First Quadrant Advisory
Strategy and Performance

Common Pitfalls in winning a healthcare Group Purchasing Organization contract and maximizing Sales

Winning a contract is only half the battle

A group purchasing organization (GPO) can be a wonderful way for Supplier organizations to access healthcare provider customer-bases at a national level. On the surface, though, not all Suppliers may be aware that even if a contract is awarded, this doesn't equate to the GPO's members actually purchasing items from the contract. This is more apparent if a Supplier is a new entrant to healthcare or seeking to gain market share.

In this paper, we describe the most common pitfalls in the four steps of winning a GPO contract and driving sales off the contract:

1. Identify opportunities and evaluate the supply market

2. Develop product category strategy and submit the RFP

3. Negotiate and finalize the agreement

4. Drive sales after winning the contract

The views expressed are a result of first-hand experience in structuring and negotiating more than $1.4B of GPO purchasing.

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Five Billion and Growing

The Group Purchasing Organizations (GPOs) industry is composed of entities that leverage the purchasing power of groups of businesses to obtain collective discounts from vendors. GPOs earn most of their revenue by charging an administrative fee to vendors. The fee is generally less than 3.0% of the price of the item purchased through the GPO.

Over the five years to 2018, demand for GPO services has increased as the improving economy stimulated demand for a variety of downstream industries, including the manufacturing and food service sectors.

Total Revenue in 2018

$5bn

Annual Growth 2013-2018

3.2%

With significant growth opportunity, this industry is dominated by three giants – Vizient, Premier and McKesson – each representing $60B to $100B in purchasing volume.

A key driver for growth in this market is the reduction in reimbursement rates imposed by health insurers and the increasing shift to Medicare Advantage. This external cost pressure on hospital systems and care delivery entities is squeezing already tight margins.

Consider this:

- Supplies are about 30% of a hospital's operating costs, second only to wages
- Most hospital systems operate at a net income of 2-3%, after taking advantage of non-profit tax exemptions
- Margin pressures are increasing as reimbursement models shift from Fee-for-service to Fee-for-value

GPO contracts are more and more attractive as a way to further reduce costs. There are four main categories that house thousands of products, often purchased through GPO contracts vs other means.

4 Main Supply Categories	Purchases via GPO contract
Physician Preferred Items	34-48%
Medical-Surgical Items	82%
Pharmaceuticals	89%
Capital Equipment	Not reported

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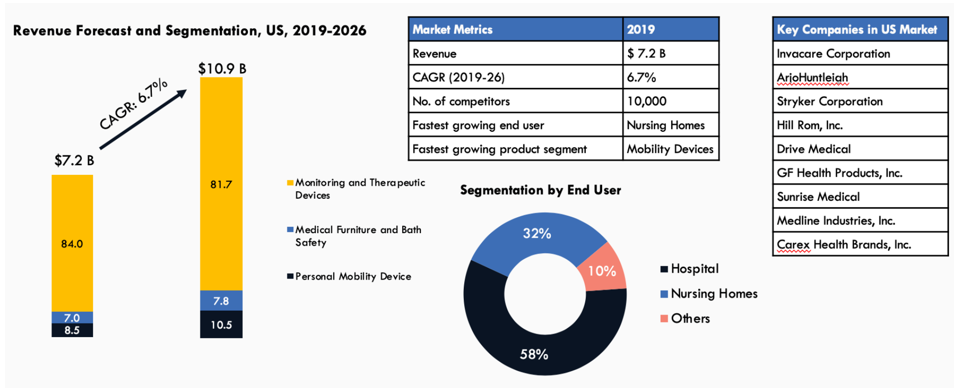
Consider the durable medical equipment market alone:



(source: FQA Market Research)

With a CAGR of 6.7%, this market continues to grow. Similarly, analysis by FQA's market research team has identified additional categories of growth as listed below:

Product Categories on Contract
PPI
Medical-Surgical
Pharmaceuticals
Capital Equipment
Clinical Equipment Maintenance
Surgical Lasers
Mobile Diagnostic Imaging
Transparent Dressings
Sterilization wraps
Patient Lifts
Specialty Bags

Product Categories on Contract
Soft Goods and Sports Medicine
Sedation Monitoring Products
Surgical Clippers
External Defibrillators
Rental Uniforms
Exam Gloves
Pulmonary Function Equipment
Capital Equipment Sourcing and Planning Tools
Hot and Cold Packs

However, it is important to note that one category drives significant dollars by far – Physician Preferred Items (PPI). PPI Items are less than 5% of line items. However, they drive 40% of supply expenses.

