

NCPHLL Leadership Forum Series: Procurement Improvement Strategies

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The Association of Public Health Laboratories (APHL), through its National Center for Public Health Laboratory Leadership (NCPHLL), convened a meeting focused on procurement improvement strategies. The purpose of the meeting was to:

- Identify models to improve purchasing of laboratory equipment and supplies; and
- Explore ways that APHL and other stakeholders can improve the procurement process.

The meeting brought together representatives of the major stakeholders in the process including laboratory management, procurement professionals, vendors, and purchasing cooperatives.

The meeting comes at a critical time. Due to the financial circumstances in many states, public health laboratories (PHLs) are faced with fewer resources in the form of reduced funding and staffing. The reduction of resources could have a negative impact on key PHL functions including outbreak investigation, emergency response, surveillance, and public health prevention efforts. The general consensus among participants was that the people that make the rules relating to procurement do not understand the role of public health in general—and specifically, the role of PHLs.

There are unique aspects of PHLs that translate into specific procurement needs. For example, PHLs are intimately involved in emergency preparedness and must stock certain supplies in sufficient quantity to meet local needs, even though they may never be used. This can be contrary to traditional purchasing practices where buying is based on past need. In addition, PHLs have an obligation to provide a specific array of services, such as screenings for newborns, which are not provided by any other source. These screenings must be provided regardless of funding realities. This requires flexibility and understanding on the part of vendors.

The equipment needs of PHLs are also unique. Sometimes, there is only one vendor that provides a necessary piece of equipment, which means that multiple bids cannot be obtained. The Federal Government and the Centers for Disease Control and Prevention (CDC) have recognized the constraints faced by laboratories. For example, CDC expedited purchasing of necessary equipment in response to H1N1 flu. However, PHLs also report that CDC mandates can be difficult to meet. CDC guidelines in terms of required equipment are sometimes not specific or too vague to allow laboratories to streamline the procurement process, especially if the equipment is only available from a single vendor.

Role of Public Procurement

To obtain quality goods and services to support effective and efficient government ensuring prudent use of public funds by:

- Providing efficient delivery of products and services;
- Obtaining best value through competition;
- Offering fair and equitable competitive contracting opportunities for suppliers;
- Maintaining public confidence through ethical and transparent procurement practices.

Source: National Association of State Procurement Officials

Laboratories are exploring various ways to gain efficiencies. Streamlining the procurement process and exploring cooperative purchasing options have been identified as possible ways to optimize the use of PHL resources. While PHLs, vendors, and federal partners must be involved in this process, it is incumbent on the entire public health community to recognize and respond to the needs of PHLs. Stakeholders in this process include legislators and policymakers, procurement officers, health departments, laboratory management and staff, and vendors.

BACKGROUND

PHLs have a unique mission, which translates into unique needs when it comes to resources and how and when supplies are obtained. CDC recognizes that PHLs need additional support and have launched the Laboratory Efficiencies Initiative (LEI). The goal of the LEI is to:

- Assess alternative management practices to sustain critical testing services;
- Develop strategies that will be state-driven; and
- Gain support from various stakeholders.

Through the LEI, the CDC is exploring various procurement efficiencies that could be adopted at the state and local level. These models include:

- Buying consortia (e.g., Western States Contracting Alliance);
- Group purchasing organizations;
- Private companies that make purchases on behalf of a client;
- Federal Agencies (e.g., direct purchase by CDC or partner);
- Use of GSA schedules during public health emergencies/declared disasters; and
- Purchases through organizations such as the World Health Organization.

The LEI plans to further the dialogue on sharing laboratory services and the implementation of innovative management practices.

In addition, the initiative is designed to support ongoing PHL management changes at the state and local level.

Currently, the LEI is focusing on:

- Return of Investment (ROI) focus groups;
- LEI governance groups (e.g., CDC Laboratory Forum, CDC Steering Committee, Partner Committee);
- Inventory of public health laboratory testing services;
- Evaluation of high-efficiency management practices;
- APHL/CDC data consultation; and
- APHL/CDC consultation on informatics.

