

Rethinking procurement

HEALTH PURCHASING VICTORIA

Presented by Health Purchasing Victoria
Director Procurement, Alba Chliakhtine

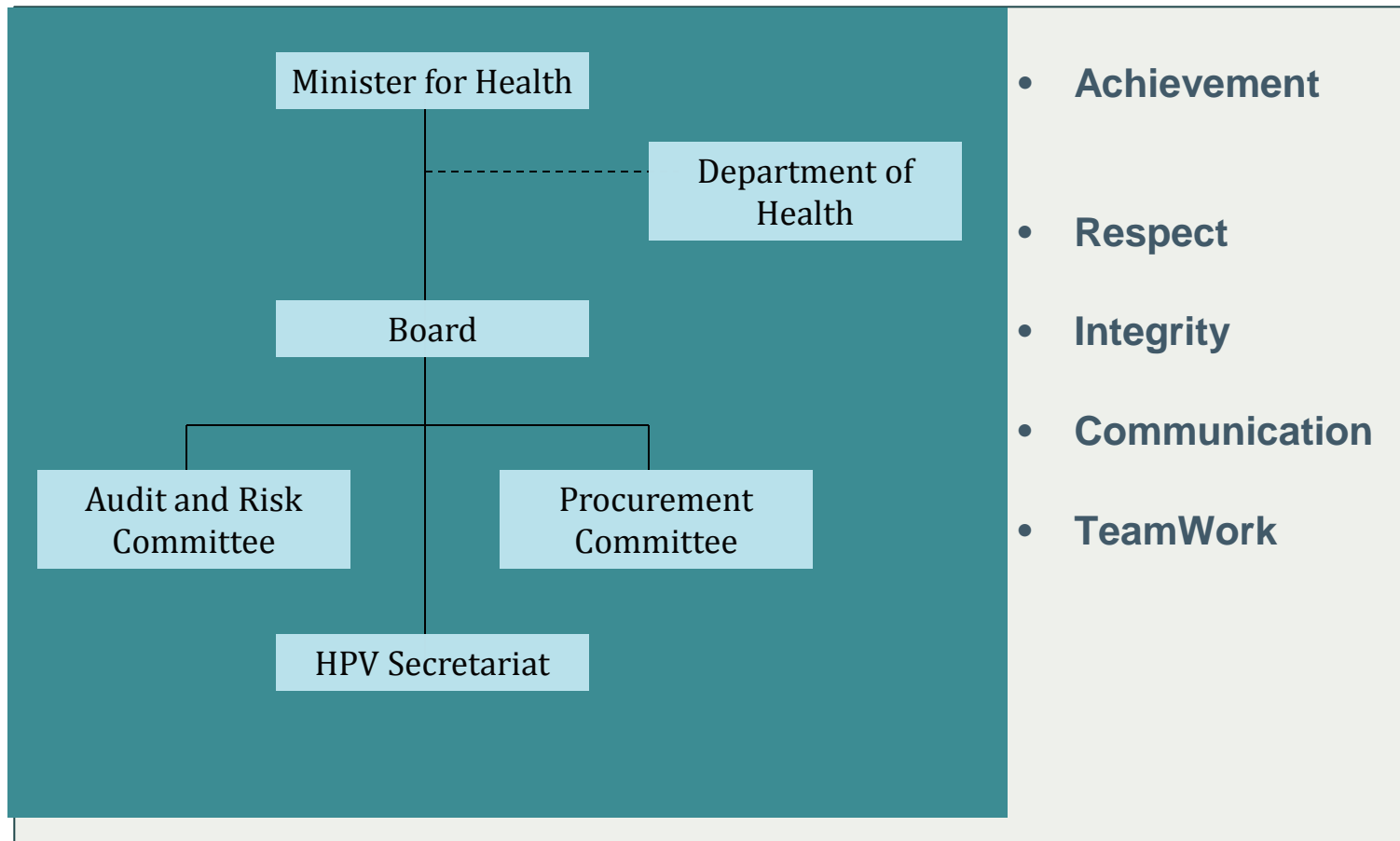


INTRODUCING HPV

HPV core functions under *Health Services Act 1988*

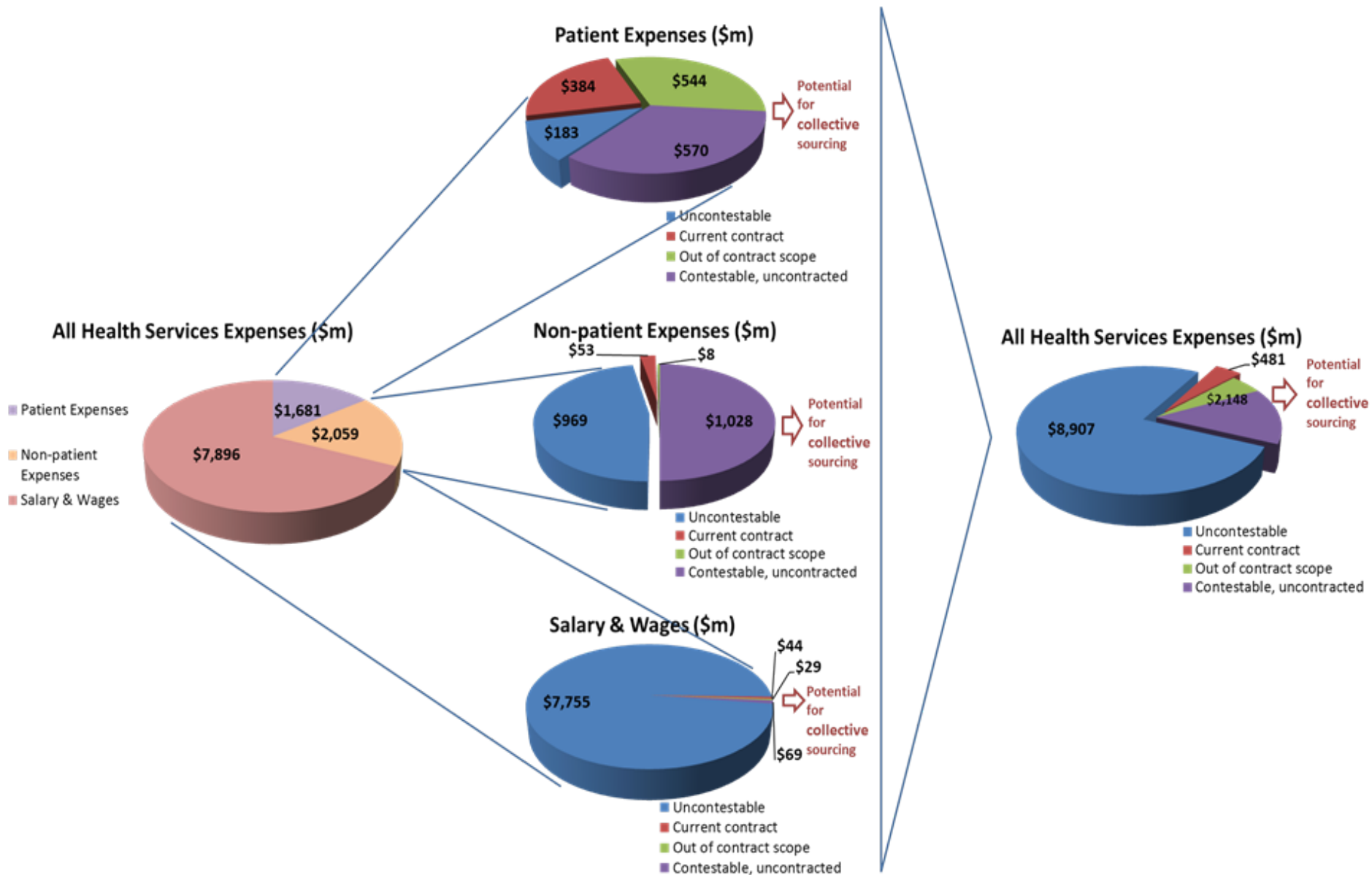
- To supply or facilitate supply of goods and services
- To provide advice and support
- To monitor compliance
- To foster improvements in use of systems and e-commerce
- To maintain useful data and share that with health services
- To ensure probity is maintained in the purchasing, tendering and contracting *of public hospitals*