The rest of the whitepaper describes the GPO sourcing approach from the perspective of both the GPO Buyer and the Supplier. Common pitfalls and avoidance strategies are also discussed.

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GPO Sourcing Framework

The GPO competitive bidding process is fairly complex and involves rigorous analysis by both the GPO and a serious Supplier. The figure below depicts some of the major activities taken by the GPO as well as actions that can increase a Supplier's odds of success:

1. Understanding Opportunities and competitive supply market		2. Develop Product Category Strategy and Submit RFP		3. Negotiate and Finalize Agreement		4. Drive Sales after winning the contract
GPO Activities						
1. Spend Analysis 2. Market & Clinical Analysis 3. Intelligence Integration - Forecast demand - Interview stakeholders - Identify requirements - Assess/prioritize opportunities - Create project plan	1. Identify supply sources 2. Evaluate market/clinical trends - Review current suppliers - Evaluate total value and cost of ownership - Evaluate risks and sustainability 3. Create & submit RFI	1. Evaluate supply and demand leverage 2. Evaluate strength of category and supplier strategies 3. Create strategy with cross-functional team. Socialize with stakeholders, Create change mgmt plan	1. Setup and execute auction - Create and execute joint process improvement plans 2. Analyze sourcing events results	1. Plan for negotiation 2. Set opening, target and bottom line offers 3. Negotiate price, terms and conditions - Evaluate best and final offers 4. Post-Mortem	1. Finalize agreement - Socialize with key stakeholders - Award agreement 2. On-board new suppliers - Create implementation plan - Implement agreement	1. Monitor Contract Compliance - Address maverick spend - Business and supplier KPIs 2. Communicate/reward performance 3. Implement continuous improvement plan
Supplier Steps for Success						
1. Understand spend, consumption and provider preferences for items, medical grade, etc..	1. Answer all RFI questions. Reach out to Executive managing the bid (bid calendar).	1. How does the breadth and depth of your product category compare to others?	1. Answer all questions in as much detail as possible	1. Group your Essentials vs Expendables?	1. What happens after winning the contract? How do Providers know you exist?	1. Establish controls to abide by contractual T's and C's
2. Consider key stakeholders and what factors drive their decision making – e.g. breadth/depth of supplier, physician preference, volume discounts	2. Differentiators? Can you compete on pricing, quality and clinical performance requirements of product versus current incumbents	2. Providers look for fewer suppliers to achieve larger savings. How does apply to this particular category? Sole/multi-source impact?	2. Submit price files early with multiple proposals for tier pricing (volume based, if applicable)	2. T's and C's: Maintain product supply, payment to GPO, GPO returns policy, Supplier product fill rate must be 98%, Communicate product line changes early, Warranty, Pricing	2. What does national contract pricing mean and how does it compare to local pricing? Pricing must be market-relevant	2. Promptly address Provider issues voiced by GPO members e.g. discrepancies in tier pricing, warranty, returns, and supply
3. If your product and service is superior to alternatives, what would compel Users to switch to yours and why?	3. Understand competitor offerings and why customers/physicians are currently choosing them	3. How do stakeholders perceive your products?	3. All products/price files under the bid category must be submitted in the RFI for GPO evaluation	3. Are special categories available to take advantage of, e.g., Innovative Tech designation via committee	3. How to better drive sales of new incumbents? Navigating GPO-Supplier programs versus Supplier only initiatives	3. Communicate product changes/pricing changes early in writing so that systems are updated and Provider spend patterns are not adversely affected

(source: FQA Market Research)

