hospitals can get a response back from their major suppliers within half an hour to

an hour and take whatever corrective action is necessary. That suits the needs of most hospitals today."

At least one hospital has taken steps of its own to ensure that it will always maintain good connections with its suppliers no matter what systems they use.

Daniel Steeves is project manager in the information services department of the Children's Hospital of Eastern Ontario (CHEO) in Ottawa. CHEO, a member of the Medbuy GPO, uses CareNET services but also maintains a key relationship with Rogue Data Corporation, a small Ottawa firm.

"You can have CareNET do everything for you, or you as a hospital can use your own third-party technology resource," Steeves says. "We decided to use CareNET as a mailbox and use Rogue to ensure integration with our enterprise-wide back-end system.

"We use an EDI template, but there are suppliers out there who use an XML template. And two suppliers who use an EDI template might want to use a certain field for different purposes.

"A company like Rogue Data makes sure that our files go out to each supplier in the form they want to see, and we get what they send back in the form we want to see. They make sure that the data maps from each supplier are bang on, so our clerks don't have to deal with a lot of error messages when they're matching up the invoices with the purchase orders."

Steeves is one of many in the industry who believe that a shakeout in health care e-procurement is inevitable – and in fact has already started, with several entrants having dropped out during the past year.

"Let's face it," says Medbuy's McVeigh, "Canada is the size of California. The market is simply not large enough to support more than one or two e-commerce entities."

Those that remain are exploring partnerships and collaborative arrangements. Martin of BCE Emergis comments, "The hospital customers are saying, 'Hey guys, let's get everyone working together for everybody's benefit.'" *MM*

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