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MEDICAL SUPPLY CHAIN COMMERCIAL BEST PRACTICES COMPARED TO VA

Summary

In the United States, the overwhelming majority of medical supply/device purchases are sourced by commercial health care systems. This review was performed to identify and assess the best procurement practices in the larger commercial health care sector and compare them to current VA medical supply chain practices to identify potential opportunities for alignment. Interviews were conducted with multiple medical product suppliers who sell to both the VA and the commercial markets, and the following items were identified.

1: Commercial health care systems utilize modern, automated ordering platforms when procuring medical products. Those systems:

- Enable electronic ordering of products. Automated platforms assist buyers to procure from authorized and/or contracted sources and provide system-wide procurement visibility and order tracking. VHA does not have a modern medical supply ordering platform. Instead, it uses manual ordering processes (phone, fax) extensively when ordering products direct from a medical manufacturer/supplier. The Med-Surg Prime Vendor Program (MSPV) is an automated platform for medical products sold through distribution but is not appropriate for products sold direct from manufacturers.
- Enable automated payments. The use of credit cards is generally not accepted by manufacturers in the commercial market. In contrast, VHA depends heavily on the use of Government Purchase Cards (GPC) for a significant percentage of their medical supply and medical device procurements outside of the MSPV program. VHA GPC annual spending for medical products is very likely in the billions, several times the spending of the entire VA MSPV program.
- Are flexible and can address the wide variety of suppliers the VA utilizes, including small, veteran owned, and large suppliers.

2: Commercial health systems execute medical supply contracts in a timely fashion, usually within a 3–6-month time frame, to ensure timely and cost-effective access to medical technology. Contracting professionals in the commercial sector who execute the contracts are typically familiar with medical products, which assists in facilitating the smooth execution of the contracting process. VA, in comparison, commonly takes 12-18 months to execute new national contracts, which has a cascading effect on local and regional contracting staff workload as they endeavor to create workarounds in the process, triggering procurement delays.

3: Commercial health systems employ full-time clinical staff teams at the enterprise level to conduct clinical product reviews and engage directly with industry. Clinical teams at the enterprise level serve as a “belly button” for the medical device industry to engage directly to facilitate access to products for the entire enterprise. This best practice structure allows clinicians at the medical center level to be free of those requirements and focus on medical care,

which is their core role in the organization. In contrast, most VA clinicians involved in VHA medical product reviews, do so on a part time basis in addition to their clinical work at medical centers. In addition, an unintended consequence is to divert VA clinicians from their primary responsibilities of providing medical care to veterans, industry notes significant duplication of clinical reviews for the same products across the VHA enterprise at multiple medical centers, and the quality of those reviews varies. Industry also notes minimal transparency to those clinical teams. The result is a less efficient and less transparent clinical review process that can slow access to the latest technology in VHA.

Background

The medical supply industry has the absolute highest regard for both veterans and the VHA staff, and it appreciates the agency's current engagement and ongoing improvement in the VA medical supply program. When viewing the medical supply chain from the perspective of a medical supply manufacturer, it is very important to recognize that the commercial market represents most of that supplier's business volume, on average 97-98%. In contrast, the combined federal health care systems (VA and DoD) represent on average only 2-3% of the market. The commercial market has proven medical supply chain best practices that are designed to provide the best medical care possible at the lowest cost and are aligned with suppliers' business models. When VA adopts strategies that vary from those best practices, it can create complexities for suppliers, increase supply chain costs, increase inefficiencies, and ultimately impact veteran health care.

Past VA strategies often were created without input from industry or individuals familiar with the medical industry, resulting in inefficient, underperforming designs that took years to correct. Fortunately, much has been done by VA over the last few years which demonstrates a meaningful shift from those historical behaviors towards more engagement with industry and subject matter experts. While great progress has been made, there remain several areas where VHA could adopt commercial-like practices that would increase the efficiency of the VA medical supply chain and improve medical care for veterans.

Federal government procurement organizations generally have the capability and tools to align to those commercial best practices.

