WHITE PAPER

# Maximizing Savings on Clinically Preferred Infusion and Oncology Consumables by Avoiding Bundled Contracts that Jeopardize the Bottom Line

## INTRODUCTION

While the economics of bundling infusion and oncology safe handling components with a single vendor may appear to offer significant cost savings, such a move may not result in the largest possible benefit to a hospital's bottom line. In fact, bundled deals may actually create financial disadvantages for a hospital if smaller vendors with clinically preferred products are restricted from the proposal process.

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Typical infusion product bundles can consist of IV solutions and proprietary IV pump sets (called dedicated sets), in addition to nonproprietary (or nondedicated) IV sets and closed system transfer devices (CSTDs) used in the perparation and administration of chemotherapy drugs (Figure 1). Vendors use bundled contracts in an attempt to leverage a hospital's need for dedicated sets and/or IV solutions to require them to purchase nondedicated IV sets, components, and CSTDs at prices above those of competing manufacturers in exchange for enhanced tier pricing on dedicated sets.

While the savings on leveraged products may appear to provide value at first blush, signing a bundled contract without providing a carveout for off-contract consumables may actually force hospitals to pay more for inferior technology.

FIGURE 1. TYPICAL INFUSION PRODUCT BUNDLE CLASSIFICATIONS

| LEVERAGED PRODUCTS | NONPROPRIETARY PRODUCTS | CHEMO SAFETY CONSUMABLES |
|---|---|---|
| › Vendor-specific/Infusion Pump specific disposables | › Extension Sets | › Vial Adapters |
| › IV solutions | › Cannulas | › Syringe Components |
| | › Gravity Sets | › Secondary Sets |
| | › Needlefree Connectors | › Bag Spikes |
| | › Accessories | |

## TAKING CONTROL OF THE PROCESS: UNDERSTANDING THE TACTICS USED TO FORCE BUYING DECISIONS

When large vendors identify an opportunity to build their business through a bundled contract, they employ a number of tactics to force a buying decision before a hospital has the time to explore all options available to them. One such tactic is to threaten to strictly enforce contract extension timelines in order to rush negotiations. This tactic is commonly used to intimidate and pressure immediate action. Faced with threat of higher pricing on dedicated sets or solutions unless a bundled contract is signed, a facility may feel compelled to comply, and as a result be unable to conduct a thorough assessment of clinically superior options that can offer larger overall cost savings.

In addition to attempting to force a quick decision on a bundled contract, pump and solution vendors have introduced multiple contractual elements designed to obscure the actual cost implications of the agreement. Unless these implications are taken into consideration at the start, facilities may sign contracts that do not provide all of the clinical and financial benefits that may be available to them from smaller best-in-class suppliers at lower prices. Some of the tactics vendors use to accelerate negotiations and stifle competition include:

GPO Rebates. A pump manufacturer may offer "exclusive" rebates through an affiliated Group Purchasing Organization (GPO); however, this GPO rebate is not likely truly exclusive to the vendor and may actually be available through multiple competing vendors. Consequently, including nonexclusive GPO rebates is misleading and should not be used when calculating potential contract cost savings.

First-Year-Only Rebates. While rebates are incorporated into an agreement's estimated annual spend, they may not apply for the entire length of the agreement. With the rebate in place, the total annual spend of the first year may show impressive cost savings, but these savings are not sustained for the term of the agreement.

Compliance Minimums. Vendors may threaten to raise prices when purchasing minimums are not met through the life of the contract. The unintended consequence of this vendor revenue generation tactic is that hospitals may delay the adoption of innovative products that can cut costs or enhance patient care in order to meet contractual obligations to the vendor.

Misrepresentation of Product Compatibility. As part of the negotiating process, pump set vendors may claim that certain connectors are only compatible with their technology when, in fact, this is not true. Proprietary connections for IV components are rare. For example, most products, like ICU Medical's ChemoClave® CSTD components, use ISO-standard luer fitments that connect to any luer-activated device.

## CASE STUDY: BUNDLED CONTRACT COST COMPARISON

A large US hospital was purchasing best-in-class products across the three product classifications from multiple vendors. As the existing pump contract approached its expiration, the sales representative for the incumbent IV pump vendor approached the administration staff and proposed a bundled contract that included dedicated pump sets, nondedicated sets, and CSTDs in the guise of helping the customer obtain better tier pricing and avoid the risk of increased pricing if the contract were to expire.

The hospital provided the pump vendor with a report of products currently purchased, along with the associated pricing and usage. The vendor then provided a cross-referenced list of their corresponding products and associated pricing for comparison of annual expenditure and potential savings (Table 1). The comparison suggested that the hospital would experience a cost savings of close to $250,000 per year by bundling with them, appearing to provide significant cost savings to the facility.

Under pressure of an impending price increase and compelled by the proposed savings, the hospital signed the contract without engaging other vendors in a competitive bid.

It was not until after signing the contract that the facility decided to perform additional analysis on the agreement. In doing so, the hospital considered the cost impact of including a second vendor (ICU Medical, Inc.) in the contracting process.

After comparing the cost of cross-referenced ICU Medical products, it was clear that significant additional savings were available to the hospital.

In nondedicated and CSTD consumables, ICU Medical's price competitiveness would have provided an additional savings of $192,685 per year compared to the existing contract with their pump vendor. Specifically, ICU Medical offered price advantages for both pharmacy and nursing line items, including non-dedicated extension sets, needlefree connectors, vial adaptors and bag spikes.

In nondedicated and CSTD consumables, ICU Medical's price competitiveness would have provided an additional savings of $192,685 per year on clinically preferred products compared to the bundled contract.

In this case, the pump vendor would have had to increase prices on dedicated pump sets by close to 25% in order to create a scenario in which a bundled agreement would have generated the best value. A review of US device industry tiered pricing schedules shows the average difference between list and "best" tier pricing to be between 12% and 15%, meaning the ICU solution would have provided significant incremental price advantage even if dedicated set prices were raised.

TABLE 1: ANALYSIS OF CURRENT SPEND ON INFUSION CONSUMABLES VS. PROPOSED ANNUAL SPEND AT ESTABLISHED USAGES (WITH DEDICATED PUMP SETS REMOVED)

| DEPT | PRODUCT TYPE | CURRENT SPEND | VENDOR A (NOT ICU MEDICAL) | ICU MEDICAL |
|---|---|---|---|---|
| IV | Extension Sets and Needlefree Connectors | $591,387 | $440,380 | $267,377 |
| | Cannula | $4,732 | $4,732 | $4,732 |
| | Bag Spikes | $18,518 | $9,445 | $9,295 |
| | Gravity Sets | $23,259 | $9,375 | $9,393 |
| | Accessories | $131,362 | $135,561 | $120,893 |
| IV Total | | $769,258 | $599,493 | $411,690 |
| Onc | Bag Spikes | $3,102 | $3,906 | $1,716 |
| | CSTD Components | $51,083 | $47,364 | $51,083 |
| | Secondary Sets | $4,800 | $18,060 | $21,540 |
| | Vial Adapters | $16,205 | $25,221 | $15,330 |
| Onc Total | | $75,190 | $94,551 | $89,669 |
| Grand Total | | $844,448 | $694,044 | $501,359 |

## CONCLUSION

While bundling IV solutions, dedicated sets, nondedicated sets, and chemotherapy safety consumables into a contract with a single vendor can appear to provide savings, it may actually prevent facilities from reaching the greatest overall cost reductions. As a result, it is important for hospital purchasing professionals to evaluate all product and vendor options and consider multiple infusion disposables contracts to be sure that they provide the most cost-effective and clinically preferred products for their patients.