



County of Los Angeles CHIEF EXECUTIVE OFFICE

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December 5, 2008

To: Supervisor Don Knabe, Chairman
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From: William T Fujioka
Chief Executive Officer

HEALTH SERVICES COST SAVINGS INITIATIVE – PILOT PROJECT

Several months ago our office initiated an effort with the Department of Health Services (DHS) and the Internal Services Department (ISD) to identify ways to improve the DHS procurement process and reduce expenditures. This memo is to provide your Board with a status report on a pilot project to assess the potential for additional cost savings in medical supply purchases.

Overview

A vendor was selected to participate in this project based on their proprietary sourcing solution, their experience in the healthcare acquisition processes, and their reported cost savings for organizations that have used their procurement sourcing solution. As an example, they have reported savings totaling more than \$20 million on a \$199 million in purchases over the past 30 months for the University of Pittsburgh Medical Center.

This purchasing solution has primarily been used in the private and university hospital sector. The purpose of the pilot project is to determine if the same sourcing methodology is applicable in public hospital procurements and if so, the potential medical procurement cost savings that the County might realize. For the past 10 years, the vendor and its parent company has provided a similar service for a wide variety of supplies and services for many of the top Fortune 200 firms including H.J. Heinz Company, Procter & Gamble, Siemens, and the United States Postal Service.

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Our contract with the vendor is specifically designed as a limited pilot project to enable the County to learn about this purchasing technique and to evaluate its effectiveness against the County's current approach to purchasing.

Methodology

The vendor's unique sourcing solution affords vendors the opportunity to respond, electronically, with a comprehensive proposal(s) similar to the RFP process. Vendors can respond with multiple discount tiers based on usage or aggregated purchases, discounts for associated commodities, or any other discount offers they would propose.

This process is done through the development of solicitation scenarios, which are based on information that the County would like considered or would like to capture. An example would be incorporating the Local Small Business Preference Program requirements into the solicitation. Any range of information or requirements can be included such as manufacturing and/or warehouse locations, if delivery is a critical factor or any other requirement for such a purchase.

Project Timeline

In September 2008, DHS and ISD assembled a project team to begin reviewing high volume medical equipment and supplies purchased by DHS through Purchasing Agent or United Healthcare Consortium (UHC) agreements. This effort was designed to select items/categories for inclusion in the pilot project where any potential savings resulting from the pilot sourcing solution would be immediately identifiable and quantifiable.

On October 9, 2008, the project "kick-off" meeting was held between the County project team and the vendor to establish the project timeline as well as categories and items to be included for bidding in the pilot project. Since the kick-off meeting, there have been weekly team meetings and conference calls to prepare for the pilot project bidding events which are identified in the table below.

Estimated Timeline for Bidding Events
(Note: Specific dates TBD)

Item(s) for Bidding Event	DHS Current Annual Spend on Item(s)	Projected Timeline for Bid Release
Endomechanical (Staples) & Sutures	\$3,467,764	1 st week of December 2008
PPE - Personal Protective Equipment (Caps, Gowns, Masks, etc.)	\$1,304,253	2 nd week of January 2009
Syringes, Catheters & Blood Collection	\$2,919,137	1 st week of February 2009

Each of the above bidding events are being scheduled with a three to four week bid window in order to afford vendors with ample time to prepare and submit their respective proposals. The bidding events are staggered over a three month period. This is to allow the project team the opportunity to concentrate and analyze each event independently. The entire project and analysis is estimated to be completed by the middle of March 2008.

We will provide periodic status reports during the project as well as a final report evaluating this purchasing technique. Please contact Ellen Sandt, Deputy Chief Executive Officer, at (213) 974-1186 if you have any questions or need additional information.

WTF:ES
SW:cg

c: Tom Tindall, Internal Services Department (Via Electronic Mail)
John Schunhoff, Department of Health Services (Via Electronic Mail)