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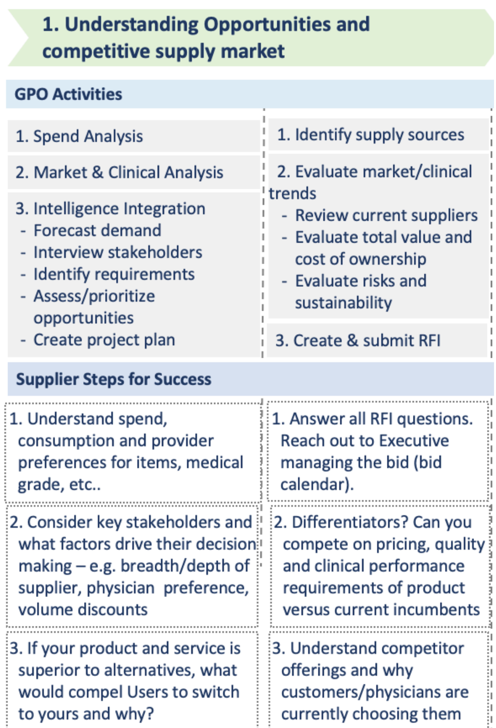
1. Understanding Opportunities and Competitive Supply Market

Whether a Supplier is well known in the healthcare space or not, the opportunity to participate in an RFI (request for information) and RFP (request for proposal) allows the GPO to understand the product landscape. GPOs represent the Providers and medical facilities, commonly called GPO members, that render healthcare services using Supplier products. This may range from healthcare supplies to food items to the building materials that enable facilities to operate efficiently.



Suppliers typically conduct three activities in this step:

1) Analyze competitors and customer spend,
2) Recognize key stakeholders and
3) Gather requirements to submit an RFI.

Suppliers can respond to RFIs and RFPs via a “bid calendar” posted on the GPO website. While the RFI is optional for Suppliers to respond to, much of the same information will be required when the associated RFP is launched.

Thus, the goal of the RFI is to evaluate the product category landscape as early as possible.

While this phase may seem straightforward, here are some common pitfalls and how Suppliers may avoid them:

1.1 Not fully providing information

If Suppliers accept an RFI/RFP from a GPO, consider the response to be analogous to a school exam. If answers to questions are incomplete, or worse, not even provided, then Suppliers cannot expect to earn significant points on the scorecard to advance along the bidding process. While a GPO executive will follow up to fill in missing information, it is always best practice to submit complete and detailed answers. The GPO executive in charge will almost certainly remember the Supplier for it and believe the organization is serious about winning a contract.

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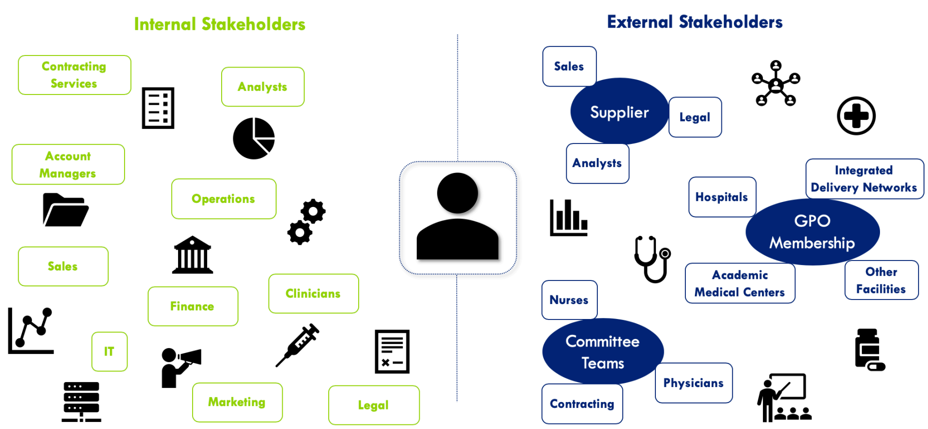
1.2 Not developing a relationship with the GPO executive managing the contracts

The GPO executive leading the competitive bidding process is most interested in delivering the best value for their members. While GPO executives understandably refrain from sharing competitive data, they are interested in ensuring that they select the best Suppliers. The right relationship with the GPO executive serves both the Supplier and the members.

Additionally, the executive is tasked with managing a range of internal and external relationships (see below). Understanding the needs of these stakeholders and enabling the GPO executive to serve those needs will place the Supplier in a favorable position.



1.3 Focusing too much on clinical value versus cost

GPO scorecards typically list a range of criteria for evaluation. At a minimum, GPOs will request clinical studies, research articles, industry reports or marketing materials that may help differentiate clinical value compared with competitors. Despite this, GPOs tend to heavily focus on evaluating cost-savings for its members and less on clinical performance or outcomes. For clinical measures, they will lean more on feedback from physician/clinician committee groups (see pitfall 1.4). Suppliers should ensure that the GPO understands the cost structure and incentives more than the clinical value.

