

County of Santa Clara

Office of the County Executive

Procurement Department



CE07 102009

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DATE: October 20, 2009

TO: Board of Supervisors

FROM: 
Jenti Vandertuig
Director of Procurement

SUBJECT: Acquisition of Custom Surgical Packs and Medical Surgical Supplies Distribution and Related Services

RECOMMENDED ACTION

Consider recommendations relating to custom surgical packs and medical surgical supplies distribution and related services. Possible action:

- a. Approve delegation of authority to Director of Procurement, or designee, to negotiate, execute, amend, terminate, and take any and all necessary or advisable actions regarding Agreement No. 5500001281 with Professional Hospital Supply, Inc. (PHS) relating to providing custom surgical packs in an amount not to exceed \$5,100,000 for the period April 13, 2005 through August 2, 2010, following approval by County Counsel as to form and legality, and approval by the Office of the County Executive. Delegation of authority shall expire on August 2, 2010.
- b. Approve delegation of authority to Director of Procurement, or designee, to negotiate, execute, amend, terminate, and take any and all necessary or advisable actions regarding Agreement No. 5500001349 with PHS relating to providing medical surgical supplies distribution and related services in an amount not to exceed \$74,000,000 for the period August 3, 2005 through August 2, 2010, following approval by County Counsel as to form and legality, and approval by the Office of the County Executive. Delegation of authority shall expire on August 2, 2010.

c. Approve delegation of authority to Director of Procurement, or designee, to issue a solicitation relating to providing custom surgical packs and medical surgical supplies distribution and related services for a three-year period with an option to extend for two additional years. Delegation of authority shall expire on August 2, 2010.

FISCAL IMPLICATIONS

There is no fiscal impact on the General Fund as a result of this action. Santa Clara Valley Health and Hospital System (SCVHHS) will utilize funds from their approved budget for these purchases.

CONTRACT HISTORY

Agreement 5500001281

In November 2004, the Procurement Department conducted a competitive solicitation process relating to providing custom surgical packs. The RFP was posted on the County's internet web site and mailed to known suppliers. As the result of the solicitation processes, on April 5, 2005, the Board of Supervisors awarded a contract with PHS relating to providing custom surgical packs in an amount not to exceed \$4,000,000 for the period April 13, 2005 through April 12, 2008 with two optional one-year renewals. Subsequent amendments were executed to the contract for business process changes and to extend the term of the agreement through April 12, 2010.

Agreement 5500001349

In February 2005, the Procurement Department conducted another competitive solicitation process relating to providing medical, surgical and laboratory supplies distribution and related services. The RFP was posted on the County's internet web site and mailed to known suppliers. As the result of the solicitation process, on August 2, 2005, the Board awarded contract with PHS relating to providing medical surgical supplies distribution and related services in an amount not to exceed \$55,000,000 for the period August 3, 2005 through August 2, 2008 with two optional one-year renewals. Subsequent amendments were executed to the contract for business process changes, and to extend the term of the agreement through August 2, 2010.

REASONS FOR RECOMMENDATION

SCVHHS and the Procurement Department believe that there is synergy of bidding the distribution and custom packs at the same time and is a cost effective way to take a strategic approach and issue one comprehensive RFP for both requirements to save the County resources allocated to the RFP process. When both services are provided by a single vendor there are some cost advantages, which may allow vendors which provide both services to offer savings beyond what they would offer if they only won one of these contracts. Offering bidders a chance to bid on the businesses together may allow the County to capture these cost advantages. A single source contract for both requirements will also be convenient for contract monitoring and administration. Custom packs will not have to be ordered separately from other products, and for some low-volume packs, the County will not have to store larger quantities than necessary in the hospital's "just-in-time" supply model. The County will not have to allocate additional staffing resources to handle direct distribution of packs. If the combined contract does not offer the County the best value, the County may award separate contracts.

