

# Ontario Creates a Centralized RFP Process from Which all Participants Emerge as Winners

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## **ABSTRACT**

In late November 2004, Ontario's Ministry of Health and Long-Term Care launched an inaugural bulk-purchase initiative for the replacement of 28 computed tomography (CT) scanners and eight magnetic resonance imaging (MRI) machines across the province. The original intent was to leverage volumes to achieve cost-savings on equipment pricing for participating hospitals. The success of the venture has led to the consideration of using the process as a model for many future ministry-funded healthcare procurement initiatives. In fact, this model sparked the interest of other provinces, and dialogue has begun on adapting the process nationally.

## **BACKGROUND**

Ontario is transforming its healthcare system to be patient-focused, results-based and sustainable. The success of the transformation agenda is contingent upon hospitals and government working together to achieve greater efficiencies and improve services. To improve wait-times for five specific procedures, the Ministry of Health and Long Term Care considered a few options. One of the procedures deemed by the government for reduced wait-times was MRI. All surgical wait-times are affected by access to appropriate diagnostic imaging. As a result, the government announced an Equipment Efficiency Fund to provide \$50 million for the purchase of replacement equipment for MRIs and CTs. The ministry also had access to additional funding for replacement equipment through the federal Diagnostic and Medical Equipment Funding.

The advantages to upgrading equipment are numerous, but paramount among these is the improvement in both quality and productivity. To achieve the maximum "bang for the buck," the Ministry, in partnership with hospitals contemplating replacement

of MRI and CT equipment, substituted a new approach to the normal allocation. Rather than allocating funds to individual hospitals to purchase their own machines, the ministry took the lead in developing its first bulk purchasing process, which leveraged volumes to reduce equipment pricing and operating costs.

**GETTING STARTED**

Equipment procurement of this scale was not a business that the ministry had been involved in before. It represented new and unfamiliar territory. Following an initial discussion to ascertain the level of interest in pursuing a bulk purchase and listening to experiences in group purchasing by participating hospitals, the ministry convened a reference group comprised of hospital administrators, radiologists, technicians and material managers to act as an expert panel of advisors throughout the process. At the first meeting, the reference group discussed options regarding different approaches to bulk purchase. It was decided to use successful existing structures and processes and to engage an external expert who would prove to be a defining element in the initiative’s success.

Mr. Jay Ayres, Director of Group Purchasing and Materials Management for St. Joseph Health System’s Group Purchasing Organization, was seconded by the ministry to aid in the development of the bulk-purchase process. Mr. Ayres has vast experience in medical equipment procurement, familiarity with the bulk purchasing initiatives of other jurisdictions and a respected reputation in vendor and hospital circles. The ministry-led partnership approach, coupled with the use of expertise, enabled the ministry to create a fair and transparent bulk-purchase process that had inherent rewards for both the hospitals and business community.

**THE CHALLENGES**

Timing – The ministry’s goal was to purchase 28 CT scanners and eight MRI machines applying the bulk purchasing model. A project of this size and scope would normally take well over a year to complete. The delivery requirements associated with the accounting treatment of the funding, and a late launch to the process, meant that there were approximately three-and-a-half months to create and release a request for proposal (RFP), conduct vendor turnkey and hospital site visits, hold a vendor fair, complete negotiations and have equipment on-site. A concise schedule needed to be developed and adhered to.

The following chart highlights the key dates and milestones for this initiative.

Activity	Status
RFP Release	December 22, 2004
Vendor Kick-Off Meeting	January 4, 2005
Turnkey Visits	January 5–26, 2005; 27 visits completed
Clinical Site Visits	January 12 to February 18, 2005; 76 visits completed
Creation of Ministry Evaluation Team	Week of January 31, 2005
Vendor Fair/Presentation	February 22–25, 2005
Hospital Selection of Vendor of Choice	Submitted March 1, 2005
Vendor Negotiations	March 7–10, 2005
Purchase Orders Issued by Hospitals	March 14, 2005
Partial Equipment Delivery	March 31, 2005

**Confidentiality** – As the Minister of Health and Long-Term Care had not yet formally announced the CT/MRI funding, the project was managed within strict confidentiality guidelines in an attempt to avoid pre-empting the public announcement. Participating hospital CEOs signed confidentiality agreements, and all communications in the early phases of the initiative were limited to essential information and targeted to designated contacts within each facility.