Possible Areas of Collaboration across PHLs

- Multi-state sharing of test services
- Contractual services
- Standardization of testing platforms
- Purchasing cost-savings
- New revenue streams
- Laboratory informatics capabilities
- Workforce preparedness
- Managing workflow (Lean, Six Sigma)

It is important to note that the Director of the CDC, Thomas Frieden, MD, MPH, has expressed an interest in the challenges faced by PHLs and is supportive of efforts to address these challenges.

PHL PURCHASING: LABORATORIES' PERSPECTIVES

State agencies must work within their own systems to purchase equipment, supplies, and services—and these systems can vary widely from state to state. Purchasing of most supplies is done through contracts, set up by state procurement offices. These contracts allow for streamlined ordering and often states are able to negotiate preferential prices based on a guaranteed volume. Under such contracts, ordering can often be done electronically, which reduces administrative costs.

There are a variety of other procurement tools used by states, although the price thresholds vary widely. For example, one state may require multiple quotes for any non-contract purchase over \$250. Another state may have a threshold of \$5,000 for similar purchases. The procurement options available to PHLs include:

- Credit card purchases;
- Limited solicitations (oral or written bids);
- Formal Solicitations (e.g., RFP);
- Sole Source (e.g., when goods/services are only available from a single supplier); and
- Exigency purchases (e.g., during emergencies).

PHLs must also have arrangements in place to maintain and service repair equipment and face challenges obtaining preventive maintenance and repair contracts. For example, service contracts may only cover one piece of equipment, which means that a laboratory must have numerous service contracts, all with different terms and procedures for obtaining services. Laboratories in rural areas may find it difficult to find vendors willing to provide reasonable services in their area.

The representatives of PHLs agreed that their respective procurement systems result in inefficiencies, confusion about the rules, frustration on the part of laboratory staff, delays in obtaining supplies, and lots and lots of paperwork. As one laboratory manager noted, “With procurement, I devote 80 percent of my effort to obtain the 20 percent of my goods and service that are not covered by a contract.”

In addition, meeting participants agreed that price is not always the top priority when it comes to purchasing supplies and equipment for laboratories. Important considerations include compatibility of equipment and ensuring that supplies allow laboratories to comply with regulations.

Procurement Challenges for PHLs

- Lack of standardization of supplies/equipment—need flexibility to select the right supplies and equipment
- Not all vendors carry all that is needed
- States cannot commit to long-term funding
- State fiscal year and funding cycles do not mesh
- Shipping charges drive up costs
- Writing bids and contracts is time consuming (e.g., boilerplate text is needed)
- Contracts sometimes include restrictions (e.g., preference to state businesses)

PHL PURCHASING: VENDORS' PERSPECTIVES

The relationship between purchasers and vendors is often perceived as adversarial.

When it comes to supplying PHLs, ensuring that laboratories have the necessary supplies often requires that vendors, laboratory staff, and procurement staff work in partnership to address the unique situations that arise. The variables from the vendor perspective include:

- Public-sector funding streams are not amenable to long-term contracts;
- Shared or distributed laboratory services (i.e., smaller market); and
- Shipping and administrative costs impact both buyers and vendors.

Vendors emphasized the importance of communication. Understanding the needs of PHLs can reduce administrative costs for the vendors. It can also help vendors identify efficiencies that can result in cost savings for laboratories. For example, vendors have paid to improve automation in laboratories, which reduces the cost of screening tests. Other areas that can benefit from open communication include training, service support, and technical support. However, it was noted that having too close of a relationship with a vendor can create the perception of preferential treatment.

