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Healthcare Report

# NeoCon Healthcare Findings...Grocery Stores & Banking?

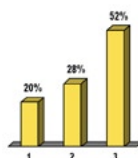
By Robert J. Oosdyke, President, HCFI

Well, NeoCon is over and I'm sure while most of the industry is catching their breath, we are now ready to hit it again today with new found excitement and enthusiasm! HCFI held the Health Care Furnishings Forum last Tuesday morning where a great deal of excitement was generated and much was learned. We used a voting system where each attendee was given a keypad to enable them to register their choices to particular questions without raising their hands. This made for some interesting graphics, and quite a bit of chatter, when we displayed the results instantaneously!

As an example, we gathered questions for the Forum from you, our MMQB readers, and the panelists. One challenging question and response is detailed in the graph below:

**Should Designers Be Compensated By Manufacturers For Sales To The Designers' Clients?**

- 1. Yes
- 2. No
- 3. Absolutely not



Obviously, 80% of the audience, including panelists, felt that paying designers for sales was inappropriate. However, we must state there were only very few A&D in attendance. Roz Cama, President, CAMA, Inc., was a panelist and agreed that designers should be paid to design, not sell, and continued to state that dealers should sell and not give away free design! Touché!

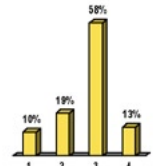
Our next vote and discussion was about **who is best positioned to increase sales in the healthcare arena over the next 24 months?** We found 32% of the attendees thought the local dealer had a good chance to increase market share if they were focused and serious about healthcare. National distributors came in a close second at 30%, which gives us pause to think what would happen if the national distributor also became serious about healthcare in their local markets. National distributors might see tremendous increases according to the voting. Direct selling manufacturers came in at 22% which was surprising as 44% of the audience was manufacturers; however, we had just a few direct selling manufacturers in attendance. Again, this vote leads you to believe that the "integrator" concept may be the next coming.

One interesting concept, the "integrator", came to the forefront and we will describe this role later in the article. **The audience, for the most part, felt the "integrator" role could be filled by the large national dealer/distributors and that it was certainly a viable option.** As I mentioned above, and what is quite interesting, the audience was filled with 44% manufacturers and the rest were from five other categories: GPO's/IDN's, Dealers, Distributors, A&D and Sales.

Next we wanted to find out about the national distributors and how the audience really felt about their presence in the local and national marketplace. Again we were quite surprised! This verifies the new integrator concept has quite a bit of validity and it also appears the customers like it as well.

**Can National Distributors Be Effective In Healthcare Today?**

- 1. Too large to be effective in healthcare
- 2. They could become similar to a GPO
- 3. They could be an integrator or consolidator (one stop shop)
- 4. They will never succeed to any great extent



What is so interesting about the above vote is that the audience is not comprised of national distributors; this ballot was taken more towards the end of a two-hour session where the panelists discussed what the customers desired in facilities, GPO's, IDN's, etc. The audience was becoming more educated upon the needs of the panelists and was viewing the needs of the customers now through their own eyes.

The type of national distributor we have in the furnishings arena, coupled with the distribution of paper, supplies and other office products, could make a formidable opponent for the local, stand-alone furniture dealer

we have known in the past, especially if our national distributors consider supplying a few of the medical furnishings items that could become available to them. More importantly, the point was made by both the GPO's and IDN's that the systems and information needs of healthcare customers are needed to assist in managing their hospitals. In many situations, it is only the mega dealer/distributor that has the infrastructure or systems to control, monitor and support inventories and acquisitions. Now, if you look at Choice #3 above with 58% and then add the 19% from Choice #2, ("They could become similar to a GPO") that is 77% of the audience, including customers, who felt national distributors could have a major impact on the healthcare furnishings arena. This is astonishing! The buzz being heard during the morning break was, "How will they educate all their sales teams?" "How can they get the same message across to the sales teams all across the country?" "If the Boise Cascades and Corporate Express's of the world and others can integrate their products and sales teams to cover healthcare, it might be very interesting."

