



Choices ■ Solutions ■ Savings

Purchasing Strategies and Best Practices



Introductions

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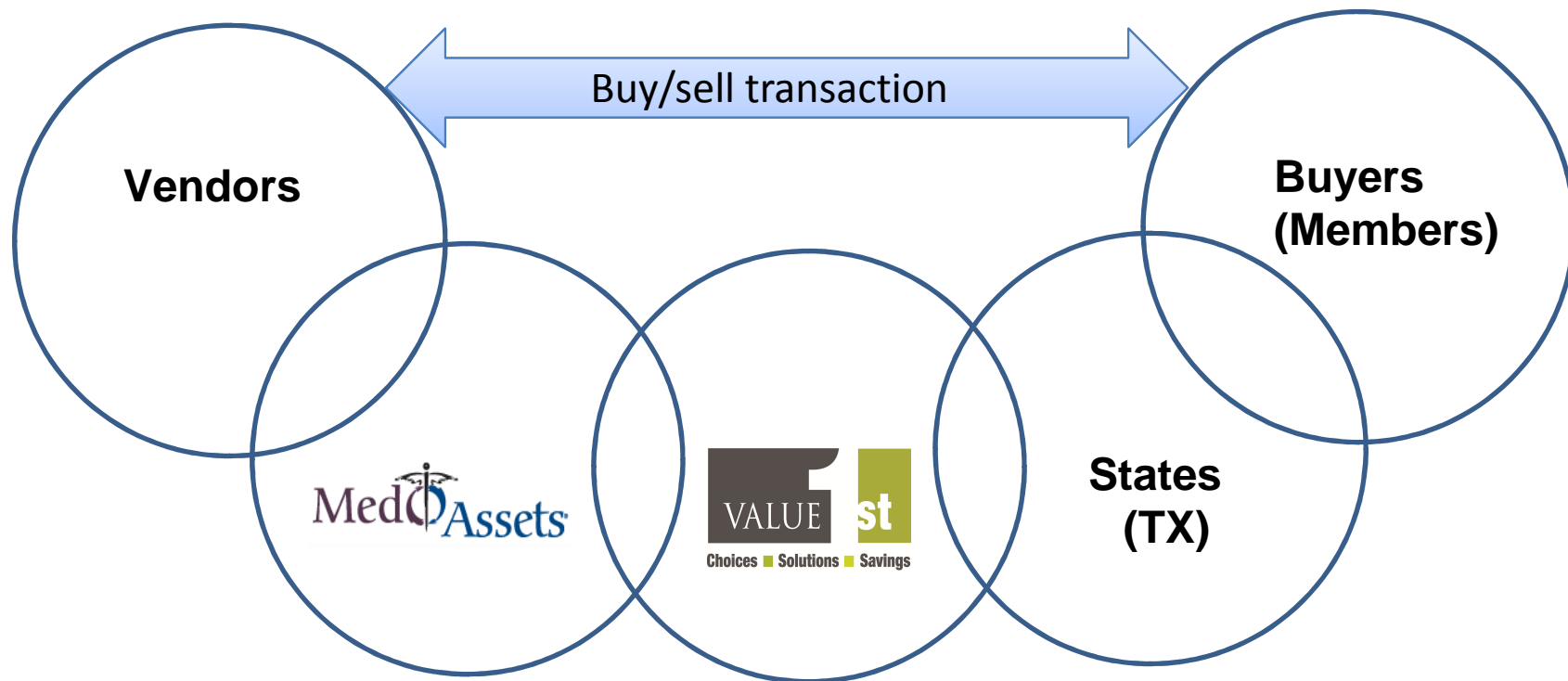


Objectives

- How does Value First fit into LeadingAge Texas?
- Why is it better to use GPO pricing?
- Offer strategies to reduce your expenses
- How can I help you save money?



A View From 20,000 Feet



Definitions

- Manufacturer - The vendor that is actually producing the products.
- Distributor - The vendor that “distributes” the products. McKesson, Gulf South, Sysco
- Group Purchasing Organization (GPO) - An organization that combines the spend of multiple independent organizations to negotiate better terms with vendors



The price you pay

- Cost from the manufacturer
 - \$100 for a case of product
- Mark-up from the distributor
 - 20% mark-up from the distributor
 - Total cost to the provider is \$120
- Purchase 500 cases annually:
 $(\$100 \times 20\%) \times 500 = \$60,000$



Locating the cost savings

- It's the middle man, right?
- Manufacturer cost - \$100
- Negotiated mark-up from Distributor from 20% to 15%
 - Total cost of \$115
- 500 cases annually:
 $(\$100 \times 15\%) \times 500 = \$57,500$
Total negotiated savings = \$2,500 or 4.2%



Locating the cost savings

- Or is it with the manufacturers?
- Negotiated Manufacturer cost - \$80
- mark-up – 15%
 - Total Cost of \$92
- 500 cases annually:
 $(\$80 \times 15\%) \times 500 = \$46,000$
- Total negotiated savings = \$14,000 or 23.3%



How to access manufacturer discounts

- If you are a very large, multi-site provider, you can attempt to negotiate directly with manufacturers
 - Labor intensive
 - Leverage is limited to your annual spend in that specific category
- Access manufacturers through a GPO
 - Leverage the spend of 1,000's of providers
 - Off-load the negotiations to the GPO



Other strategies to reduce expenses

- Aggregate your spend
- Compliance
- Commitment
- Prompt pay
- Drop size



Aggregate your spend

- Pool your spend with other facilities to negotiate a better deal
- Identify other opportunities to add your spend to a larger pool
 - Group buy with others



Compliance

- Once you have identified a GPO partner or negotiated your contracts, the key is to actually purchase from those contracts
 - For-profit: 90% compliance
 - Not-for-profit: 45% compliance



Commitment

- GPO's, manufacturers and distributors all love commitments
- Generally you need to be willing to commit 80% to 90% of your spend in a given category to access the best pricing



Additional Savings

- Prompt pay
- Drop size



Why Choose Value First?

- National buying power
 - Over 900 vendors
 - Multiple vendors
- No commitment
- Non-exclusive
- \$\$ back to LeadingAge TX
- FREE



How Can I Help?

- Over \$105,000 in savings
- Check pricing
- Compare vendors
- Connect our members
- Help through the process
- Only job is to save our members money



Savings Others Have Seen

Savings Chart for Member in Houston				
Category	Paid Before Moving to VF	Paying After	Difference	Percentage of Savings
Food	\$1.4M	\$1.26M	\$140,000	10%
Med Supplies	\$500,000	\$450,000	\$50,000	10%
Coffee	\$40,000	\$30,000	\$10,000	25%
Linens	\$5,500	\$3,300	\$2,200	40%
			Total Savings:	
			\$202,200	



Who Can I Help?

- Adult daycare
- Alzheimer facilities
- Assisted living
- CCRCs
- HUD housing
- Independent living
- Long term care
- Nursing
- Rehabilitation
- Skilled nursing



Final thoughts

- Non-profit Senior care providers have tremendous untapped leverage
- Target one spend category at a time
- I should be an extension of your purchasing department



Thank you

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