

## **Shopping for the PPS-Ready Vendor**

A little help from your friends, the vendors, is a must in today's PPS environment.

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All providers of post acute healthcare have been affected by the implementation of the Balanced Budget Act of 1997's provisions. Providers in today's Medicare reimbursement environment must quickly evolve in management and care provision in order to maintain their high standards of care while simultaneously reducing their costs. This is especially true for skilled nursing facilities. The shift from cost-based reimbursement to prospective payment has required skilled nursing providers to place greater emphasis on the bottom line and to recognize that sound business principles are necessary for financial viability.

However, cost-containment measures adopted by providers must coincide with maintaining quality. This is particularly applicable to the selection of vendors. Skilled nursing providers rely on vendors for a myriad of patient care products and many patient care services. It is incumbent upon them to ensure that the goods and services obtained through outside sources are priced appropriately and that their quality meets the standards of the provider.

### **Skilled Nursing Facility Reimbursement Under The Balanced Budget Act**

The management of skilled nursing facilities/units (SNFs/SNUs) will be greatly affected by the Balanced Budget Act of 1997 (BBA). These providers had previously received Medicare reimbursement that was cost-based. Now, however, they must operate under formula-driven systems of reimbursement.

SNFs and SNUs formerly were reimbursed on a reasonable cost basis which capped their routine service costs at a facility cost limit. Certain supplies, equipment and physical, occupational, and speech therapy were classified as ancillary services and were reimbursed by Medicare without any facility cost limit. Now, however, the reimbursement methodology for skilled nursing facilities and units is quite different. The BBA mandated

that, beginning on July 1, 1998, facilities which received payment for services before October 1, 1995 will be paid a blend of the facility-specific rate and a federally-determined rate. "New providers," those first receiving payment for services on or after October 1, 1995, are reimbursed according to the federal rate. After July 1, 2001, all SNFs and SNUs will be paid according to a PPS. The PPS will include all ancillary services such as supplies and therapy. SNFs and SNUs are no longer able to focus solely on patient outcomes from the services and supplies used utilized during patient treatment. Now, in addition to quality, ancillary service costs must also be monitored.

### **Selecting Vendors for Healthcare Products**

Under the BBA, skilled nursing providers should consider a number of cost variables in addition to quality when selecting vendors of products and supplies used in patient care. The costs of products and supplies are now absorbed by the provider rather than merely being passed through to the government. As such, providers must select vendors according to well-defined criteria to ensure that the vendors will provide appropriate levels of service, quality, and cost-effectiveness and that they understand the fiscal constraints under which their skilled nursing customers are operating.

When determining which vendor to use for a particular product, providers should do more than just compare the purchase price of the product to its level of quality. An additional factor to consider is the level of additional costs that may be incurred as a result of using the product. Inferior products may give rise to unanticipated patient care costs and expenses that could have been avoided through the purchase of a superior product. The example below regarding the purchase of incontinence supplies is useful to illustrate this concept.

A skilled nursing provider in need of incontinence supplies may compare the prices offered by two vendors. The first vendor offers supplies that will cost the provider six dollars per incontinent patient day. The second vendor can supply the provider for only three dollars per incontinent patient day. Therefore, the provider, by using the second vendor, may save three dollars per incontinent patient day. However, this savings only considers the purchase price of the products.

If the less costly product leaks, additional laundry costs will be incurred from soiled linens as well as labor costs from changing bedding and the product. If the cheaper product causes increased infection rates, additional treatment, supply, labor and pharmaceutical costs may be

incurred. The cumulative costs of using the inferior product will soon far exceed the initial savings of three dollars per day.

The incontinent supply example shows that costs is just one consideration for providers when purchasing supplies and equipment. It also illustrates that high quality products, while necessary for appropriate patient care, may also be the most cost-effective products when considering the additional costs associated with inferior products. Therefore, providers, in the evaluation of vendors, should request data from the vendors that illustrates cost-effectiveness and positive clinical outcomes. Vendors should be able to present data that indicates their products are superior to their competitors' in both quality and cost.

Other considerations must be made when evaluating vendor products for quality. First, vendors should be able to offer an appropriate level of education to the provider's personnel regarding the use of the equipment or supplies. The vendor's familiarity with the use of the product should be communicated to providers through adequate literature and educational seminars. This will allow the provider to assess the product and to use it in the most effective manner for patient care and cost.

Second, when purchasing medical equipment, providers must be alert to hidden charges for ancillary products and maintenance fees. The equipment and ancillary products necessary for its use should be priced together to allow the provider to easily determine its total cost. Similarly, providers should seek medical equipment suppliers who will provide maintenance to the equipment according to an agreed upon amount at the time of purchase or for an amount included in the original purchase price. By including equipment maintenance in the original purchase price or through a warranty, a skilled nursing provider will benefit by:

1. Being able to compare equipment prices among different vendors more easily
2. Being assured that expensive maintenance costs will not be incurred at a later date
3. Being assured of the supplier's confidence in the quality of the purchased equipment by the guaranty that maintenance costs will be borne by the supplier

Skilled nursing providers must be increasingly demanding in their evaluations of vendors and their products. Per diem reimbursement will decline as Medicare shifts toward prospective payment. It is vital that

supply and equipment costs be controlled through careful analysis of quality, cost, clinical results and the inclusion of maintenance costs.

### **Evaluating Vendors that Provide Patient Services**

Similar to supply and equipment vendors, vendors of patient care services must also be carefully selected by skilled nursing providers according to the cost-effectiveness of their services. One way to promote cost-effectiveness is to share risk with the vendor. As skilled nursing reimbursement has shifted from cost-based to risk-based, it is advantageous for providers to attempt to share some of this risk with their vendors. Providers must identify patient care vendors who are willing to abandon traditional per service unit billing to accept more of a managed care model. Vendors' success will then rely on their ability to achieve positive patient outcomes.

In addition to a willingness to share risk, vendors should be evaluated to ensure that they have the experience to perform in a prospective payment system environment. As an indicator, they should be able to demonstrate successful performance with managed care organizations and providers who already operate under a PPS. This will ensure that they will be prepared to operate under the financial constraints currently facing skilled nursing providers.

In addition to sharing risk and having experience with managed care and prospective payment, providers must evaluate other factors before entering into a contract with a patient service vendor. Each vendor considered by the provider should be rated according to the following criteria:

1. Cost
2. Clinical Outcomes
3. References
4. Compatibility with the Goals of the Provider
5. Organizational Reputation
6. Appropriate Accreditation and Certification

By using the above criteria to compare and contrast patient service vendors, a skilled nursing provider is likely to find the most appropriate contractor for the provider's needs.

The implementation of risk-based reimbursement has required skilled nursing facilities to adapt in numerous ways in order to remain financially viable. Ancillary services which once were a pass-through cost to the government are now paid for out of skilled nursing providers' bottom lines. However, the negative financial impact may be significantly reduced through the careful evaluation of product and service vendors. By demanding more information from vendors regarding the cost-effectiveness of their products and services, skilled nursing providers may ensure that they are contracting with the most appropriate vendors for their particular needs.

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