Ensuring preventive maintenance for equipment and that repairs are done quickly to reduce down time are priorities for PHLs. Services contracts are another area where efficiencies can be gained. Equipment maintenance management programs are one option for laboratories. Under these contracts, the vendor coordinates all maintenance and repair. Equipment is inventoried and schedules established for routine maintenance. When a repair is needed, laboratory staff call the vendor, who then arranges for a service technician. This streamlined process greatly reduces the administrative work for laboratory staff as there is a single point of contact instead of many different service contracts. From the vendor perspective, these contracts are designed to spread risk—much like insurance policies. As such, some equipment may not be eligible for coverage. Some laboratory managers expressed dissatisfaction with this type of contract, citing delays in the delivery of services by third parties.

Benefits of Vendor Contracts

- *Cost Reduction Opportunities*
 - Vendor base consolidation
 - Product standardization
 - Product conversion
- *Productivity Improvement Opportunities*
 - Streamline procurement process
- *Service Improvement Opportunities*
 - Reduced order cycle time
 - Proactive order management
 - Information on product performance
- *Asset Base Reduction Opportunities*
 - Inventory management

COOPERATIVE PURCHASING CONTRACTING

Cooperative purchasing involves sharing procurement contracts between states. Participating in such cooperatives can result in multiple advantages, such as lower prices and streamlined ordering processes. Typically, the process for establishing these contracts is:

- Parties identify a common requirement suitable for cooperative purchase and sign a written agreement to cooperate;
- Sourcing team made up of procurement specialists and subject matter experts develops technical specifications;
- Lead party solicits proposals and awards contract(s); and
- Participating parties sign an agreement (e.g., purchasing addendum) in the specific contract(s).

Examples of organizations that facilitate this kind of purchasing are the National Association of State Procurement Officials (NASPO), the Western States Contracting Alliance (WSCA), the Multi-State Correctional Purchasing Alliance (MCPA), as well as several regional higher education groups such as the National Association of Educational Procurement.

NASPO/WSCA have approximately 40 active cooperative contracts—in 2010, sales exceeded \$7.6 billion. The contracts are used by all 50 states, federal agencies, local governments, and community-based nonprofit organizations. The NASPO/WSCA contracts are the largest single contract for AT&T, Dell, and several other vendors. NASPO has a three-year multi-vendor non-exclusive term contract for laboratory equipment and supplies. It offers a full line catalog of laboratory equipment and supplies of items costing \$75,000 or less (per item). Idaho is the lead state. This contract pricing is based on purchasing one item at one time. It is possible when ordering multiple items multiple times that better pricing on that item can be obtained from the vendor.

Types of Cooperative Purchasing

True Cooperative: organizations combine their requirements and solicit bids or offers for goods or services

Piggyback: contract includes an option for other organization to participate in the contract as awarded

Third Party Aggregators: an organization represents the requirements of multiple organizations in a contract

Based on their experience with cooperative purchasing contracts, NASPO/WSCA identified several “lessons learned.”

- There is not a single, simple solicitation model or contract terms and conditions that can be signed by any group of states.
- State chief procurement officials are the only ones (generally) who have the statutory authority to legally enter into contracts to procure goods and services.
- Most local government purchasing requirements are more complex, but these entities can accept state contracts “as is.”

Another example of cooperative purchasing is the Minnesota Multistate Contracting Alliance for Pharmacy (MMCAP), which is operated by the State of Minnesota. MMCAP's 4,500 facility members in 46 states cover all levels of government including state, county, city, township, and school district. The types of facilities that participate include hospitals/clinics, university student health, substance abuse treatment, and corrections. The cooperative is funded entirely by administrative fees. The benefits of participating in MMCAP include cost savings, convenience in issuing solicitations and contract maintenance (both on the side of purchasers and vendors), and savings on products and services. MMCAP provided the following lessons learned.

- Encourage the participation of member agencies in the evaluation of products and the establishment of a list of preferred products.
- Encourage and provide incentives for member agencies to buy preferred products on contract.
- Educate agencies on the benefits of contract compliance.
- Encourage member agencies to share knowledge of products, industry standards, legislative issues etc.