**Participant Support** – Historically, hospitals have always had the independence to determine their own vendors and products of choice when purchasing equipment. When the ministry informed hospitals of the bulk-purchase initiative, there was perception by the hospitals that the ministry was “interfering” with hospital procedures. The ministry needed to allay these concerns by highlighting the benefits of this process for hospitals and reaffirm to the hospitals that they maintained control of the vendor and product decisions.

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The Ontario process was also designed to alleviate the concerns of the vendor community resulting from negative experiences with past bulk-purchasing initiatives.

## **THE PROCESS**

The reference group’s RFP process was focused on attaining the best quality and value of products and services by qualified vendors through due process.

**Fairness and Transparency** – The bulk-purchasing initiative was grounded in the principles of fairness, transparency and equity for all participants. The ministry and the reference group worked closely with the vendors in this cooperative effort between government, hospitals and the vendor community. The goal was to make it a “win-win” process for everyone involved and to ensure that those vendors that may not have been awarded in the RFP perceived the process to be fair and transparent.

The ministry believed that an open and transparent process would enhance the competitive nature of the RFP process, as all vendors would feel they would have an equal chance of winning. A fair process also minimizes the opportunity for “sweeteners” and loss leaders. All hospitals, large or small, teaching or community, urban or rural receive the same pricing for the same equipment.

**RFP Development and Release** – The development of an RFP is normally a lengthy process requiring months of administration by various levels of an organization, including senior management, purchasing, finance and medical staff. The ministry worked with the reference group and Jay Ayres to create a single RFP for the purchase of the CT and MRI equipment. The RFP was posted centrally on St. Joseph Health’s System’s Group Purchasing Web site for vendors to view. The ministry coordinated the process on behalf of the hospitals and acted as the central point of contact for vendor inquiries and submissions. This enabled hospitals to concentrate their time and resources on patient care.

The centralized process also provided considerable benefits for the vendor community, which enabled them to complete a single RFP submission for all hospitals. RFP submissions can be extremely costly for vendors to prepare, many hospitals often requiring several copies for their review. Reaching 34 hospitals with a single submission resulted in considerable savings for the vendors, which enhanced the ministry's goal of creating a process that would benefit all participants.

### **CRITICAL SUCCESS FACTORS**

The critical success factors behind the bulk-purchasing initiative were:

- leadership and commitment by the ministry
- use of existing expertise
- open and transparent process
- cooperation and collaboration
- timely communications
- centralized vendor fair
- final decision-making by hospitals
- negotiations locally and centrally

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Cooperation and Collaboration – For an initiative of this magnitude to succeed within abbreviated timelines, all participants needed to work together. The cooperation and collaboration that occurred within the vendor community was unprecedented. To successfully complete all turnkey visits (site visits to assess installation requirements) within the provided timelines, and to increase transparency, all vendors visited the participating hospitals at the same time. At the end of each visit, the vendors would discuss any outstanding requirements and designate a single representative to feedback that information to the ministry on behalf of all companies. The ministry would then supply all vendors with the requested materials once they were received from hospitals. The vendors were pleased with this process and believed they were able to obtain more information in a shorter period of time because of the ministry's involvement.

The support and dedication of the hospitals throughout the process was extraordinary. Their willingness to provide material by the (what could often be described as unreasonable) deadlines was phenomenal. The enthusiasm of staff to offer their time and expertise to further the success of this initiative through participation on the negotiation team and RFP submission review committee is a testament to the devoted professionals working within our healthcare community.

Communications – Coordination of timely and responsive communications with 34 hospitals and the vendor community was essential. Throughout the process, regular updates were provided to hospital administrators to keep them apprised of the project's progress. Additionally, weekly teleconferences were held with the vendors to assess information requirements, address outstanding issues and ensure all were comfortable with the remaining timelines and process outline.

