



Hospital Industry Overview



SAN FRANCISCO DEPARTMENT OF PUBLIC HEALTH

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Goal

-  Develop common understanding of key topics related to hospital procurement

Hospitals in California

Hospital Ownership

Total Hospital Licenses	437*
Private Investor Owned	133
Private non-Profit Owned	224
Public Owned	80

Hospital Statistics

Hospital System	278
Unaffiliated	159
Licensed Bed Range	10 to 1,161**
Rural Designated	57

Hospital Types

General Acute Care	341
General Acute Care - University Teaching	31
Pediatric General Acute Care	11
Pediatric General Acute Care – University Teaching	4
Acute Psychiatric Hospital	38
Psychiatric Health Facility	31
Physical Rehabilitation	9
Chemical Dependency Recovery	7

*Total # may include more than one campus.

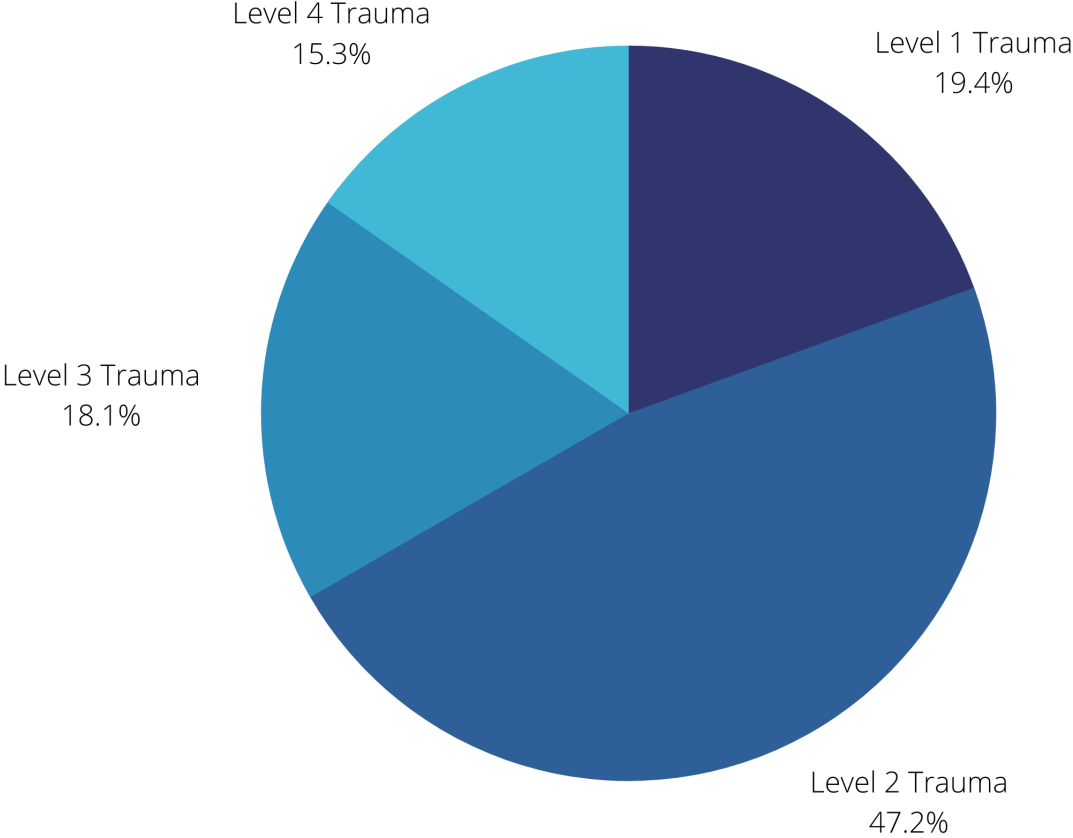
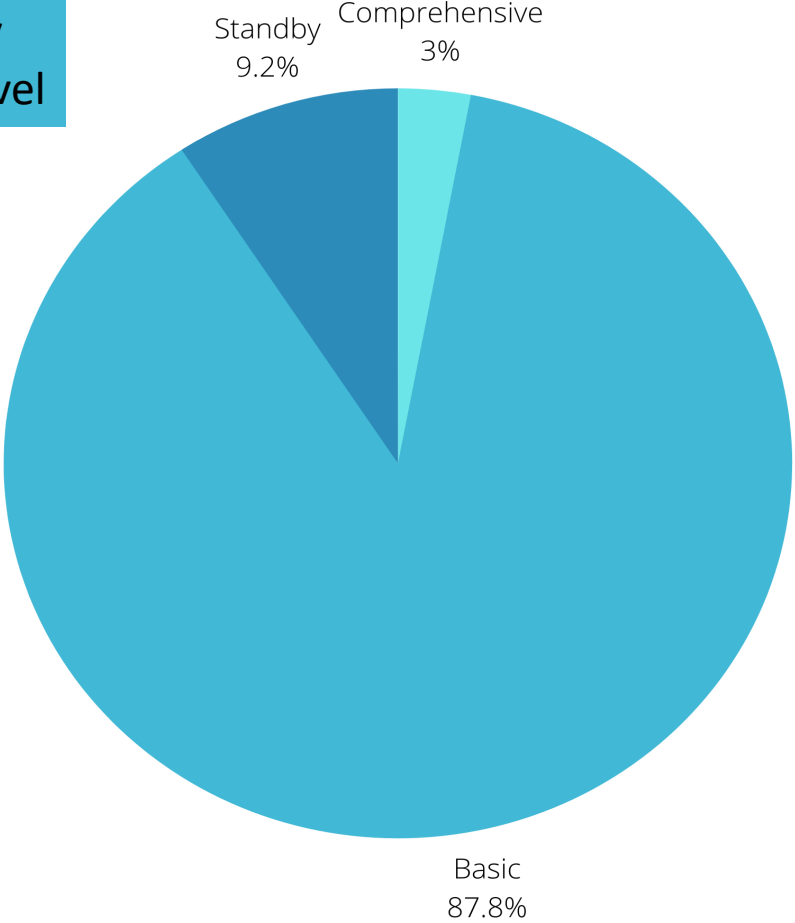
**Average of 223 hospital beds.