SCVHHS uses Agreement 5500001349 with PHS for the distribution of medical surgical supplies and Agreement 5500001281 with PHS for custom surgical packs. The current distribution Agreement with PHS has a total value not to exceed amount of \$55,000,000 with an expiration date of August 2, 2010. The current custom packs Agreement with PHS has a total value not to exceed amount of \$4,000,000 with an expiration date of April 12, 2010. Extending the current custom packs agreement term to August 2, 2010 and having it co-terminus with the distribution contract with PHS is necessary to ensure continuity of business and provide sufficient time to complete the award of the new

solicitation and supplier transition if any. As of September 23, 2009, according to the spend reports provided by PHS and SCVHHS Resource Management Department, SCVHHS has spent \$3,963,466.90 with PHS for custom surgical packs and \$54,657,712.43 with PHS for medical surgical supplies distribution and related services. It is anticipated that SCVHHS may require an additional \$19,000,000 to cover distribution purchases for the remaining contract period through August 2, 2010. In addition, it is projected that SCVHHS may require an additional \$1,100,000 to cover custom packs purchases for the remaining contract period through August 2, 2010.

Upon completion of the new solicitation, the Procurement Department will submit the contract to the Board for execution. If the solicitation process is completed and a subsequent contract awarded prior to the expiration date of August 2, 2010, the County may terminate Agreement 5500001349 and the proposed extension of Agreement 5500001281 with thirty (30) days written notice to PHS.

Both Agreement 5500001281 and Agreement 5500001349 with PHS exceed the \$2,000,000 signature authority of the Director of Procurement. Therefore, delegation of authority to the Director of Procurement, or designee, to increase the total not to exceed amount and to extend Agreement 5500001281 is recommended.

BACKGROUND

Custom Surgical Packs

Presently, Santa Clara Valley Medical Center (SCVMC) uses 48 different custom surgical packs in the Operating Room, Labor and Delivery, the Cardiac Catheterization Lab, Radiology and the Burn Unit. During the 12-month period from July 2008 through June 2009, SCVHHS spent approximately \$1,110,000 on custom surgical packs. The custom surgical packs contain the disposable items standard for a particular type of surgery, typically including surgical gowns and gloves, patient drapes, gauze, sponges, towels, needles, sutures and electrocautery pens. They vary in size and contents, depending on the type of surgery.

Custom surgical pack vendors source the components, assemble and sterilize the packs, and deliver them on time to third party distributors or directly to customers like SCVMC. The alternative to using custom packs would be to purchase all the items contained in the packs separately and having them set out by SCVMC staff as part of the case preparation. However, custom pack manufacturers purchase pack components in bulk, non-sterile packaging at much lower cost than the single-sterile units purchased by hospitals. They then sterilize the fully assembled packs. This allows custom pack vendors to provide their product more cheaply than hospitals can provide the equivalent service themselves, once the costs of staff time are included.

Medical Surgical Supplies Distribution and Related Services

Medical surgical distribution is a commodity market in which the main providers in this area compete largely on price with guaranteed fill rates of 97%-98%. The distribution price takes the form of a cost of goods markup to the price of the products provided by the distributor. The price of the product is based upon either Novation Group Purchasing Organization (GPO) price agreements or agreements negotiated locally by Procurement. SCVHHS purchases approximately \$14.8 million dollars worth of medical surgical supplies (not including custom surgical packs) each year through its primary distributor, PHS. SCVHHS places orders 7 days a week and receives 7 deliveries per week, 365 days per year from PHS. In addition, emergency orders are requested and delivered 24 hours per day, 365 days per year.

Currently SCVHHS uses medical surgical products from approximately 200 manufacturers in a Low Unit of Measure (LUM) program. Under a LUM inventory management program, the distributor, not only bears the burden of SCVHHS' warehousing service, but also is responsible for the "pick-and-pack" operations of central supply of breaking down cases into proper units for delivery to the floors. The distributor becomes, in effect, an extension of SCVHHS' materials management department, while SCVHHS retains a small in-house inventory for emergency use.

There are further opportunities for cost savings which would best be developed in partnership with a long-term provider for medical surgical supplies distribution and related services. These opportunities include but not limited to:

- * Product standardization to reduce the variety of commoditized supplies
- * Develop a system to drive product usage to supplies on either County or GPO contracts
- * Contract pricing tier optimization via on-going spend analysis and monitoring
- * Product conversion from brand-name items to generic replacements

CONSEQUENCES OF NEGATIVE ACTION

SCVHHS will not have the benefit of provision for custom surgical packs and medical surgical supplies distribution and related services.