HPV organisation



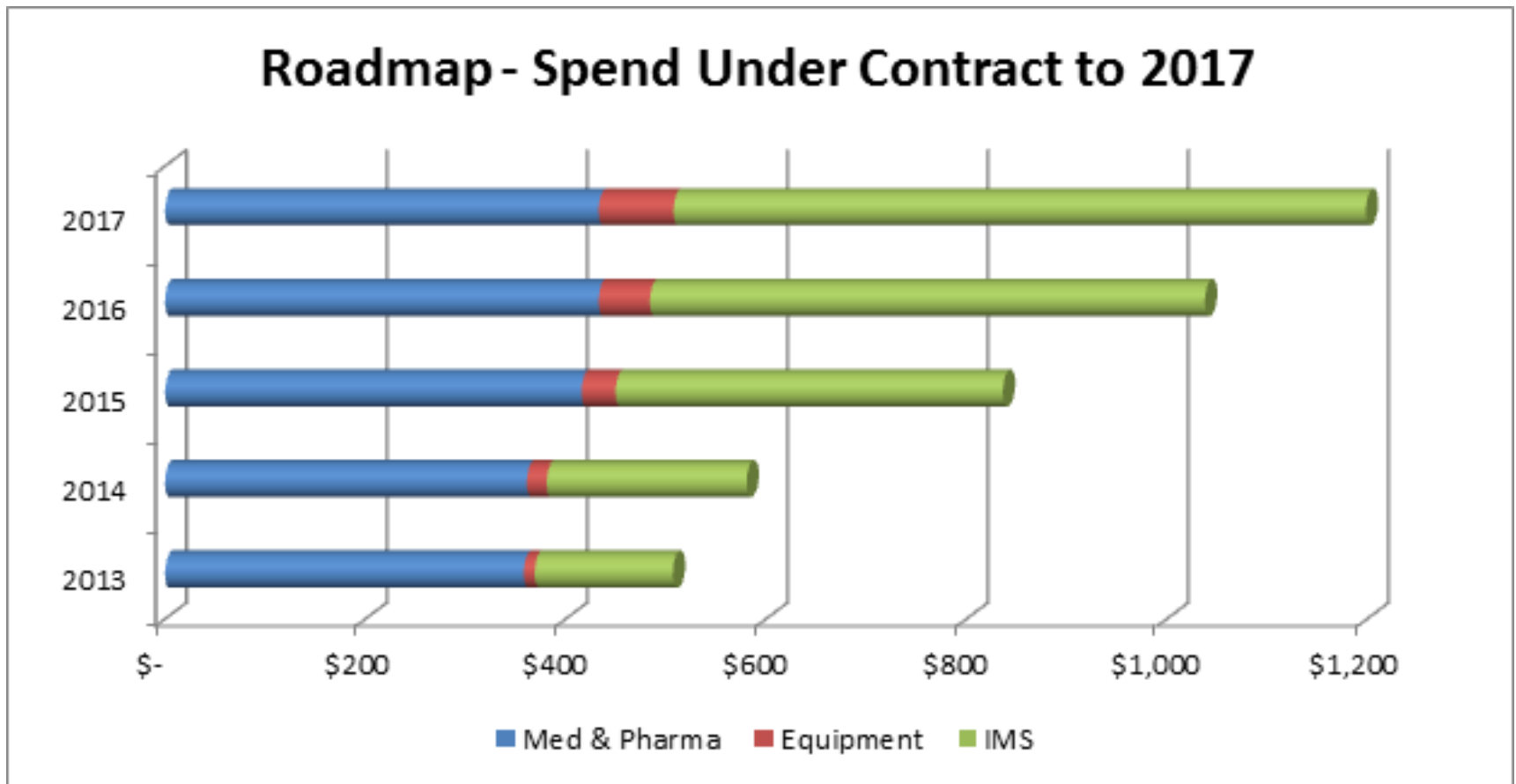


THE VICTORIAN LANDSCAPE



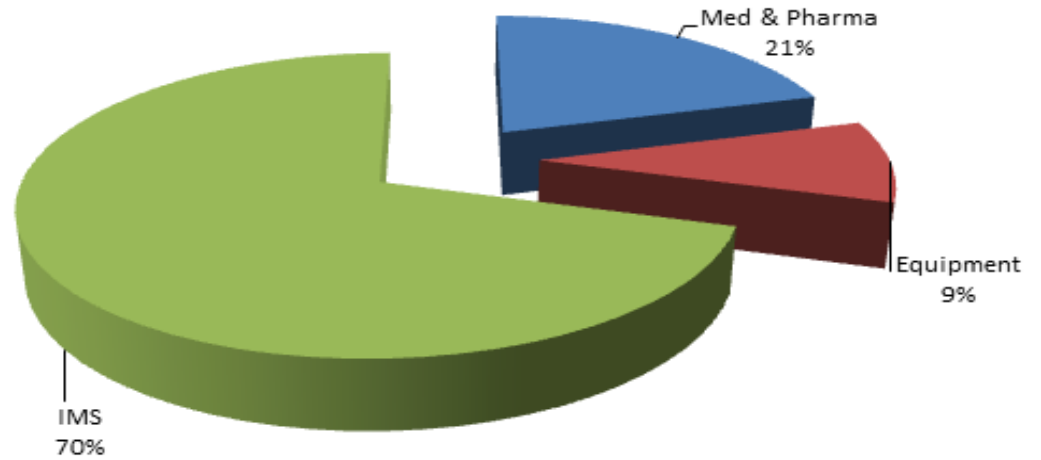
Sourcing program / roadmap

Projected Collective Spend to 2017

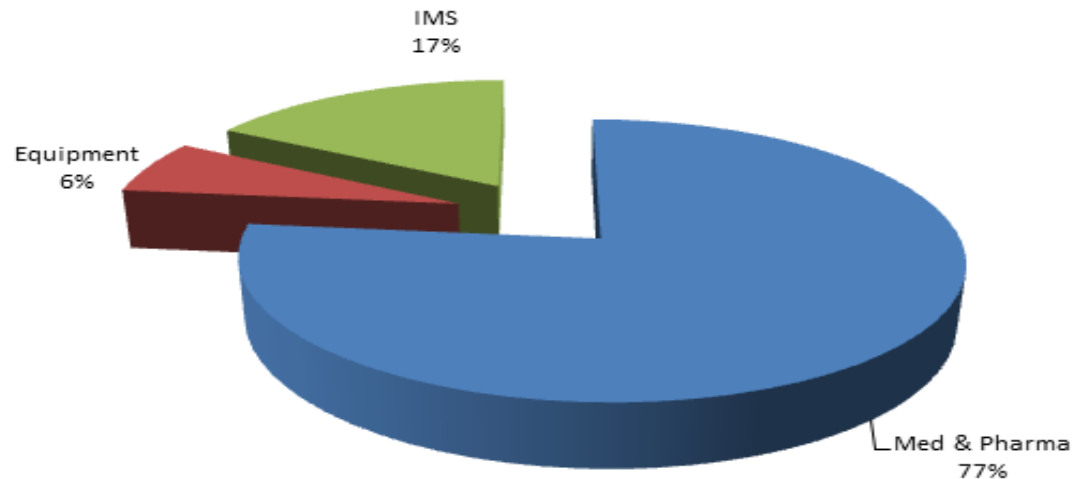


- Understanding data through category management
- Leveraging collective procurement efficiency
- Leveraging category management opportunities
- Rationalisation and process improvement
- Managing supplier performance

2015 Greenfield Activity Per Stream



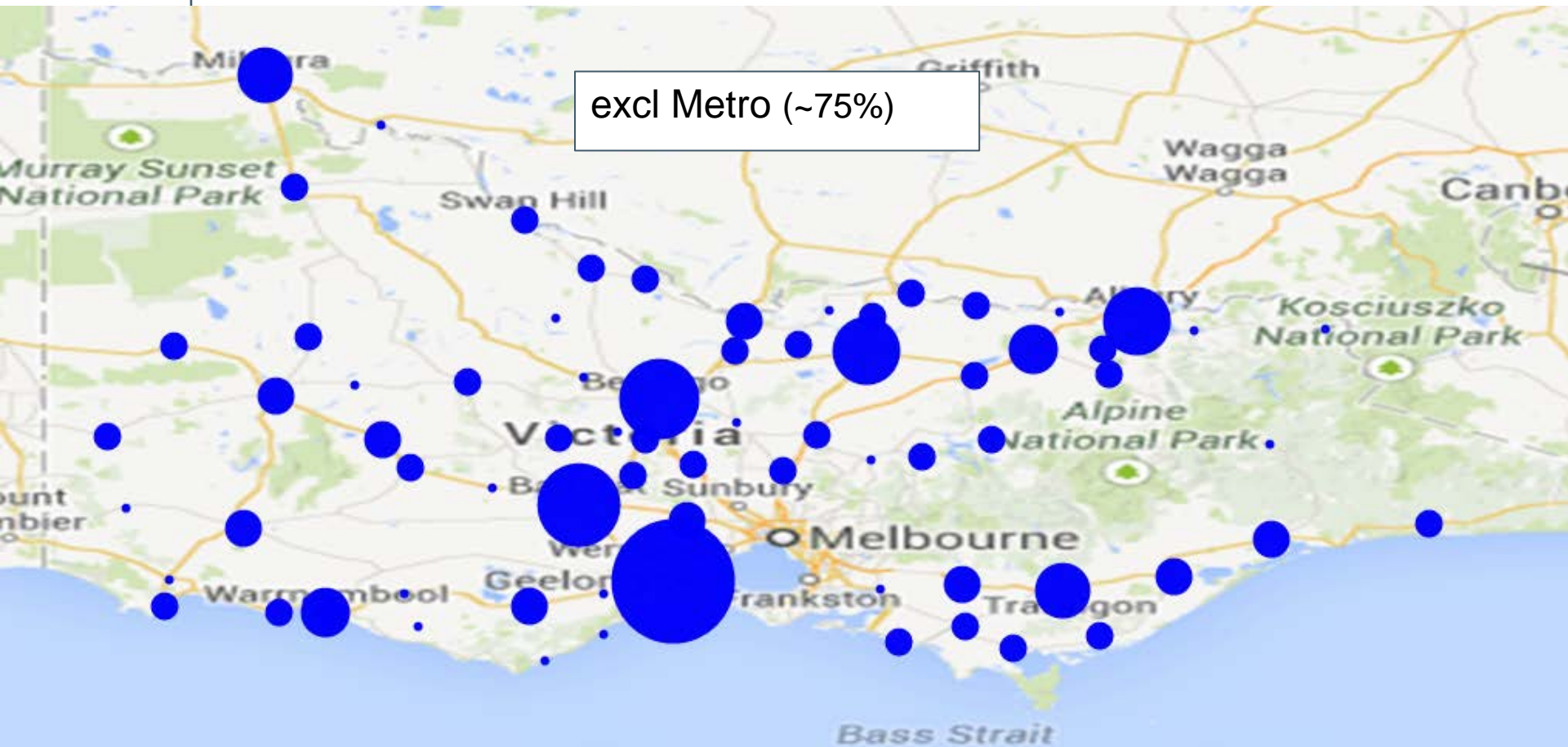
2015 Re-Sourcing Activity Per Stream



The Challenge

How do we ‘act as a system’ in an environment that funds, rewards and measures activity as individual hospitals?

