



Washington Association for Community Health
Community Health Centers • Advancing Quality Care for All

Beyond Group Purchasing

Utilizing a Purchasing Alliance to Add Value to Network and PCA Membership



Agenda



Washington Association for Community Health
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- Objectives
- GPO Terms and Definitions
Supplier and Distributor Contracts
- History
- GPO Strategies
- Q & A

Objectives



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I First Objective

To provide the audience with a better understanding of industry terms necessary in understanding group purchasing mechanisms and concepts.

II Second Objective

To provide the audience with how GPO components comprise group purchasing contracts.

III Third Objective

To provide audience with basic tasks which can lead to an organizational cost cutting and/or controlling strategy.

GPO Terms & Definitions



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Types of GPO Contracts

- I Supplier/Manufacturer:**
Manufacturer of products, service providers, etc.
- II Distributor:**
Organizations that distribute manufactured products to your health center.
- III Guaranteed Savings:**
Percent discount from customers current rate.
- IV Locally Negotiated:**
Negotiated by organization based upon volume, but with national ceiling price.

GPO Terms & Definitions

Medical Supplies



Acquisition Cost: The price at which manufacturers sell their products to distributors.



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.



Supplier Contracts

Acquisition Cost

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.





Putting it All Together:

Acquisition Cost and Distributor Mark Up

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 = Health 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)

History

- + Changes in distributor agreements in 2012/2013
- + Elimination of cost plus distributor mark ups
- + Supplier agreements remain offering benefit of low acquisition cost.
- + Health care organizations are left to negotiate and monitor their own cost plus arrangements.
- + Emergence of purchasing alliances offering members higher tier access and/or cost plus caps in exchange for volume commitments, etc.



GPO Strategies

Enrollment

- Administrative and satellites/addresses in membership
- Direct match to medical distributor load
- Periodic review

Contract Connection

- Contract for everything (“Who are you presently using?”)
- Medical supplies (auto load and self selection)
- Vendor letter (e.g., IT distributor)
- Approximately 45 days
- Periodic review



GPO Strategies

+ GPO Support

- Does your GPO have an associated channel for your industry?
- Does your GPO offer an online contract catalog?
- Does your GPO allow access to contract summaries and pricing?
- Does your GPO offer a monthly/quarterly newsletter? Are you enrolled?
- Does your GPO have user groups?

+ Understand your GPO Contracts

- Each agreement is different
 - Office supplies (custom built formularies)
 - IT Hardware (distributor caps, but built on cost and wholesaler mark up)
- Engage others in your organization (i.e., CIO, HR, etc.)
- Read contract summaries



GPO Strategies

+ Select a primary distributor

- Use 80/20 rule
- False currency and opportunity cost in shopping around and splitting orders among several distributors

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

Table taken from *Reducing Your Supply Costs: Cost Effective Medical Supply Purchasing for Physician Offices*

+ Negotiate cost plus or join a purchasing alliance



GPO Strategies

+ Negotiate on Non Contract Items

- Approximately 60% of items either non contract/brand items or private label
- Establish formulary that utilizes more contract items
- Negotiate on private label
- Establish local acquisition cost

Terumo Safety Needles and Syringes

Safety Shield Needle with SurGuarg 3mL 20 Guage x 1 Inch

Tier Level	Tier Description	Unit of Measure	Acquisition Coast
1	Base	Case (400)	\$62.40
2	\$20K – \$39,999	Case (400)	\$61.60
3	\$40K – and up	Case (400)	\$61.20

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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Questions?