



NEWS RELEASE

# Premier Inc. Survey: Nearly 75% of Health Systems Report Interest in Value-Based Contracting

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Although gaining ground, limited engagement from suppliers and data challenges are the main barriers to more widespread adoption of value-based contracts in the supply chain

CHARLOTTE, N.C.--(BUSINESS WIRE)-- Although 73 percent of healthcare providers rank value-based contracting with suppliers as a priority for improving return on investments, opportunities lag in the healthcare supply chain, according to a new **Premier Inc. survey**.

Premier®, a leading healthcare improvement company, surveyed health system C-suite leaders, operations managers and heads of materials management to determine the prevalence of value-based contracts for products and services across the industry, as well as potential barriers to implementation. Broadly, **value-based contracts** are those with terms and conditions that hold suppliers accountable for delivering on cost, service or product attribute guarantees.

According to the survey, 38 percent of respondents participate in added-value programs, requiring suppliers to meet or beat historical pricing targets or guarantee specific service levels. However, only 16 percent of respondents participate in true, value-based, two-sided risk contracts with suppliers, where the vendor agrees to pay providers back for costs incurred if their product fails to meet pre-determined cost and quality outcomes.

"In today's healthcare environment, health systems are increasingly being pushed to assume risk for the total cost and quality outcomes of all delivered care," said Myla Maloney, Vice President of Strategic Accounts for **Premier Applied Sciences**. "In an environment where value is the new economy and measures are its currency, we are seeing an uptick in the number of providers interested in securing outcome guarantees from their business



partners. The challenge is that value-based contracts between providers and suppliers are a relatively new phenomenon, and there are few best practice examples for how they should be structured.”

A majority of providers indicated a lack of understanding of value-based, two-sided risk contracts in the supply chain (55 percent of respondents) as the main reason they have not implemented one.

Of the value-based contracts that have been deployed, respondents indicated that the most common are for surgical services, with 13 percent of respondents reporting contracts in this category, followed by cardiovascular (12 percent) and purchased services (11 percent) categories. However, respondents faced challenges to implementation, mainly around access to and agreement on the data sources that would be used to evaluate performance (22 percent), as well as internal communications about the structure of the contracts and how they should be implemented (14 percent).

Additionally, although 81 percent of respondents said they were interested in securing more of these types of contracts, most indicated they were unable to do so due to a lack of supplier engagement, cited by 67 percent of all respondents.

Premier actively works with its members to develop and deploy value-based contracts across a range of suppliers and product lines. Leveraging the **PremierConnect®** performance improvement platform with clinical outcomes data on 45 percent of all U.S. inpatient discharges, Premier has the ability to mine data and develop relevant outcomes metrics that can be tracked and validated by scientific best practices. Moreover, as a leading **contracting entity** in healthcare, Premier can secure supplier interest and deploy value-based contracts at scale by making them available across its membership base.

Premier has negotiated a range of value-based contracts with suppliers, including:

- Evidence-based care discounts: More common among pharmaceutical companies, these contracts provide a discount off the purchase price in exchange for the reliable performance of an evidence-based clinical intervention. For instance, a perioperative nutritional supplement maker under contract with Premier gives a price discount if health systems can document that they are discussing perioperative nutrition as part of their standard care model.
- Product or service guarantee: These contracts reimburse health systems for the purchase price of a product in the event of a quality or performance failure. One interventional device company under contract with Premier guarantees that the use of its product will reduce pressure ulcer rates by a specific percentage. If that commitment is not met, the providers are eligible for a rebate.
- Risk share by product: These contracts reimburse providers for another, added cost in the system as a result

of a poor outcome, as opposed to the actual cost of the product. For instance, one cardiovascular device company under contract with Premier reimburses health systems for the cost of treating a specific type of infection if a patient contracts it within six months of receiving their intervention.

## Survey Methodology

Premier’s survey on value-based contracting trends was conducted online, with the results based off responses from 203 healthcare leaders, including the C-suite (CEO, COO, CMO, CFO, CIO or CTIO), as well as heads of materials management and operations from October 2 – October 22, 2018. Survey respondents included both members and non-members of Premier.

## About Premier Inc.

Premier Inc. (NASDAQ: PINC) is a leading healthcare improvement company, uniting an alliance of approximately 4,000 U.S. hospitals and health systems and approximately 165,000 other providers and organizations to transform healthcare. With integrated data and analytics, collaboratives, supply chain solutions, and consulting and other services, Premier enables better care and outcomes at a lower cost. Premier plays a critical role in the rapidly evolving healthcare industry, collaborating with members to co-develop long-term innovations that reinvent and improve the way care is delivered to patients nationwide. Headquartered in Charlotte, N.C., Premier is passionate about transforming American healthcare. Please visit Premier’s news and investor sites on [www.premierinc.com](http://www.premierinc.com); as well as **Twitter**, **Facebook**, **LinkedIn**, **YouTube**, **Instagram**, and Premier’s **blog** for more information about the company.

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