Spend Distribution – 75 Health Services



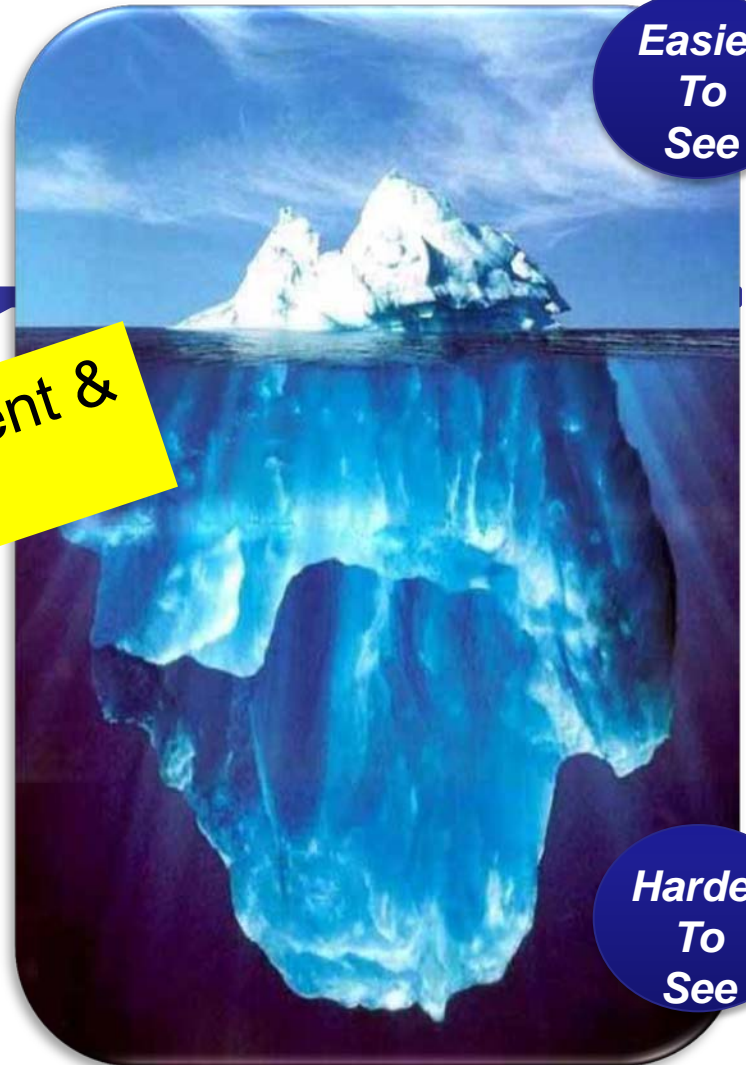
Why price savings alone are NOT sufficient

Total Cost of Ownership

Price

- | | |
|---|--|
| <ul style="list-style-type: none"> Process Cost Sourcing Cost Evaluation/ Order Mgmt Returns Logistics Supplier Mgmt Recall Mgmt Compliance Mgmt Training Payment Mgmt Inspection | <ul style="list-style-type: none"> Utilization C Standards Quality Performance Shrinkage Damages Waste Disposal Recall Mgmt Revision Procedures Infection Rates Etc. |
|---|--|

SC Reform (Procurement & Logistics)



Easier To See

Harder To See

Health

Aim: Attain world-class procurement



Strategic alignment

- Align Procurement with broader strategy
- Ensure business compliance
- Influence of Procurement more broadly?

Capability and culture

- Talent management
- Mindset
- Ability to change

Category management

- Category value creation strategies
- Processes
- Value chain analysis

Structure and systems

- Organisational structure
- Collaboration
- Performance management
- Knowledge & information management

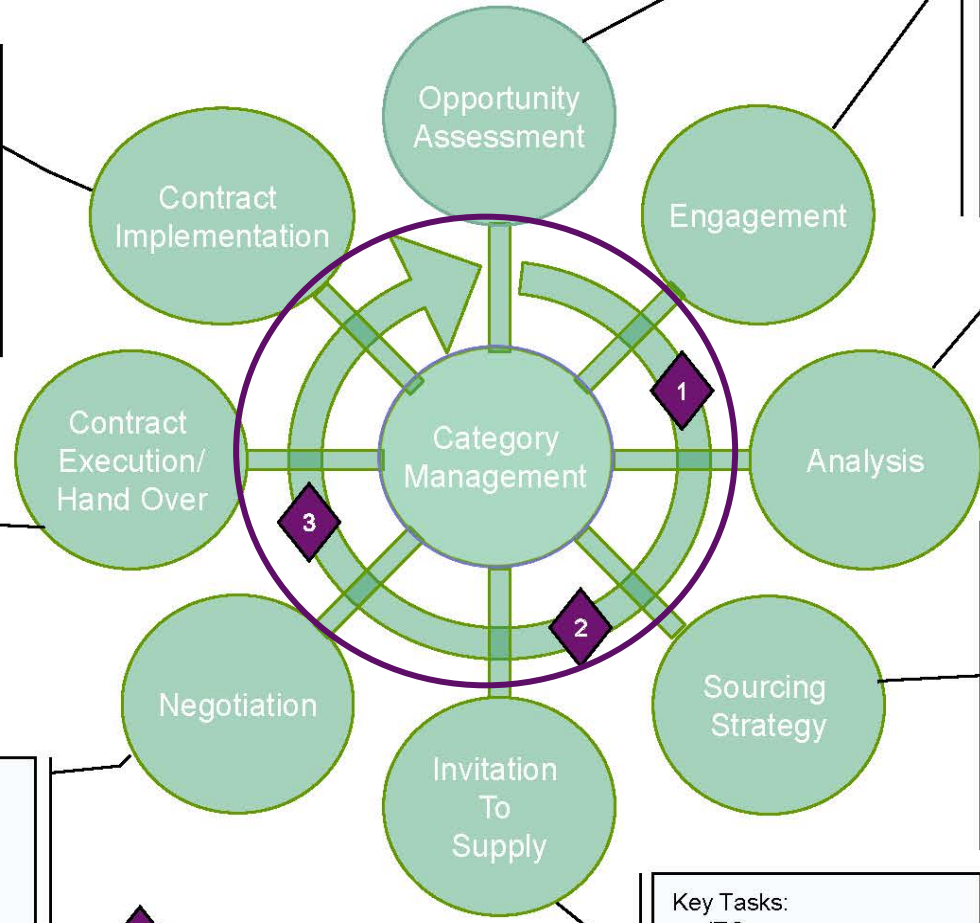
Source: McKinsey Global Purchasing Excellence Benchmarking Survey and Framework, McKinsey & Co

Strategic Sourcing Model

- Key Tasks:**
- Finalise Supplier Management Framework
 - Measure Compliance
 - Conduct Supplier Review Meetings
 - Review and Update Contracts
 - Monitor & Update Catalogue Content

- Key Tasks:**
- Execute agreement
 - Finalise Category Information Pack – lessons learnt
 - Communicate to HS

- Key Tasks:**
- Negotiation Strategy
 - Finalise T&C's
 - Finalise impact
 - TCC/Board Approval



- Key Tasks:**
- Categories Identified
 - Key Contacts Identified
 - High Level spend identified
 - First draft Category Information Pack

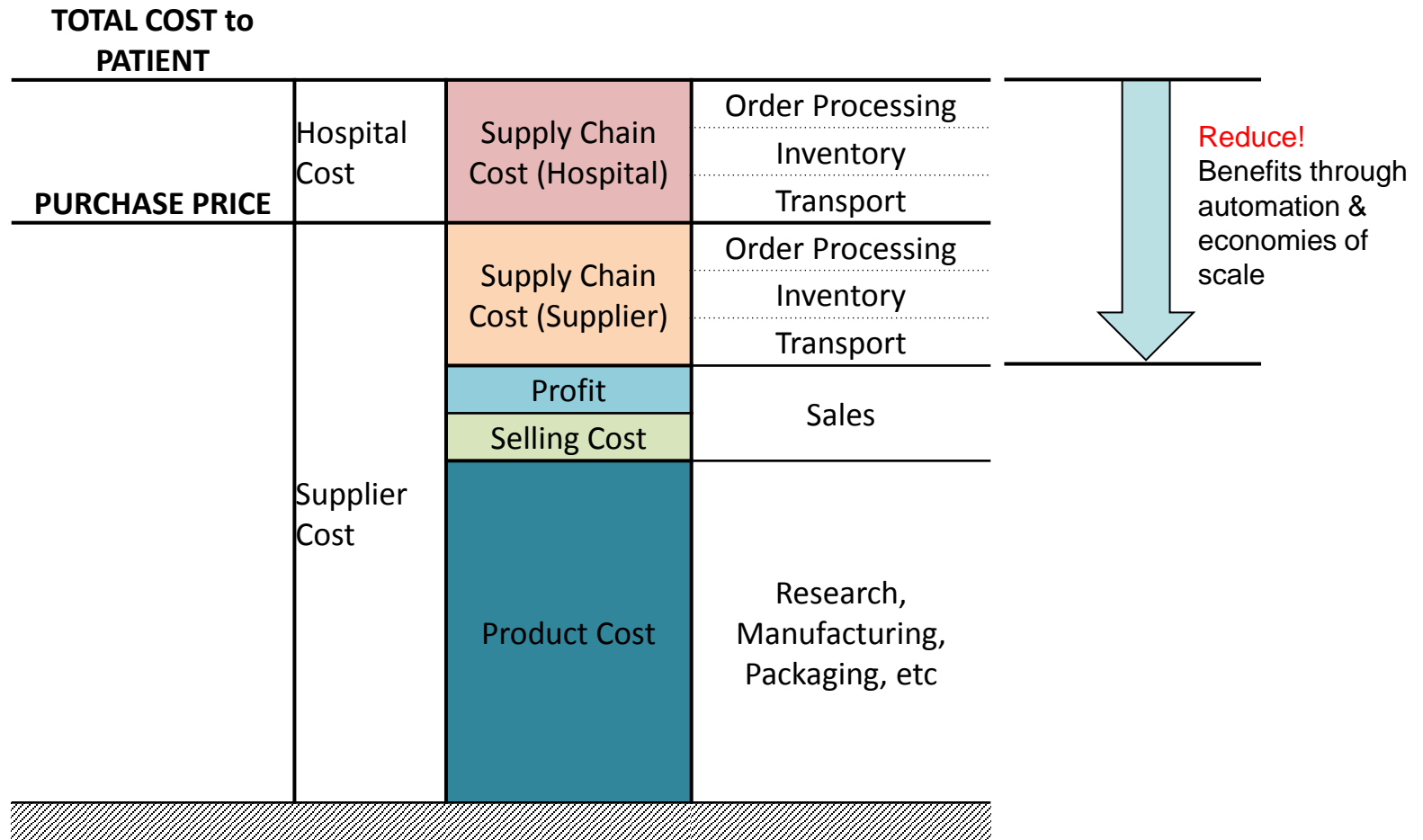
- Key Tasks:**
- Update Category Information Pack
 - Request ERG/PRG nominations
 - Suppliers - RFI
 - Customers - site visits
 - Department of Health (if applicable)
 - TCC/Board Approval to proceed

