

Submission for 2011 Cronin Award for Procurement Excellence

Procurement Agency:

State of Minnesota
Department of Administration
Materials Management Division
Minnesota Multistate Contracting Alliance or Pharmacy



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Executive Summary Minnesota Multistate Contracting Alliance for Pharmacy (MMCAP) Pharmaceutical Prime Vendor Contracts

How the Program has Improved the Operation and Efficiency of State Government:

Cost Reduction:

The new Pharmaceutical Prime Vendor (PPV) agreements were expected to save our membership \$12.4 million annually over the already low cost in previous agreements, and the total savings over the life of the agreement is \$62 million. We now have cost data from the first year of our PPV agreements, and the expected cost savings have materialized. Assessment of the MMCAP pharmaceutical prime vendor contract process included retaining a public sector management consulting group, interviewing an industry consultant and utilizing a negotiation specialist. Tapping into the specialized expertise of these resources was invaluable to the assessment process and resulted in a payback many multiples of the investment.

The contract features that provide cost reduction benefits include:

- Enhanced cost of goods discounts (service fee discounts)
- An administrative fee paid to MMCAP on purchases, which leads to an administration fee shareback to our members of over 70%

MMCAP will renegotiate key aspects of the PPV contract as extension dates approach. Current learning from competitive intelligence and changes in industry standards will be taken into account during these negotiation opportunities. PPV Contract Opportunities for Further Negotiation:

- 1st one-year amendment – (January, 2012 – December, 2012)
- 2nd one-year amendment - (January, 2013 – December, 2013)
- 3rd one-year amendment - (January, 2014 – December, 2014)

Service Improvement:

This process, as overseen by a multi-state committee of stakeholders, clearly offers easier access to better data leads for improved procurement decision making. The new PPV agreements include the following list of negotiated service improvements that will greatly improve efficiencies in healthcare delivery for MMCAP members.

- An Adjusted Fill Rate (service level) commitment of 98% with penalties for the vendors if unmet
- Five free deliveries per week for all facilities
- Emergency orders annually free of charge
- Formal dispute resolution processes and legal remedies for non-performance
- Improved timelines for loading and stocking contract products
- Free or lease-to-purchase options for computer hardware/software
- An additional ten resources in the field to provide direct service to MMCAP facilities

Innovation:

Membership in MMCAP includes 46 states and the cities of Chicago and Los Angeles. An ambitious goal at the beginning of the PPV contracting process was to solicit feedback and suggestions from MMCAP members in all states. As the project advanced to implement a refined contracting process, the constant goal was involvement from as many member states as possible.

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A public sector management consulting group was retained to assess the MMCAP contracting process for its Pharmaceutical Prime Vendor services. Interviews were conducted with 31 participants including an industry consultant, 3 vendors, 6 MMCAP staff members and 21 state contacts. Findings were used to create an online survey for 64 MMCAP state member contacts. Survey results served to identify these top four needed process improvements: 1) clarify mandatory and negotiated aspects of RFP solicitation, 2) simplify evaluation of vendor proposals, 3) secure state selection chairpersons and negotiation team input before negotiations begin and 4) clarify best and final offer review. These improvements and associated action steps were incorporated into the contracting process for the PPV services.

The team on the MMCAP Pharmaceutical Prime Vendor assessment project included a total of 56 people. Team composition included MMCAP core leadership, retained negotiating specialist, management consulting expert, contracted industry expert, negotiating team of MMCAP state members, Advisory Board members and staff, member state PPV chairs and selection committees whose involvement made the PPV negotiation and selection process transparent and allowed for full MMCAP membership participation.

The improvements identified from the management assessment and survey results were incorporated into the contracting process for the PPV services. The action steps associated with each needed process improvement are listed below.

Needed Process Improvement	Action Step
Tighten RFP solicitation - clarify <i>mandatory & negotiated</i> aspects of solicitation	Pre-Qualification Screening (RFP is only sent to pre-qualified vendors)
Simplify evaluation of vendor proposals - modify evaluation and provide summary of RFP proposals	Create Matrix Template (comparison chart) and provide education training sessions on simplified evaluation tools
Secure State Selection Chairpersons & Negotiation Team input <i>before</i> negotiations	Matrix and Draft Contract to States; eliminate pre-negotiations
Clarify Best And Final Offer review	Best And Final Offer, Final Vendor Contract provided for States' selections

Transferability:

The scale of magnitude of this effort was an enormous undertaking and required the diligence and perseverance of both the MMCAP staff and the team participants. Minnesota is already sharing the benefits with 46 MMCAP Member States. Beyond that our effort will be replicable in any other state with the leadership support to undertake a comparable initiative.