1.4 Not having a physician champion

Physician-preference products are typically those that depend on a physician's touch or expertise to, for example, implant inside a patient. It is important to be aware that a physician may have trained on a specific brand or product for years and is likely going to favor that product for a long time unless he/she has a compelling reason to switch to another brand.

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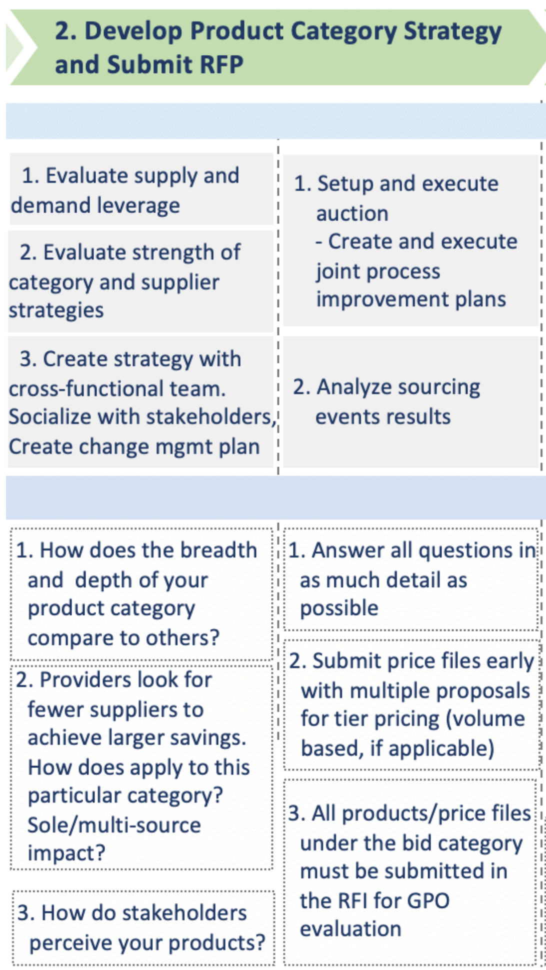
Supplier benefit from engaging key influencers before entering the bidding process. If clinicians are unaware of new products, they will be reluctant to support the inclusion of them on a GPO contract.

Having stakeholders that champion Supplier products will go a long way and the following questions will help begin the motion toward that. Who are the right stakeholders? How can high influence groups be targeted and incentivized to adopt new products? How can market perception be built with key stakeholders?

2. Develop Product Category Strategy

Suppliers will execute the following tasks in this step:



1) Understand their product supply-demand relative to the market
2) Create an RFP strategy
3) Gather requirements to submit the RFP.

For example, a Supplier is likely to command a higher price point for a unique product that is in high demand. Conversely, if a Supplier is unable to fulfill orders, they will risk losing the contract award.

Once a GPO submits an RFP, the requirements of the bid are formalized as they may have changed since the launch of the RFI.

Suppliers may consider proposing several price files along with tiered pricing options to allow for different scenarios.

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Below are some issues to look out for and how to overcome them:

2.1 Not taking advantage of special GPO programs

GPOs create specific types of bid programs for various Suppliers that can, for instance, deliver innovative technologies, hi-frequency purchased items, group purchases, or reduce product variation. Participating in these programs allows Suppliers to obtain a contract that they otherwise may not.

2.2 Not understanding the nuances of current suppliers and their agreements

Contractual arrangements with incumbent suppliers can have a significant impact penetration of a new Supplier's products. For example, specific suppliers may have sole-source exclusivity rights while others may be part of a multi-source agreement. Suppliers should ask themselves questions such as, what current contractual agreements could be in place that may prohibit other Suppliers from entering the market or expanding their market share? How does this impact the landscape now and in the future?

A similar set of questions can be applied to distributors that may for example "own" specific channels or have "exclusivity rights" in the marketplace which can make it extremely difficult for eager competitors to stake their claim.

3. Negotiate and Finalize the Agreement

Next, Suppliers will be ready to undertake the following tasks:

1) Negotiate terms and conditions,
2) Understand the scorecard,
3) Finalize the agreement.