- Key Tasks:**
- Market Analysis
 - Category Analysis
 - Sales
 - Draft Specification
 - Demand profile
 - Update Category Information Pack

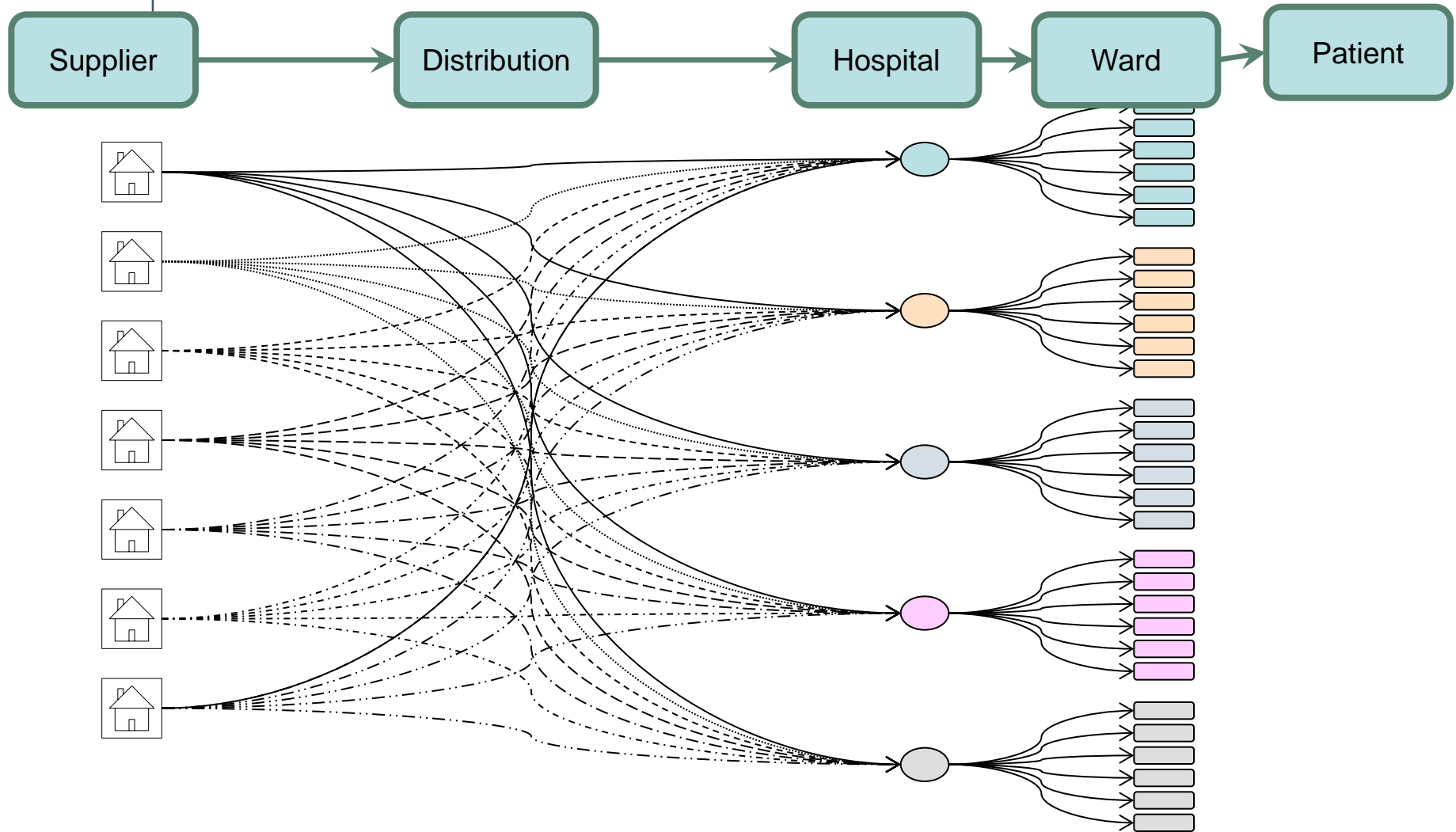
- Key Tasks:**
- Update Category Information Pack
 - Develop sourcing strategy
 - What approach to market do we use – EOI, RFT, RFP, RFQ
 - Sourcing documents including final specification
 - Develop evaluation plans
 - PRG Approval
 - TCC/Board Approval

- Key Tasks:**
- ITS
 - Evaluation
 - Impact Analysis

What Logistics Reform is trying to do?



NOW (in Victoria)





The fundamentals of
SUPPLIER ENGAGEMENT

Key supplier engagement success factors

What works

- Two-way collaboration
- Recognise the common ground – not profit vs savings
- Find ways to empower your suppliers by making them part of a longer term picture
- Create an opportunity or compelling business reason to seek their involvement

What doesn't...

- One-way communication
- One-off, token attempts to involve suppliers
- Lack of holistic approach to sourcing
- Inefficient processes
- Not recognising that suppliers are an integral part of the supply chain

Communication



Pre-sourcing

- Two way engagement (what is on offer)
- Joint understanding of opportunities to deliver value
- Proactively briefing suppliers about the category

Invitation to Supply

- Ensuring access & level playing field for all potential suppliers
- Focus on probity inhibits deeper engagement during this phase
- Focus on fair and equitable evaluation of proposals.
- Need to be objective and factual