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Minnesota Multistate Contracting Alliance for Pharmacy (MMCAP)

Pharmaceutical Prime Vendor Contracts

Background: Through teamwork, and involving members at each phase of complex contracting processes, MMCAP continues its progressive business negotiations that have helped its healthcare members reduce pharmaceutical and medical supply costs for 26 years. MMCAP implemented three new Pharmaceutical Prime Vendor (PPV) agreements that will save our membership \$12.4 million annually over the already low cost in previous agreements. The total savings over the life of the agreement is \$62 million. This is a significant accomplishment for MMCAP and an immediate benefit for members.

Purpose: Assessment of the MMCAP pharmaceutical prime vendor contract process and action steps for improvement and identification of added value for members.

Procedure: Prior to this project, MMCAP historically had a centralized approach to contracting that involved MMCAP staff at headquarters. The assessment of the MMCAP pharmaceutical prime vendor contracting process led to a decentralized approach, with the inclusion of members and experts at all key phases of contracting including RFP strategy and pre-planning, solicitation and negotiation. This approach was essential to obtaining members' ownership of the RFP process and follow-up process improvements. The MMCAP members participating on this project included representatives from small states and large states, procurement professionals and pharmacy professionals. The experts participating on this project included a management consultant, industry expert and negotiation strategist.

Enhancing post-contract transition was a focus of the last phase of this RFP process. Each of the MMCAP member states has the option of choosing one of the PPV to service their state. All MMCAP members had the advantage of more advantageous contracts and members that transitioned to a new PPV had special contract transition and monitoring challenges. MMCAP deployed resources to educate members on new elements in the contracts and expected performance from the vendors, and established a clearly documented problem resolution process.

The continual evolution of process improvement is another benefit of extensive membership input during and after this contracting process. This loop of assessment and feedback identified opportunities to streamline the process and leverage the value from membership input.

PPV Contract Process		Participants						
Phase	Description	MMCAP	Advisory Board	Vendors	State Selection Committee Leads	Negotiation Team		Industry Consultant
						Negotiation Subcommittee	Lead Negotiators	
1	Pre-RFP Planning	x						x
2 (New)	Pre-Qualification Screening	x		x				x
3	RFP Publication and Solicitation	x	x			x	x	
4 (New)	Receipt of RFP - Update Matrix	x		x		x	x	
5	Evaluation & 2nd Short List	x		x		x	x	
6 (New)	Matrix and Draft Contract States	x			x	x	x	
7	Contract Negotiations	x		x		x	x	x
8 (New)	BAFO & Vendor Selection	x		x	x		x	
9	Contract Finalization & Terms	x		x				
10	Post Contract Award Transition	x		x	x			

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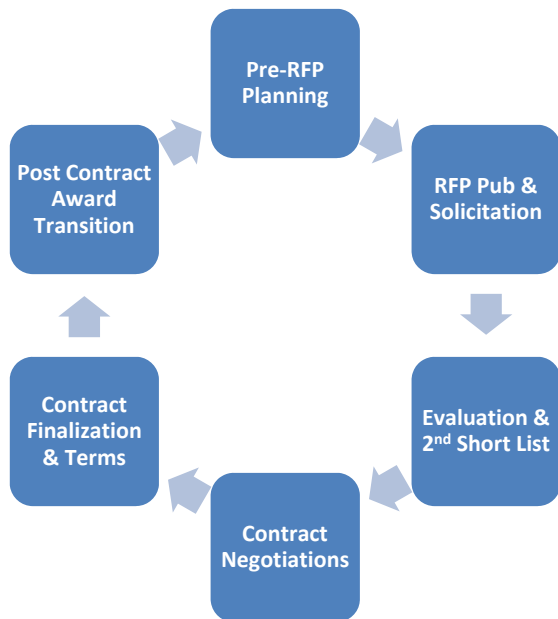


