Value in Purchasing Program

VIP

tpca
TENNESSEE PRIMARY CARE ASSOCIATION

Group Purchasing:

Exploiting the Full Benefit of Your GPO Affiliation

NATIONAL ASSOCIATION OF Community Health Centers

COMMUNITY HEALTH VENTURES

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Introduction & Webinar Agenda

1. TNPCA Introduction
2. Organization Chart
3. GPO Terms
4. GPO Characteristics
5. Using Contracts to Control Expenses
6. Q&A

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Organizational Flow Chart

- NACHC is the only national membership organization representing all 1,250 Federally Qualified Health Centers with over 9,000 sites serving over 24 million patients in 2016.
- CHV is the business development affiliate of NACHC responsible for developing products around health center business.
- The Value in Purchasing (ViP) program is one of three programs developed by CHV. Specifically, ViP is a group purchasing program for supplies and services utilized by CHCs, including medical and office supplies, capital and IT equipment, furniture, and more. ViP is administered by CHV with assistance from Provista.
- The Tennessee Primary Care Association is a membership organization of more than 30 non-profit primary care clinic organizations operating more than 200 clinic sites that provide high-quality, comprehensive care to individuals and families throughout the state. Our members serve more than 384,000 Tennesseans each year and continue to see their patient numbers rise.

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What is group purchasing?

1. When a group of "like" entities (i.e., health centers), use their collective purchasing power to negotiate better pricing on the products and services that they use daily to run their business.
2. Group purchasing is the principal strategy by which companies in many sectors – especially health services – have sought to 1) achieve cost containment; 2) improve the quality of goods purchased and 3) allow staff to focus their efforts on other activities.

Eugene S. Schneller, PhD, Arizona State University – School of Health Administration and Policy. "The Value of Group Purchasing in the Health Care Supply Chain"

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Things to Consider When Shopping for a GPO

- **Familiar Vendors/Products:** Do you recognize the names? Are there products under contract that you currently use?
- **User Friendly Contracts:** Is it easy to enroll in the GPO? What sorts of restrictions exist in any given GPO?
- **Additional Services:** Online catalogs? Transparent costing?
- **Size:** National GPOs normally have the most aggressive discounts and the broadest product portfolios. Today there are 3 major nationals.
- **Purchasing Alliances:** Access to group of like minded entities purchasing off of shared formulary with ability to access network tiers.
- **Fees:** Membership fees, administrative fees, non-compliance fees, hidden fees.

Glossary

1. **GPO:** Group Purchasing Organization
2. **Supplier/Manufacturer:** Manufacturer of products that health centers purchase (i.e., Becton Dickinson, Welch Allyn, Kimberly Clark, Midmark, etc.).
3. **Distributor:** Organizations that distribute (ship) manufacturer products to your health center.
4. **Acquisition Cost:** The price at which manufacturers sell their products to distributors.
5. **Cost Plus/Distributor Markup:** The money (or margin) applied on top of acquisition cost that distributors apply to product that cover their expense and earn them a profit.

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Understanding How Group Purchasing Works: Contract Types

Types of GPO agreements:

- Supplier/Manufacturer (direct and through distributor channels)
- Distributor
- Guaranteed savings
- Locally Negotiated

Supplier/Manufacturing: GPOs negotiate for acquisition cost (the price distributors pay manufacturers for product).

Distributor: Agreements with distributors of products (i.e., Staples, McKesson, Henry Schein, etc.) on service terms (i.e., fill rate, freight, sur charges, etc.) no cost plus.

Guaranteed Savings: Variety of vendors including Fed Ex, AT&T and Verizon.

Locally Negotiated: National ceiling price, but negotiated based upon organization volume.

Understanding How Group Purchasing Works: Terms and History

The Good Old Days: Regarding medical supplies/equipment, GPOs were able to guarantee savings because their distributor agreements had cost plus caps.

Acquisition Cost + Distributor Mark Up = Heath Center Price

Becton Dickinson Integra Syringe
Material No.: 305271
Specs: 1 in. 3ml
UoM: 400/Case
Acquisition Cost: $173.92
Distributor Mark Up: 18% ($31.31)
Health Center Price: $205.23 (Amazon Price: $418.80)

Modern GPO Agreements: With no caps on *distributor mark up* the responsibility is now the health center's to ensure you get the benefit of the negotiated *supplier acquisition cost*!

Understanding How Group Purchasing Works: Contract Structure

Becton Dickinson Safety Needles and Syringes
305271
Integra Syringe 1 in 3ml With Detachable Needle, Luer Lock, Latex Free Disposable Regular Bevel

Tier Level	Tier Description	Unit of Measure	Acquisition Coast
1	Base	Case (400)	$173.92
2	$25K – $499,999	Case (400)	$159.60
3	$500K – and up	Case (400)	$158.00

NOTE: Tiers based on annualized volume and dollar thresholds separating tiers vary depending on contract.

You Have the Basics: Where Do You Start?