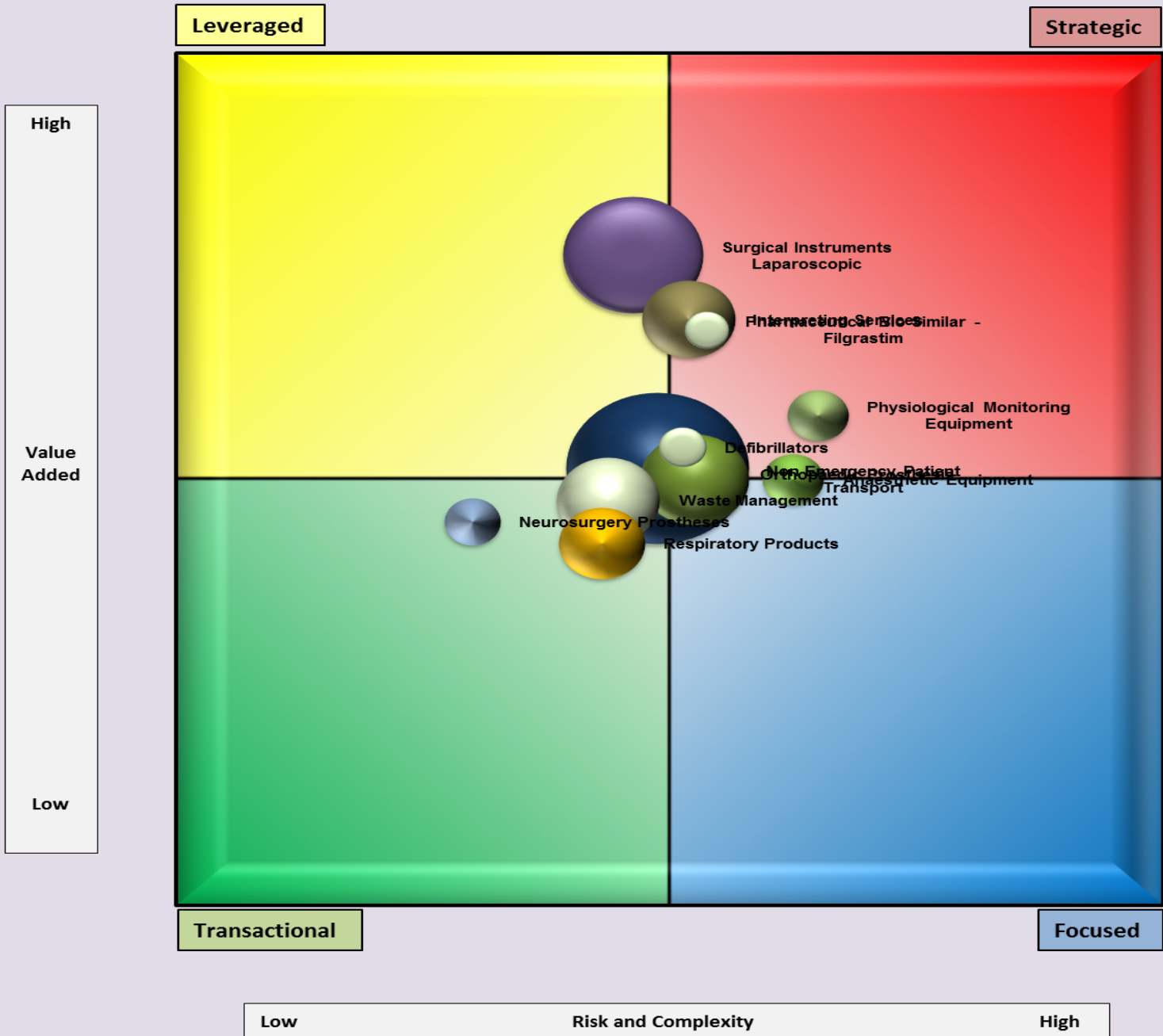


Post-sourcing

- Building longer-term value with contracted suppliers
- Involving suppliers in business and operational decisions
- Conducting regular supplier business reviews
- Involving suppliers in strategic initiatives



HOW DOES THIS DRIVE VALUE?



Measuring performance

“You cannot improve what you do not measure”

Edward Deming

- Validation of assumptions (in particular at the 1st sourcing iteration – greenfield)
- How are we tracking against the performance targets?
 - Two-way temperature check
 - Are they still realistic?
 - Is there a need for fine-tuning?
- What are the inhibitors to performance (overall contract performance)?
 - Post-implementation blues
 - Supplier performance
 - Opportunities

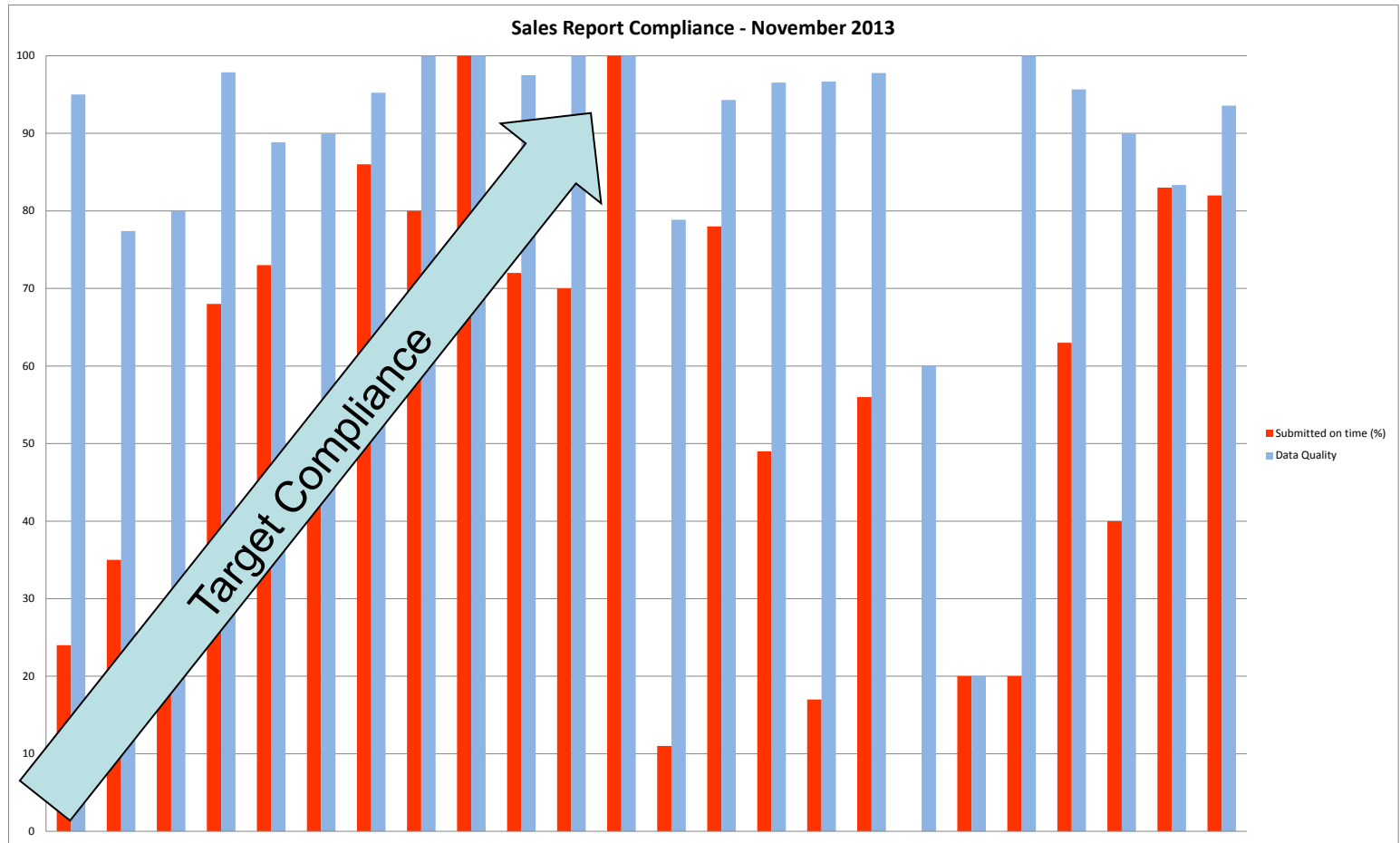
Victorian health supplier 'musts'



Australian Government
Department of Health and Ageing
Therapeutic Goods Administration

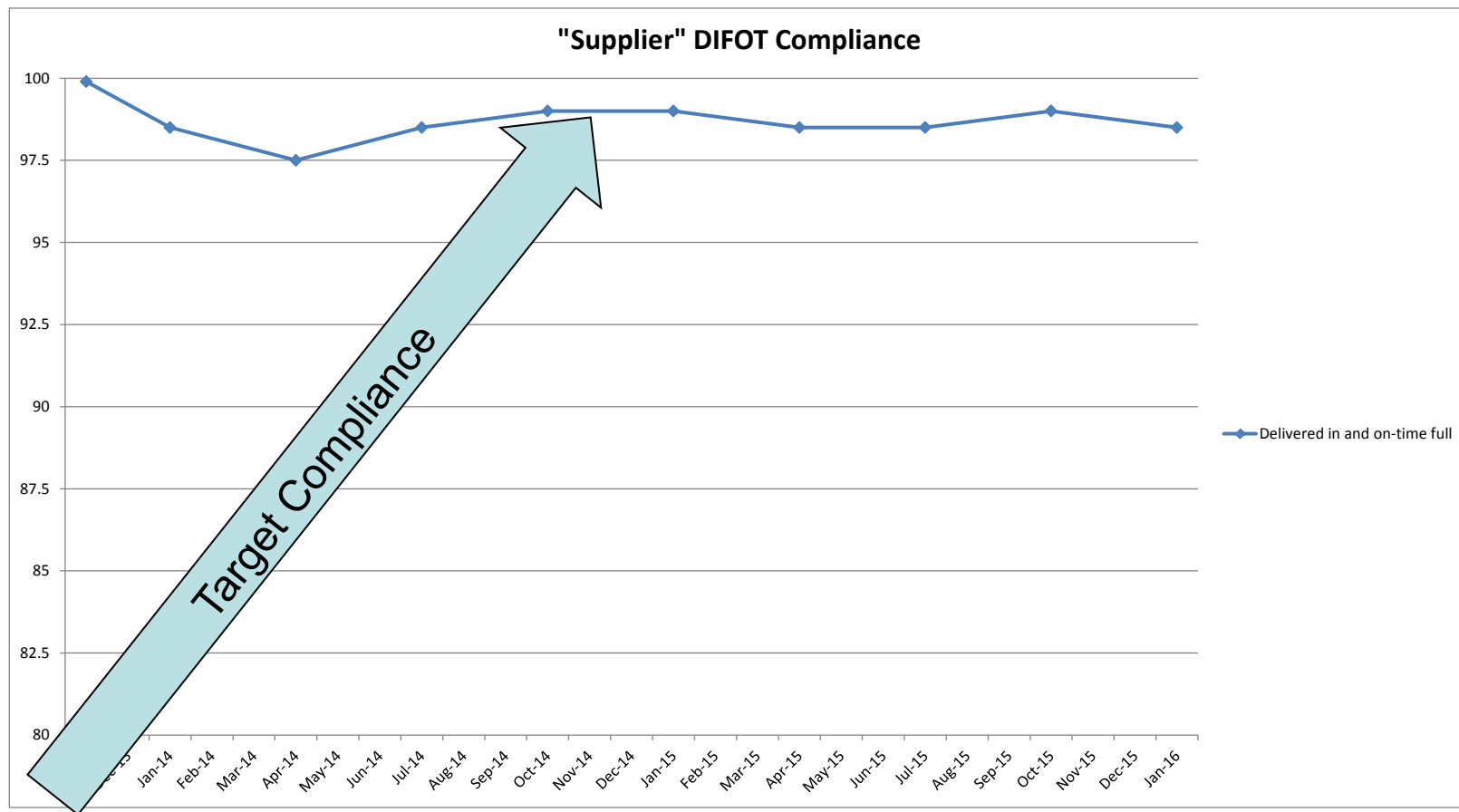
- ✓ Support **GS1** data standards through National Product Catalogue (NPC) and Recallnet
- ✓ Goods approved by **TGA**
- ✓ Ability to meet the specific (& diverse) operational needs of health services
- ✓ Understand two-way nature of Supplier Relationship Management process