Figure 1: Focus of Assessment - Current PPV Process

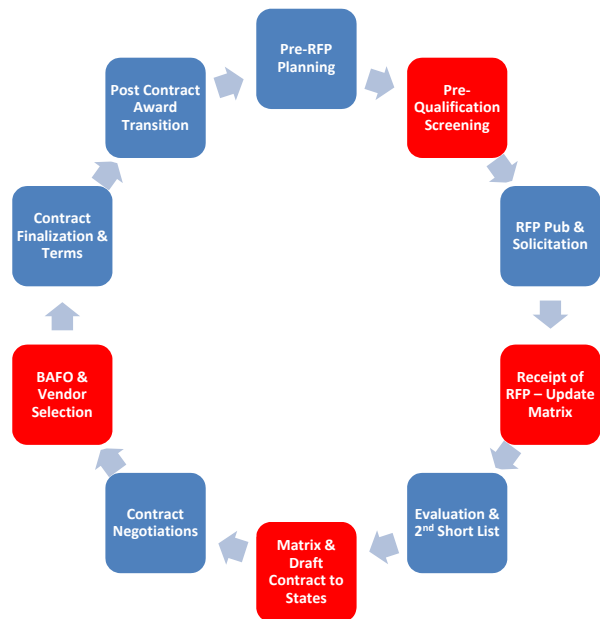


Figure 2: Focus of Assessment - Revised PPV Process

Results: The \$12.4 million in annual new savings arises in part from adding new vendor services, and in part from continued aggressive negotiations. MMCAP signed the Pharmaceutical Prime Vendor agreements with Cardinal Health, AmerisourceBergen and Morris & Dickson. These are powerful national companies with over \$200 Billion in sales.

The contract highlights from this contracting project represent significant changes from prior contracts with the Pharmaceutical Prime Vendors, and include improved pricing, payment of administrative fees and improved service to members. Without extensive member and expert involvement during all key phases of the RFP process the benefits provided by these items would not have been realized.

Much of the learning from this multistate contracting process will be used to MMCAP member advantage in future contracting and negotiation projects. Feedback from members participating on this project indicated the desire to: 1) streamline the process, 2) reduce the time spent on some steps of the process, 3) assign a dedicated Pharmaceutical Prime Vendor Coordinator at MMCAP, 4) build upon the experience gained by this pool of state team members on the next PPV contracting effort and 5) build upon the newly established baseline of vendor services and financials

Conclusion:

As state and local budgets across the U.S. undergo greater stress, and health care costs become a greater portion of those budgets, the buying power of MMCAP can be a welcome relief for procurement administration. Additionally, MMCAP's professional staff is available to manage all aspects of contracting, negotiation, issue resolution and administering and maintaining contracts. MMCAP efforts on behalf of member states allow facility staff to focus on the business of healthcare delivery.

New agreements expected to yield \$12.4 million in cost savings for MMCAP members

For Immediate Release
DATE August 17, 2010

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(ST. PAUL MN) – Minnesota Multistate Contracting Alliance for Pharmacy (MMCAP) has finalized new agreements with vendors that will save members a projected \$12.4 million.

The savings are attributable to adding new vendor services and continued aggressive negotiations. In 2010, MMCAP signed Pharmaceutical Prime Vendor (PPV) agreements with Cardinal Health, AmerisourceBergen, Morris & Dickson and H.D. Smith. The agreement with H.D. Smith is a new business partnership for MMCAP and was initiated in response to regional service needs of MMCAP member facilities. MMCAP’s diligent business negotiations have helped members reduce pharmaceutical and medical supply costs for twenty-five years.

MMCAP is a free, voluntary group purchasing organization for government healthcare facilities in 46 states and the cities of Los Angeles and Chicago. MMCAP utilizes volume contracting and careful contract management to provide the best value in pharmaceuticals and related products to its members, and is operated and managed by the State of Minnesota’s Department of Administration.

“Based on MMCAP’s volume purchasing power from a 46 state aggregate,” said Alan Dahlgren, MMCAP managing director, “MMCAP is able to negotiate contracts that provide health care products to its government-operated member facilities with significant cost savings. MMCAP is an excellent example of multistate cooperation resulting in cost savings for all members, and ultimately, the taxpayers.”

COLUMBIA MISSOURIAN

Columbia-Boone County health department buys pharmaceuticals through popular Minnesota program

By [Melanie Loth](#)

November 30, 2010 | 7:56 p.m. CST

The health department has been using the program to buy cheaper pharmaceuticals for the past 10 years.

COLUMBIA — Most of the vaccines that Boone County residents get at the local health department are purchased through a program that's like a Sam's Club for pharmaceuticals.