Hospitals in California Continued

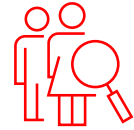
Trauma Centers
Total 72

Emergency
Rooms by Level

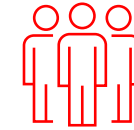
Total 303



Hospital Procurement Overview



A



B

Looks different at different hospitals...

- Hospitals vary by size, community demographics, services, region. This can dictate how spend is managed
- Communities may have more local suppliers than certified and diverse suppliers; community growth and economic health need to consider both to be impactful
- Specialty hospitals, mental health and general acute care license hospitals provide different clinical care and may require different types of products or services

Who is the buyer or decision maker?

- Business and Budget Owner
- Category subject matter expert
- Clinician
- Patient
- Procurement
- Sourcing
- Stakeholders
- Visitor

Private and Private Non-Profit Hospitals & Healthcare Systems vs. Public Hospitals



Private & Private Non-Profit Hospital and Healthcare System

Public Hospital

Funding

- Self-funded
- May receive public program funding
- Private Hospitals have a more diversified commercial payer mix, including CMS (Medi-cal and Medicare)

- Receive significant amount of funding from County, State, and Federal sources. Thus, utilizes funds collected from taxpayers to fund healthcare initiatives
- Public Hospitals have a payer mix more heavily weighted to CMS (Medi-cal and Medicare)

Hospital Regulations, Standards & Accreditations

- Centers for Medicare & Medicaid Services (CMS)
- Det Norske Veritas (DNV)
- The Joint Commission

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Purchasing Protocols & Requirements

- Vary by organization, policies & procedures
- May follow the principles of the American Bar Association Model Procurement Code and other industry leading best practices

- Dictated by County, State, and Federal entities

Purchasing Authority

- Vary by organizational policies & procedures:
 - Local, Regional, National
 - On/off contract item
 - Contract Value
 - Contract Term
 - Product Lifecycle

- County departments have limited to no delegated authority for purchasing goods and services
- Purchases have to go through the County's purchasing agent, so additional legal and administrative reviews
- Whatever exceeds the purchasing agent authority requires Board of Supervisor approval – i.e., equipment purchases that will exceed \$250K, services agreements with a cost that exceed \$200K per year

Private and Private Non-Profit Hospitals & Healthcare Systems vs. Public Hospitals