Data Compliance - Sales Report



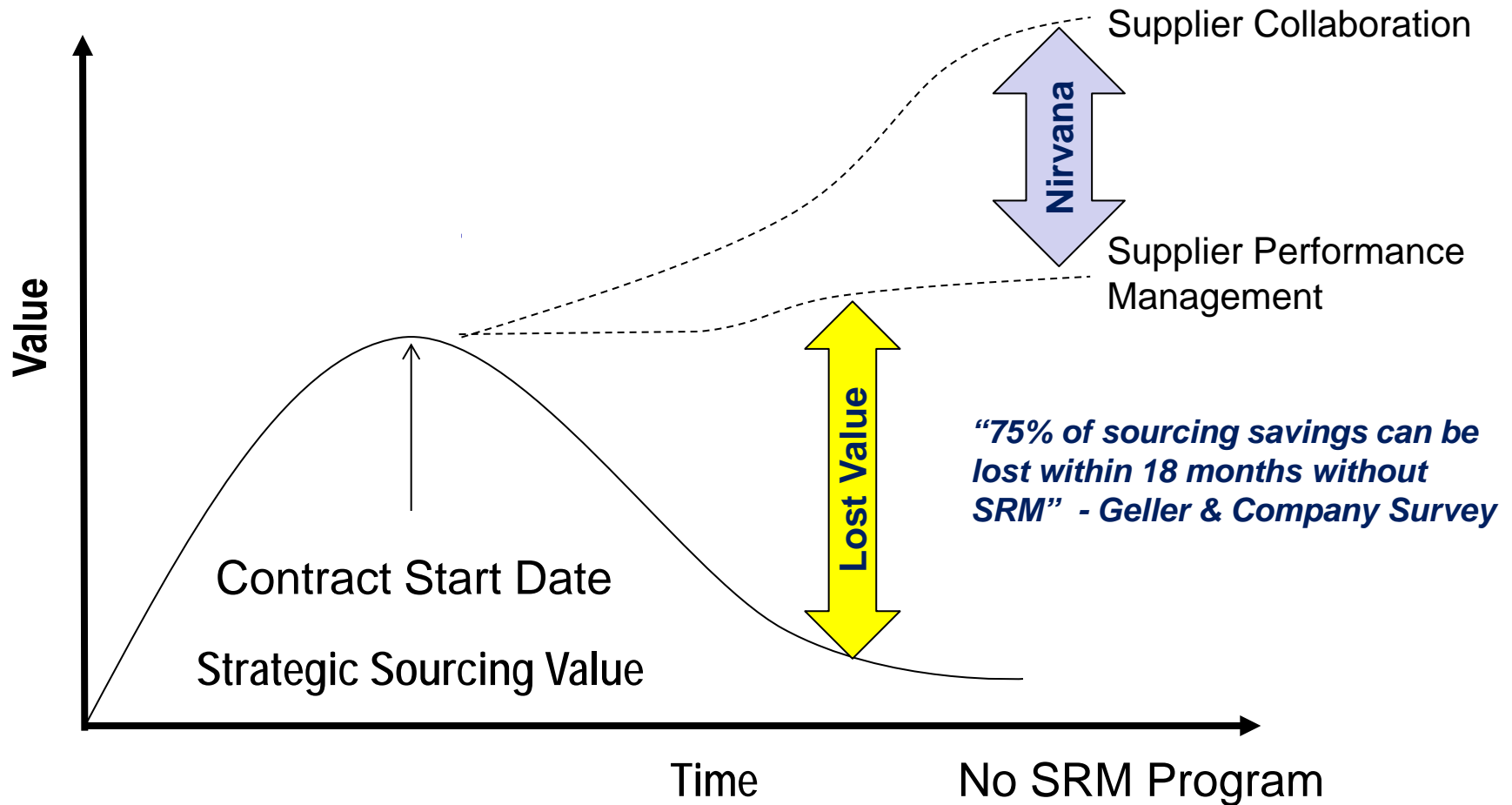
Delivery Performance – DIFOT

“Self Assessment”



Supplier Performance & Collaboration

Continue to drive Contract Value





INNOVATIVE APPROACH TO SOURCING - EQUIPMENT

Meeting category dynamics: one size does not fit all

TCO Approach

Collaborative Approach with health services and suppliers

Sourcing approach that encourages innovation

Leveraging health services' skills and competence (business unit managers, clinicians)