- **Join a GPO**
- **Select a medical supply distributor:** Use the 80/20 rule. False currency by shopping around and ordering supplies through multiple distributors.

# of Distributors	Product Savings Needed to Break Even
2	12.7%
3	25.3%
4	38%

- **Negotiate distributor mark up:** Identify which products you order today are under contract with your chosen GPO and then negotiate a cost plus/distributor mark up on those contracted items.

NOTE: Above table taken from *Reducing you Supply Costs: Cost Effective Medical Supply Purchasing for Physician Offices*

You Have the Basics: Where Do You Start?

- **Negotiate Price:** Approximately 65% of what a clinic orders is not under contract with their GPO therefore pricing must be negotiated by the health center for "non contract" items such as distributor private label/generic brand.

Terumo Safety Needles and Syringes
SG2-03L2025
Syringe With Safety Shield Needle SurGuard 3ml 20 Gauge x 1in

Tier Level	Tier Description	Unit of Measure	Acquisition Cost
1	$5,000 - $19,999	Case (400)	$62.40
2	$20,000 - $39,999	Case (400)	$61.60
3	$40,000 or more	Case (400)	$61.20

NOTE: Terumo manufactures private label syringes for several distributors. With base acquisition cost at $62.40 and a mark up of 18% you can negotiate a price of $73.63/Case.

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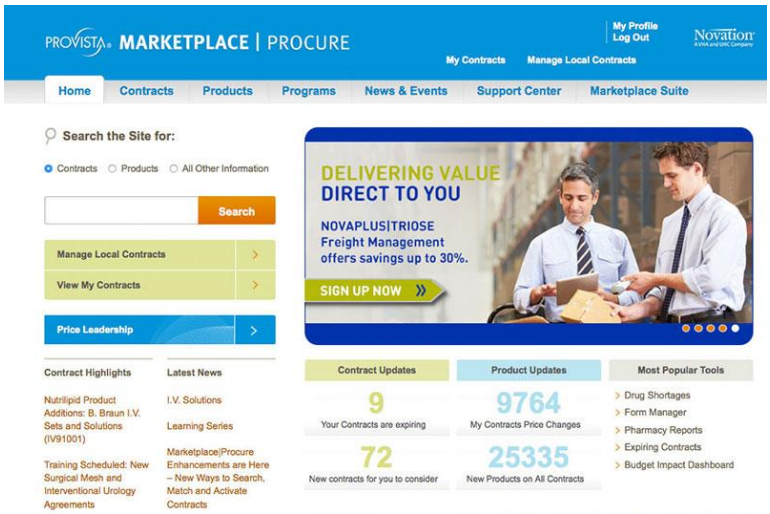
What is Marketplace | Procure



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Marketplace|Procure is an online catalog for the Value in Purchasing (ViP) Program, powered by our GPO partner Provista/Vizient. It can support your health center procurement processes by bringing contract overviews, product details and cost information together. This tool provides your health center's purchasers with a single point for sourcing, contracting and procurement workflow.

Quality Assurance: Ensuring You Get Your Negotiated Price

Business Reviews: Set time with your distributor partner on a quarterly basis.

Use your Contract Catalog: Continue to look for lower cost alternative under contract.

Analysis: At least quarterly, compare invoice charges to negotiated cost

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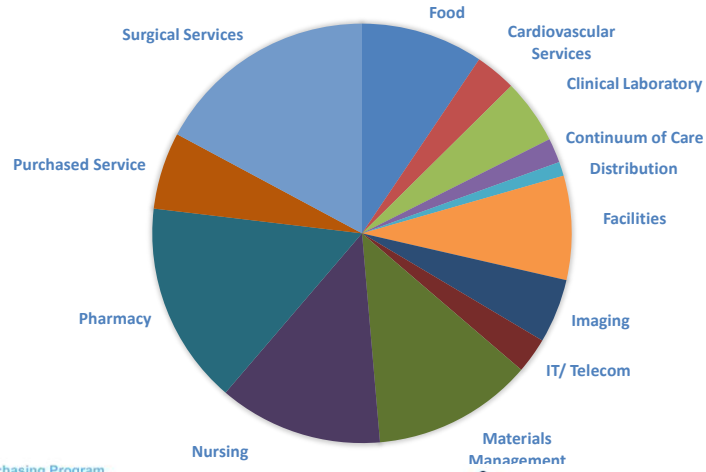
Product Segment Categories for Savings



Number of Contracts

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Driving the Process

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Summary

- Enroll in GPO
- Choose and stick with your distributor partner
- Negotiate cost plus/distributor mark up on GPO contract items
- Negotiate price on non-contract/private label products
- Investigate GPO contracts across product segments
- Ongoing monitor

Contact Information

Danny Hawkins
Community Heath Ventures
Senior Vice President
(301) 347-0400
djhawkins@nachc.com

Alex Vactor
Community Health Ventures
Account Executive
(412) 612-0593
avactor@nachc.com

www.nachc.com | www.communityhealthventures.com

Thank You!

Any Questions?

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