It's called the Minnesota Multi-State Contracting Alliance for Pharmacy, and the Columbia-Boone County Department of Public Health and Human Services has been using it for the past 10 years to get pharmaceuticals at a lower price.

The health department just renewed its agreement with the program, which it has to do every three to five years so that Minnesota has a recent signature on file.

"It is an agreement that lets us use a kind of ramped up purchasing power," Public Health Manager Mary Martin said. "We get better prices for things than if we purchased them alone."

The program, created in 1985, allows government entities to buy pharmaceuticals at a lower rate because Minnesota purchases them in bulk. According to the agreement, the program "is a free, voluntary group purchasing organization for government-authorized health care facilities" and is operated by Minnesota's Department of Administration.

There is no cost for government entities to join the program. Forty-six states, as well as the cities of Chicago and Los Angeles, have agencies that use the program.

The purchasing agent for Columbia, Marilyn Starke, said the health department primarily buys vaccines, tuberculosis tests and birth control pills through the Minnesota contract. She said that makes up about 50 percent of the department's total purchases.

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“We can buy a month’s supply of birth control pills for \$3,” Starke said. “If we were to buy that through traditional means, that would be \$30.”

Martin added, "The focus is to get the best price for what we need."

The health department can use the Minnesota program pricing as leverage for cheaper prices from vendors as well, Martin said. The health department doesn’t use the program for everything. Martin said it sometimes can get a better price for a vaccine if it buys directly through the company.

Martin also said the Minnesota program buys generic forms of pharmaceuticals to keep prices down.

“It costs you \$25 if you buy the brand name, but it costs you \$10 if you buy the generic,” Martin said. “It’s kind of an artificial reality because they are buying things that are as generic as possible.”

Galo Alava is a physician and an assistant professor of health care management at Saint Leo University in Florida. He said generics are supposed to have the same makeup as name-brand drugs. Prices for name-brand pharmaceuticals have been going up in the past 20 years, and that is why people use more generics nowadays, Alava said.

“Pharmaceutical companies have a lot of expenses. Just trying to put the drug on the market could take a lot of money, effort and time," he said. “If the FDA doesn’t approve the drug, then the money is wasted.”

Alava said the Minnesota program could be very beneficial. The program is mostly selling generics, so consumers have an incentive to buy the generic drug if it doesn’t cost as much as name-brand prices and is still effective, he said.

In addition to the health department, there are four other agencies that have agreements with the Minnesota program. They include Alpha Day Treatment, the Family Health Center and two programs within the Division of Youth Services.



Cooperative-buying group adds another state to coverage area

Sep 14, 2010 4:44 PM, By Michael Keating (michael.keating@penton.com)

The Lone Star State is now the 46th state member of the [Minnesota Multistate Contracting Alliance for Pharmacy](#) (MMCAP), which is based in St. Paul, Minn. The Texas state government recently completed a 12-month transition period and has signed a contract extension for MMCAP membership.

Adding Texas will boost the buying cooperative's purchasing power for pharmaceutical and medical supplies, said Sara Turnbow, manager of MMCAP business operations. "The volume of purchases by Texas healthcare facilities strengthens MMCAP's purchasing power and our ability to negotiate contracts for even greater cost savings," Turnbow said.

MMCAP is a voluntary group purchasing organization for government healthcare facilities in 46 states and the cities of Los Angeles and Chicago. The organization uses volume contracting and active contract management to provide value in pharmaceuticals and related products to its members.

The buying cooperative offers its members and their health facilities pricing advantages on pharmaceuticals, medical supplies, vaccines, dental supplies and other member-requested product lines. The organization is operated and managed by Minnesota's Department of Administration.

MMCAP began operations in 1985. Every two years the organization issues Request for Proposals (RFP) seeking responses from pharmaceutical manufacturers on more than 6,000 products. Less frequently, RFPs are issued for other services that MMCAP provides.

The cooperative does not establish a formulary, but it compiles a list of frequently used drugs from its facilities. Participating facilities are encouraged, but not required, to exclusively use MMCAP contracts and contract pricing, because the contracts create the volume that results in the best value for all members.

All of the cooperative's RFPs are announced on [Minnesota's Department of Administration web site](#) and on the [MMCAP web site](#).

MMCAP member facilities purchase products worth more than \$1 billion per year and have national account status with the major brand name and generic pharmaceutical manufacturers. Organizations interested in learning how to become a member should e-mail Mn.MMCAP@state.mn.us.