

POLICY ARENA

More bang for the buck

Hospital upheavals spur a search for savings

by Melanie Collison

When tonnes of explosives brought the doddering Calgary General Hospital down on Oct. 4, 1998, the event seemed to symbolize the dismantling of the health care system in Alberta to make way for modern practices – including trimmed budgets and new relationships.

The General was just one casualty of province-wide health care reorganization over the past four years, an overhaul that has seen the creation of 17 regional health authorities and the retention of two provincial boards – the Alberta Cancer Board and the Provincial Mental Health Advisory Board. Two hospitals in Edmonton and two in Calgary have closed, their services redistributed to expanded units in the remaining hospitals. Laboratory services are now operated by the regional authorities in partnership with huge private companies, forcing small laboratory equipment distributors to find new markets.

All this hospital reform has sent waves of change through the medical supply industry in the province, only to crash into more change rippling up from the United States as a result of large-scale industry re-engineering. Major companies have been gobbling up smaller ones and merging with each other to become massive companies searching voraciously for efficiencies of scale.

The centralization of services has led to significantly more efficient and cost-effective hospital procurement, according to Michael Burke, head of procurement and inventory for Calgary Regional Health Authority. Materiel procurement is now run like a modern business, he says, with procedures, ethics, philosophy and business opportunities all spelled out on the [authority's frequently updated website](#).

“When we regionalized, we created a database to find out what all six hospitals were buying,” Burke says. “There were 5,000 different items. Only 25 per cent were used at more than one site.” Often the differences were as minor as half a centimetre in the width of a gauze pad so, where clinically acceptable, the new centralized purchasing department pursued standardization.

“With regionalization, the number of customers has declined dramatically,” says Don Berry, vice-president, Western Canada, for Source Medical Corp., a major distributor of medical

supplies. "At one time we had 200 major customers in Western Canada. Now we have less than 20."

At the same time, "there are probably 40 per cent less people in the supply side than 10 years ago," Berry says. More than 20 per cent of the CRHA's \$1.2 billion budget is for goods, services and supplies, Burke says, and that \$250 million concentrated buying power has pushed prices down. "[Because we're a public agency we're] bound by legislative regulation to a bidding process, and must go with the best value. Unless you can differentiate anything else, it's usually the best price, and a lot of the little guys can't compete."

Says Berry, "The problem in the medical supply business is that the profit margins are so slim you need the volume to overcome the lack of margin. If we make four cents on the dollar, we're thrilled. Well, not 'thrilled' ... we're ready to accept it."

There is, however, a place for entrepreneurial individuals. "You either have to be extremely big or very small," Berry says. Anlam Corporation, which produces a compression device to control bleeding during angiograms, is an example. Anlam was started in 1996 by an Edmonton nurse who figured out a way to replace a particularly unpleasant manual procedure with a mechanical device. Anlam President and CEO Anthony Lam told *Summit* the company already has a patent pending on a second device and sees a big market opening up. "We are talking to a multinational distribution company," Lam says. "They want to represent us all over the world. Health care reform has been good for Lam because purchasers are seeking value and are more selective in choosing products," he says.

Technology will spur the next giant step forward in hospital procurement. While centralization and standardization have banished the nightmarish paperwork of a different price list for each account, Berry is anxious to see the further savings that will come from electronic data interchange. "[Source Medical] could be the most technologically oriented company, but we get to the gate of some of the hospitals and everything reverts back to where it was 25 years ago," he says. Computer communications gaps will be bridged in the spring when a new Y2K compliant system that can place orders and pay electronically is powered up. It will compound the anticipated savings from centralizing inventory warehousing at around the same time.

"For suppliers, it should be nice to ship to one warehouse instead of four. The CRHA will ask that the savings be passed on," Burke says. "We're attempting to make decisions based on good business sense. [But] you can't equate private sector entirely to health care because outcomes are not totally productivity-driven." Still, much is being accomplished by streamlining the supply chain.

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