Creating efficiency in the sourcing process



Defibrillators

- Tender completed and approved by the Board



Physiological Monitoring Equipment

- Invitation To Supply released 12 March
- Proposed 'Group Buy' program



Anaesthetic

- Invitation To Supply released 12 March
- Proposed 'group buy' program

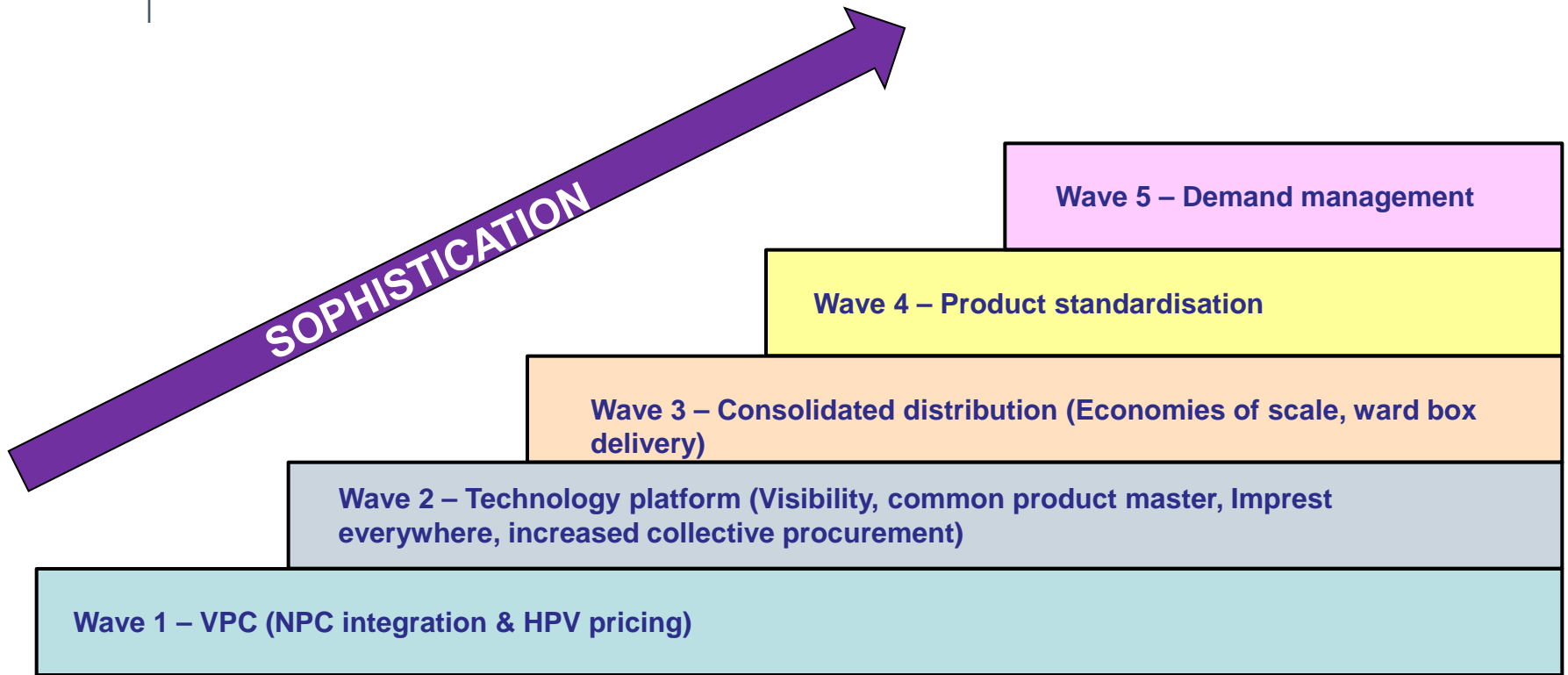


Medical Imaging

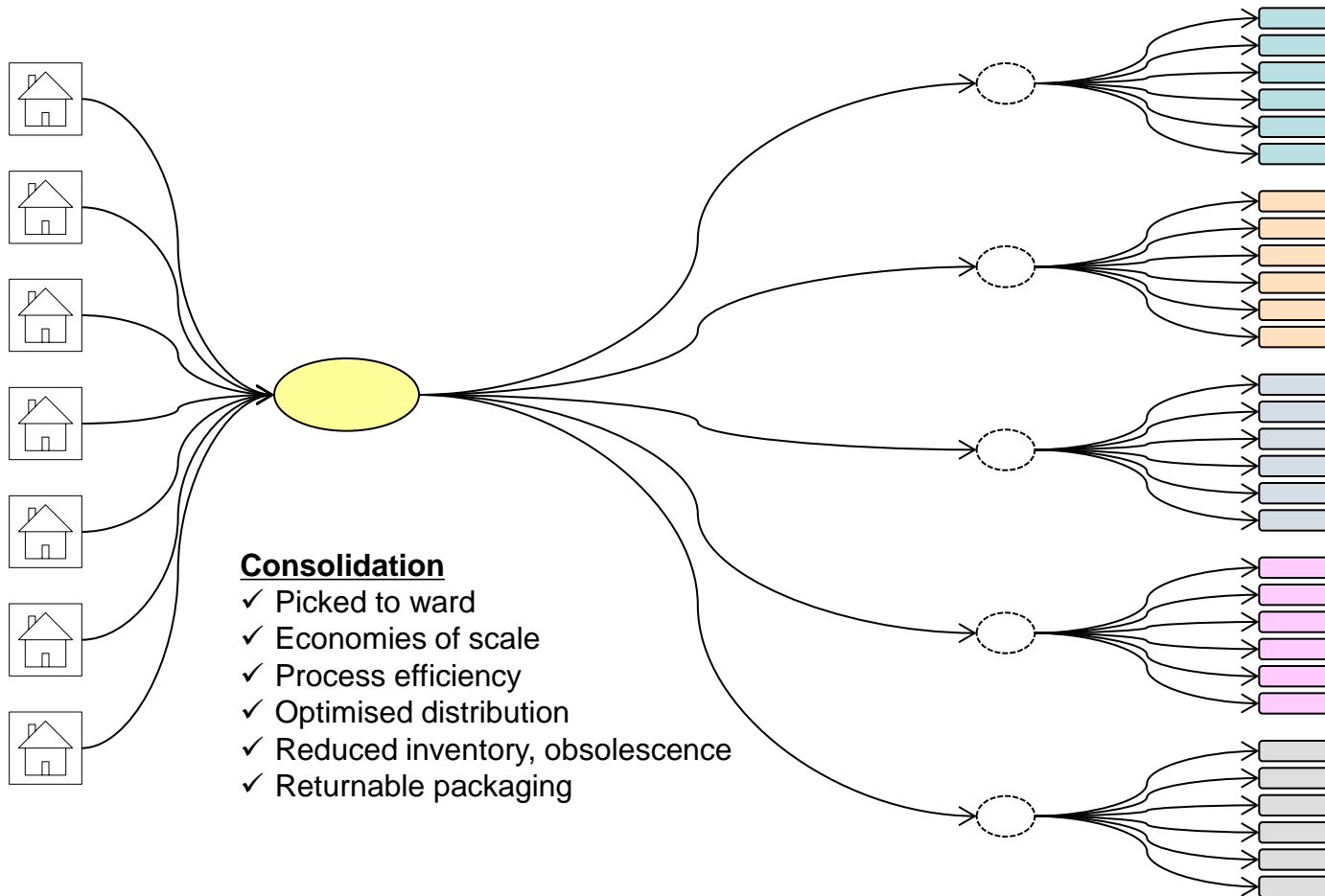
- Analytical work commenced
- Medical Imaging Strategy for 2014-15

WHERE TO FROM HERE?

Waves of Supply Chain Reform



FUTURE ?



Technology enablers

Current Website

- Interactive with Stakeholders
- Efficient contract deployment
- Sourcing program information

Strategic Sourcing Suite

- Sourcing
- Contract Management
- Supplier Base Management
- Spend Analysis

Future Strategies

- Identify ways of measuring Product/Service performance
 - Patient outcome
 - Value for money
- Expand our SRM beyond the Top 20 Spend, applying the complexity framework to define where to dedicate category management effort.
- Delivery visibility on our Long range Sourcing plans
 - 2014 to 2017 roadmap in progress
- Investment in automation - Strategic Sourcing Suite. Removing administrative and repetitive effort and replacing it with strategic sourcing effort.
- Enhance our integration with the stakeholders with implementation of Category Management groups (CMG) for strategic agreements.
- Improve our response time to stakeholders



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Colin Hui, Head Medical and Pharmaceutical Program

CASE STUDY: PHARMACEUTICALS

Agenda

- Background – Pharmaceutical Market in Australia
- Pharmaceutical Products and IV fluid Market Segmentation
- Strategic approach to the pharmaceutical category
- Change in market dynamic – generic market to biopharmaceuticals
- Biopharmaceutical tender – Filgrastim
 - Engagement process
 - Contract management
- Questions

Background – Pharmaceutical Market in Australia

Therapeutic Goods Administration

- TGA is responsible for regulating therapeutic goods including prescription medicines, vaccines, over the counter medications and medical devices
- Approved products are listed on the Australian Register of Therapeutic Goods (ARTG)

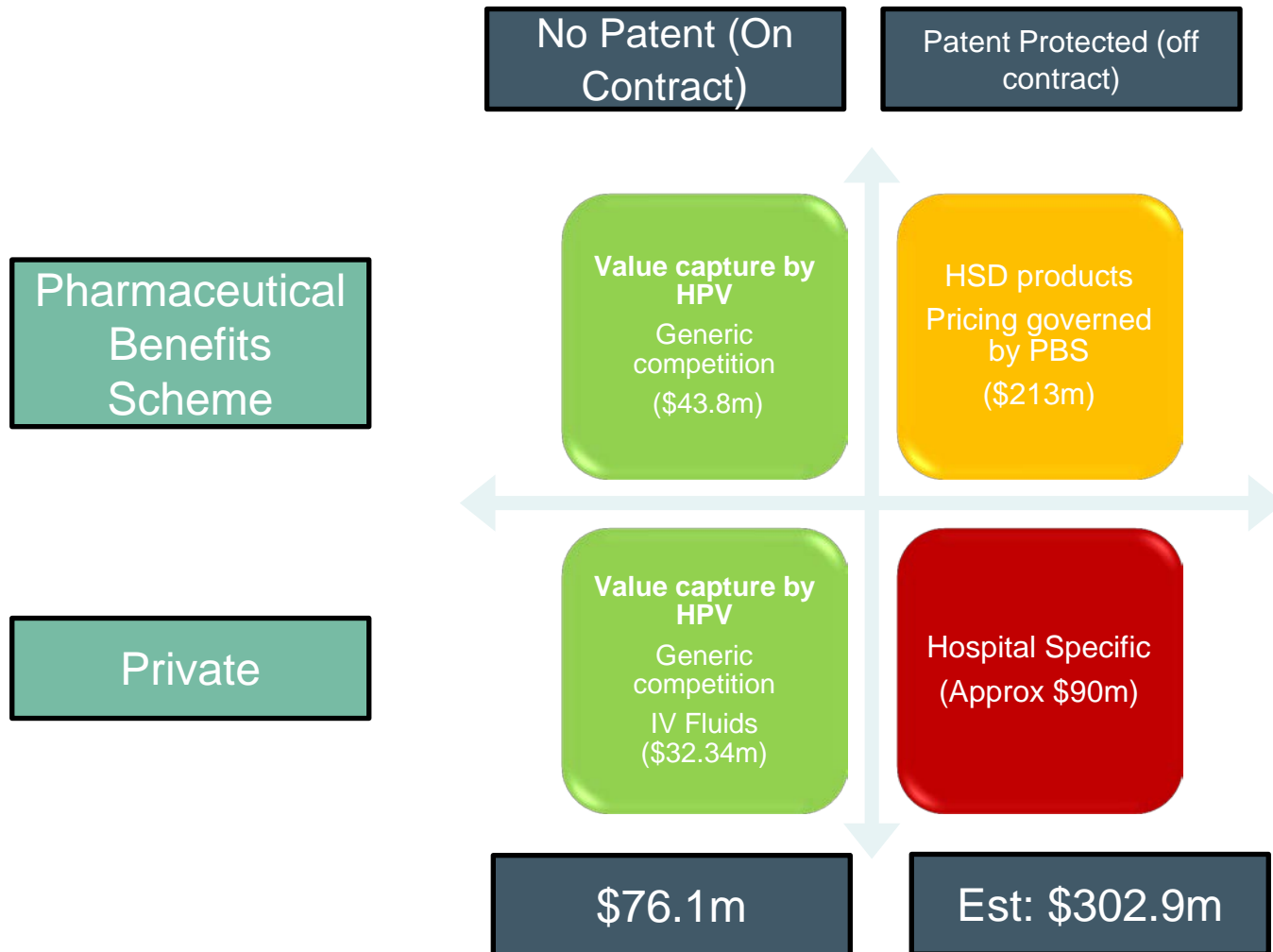
Pharmaceutical Benefits Scheme

- The PBS lists all of the medicines available to be dispensed to patients at a Government Subsidised price.
- Clinical Evidence Base evaluation by the Pharmaceutical Benefits Advisory Committee
- Determine the subsidised price in negotiation with suppliers
- PBS is accessible Nationally for community pharmacist and health services
- PBS expenditure totalled \$8.99billion for FY 12/13¹