	Private & Private Non-Profit Hospital and Healthcare System	Public Hospital
Purchased Goods & Services	<ul style="list-style-type: none"> Hospitals manage purchasing decision through GPO or RFP, bid, negotiation and contract with supplier directly 	<ul style="list-style-type: none"> Goods and services are often within the oversight of Public Hospitals but not all Non-Healthcare Services City and county charters govern Security and Institutional Police Contract oversight to Sheriff's Offices
Construction Contracts	<ul style="list-style-type: none"> Hospitals manage purchasing decision through RFP, bid, negotiation and contract with supplier directly 	<ul style="list-style-type: none"> City and County charters govern oversight to Departments of Public Works Limited to no authority with awarding contracts
Standard Business Requirements/Terms & Conditions	<ul style="list-style-type: none"> Vary by organization, policies & procedures and may include: accounting systems, audits, background clearances, certifications, indemnification, information security assessments, insurance, licenses, training and in some cases Living Wage Ordinance 	<ul style="list-style-type: none"> County's standard terms and conditions add many more administrative requirements to vendors that make it very difficult for smaller entities to comply, e.g., accounting systems, audits, background clearances, indemnification, information security, insurance, licenses, training and in some cases Living Wage Ordinance
Proposition 209	<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> Proposition 209 - the state cannot discriminate against or grant preferential treatment on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, and public contracting. Effect: Formalized consideration into a Request for Proposal Process is affected departments have limited to no delegated authority for purchasing goods and services

Areas of Concern for Hospitals and Health Systems

- Limited to zero visibility (except via some GPO suppliers) into factors identifying suppliers as diverse suppliers, especially with Prop 209 being considered
- Technical/financial system (ERP) capability to identify, track and report diverse supplier spend
- Effects on suppliers who choose not to be identified or certified as diverse
- How to designate publicly held corporations, with Boards and share holders
- Effects on physician provider contracts
- Determination of future targets and goal for spending categories
 - Ex: Should suppliers (local and national) reflect the cross section of the community the Hospital and Healthcare System operates in?
- Weighing fiduciary responsibilities as a public or private hospital and healthcare system, versus AB962 compliance
 - Ex: National corporations who do not identify as diverse may offer more competitive prices due to infrastructure in place versus local and diverse vendors who may charge more per unit of measure. For large organizations, it's difficult to find suppliers that can scale up to that level. Those that can are larger and there are fewer to choose from
- Balancing cost and time
 - Cost of goods comprised of price for goods and services
 - Time for resources to administer a higher volume of work associated with managing a greater number of supplier relationships and transactions, e.g., developing and administering purchase orders and contracts, creating the necessary accounts for invoice processing and budget tracking, and monitoring and auditing vendor compliance and performance

Role of Group Purchasing Organization (GPO)

A group purchasing organization (GPO) is an entity that helps healthcare providers—such as hospitals, nursing homes, surgery centers and clinics, and home health agencies—realize savings and efficiencies by aggregating purchasing volume and using that leverage to negotiate discounts with manufacturers, distributors and other suppliers. ***GPO's negotiate contracts that hospitals can use when making their own purchases.*** GPOs do not purchase products.

Hospital

- Hospitals may pay a 'membership fee'
- After a group purchasing contract is created, it is still up to the hospital to decide which product is most appropriate in each circumstance and make the most appropriate purchase.
- Can identify diverse suppliers, often captured in RFP and Supplier Profile
- Support reporting on diverse spend



Supplier

- Manufacturers, distributors and suppliers may pay a % to the GPO for every dollar of business (cost may or may not be passed through to the hospital or healthcare system)
- Expand client outreach with marketing and event information including member roster
- Supplier diversity program supporting development and contracting opportunities
- Committed contracting opportunities



Mutual Benefits

- High-integrity, competitive contract process
- Follow the principles of the American Bar Association Model Procurement Code
- Supplier diversity contracting program
- Transactions going on between providers and suppliers provide data rich capabilities and reporting on areas like diversity spend

Tier I versus Tier II Spend

Tier I Spend

- Direct purchasing and contractual relationship between a Hospital or Healthcare System and a supplier
- Direct data access and visibility to spend data



Tier II Spend

- Tier II spend is the process by which a contracted supplier (Tier I) subcontracts to a qualified diverse business for goods or services that directly support the fulfillment of a Tier I contract
- Indirect access and visibility to spend data
- Accessibility to data is dependent on Tier I supplier

Q&A