National Product Council: Vendor Contracts and **Seizing** Missed Opportunities

Douglas Grey, M.D.
Vice Chair, National Product Council,
Chief, Vascular Surgery, Kaiser San Francisco
Agenda

- Overview of National Contracting and NPC; structure
- Work of the Surgical Core Group
- Implications of a Formulary
- Importance of Educating End Users
- Q & A

- Physician Portal, look under NPC
Overview of KP Spend

- Kaiser Permanente annual spend with suppliers is $13 Billion.

- This is equivalent to the expenditure of a Fortune 40 company.

Notes:
- Yellow categories indicate NPC oversight.
Once again our challenge going forward in 2007 to 2009 is getting the expense trend under the revenue trend (similar to what we did in 2006)

**Total Operating Expense PMPM$**
Assumed to grow at 9.0% (2003-2006 Average Growth)

**Total Revenue PMPM$**
6.7% Average Growth Rate per Strategic Plan

**KP Southern California Program**

**CRITICAL PERIOD**

Where Our Expense Trend Needs to Be
NPC’s Medical Teams Structure
Vascular Surgery: How is it represented?

- Osvaldo Yano, MD. SFO
- James T. Lee, M.D.
- Volunteers?
- Emeritus: Michael Schiedler, M.D.
Consideration of a Formulary

- Background: Pharmacy is the prototype
- Advantages:
  - Few points of distribution
  - Prescriptions
  - Limited personnel as gatekeepers
  - Better data
Formulary Development...Why?

- Decrease staff choices/confusion
- Increase staff compliance
- Ensure patients have continuity of care
- Reduction in SKU’s
- Save storage space!!
Why a Pharmacy Formulary?

**Formulary**
- Dynamic list of DRUGS considered most safe and effective for general use.

**Formulary process and policies**
- Designed to support and help ensure the clinically appropriate and safe use of PHARMACEUTICALS within our organization.
- Regularly evaluated at both the regional and local level by national accrediting organizations including NCQA and JCAHO, as well as CMS.
What could an EndoVascular Supply Formulary look like?

Formulary
- Dynamic list of ENDOVASCULAR SUPPLIES considered most safe and effective for general use.

Formulary process and policies
- Designed to support and help ensure the clinically appropriate and safe use of ENDOVASCULAR SUPPLIES within our organization.
- The Future?: Regularly evaluated at both the regional and local level by national accrediting organizations including NCQA and JCAHO, as well as CMS.
Pharmacy Formulary Management

Role of the Medical Groups’ Regional Pharmacy & Therapeutics (P&T) Committees

- Drug Formulary Management – the Content
- Drug Use Policy and Utilization Guidelines
- Oversight for both Drug Education and Utilization
- Oversight - Pharmaceutical Co. Representative Visitation Policy
Supply Formulary Management
Roles and Responsibilities

Role of the National Product Council and Vascular Sourcing and Standards Committees

- Endovascular Supply List Management – The Content
- Supply Use Policy and Utilization Guidelines
- Oversight for both Provider Education and Supply Utilization
Pharmacy Formulary Management

Formulary drug selection process is physician-driven and evidence-based:

- Represents collaborative work between Drug Information Services, Pharmacy Operations, and TPMG.
- Is pharmacist-coordinated, with a dedicated group of Formulary Pharmacists.
- Formulary decisions are made at our bimonthly Regional P&T meetings but our process allows for more frequent decisions as needed.
Supply Formulary Management

Formulary supply selection process is Clinician-driven and evidence-based:

- Represents collaborative work between Kaiser Foundation Hospitals providers/employees, Procurement and Supply, and Medical Groups.

- Is clinician-driven and clinically-coordinated, with a dedicated group of Formulary specialists (read “Procurement and Supply”).

- Formulary decisions are made at our monthly NPC meetings but our process allows for more frequent decisions as needed.
Pharmacy Formulary Management

Formulary Evaluation Process

- Formulary pharmacists prepare drug monographs for TPMG & SCPMG review
- Monographs sent to P&T Chiefs, Chiefs of Services groups & physician Consultant Specialists before formulary meeting
- Recommendations reviewed and Formulary vote taken at Regional P&T meeting
- Drug may be accepted or not accepted with various designations.
Supply Formulary Management

Formulary Evaluation Process THE FUTURE??????

- Procurement and Supply prepare “supply monographs” with Endovascular Surgeons for review ➔
- Monographs sent to Endovascular Services groups & Complementary Clinician Specialists before formulary meeting ➔
- Supply may be accepted or not accepted with various designations.
Pharmacy Formulary Decisions which include Utilization Guidelines – Is this Applicable to Endovascular?

