Last year two of the hottest elements in the superheated e-economy were e-health and e-commerce, particularly Business to Business (B2B) exchanges. Attempts to capitalize on these elements created a phenomenon of tremendously over-hyped companies that in turn, not surprisingly, provided some spectacular failures.

In the North American hospital environment these two elements converged to create an amazing and confusing array of options ambitiously claiming they would revolutionize one of the least efficient supply chains in existence. Today the hype and rhetoric have diminished to the point where clearly an evolution not a revolution is taking place.

Canadian hospitals purchase approximately $4 billion per annum of medical products (devices, diagnostics and drugs). Each of the three largest U.S. group-purchasing organizations (GPO’s) has purchasing power greater than the entire Canadian hospital system. Experience over the last 12 months in both the U.S. and Canada indicates that a B2B exchange requires a critical mass of several billion dollars to remain viable.

A year ago at least a dozen companies were offering eight different business models for e-procurement, primarily aimed at the $2 billion Canadian device and diagnostic segment. Analysts, consultants and experienced healthcare supply chain managers recognized from the beginning that the Canadian hospital environment could support at the most two B2B exchanges.

Of the 12 companies making bold promises a year ago, one has folded completely, three have declared no current interest in Canada, four are continuing to build proprietary e-commerce solutions and the remaining four have combined to form two active and competitive B2B exchanges.

The Canadian Health Market (CHM) exchange is sponsored by the MEDBUY purchasing group and based on the Neoforma e-commerce platform. Consolidation in the United States saw Neoforma move from independent dot.com status to become the e-commerce provider for the Novation group purchasing organization. Most recently Neoforma announced a change in its business model, moving to a value-sharing approach and away from the highly contentious, and unsuccessful, charging of a “transaction fee” to suppliers. It is not clear at this point if CHM will make a similar move in Canada to attract distributors and manufacturers.

The Global Healthcare Exchange (GHX) is present in Canada on a national scale. Originally created in the U.S. by five of the largest medical technology suppliers, it now has doubled its equity partners and recruited over 50 suppliers ranging from small independents to the largest multi-nationals. GHX has recently announced a working relationship with ORMED one of Canada’s leading suppliers of hospital material management software, with an installed base of over 300 hospitals. In the GHX model, suppliers fund the exchange through subscriptions and provide e-commerce to hospitals without a fee.

Both CHM and GHX are leveraging technology investments made for the U.S. market and customizing them for the Canadian market. Both have a firm base of support from their member organizations. The challenge faced by these exchanges is attracting a critical mass of both buyers and sellers – “it takes two to transact.” Distribution companies currently occupy this middle ground in the supply chain, and the largest, Source Medical, is making a significant investment to customize a Canadian solution. It is recognized that the majority of
Supply-chain cost reduction opportunities are on the hospital side and will require fundamental changes to policy and process. Retaining existing inefficiencies and ordering over the web will inevitably add cost to the system. It is equally clear that the greatest savings will be realized by suppliers and hospitals working together and by both parties investing in the solution. Any incremental costs or fees added to the supply chain will ultimately become incremental healthcare costs, therefore cost elimination must be the shared goal.

Supply chain studies in the United States identified $11 billion of cost reduction by eliminating redundant cost in the hospital supply chain. The Canadian equivalent number (based on significantly lower purchase prices, a more streamlined distribution channel and more efficient utilization) is estimated at $200 to 300 million. Hospital executives are faced with the challenge of how to make both the financial investment and process changes necessary to realize the savings.

In time, energy and hard dollars, it may mean investing at least $100 million to save $200 million. At this point only a handful of Canadian hospitals have the vision to see the potential savings and the organizational support to invest in the solutions.

These hospitals, along with the GPO’s and leading medical technology suppliers, have been working for more than three years on improving the healthcare supply chain through an initiative called the Efficient Healthcare Consumer Response (EHCR). Drawing on successes in other industries the group has worked to establish pilot groups, provide education and set data standards. However, without a “burning platform” to engage the broader community, this group essentially found itself “preaching to the converted.”

The good news is that all the attention paid to the e-commerce “revolution” has brought a renewed focus on the fundamental changes needed in healthcare logistics. Out of the chaos and confusion of the last 12 months there is a path forward. EHCR leaders recently met and identified the obstacles to moving ahead, and began working on the solutions and enablers to achieving progress. The holy grail of a fully integrated end-to-end supply chain in Canadian healthcare is still visible. Web-based e-commerce will play a critical role in reaching the grail but so will more fundamental activities such as common data standards, widespread use of bar codes, radio frequency scanners, complete re-design of physical storage/movement and full integration with ERP systems. It is also clear to those managers and directors working directly in the healthcare supply chain that the $200 million in cost savings will only be realized if senior executives are prepared to make the investments in technology, process re-design and change management.

If the potential supply chain savings alone don’t create a “burning platform” at the executive level there are other equally significant reasons for senior hospital staff to support the drive to electronic information across the entire healthcare supply chain. The same fundamentals mentioned above are key enablers in reducing medication errors, building electronic patient records and creating meaningful procedure costing data. Viewed separately the return on investment by the hospital for any one of these issues may be questionable but when seen as a whole the case for moving forward is truly compelling.

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