SOLUTIONS: IMPROVING THE PROCUREMENT PROCESS

Meeting participants identified various strategies for improving procurement for PHLs. It is important to note that given the differences across PHLs and state systems, there is no single “quick fix.” Instead, PHLs will need to explore various strategies and select the options that best fit their needs. To assist PHLs in this process, participants identified possible activities and roles for various stakeholders.

Many of the activities overlap and would, ideally, take place concurrently. To bring about change will require a long-term initiative that will need to identify goals, develop strategies, and build on successes.

Information Needs

- **Repository.** A central repository of information relating to equipping and supplying PHLs is needed. Such a tool would serve multiple purposes. For example, it would allow PHLs to quantify their purchases (volume) for the purposes of engaging in multi-state contracts. Participants acknowledged that compiling the information for the repository will be a major undertaking and that there may be push back from laboratory management to supply the requested data. The repository should contain a broad range of data:
 - Type of supplies and equipment currently in PHLs
 - Services required by PHLs
 - Non-contract items

Solutions: Key Priorities

- Technology (e.g., electronic ordering)
- Reducing staff time (i.e., improved efficiency)
- Linking to existing inventory (e.g., just-in-time purchasing)
- Focus on non-contract items
- Start small and build on successes

- Volume of purchases
 - Contract/bid language, non-contract items
 - Common terminology (i.e., dictionary of terms)
 - Information on products (e.g., cut sheets)
 - Feedback on equipment/vendors, etc.
- **Listserv.** A listserv would allow PHL staff to share their experiences and tools. Such a listserv should be moderated to ensure responsiveness to postings.
 - **Increased Awareness of Challenges faced by Laboratories.** Stakeholders (e.g., policymakers, PHL management, procurement staff) need information about the role of PHLs, procurement challenges, and possible models. For example, APHL and NASPO/WSCA could jointly produce webinars on this topic.
 - **Staff Training on Procurement Process.** PHL staff need training in procurement processes and how to operate within their state system. Cross training is necessary to ensure that more than one person in a laboratory is familiar with the processes.

Improved Communication

- PHLs need to communicate clearly with vendors about their needs. This can help vendors better address their needs and develop solutions to supply and procurement challenges.
- PHLs need to reach out to policymakers/purchasing officials and explain procurement challenges. Tools, such as descriptions of successful models, are necessary to help “tell the story.”

CDC Role in Improving Procurement Strategies

- Direct assistance (and clear rules for states and PHLs relating to the process).
- Better communication of information about emerging technology and procedure changes that impact the work done in PHLs (information should go to both PHLs and procurement officials).
- Detailed specifications for required equipment (with input from PHLs prior to issuing specifications).
- Provide training/educational meetings for PHL grantees (specify when these meetings are mandatory, and when more than one staff person must attend and the title/position of those staff).

NEXT STEPS/ACTION ITEMS

Establish Work Groups (APHL)

- Procurement Improvement Work Group (to oversee all activities)
- Repository/ Pilot Project Work Group
- Education and Training Work Group

Informal groups were also formed to: 1) explore purchasing models in higher education; and 2) facilitate collaboration between APHL and NASPO/WSCA.

A listserv to connect meeting attendees and dialogue from forum with APHL membership

AREAS FOR FUTURE EXPLORATION

- Contract analysis
- Emerging technology (and how it will impact procurement process)
- Legislative/statute review (and role of health department)
- Workflow and documentation (purchasing in emergency situations)
- Outbreak response (increase understanding of the role of/challenges faced by PHLs)
- Use of GSA Schedule
- Full catalog pricing from vendors (i.e., why are some items in their catalog not included in contracts?)
- Reach out to other stakeholders (e.g., College of American Pathologists, American Society for Microbiology)

Resources

National Association of State Procurement Officials

<http://www.naspo.org/>

Western States Contract Alliance

<http://www.aboutwsca.org>

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