In addition, when the VA veers away from commercial practices, variances require federal account managers for medical suppliers to justify to their senior leadership the additional cost of doing business with the VA. These variations in practice increase cost to industry to the point of exceeding the business benefit. For this reason, aligning VA practices to commercial best practices as much as practicable brings the added benefit of increasing the number of suppliers engaged in the VA market in support of the VA's mission.

Interviews for this project were conducted with multiple stakeholders from the medical supply industry, including executives from small, medium, and large businesses, to identify whether they see variances in the VA Health System medical supply chain from commercial best practices.

Findings

1. *Commercial health systems have modern platforms to automate medical product procurements, which automate the ordering, order tracking, and payments for virtually all their medical products. In contrast, VHA does not have a modern automated ordering platform for medical supply products.*

- a. As background, consumable medical products have two primary procurement pathways that align with the medical industry business models.

Distributed Products:

One procurement pathway is designed for medical products that are procured from a distributor med-surg prime vendor program, which are called distributed products. These products are typically high-volume medical items that are broadly utilized in a health care system (*e.g.*, syringes, wound care, sutures) and are physically stocked at the contracted prime vendor distributor.

Manufacturer Direct Products:

The other common procurement pathway includes products that are sold direct from suppliers which are commonly clinical specialty or physician preference items that are often higher cost and lower volume. These are sometimes called manufacturer direct products. These items are often associated with clinical specialties, like cardiology, gastroenterology, and orthopedics, and may have special handling and delivery requirements. These items are not stocked in distributors and are not a good fit for the distributor business model, and often represent a significant percentage of the medical supply spend at large medical centers with specialty providers.

2. *Commercial health systems order almost all medical products via an automated platform, which standardizes ordering processes that link products to contracted and authorized sources and minimizes open market spend. VHA has an automated procurement platform for the Med-Surg Prime Vendor Program, but not for manufacturer direct products and instead uses manual ordering (phone, fax) extensively.*

- a. For commercial health care systems, manufacturer direct product orders are automated roughly 85% of the time based on information collected for this report. In contrast, suppliers shared that *VHA buyers utilize manual processes (phone or fax) for well over 80% of orders for manufacturer direct products* due to a lack of access to an automated ordering platform in VHA.
- b. These manual orders from VHA create multiple challenges, which add costs to the overall supply chain and eventually materialize in higher acquisition costs and less resources available for veteran medical care. Manual ordering challenges include:
 - i. *Order entry errors which require correction, causing increased workload for both suppliers and VHA staff.*
 - ii. *Manual orders have been shown in one industry report to be at least five times more expensive for industry to process than automated orders.*
 - iii. *Significant ordering variances and processes exist across VHA.*
 - iv. *A significant number of cancelled orders*
 - v. *Difficulty in order tracking.*
 - vi. *Negative impacts on timely medical care for veterans.*
 - vii. *Increased costly open market and gray market procurements as they are not guided to a preferred government contract or an authorized source.*
 - viii. *Procurement visibility across the VHA enterprise is reduced.*

1. *One supplier noted that VHA was recently concerned that several products on the MSPV formulary were not being bought by VA Medical Centers and questioned the need to retain them on formulary. Industry data revealed that the products actually were being bought by VA Medical Centers, but they were bought direct from suppliers rather than the MSPV program, which was not visible to the VHA enterprise.*
 2. *This lack of procurement visibility impacts the ability for VHA to contract for committed volumes for the enterprise, which is a commercial best practice.*
- c. Without an automated ordering platform for manufacturer direct products, VA has at times utilized an approach to have these products added to the Med-Surg Prime Vendor Program (MSPV) via drop ship. In this scenario, VAMCs order from the MSPV and the products are drop shipped from the supplier direct to the medical center. While this approach seems to create an “easy button” for the VA buyer, it is inconsistent with medical supply chain commercial best practices and creates numerous challenges.
- i. *Suppliers whose commercial model is through direct sales usually do not have systems or contracts in place to support the distributor sales model, and this requirement creates additional costs and complications to industry for a small percentage of their overall business.*
 - ii. *Prime vendor distributors reported challenges with their contract performance metrics, as drop shipment orders are prone to delivery delays. This was also identified by GAO (GAO Report 20-487, page 20) that medical supplies in the drop shipment process “often take longer to arrive than items warehoused by prime vendors and are difficult to track”, which has a direct impact on the delivery of patient care to veterans.*
 - iii. *Direct products pushed into the MSPV program as a drop ship may increase supply costs to VHA as it adds a MSPV distributor fee (the fee paid by VAMCs for the prime vendor service) for a product that is shipped direct from a supplier.*
 - iv. *The MSPV program is designed for products that are stocked by and sold by contracted distributors. It should not be considered as a tool to address the absence of a VHA automated ordering platform for manufacturer direct products.*
- d. Commercial health systems are increasingly interested in using an automation platform to be proactive in medical supply chain management, which allows pivoting to alternatives and new sources of supply during times of constraint or disruption. This approach includes greater visibility to multiple stages upstream in the medical supply chain, enabling predictive analytics to identify shortages early and often to allow improved reactions. A highly adopted automated platform, which VHA does not have, is foundational to enabling this emerging trend.

