Baptist Health System/Norton Healthcare Joint Purchasing Agreement Has Big Payoff

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  System Executive– Supply Chain Services  
  Baptist Health System

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  Vice President, Materiel Management  
  Norton Healthcare

HFMA Kentucky Fall Conference  
10/23/14
Learning Objectives

- Understand the formation of a Joint Purchasing Collaborative
- Review the results of our joint purchasing effort to date
- Explore future opportunities and methodologies
In Kentucky, Baptist Health:

- Delivers one of every four babies
- Performs one of every four total joint replacement procedures
- Handles one of five surgical oncology (cancer) patients
- More than 2 million patient encounters
Baptist Health

One of the Commonwealth's Top Ten Employers

One of the largest not-for-profit healthcare systems in Kentucky, consisting of 7 hospitals with more than 2,100 total beds and more than 15,000 employees.

A $2 Billion Organization with more than 700 employed physicians/providers and more than 1,600 independent physicians that include: Outpatient Centers, Urgent Care, Express Care, Home Health, Employer Solutions, Wellness and Fitness Centers, and Bluegrass Family Health.
Norton Healthcare

Integrated Delivery Network of
5 not-for-profit hospitals
16 outpatient centers

1.6 million yearly patient encounters
$1.6 billion yearly revenue
11,200 employees
600 employed providers
2,000 physician medical staff
1,857 licensed beds
60,000 admissions/year

2012 National Quality Forum
Award Winner
Road Map

1. **Explore the Legal Precedent**: establish structure like DOJ-approved Memorial Health Inc. and St. Joseph’s Chandler Health System
2. **Gain Support from Executive Teams**: get senior management engaged in the process
3. **Identify Opportunities**: find initiatives that knock it out of the park
4. **Communicate Success**: press releases tell story
Department of Justice Supports (DOJ) JPA

- JPA yields volume discounts that lower costs and increase services for patients
- Antitrust safety zone requirements met:
  - Cost of all products and services purchased through JPA < 20% of total revenue for products/services sold by agreement participants
  - Products purchased through JPA from supplier < 35% of suppliers product sales in the relevant market
Joint Purchasing Agreement

- Formation of Joint Purchasing Committee
- Commitment to covered products & designated vendors
- Compliance with antitrust laws
- Confidentiality including pricing
- Signed agreement by both system executives
Collaborative Purchasing Process

- Vetting Initiatives through Joint Purchasing Committee
- RFP Developed by Subject Matter Experts (i.e. Supply Chain Management & Pharmacy executives)
- Final Approval by Senior Management
The Difference Makers

- Healthcare reform pressures
- Senior leadership involvement
- IDNs using Premier as GPO
- IDNs are friendly competitors
- Suppliers reward volume commitment
Joint Purchasing Committee Participants

- Baptist Health System
  - Carl Herde, System Chief Financial Officer
  - Tom McGee, VP of Administration
  - Mike Reeves, System Executive Supply Chain

- Norton Healthcare
  - Scott Watkins, VP of Operations & Division COO
  - George Hersch, VP of Materiel Mgt.
  - Jim Graham, System Director of Purchasing
Distribution RFP Process

- Pre-bid conference to explain JPC initiative
- BHS & NHC lawyers develop a consistent RFP document
- Presentations by suppliers to identify business opportunities
- RFP awarded but separate 5-year agreements for BHS & NHC
- Press release to announce outcomes
Med/Surg Distribution Initiative

Current supplier:
- Cardinal Healthcare – Baptist Health System ($54M annual spend)
- Medline Industries – Norton Healthcare ($22M annual spend) NHC included $4M annual spend with Cardinal for Norton Medical Group
- Awarded supplier Medline Industries for 5 years
Pharmacy Distribution Initiative

- Current suppliers:
  - McKesson – Baptist Health System ($77M annual spend)
  - Amerisource Bergen – Norton Healthcare ($68M annual spend)

Awarded supplier: Cardinal Healthcare for 5 years
2014 Completed Initiatives

$15M (five yr. savings): Med/Surg Distribution

$15M (five yr. savings): Pharma Distribution

$30M Saved over five-year contracts
Future Initiatives

- Laboratory Distribution
- Reverse Auctions
  - computer hardware
  - shredding
  - paper
  - lighting: bulbs and ballasts
  - Generator service
  - Pest control
Pertinent Points to Ponder

- Will more IDNs collaborate to reduce costs in their marketplace?
- Will physician-preference categories work?
- Will more vendors see the value of this?
- Will smaller regional suppliers participate?
Questions?
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