Endovascular Formulary Designations

- **Accepted**
- **Accepted with Guidelines**
- **Accepted with Restrictions**
- **Accepted with Guidelines and Restrictions**
- **Not Accepted**
- **Not Accepted with Guidelines**
- **Not Accepted with Restrictions**
- **Not Accepted with Guidelines and Restrictions**

*
Measuring Success

- Reduced variability in clinical practice/product usage
- Reduced product costs for KP and its members
- Increased awareness of quality among clinicians
- Ongoing, periodic efforts to improve the utility, clinical relevance and value of the Formulary.
Formulary Success

- Efforts of many physicians, nurses, operations and material managers
- Formulary manual accessible to clinicians in all care settings
- Strong compliance to Formulary products
The Ortho NON-Formulary

- Developed by PMG Orthopods
- Designed to control vendor abuse and "upselling"
- Prosthetic registries are essential, and provide very valuable data
- Clinician leadership critical to the process
Outcomes drive the process:

- Is there a correlation between cost of prosthesis and outcome? [data source – total joint registry]
Average cost of TKA constructs by Region

- Average price per TKA construct:
  - <55 YRS AGE:
    - SCAL: $3,612
    - NCAL: $3,329
    - HI: $7,525
  - >55 YEARS OF AGE:
    - SCAL: $3,245
    - NCAL: $3,000
    - HI: $6,200
Patient reported pain by construct category (>=55 year old)

- Average Pain Level

- p=.005
  - >$4,000 had higher Pain levels at 9 mo Than <$3,000
Patient Satisfaction by construct category (>=55 year old)

Average Satisfaction Level

Within 3wks post-op  4wks-8months postop  9 mo or > post-op

<$3000  $3000-4000  >$4000

<$3,000 higher Satisfaction than >$4000 at 4-8wks (p=.02) and at >9mo (p<.001)
Flexion by construct category (>=55 year old)

- Average Flexion
  - <$3000
  - $3000-4000
  - >$4000

No statistically significant differences

- within 3wks post-op
- 4wks-8months postop
- 9 mo or > post-op

(China)
Goal:

- Best stuff for our surgeons and patients at best price
- without vendor pressure/abuse
- with surgeon choice and discretion
- but with surgeon oversight via peer surgeons and education (not "bean-counters")
Best Stuff

- It's what you'd want to put in your family member
- knowing that your family is picking up the tab
We already have a "formulary":

- The Total Joint Contracts
- We picked Quality
- We negotiated great prices
- We shut out non-contract vendors
- We obtained *some* control of contract vendors
Operational Difficulties

- Requires tracking by facility
- Can’t use the Total Joint Registry
- Requires exception process
- Requires regular meetings of total joint group to update and monitor
- Requires action by chiefs
NEW VENDOR AND CONTRACTING CHALLENGES

- Premium Products Replacing Standard Ones
- These Products NOT Proven but Cost More
- Some Not FDA Approved
- Often Brought in to Our Medical Centers Without Physician Knowledge or Approval
- Sometimes Used Without Physician Knowledge
Summary

- Formulary is an excellent way to help manage expense when “premium” products creep in.
- Operationally difficult
- Politically difficult
- Expected savings of $1 million annually in NCAL
The Power of Developing a Formulary

- What is gained by standardizing?
  - Ensures selection of the highest quality product via a thorough and robust review of the category
  - Simplicity of managing fewer suppliers
  - Improved service
  - Improved supply chain and inventory stocking
  - Ability to leverage Kaiser Permanente spend to obtain optimal value
Purchasing Strategies

- Reverse Auction
- Ebay in reverse
- Companies hate to lose
Managing Compliance Locally

- What is local responsibility?
- Role of Local Product Council
- Improving contract communication to clinicians
  - Surgical Core Group?
  - Product Managers?
  - Someone else?
- Identifying a physician champion in each facility
- Stop off-contract spend
The Cost of Deviation
Non-Compliance: 1 contract, 1 site, 1 year

- 1 Contract
  - Endomechanicals (staplers and other)
  - Single Source National Standard with US Surgical
- Over 1 Year at 1 Medical Center
  - 1,508 units from 19 distinct products purchased in deviation from the National Standard.
- The Cost
  - Total cost incurred off contract: $476,410.63
  - Total cost of equivalent contracted items: $210,565.10.

Cost of non-compliance: $265,845.53
1 contract, 1 site, 1 year