3. *When paying for medical supply products, commercial health systems use automated payment options when they buy direct from suppliers.* Use of credit cards in the commercial sector is limited or non-existent. VA uses the Government Purchase Card (GPC) extensively, with the spending in the billions.
- a. Almost all the industry executives interviewed stated that their companies do not accept credit cards for payment from commercial customers. The government is essentially the only health care customer that uses credit cards for payments.
 - i. VHA uses Government Purchase Card (GPC) heavily for micro-purchases under \$10,000 and surgical implants. Publicly available GSA SmartPay Purchase Card data indicates that in FY2022, the VA performed nearly 6MM transactions and spent \$4.7B on non-prime vendor purchases with the GPC, with almost \$4B of that spend under the micro-purchase level. As previously reviewed, these purchases are likely executed as manual orders. In addition, some procurements are at list price. The exact GPC spend associated with VHA medical supply is not clear; although it likely is a large percentage and may exceed \$2B. Compare that spend to the VA MSPV program which annually procures a little over \$700MM in medical supplies, and the significance of this practice becomes apparent.
 - ii. VHA internal challenges with GPC have been well-documented by the VA Office of Inspector General for decades. Issues include:
 1. *Split payments to get under micro-purchase threshold.*
 2. *Duplicate payments.*
 3. *Cardholder embezzlement schemes.*
 4. *Reconciliation and audit workload burden for VHA staff.*
 5. *Limited visibility of enterprise procurement data.*
 6. *Open market purchasing is common, frequently at (higher) list price.*
 7. *Increased risk associated with the increased purchase of gray market medical devices (devices from unauthorized sources), leading to potential patient safety issues.*
 - iii. Industry executives stated that the heavy VHA use of the GPC is an indicator of lack of an overall procurement structure for medical products.
 - iv. The medical supply industry bears burdens from the extensive use of the GPC by VHA which include:
 1. *Credit card security risks and potential repercussions.*
 2. *Added cost of credit card fees to the medical supply chain.*
 3. *Incorrect credit card numbers given over the phone.*
 4. *Reconciliation workload increases.*
 5. *Gray market purchases when products are bought from unauthorized sources.*
 - b. Given the heavy reliance by VHA on the GPC to provide timely veteran medical care, industry representatives believe that before VHA considers restricting GPC access that a modern automated ordering system be established which is backed by sufficient resources (program management, clinical teams, contracting) to keep

medical products current in the system and insure no interruptions in medical care for veterans.