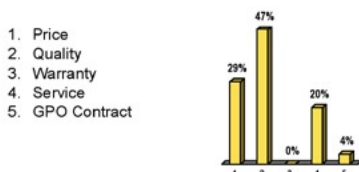
The same thing has happened in the healthcare distribution world on the "other side". Joe Volpe, Vice President of Wheaton Franciscan Services (IDN), summarized that it used to be American Hospital Supply for years in healthcare and other small players in healthcare distribution; now it's comprised of four major players covering the U.S., players like Owens & Minor, Cardinal, McKesson and the PSS's of the distribution world.

Are we beginning to see the roll up of dealers? Is this the grocery industry of the late 60's and early 70's? Is this where we sold the mom and pop stores to the grocery chains of Krogers, Spartan Stores, and where we began to see the Meijer Thrifty Acres pop up? The next thing after the chain stores was Costco and Price Club. What next?

Remember banks on every corner? Remember saying ATMs would never make it and how we wanted to deal with real people? To tell you the truth, I rarely go into a bank anymore. Over the last 25 years, I personally experienced the complete roll up in healthcare in distribution. From my vantage point, it looks like it could take place in healthcare furnishings.

Next we voted on what the panelists and the audience felt **the customers wanted when purchasing furnishings and products**. This vote was discussed, and once again, we all were amazed with the results. The

**What Do Healthcare Customers Want When Purchasing Furnishings Products?**

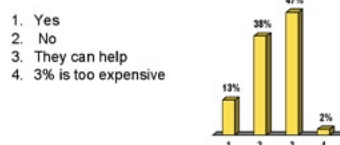


participants felt that 47% of the time the customer wanted quality, followed by price at 29% and service was low at 20%! Many of the audience disagreed with the results as all the dealers/distributors were all surprised service wasn't voted #1 or #2. Panelist Mike Partlow, Vice President of Furniture for Corporate Express, stated that service was what distribution and dealers predicate their business upon.

Jumping into the questions of GPO's, we polled the audience on whether **GPO agreements are necessary or not in the furnishings arena** and the responses were:

It was clear the audience felt that GPO agreements help "open the door" to the hospitals. However, our panelists from the GPO's and IDN's insisted their compliance was in the 80% range and they demanded this from their constituents.

**Are GPO Agreements Necessary in Healthcare Furnishings?**



After the meeting, it was brought to my attention that a very large GPO recently had a large corporate project and the vendor who had the contract for furniture systems did not get the order. They were allowed to show their products but lost out to a non-contracted supplier! It appears the compliance factor only applies to the members, not the corporate office. It is this kind of behavior that diminishes the value of GPO agreements with a furnishings supplier and also is a reason why the healthcare "integrator" role may play well to the GPO's and IDN's. Why have contracts if this is what happens? An integrator could supply all furniture products and manage the process for a GPO so they never need to negotiate another agreement.

The manufacturer does what they do best...sell their products with the end user and through distribution. The integrator would manage the furnishings manufacturers and give the GPO members what products they want at a favorable price and the integrator pay the admin fee to the GPO and be able to supply all the necessary statistics and tracking to the GPO on all furnishings sales in the membership. Think it through, it may have some merit.

In one of our sessions, Audra Matimore, President of Medline Interiors, made a plea to the manufacturers that when they negotiate an agreement with a GPO, they not get caught up in the "must beat the competitors pricing" and when this happens, the agreement ends up priced too low at the GPO level. Then the dealers who have to service the hospital are not left with enough margin to do a good job and the customer suffers, many times leaving a bad taste in the mouth of the customer and damaging the reputation of the dealer. Her comments received applause from the audience.

These situations are especially difficult on Medline as they are a large supplier of medical surgical supplies and when a furniture deal turns out badly, she is forced to service the account even though her furniture division may be losing money as the customer leverages the relationship on the medical surgical side against the furniture business of Medline. They certainly do not want to lose medical business over a furniture issue!

The stories and discussions were excellent and we will share more "pearls" next week.

Check out HCFI's "Selling to the Healthcare Market" sales programs. If you are you looking to sell your products or services to the healthcare market but seem to be running into roadblock after roadblock, or if your proven sales tactics have continued to fail, you need HCFI's

**Health Care 101!** Learn about . . .

- The history of healthcare and its implications on your sales process
- What it takes to have a force in your local and regional market
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- Demonstrating the value of your organization to the healthcare buyers
- Your hospitals' marketing programs and how you can benefit from them
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