The process of negotiating terms and conditions is generally a function of the size of the Supplier and its market share. Typically, a dominant player is able to negotiate more aggressively since the market uses its products and it has many customers, while a smaller player cannot command a position of power, because it

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simply does not have market presence. Hence, the process of negotiations is relatively shorter for smaller organizations and is often completed earlier than their larger counterparts.

Suppliers will be informed of how they can improve their scorecard position by the GPO executive. If overall terms and conditions are favorable for the GPO membership, then the Supplier is likely to be awarded a contract.

Below are some tips to help avoid pitfalls when entering the negotiations step:

3.1 Not negotiating on "non-negotiables"

GPOs may pre-populate fields in a contract such as the percentage administrative fees or payment terms. While such terms may appear to be "non-negotiable", Suppliers may rightfully propose alternatives. Doing so will help a Supplier gauge the GPOs boundaries. Inevitably, there will be contract language that is firm, however, this typically stays consistent across GPO contracts.

3.2 Getting too creative in contracting terms

Some Suppliers have found creative ways to obtain a better score on the RFI/RFP scorecard by not submitting all the items of a specific bid category. The idea may be to submit no pricing for a given set of products and then add the products later on at a relatively higher price once the contract is secured. By doing this, the Supplier would be able to circumvent the condition of "no price increases" because technically, there was no price increase on a product that was never submitted. In any case, GPOs will realize and question the Suppliers.

Other common tactics used by Suppliers include wasting time with deadlines looming, unauthorized changes to product pricing and being unresponsive to data requests. While this may work to a certain degree, the fact remains that if sufficient data is not gathered, Suppliers run the risk of not winning a contract.

4. Drive Sales after Winning the Contract

After a contract is awarded, Suppliers will conduct ongoing tasks that include:

1) Managing the contract,
2) Communicating product changes and
3) Generating sales.

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Not actively driving sales through the contract is the most common and most costly pitfall. Suppliers new to GPOs typically assume that once a contract is awarded, then sales will automatically increase. Due to the sheer volume of contracts that a GPO possesses, it cannot actively drive sales unless without additional incentive and support.

Although often overlooked, there is a distinction between winning a contract and driving sales off the contract. Three key steps a Supplier can take to gain market share after winning a contract are:

4.1 Actively manage the contract

GPO members interested in purchasing products need to be granted contract access. This is to ensure members are being charged appropriately. Periodic communications from GPOs will help support launch of new contracts and new products, however, this approach is not a substitute for boots on the ground, as explained next.

4.2 Engage the GPO account team

Contrary to popular belief, the GPO does not behave like an extension to a Supplier sales team. That is, a Supplier must "pay to play" and engage the GPO account team to drive sales from the new contract. This approach may benefit a Supplier that does not have a sales team, however, it's important to understand the competitive landscape and implications of the GPO account team on Supplier sales.

4.3 Drive off-contract sales

Instead of relying only on one channel to accelerate Supplier sales, another approach is to directly engage with target buyer groups. Suppliers should consider identifying an in-house or contracted team that has direct selling and buying experience across the healthcare value chain including GPOs. Some advantages of this approach include: 1) Taking a top-down approach to get in front of decision-makers and 2) Deploying a dedicated team to build and execute a strategy that a GPO account team is not designed to do.

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In Conclusion

Whether a Supplier is seeking to capture new market share or expand its healthcare footprint, it must be aware of the processes a GPO utilizes that may or may not help achieve it's goals. This includes not just understanding the competitive bidding process and how to win a GPO contract, but also being aware of how to accelerate sales *after* winning a contract.

Suppliers must recall the purpose of acquiring a national GPO contract. At the core, it is to reduce the number of independent agreements for a Supplier to conduct and manage. Suppliers unfamiliar with GPOs may fall into the trap of assuming that product sales will accelerate on auto-pilot once a GPO contract is secured. This scenario may play out, but only in cases where for instance strong brand recognition, demand and fair price already exist. For this reason, it is critical to be able to identify rate-limiting steps and develop appropriate market-priming strategies in advance of winning a contract, so that the contract is set-up for long-term success.

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First Quadrant Advisory

First Quadrant Advisory is a strategy and performance advisory firm built on deep operational expertise. We have been both Clients as well as Consultants. As a result, we bring unique perspectives on issues that senior leaders face. Through distinctive methodologies, tools and accelerators, we help clients build strategies that are sound, executable and enduring.

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