4. *Commercial organizations have full-time clinical staff teams at the HQ level that are adequate in numbers and are engaged directly and transparently with the medical supply industry. That clinical staff serves as a single point of contact for medical industry engagement and contributes to the overall efficiency of the health system, ensuring medical products are evaluated and made available in a timely fashion for end users across the enterprise.*
 - a. Industry reported that, while VHA is making improvements, VHA does not have fully dedicated clinical staff at HQ level to oversee and execute the procurement programs properly. Instead, VHA relies on local medical center clinicians who already have full time jobs to perform product reviews for the VHA enterprise. This approach reduces the efficiency of the VHA enterprise and is not a best practice.
 - b. Robust VHA HQ clinical leadership will enhance trust in national programs by local VA medical center staff and provide industry with a clinical point of contact with which to engage. Using non-clinical staff as the primary HQ point of contact is not a best commercial practice for engaging on medical technology.
 - c. VHA, in *most* cases, does not have the same transparency about its processes and clinical committees involved in introducing new medical products in a timely fashion as the commercial market.
 - d. Across the VHA system, multiple clinical reviews are commonly performed for the same products, and there does not appear to be enterprise visibility to reduce that duplication. The quality of those clinical reviews also varies significantly from VAMC to VAMC. This redundancy of clinical reviews is not a best practice, and it reduces time clinicians have for veteran patient care.
 - e. Within federal healthcare the establishment of full time HQ clinical staff is the standard with the exception VHA Medical Logistics. VHA Pharmacy, DHA Medical Logistics, and DHA Pharmacy all have invested significantly in full time HQ clinical staff.

5. *Commercial health organizations execute new contracts in a timely fashion, typically in 3-6 months, which enables rapid access to medical technology. Contract requirements are reasonable, and contracting officers are familiar with medical markets. Contract purchases are easy to execute at the buyer level. VA efforts with new national contracts for medical products are much slower in comparison to commercial systems. Indeed, typically, they take 12-18 months. Many VA national contracts are difficult for buyers to utilize at the ordering level. VA national contracting staff have frequent staff turnover, and, at times, may lack the resources to do the job.*
 - a. VA Acquisition staffing has been identified as a GAO High Risk item.
 - b. Adequate contract staffing at the HQ level to work on national contracts will increase the manageability of workloads and reduce duplicative and repetitive activities across the VHA contracting organization.
 - c. VA HQ contracting organizations do not always have the resources needed to execute their duties. For instance, it was reported that the current Med-Surg Prime

Vendor Program distributor contract through the VA SAC does not have a software management system that existed with prior MSPV programs. By way of example, when medical products in the MSPV program are temporarily unavailable, a notification should automatically be sent to VA Medical Centers that use the products. Currently, however, this notification is not done automatically. Rather, any communication is based on a manual effort using excel spreadsheets. This approach impacts the availability of medical products to provide timely care for veterans.

- d. VA HQ contracting organizations commonly follow historic utilization patterns for contract prioritization, which often are based on incomplete data and are usually not responsive to market shifts (*e.g.*, new technology, FDA product withdrawals). Commercial contracting organizations are forward looking in these situations and will lead rather than follow.
- e. Adequate resources for HQ contracting organizations will help increase trust in leadership, reduce GPC use, and improve enterprise efficiencies.

Recommendations

Align with commercial market best practices for the medical supply chain by:

1. **Adopting a widely proven commercial e-commerce platform to fully automate medical device and supply procurements.** Benefits of the platform include automated ordering, order tracking, reduction of GPC use through automated payments, reduction of ordering errors, lower supply chain costs, increased enterprise procurement visibility, decreased open market purchases, reduction of gray market procurements, and improved care for veterans. VHA should establish performance metrics to drive medical supply procurements away from manual orders to e-commerce. VHA should not push manufacturer direct products into the MSPV program as a workaround to existing processes. Note: these commercial platforms are med-surg focused that address the specific complexities of the medical supply market and are not used for unrelated items like office supplies.
2. **Investing in national contracting organizations to ensure that they are adequately staffed and have the proper resources to execute new medical supply contracts in time frames that align with the commercial market, 3-6 months.** In addition, VA national contracting organizations should focus their resources on creation of national contracts that 1) have terms and conditions that are acceptable to the medical supply industry to ensure full, not partial, industry participation, and 2) are executable at the buyer level through connection with an automated ordering platform.
3. **Investing in full-time, dedicated national clinical product review committees.** These teams would benefit VHA by 1) eliminating/reducing the current duplication of product reviews, 2) allowing VHA to be more proactive rather than reactive to medical technology changes by expediting access to new and replacement technology to the VHA enterprise, 3) improving the overall quality of the product reviews, 4) providing the medical supply industry with direct professional contact to have transparent technical medical product discussions, and 5) creating trust in the VHA medical supply chain by both VHA clinicians and staff.