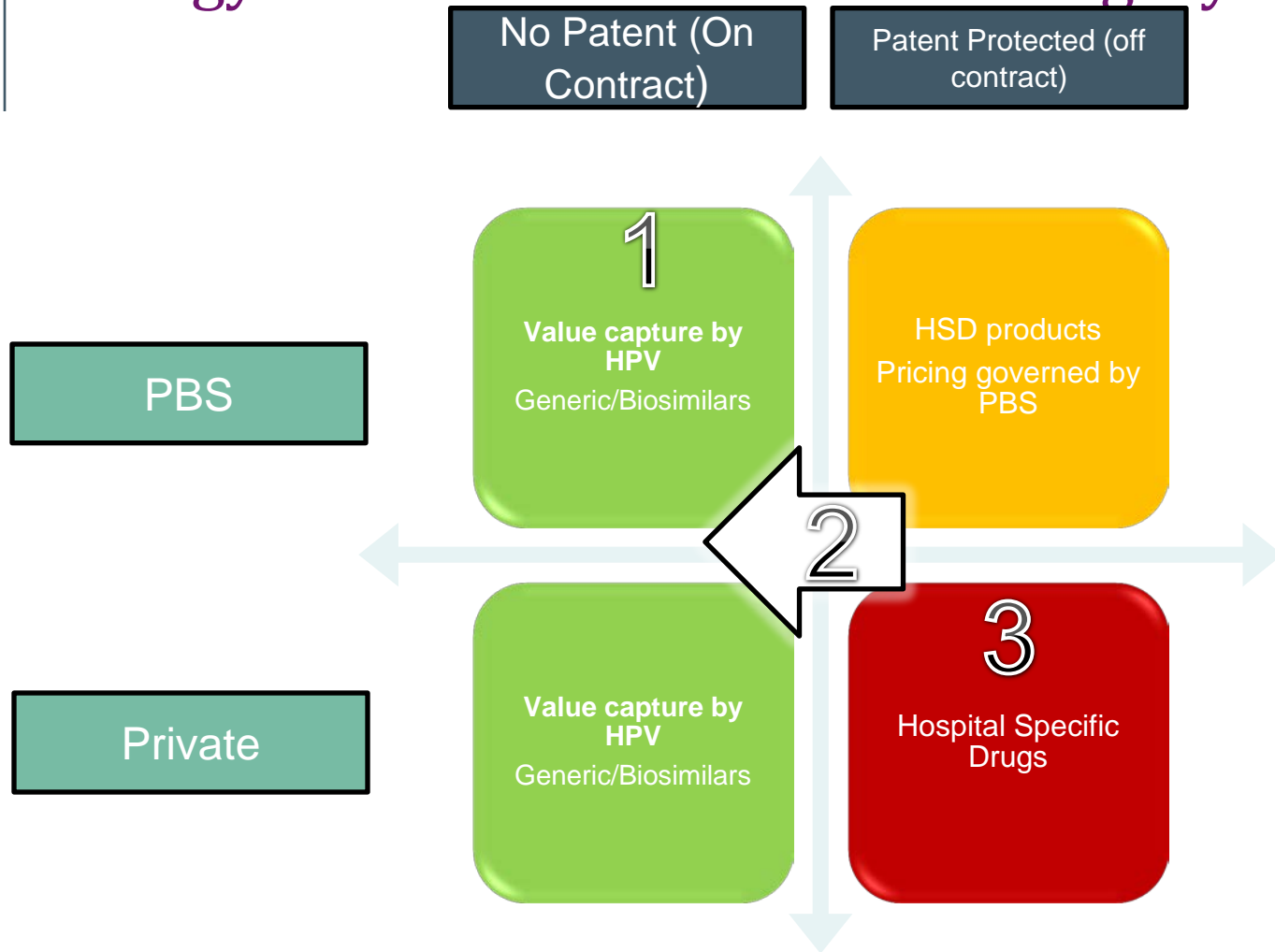
Victorian Health Services

- The overall state expenditure for pharmaceuticals is estimated at \$379m per annum for FY12/13
- Includes non-PBS and PBS expenditure
- The contract expenditure for the state contract is estimated at \$76.1m per annum

Pharmaceutical Product - Market Segmentation



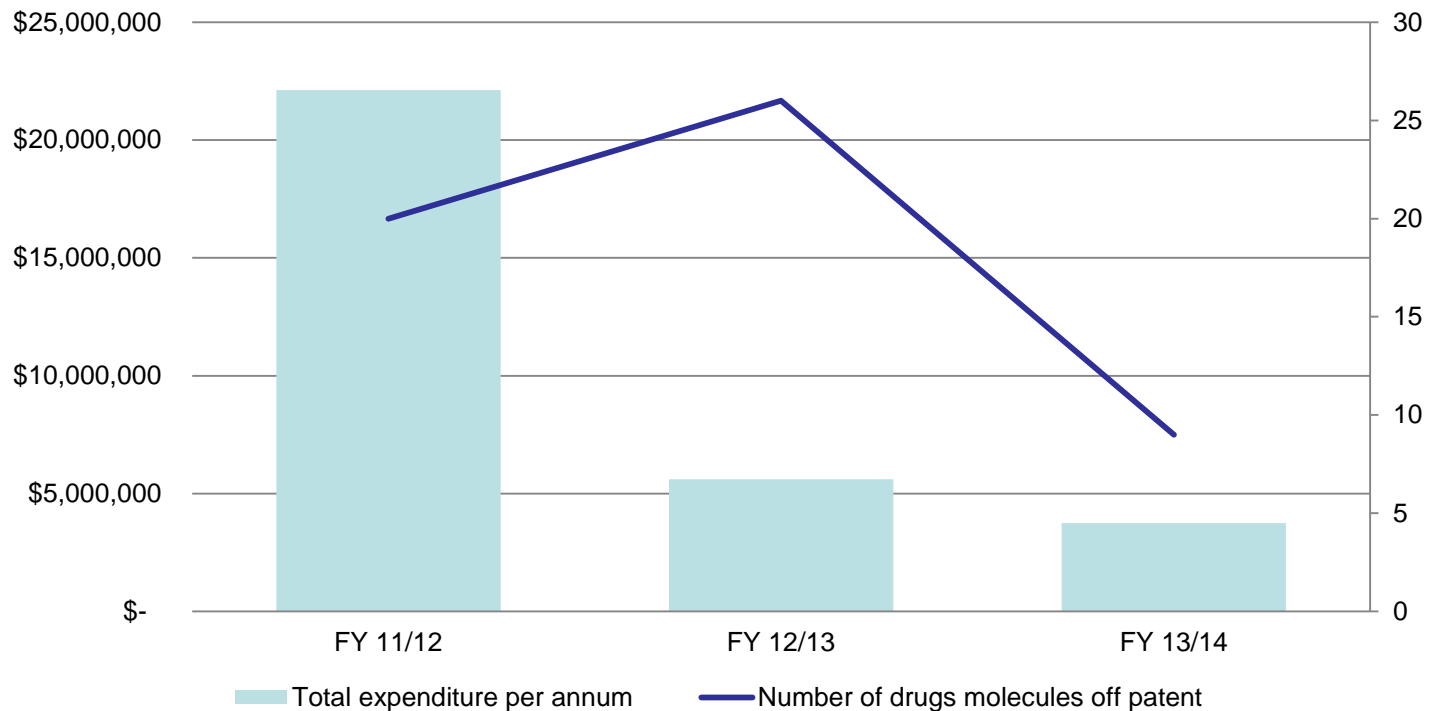
Strategy for the Pharmaceutical Category



Changes in Market Dynamic

- Reduction in patient expiry opportunities for generic medications

Number of patent expiry for generic molecules and estimated annual expenditure



Generic market and Biosimilar market

- Derived from a biological source - Bacterium or Yeast
- Higher cost of production
- Immunogenicity concerns and vary in complexity in structure
- Therapeutic Goods Administration (TGA) of Australia adopted European Medicine Agency guidelines in 2006
- Biosimilars are not 'Generics' medicinal products
- Each Biosimilar must be evaluated individually
 - Clinical studies
 - Laboratory studies
 - Evidence of similar quality, safety and efficacy
- Not directly interchangeable with reference biologic
- Biopharmaceutical product expenditure estimated via PBS claim 11/12FY for Victoria: \$92.95m pa*

**Data is based on 2011/12 FY PBS claim figures for Victoria provided by Department of Health*

Biopharmaceutical Tender - Filgrastim

- Filgrastim is a Granulocyte colony stimulating factor (G-CSF) used in oncology setting to reduce neutropenia duration by stimulating proliferation of neutrophils.
- Filgrastim annual expenditure \$2.93m per annum for FY 12/13
- Four suppliers in the market, and the patent expired in January 2011.
- 38% health service has already switched from the innovator brand to a biosimilar
- The discount is averaged at 30% compared to the reference product.
- Greenfield category, no existing process
- Obtained data directly from health services

Stakeholder Engagement Process

- Identify key stakeholders and decision makers
 - Drugs Therapeutic Committee (DTC)
 - Directors of Pharmacy
- Develop general principles in collaboration with stakeholders for managing biosimilar tenders for Victorian Health Services
- Request for nomination for senior clinicians and pharmacists to participate in a Clinical Product Reference Group
 - Haematologist (prescribers)
 - DTC representations (governance)
 - Director of Pharmacy (budget holder)
- Flexible in meeting times, early notice

Supplier Engagement

Provide individual tender briefing for suppliers with filgrastim registered on ARTG.

- Educate suppliers of the difference in tender process
- Changes in KPI measurements

Offer debriefing post tender

Biopharmaceutical specific KPIs

- Report on Sales report
- Report on inventory forecasting
- Report on Stock level at supplier level and distributor level to avoid the need for product substitution

Outcomes

- The biopharmaceutical principle was followed
- Resolve potential clinical issues at the CPRG
 - Out of Scope: The use of filgrastim in normal volunteers (i.e. donors) is out of scope for the purpose of this RFT and under any resulting Agreement.
 - Paediatric dosage requirements
- Identified an estimated demand for suppliers to tender
- Average 78% cost reduction (\$2.29M)
- 48% better than the best known price in the market
- Sole listing of penfill syringes and a increase in biosimilar usage from 38% to 81%
- The same process maybe applied to future biopharmaceutical products

References

1. *Expenditure and prescriptions twelve months to 30 June 2013* PBS Information Management Section, Pharmaceutical Policy Branch, <http://www.pbs.gov.au/statistics/2012-2013-files/expenditure-and-prescriptions-12-months-to-30-06-2013.pdf>



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