The ministry assigned one dedicated staff member to act as the central point of contact for all bulk-purchase inquiries. Through the course of the initiative, more than 3000 e-mails were exchanged and more than 400 phone calls managed. Providing a desig-

nated ministry representative also enabled expeditious policy changes and approvals to be navigated through the system more efficiently.

**Vendor Fair** – The ministry and the participating vendors shared the costs of hosting a vendor fair in downtown Toronto. The vendor fair was a culmination of the work completed on the initiative to that date and provided the vendors a final opportunity to “wow” hospitals with presentations and hands-on demonstrations of equipment workstations. Over 140 delegates from participating hospitals attended the fair, which provided the opportunity to acquire additional information before making their final decisions on their vendor of choice.

Each participating hospital was invited to send personnel to the fair for a two-day period and each hospital spent a half-day visiting with each vendor. Holding the event in a centralized location enabled hospital representatives to see all vendors in one place without the distractions and interruptions that often occur within the hospital setting. It also encouraged hospitals to see, view and test the equipment of all vendors. For this reason alone, the vendor community has commented that the vendor fair was better than the Radiology Society of North America Scientific Assembly, which is the biggest radiology trade show in North America.

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**Hospitals Make the Final Decision on Their Purchase** – The practice of the Ministry of Health and Long-Term Care has not been to tell hospitals which equipment to purchase. All hospitals participating in the bulk purchase made the final decision as to which equipment they wanted and which option packages they required. The ministry’s role was to act as a facilitator, to coordinate the centralized process and reduce the time commitments and administrative costs for hospitals. The credibility and fairness of this initiative was maintained, as vendors were clear that the ministry would not dictate vendor selection.

An integral element in the success of this initiative was that hospitals had the final choice in equipment selection, as it resulted in support for the process from both the business community and hospitals.

**Negotiations** – Once hospitals had decided on their vendor of choice, they forwarded their selection forms to the ministry. These forms outlined their equipment preference and the options required. The ministry bundled volumes based on the information provided and set up negotiation dates with each of the selected vendors. For example, if eight hospitals chose vendor A, the ministry went to the negotiating table with vendor A for eight machines and the associated option packages. If a vendor received an order for only one machine, then the ministry negotiated for one machine.

Negotiations were done individually with each vendor and were intended to achieve optimal pricing on equipment and associated on-going costs. The ministry was not interested in negotiating extras such as research dollars or bonus incentives; its only objective was to obtain the best equipment for the best price for Ontario hospitals.

During negotiations, the ministry committed to the vendors that all bulk-purchase pricing would remain confidential to protect the integrity of vendor market pricing.

## **RESULTS**

The ministry had anticipated that the bulk purchase would achieve savings of 10% on equipment and reduce administrative costs for hospitals. In the end, the results exceeded ministry and stakeholder expectations. The ministry achieved savings of approximately 25% off its original cost-estimates and, more importantly, leveraged the strength of the bulk-purchase volumes to negotiate items that will provide long-term benefits to participating hospitals. These items include:

- reduced service agreement rates, which will lower on-going operating costs for the replacement of machines
- reduced average overtime rates for holiday and weekend service requirements
- reduced pricing and implementation options for service agreements, upgrades and warranties, which will keep equipment current, longer

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## **PARTICIPANT FEEDBACK**

The ministry distributed a follow-up questionnaire to all participating hospitals to gather feedback and recommendations on the process and what improvements might be made for future initiatives. The ministry received a 98% response rate to the questionnaire, 96% of respondents indicated that they liked the process and agreed that they achieved greater savings than had they purchased on their own. While timing was identified as an issue, many hospitals thought that the timeline should only be extended slightly. The expedited process kept key hospital personnel focused on the project and ultimately led to them taking delivery of their equipment and getting their service operational in a more timely fashion.

Vendor feedback was also important to the ministry and a two-hour debriefing was held with the vendors to obtain their input into the process. The reaction from the vendors was very positive and all were in agreement that the process worked well and was done right. Timing was a major issue for them and will need to be addressed for future initiatives. Overall, they loved the vendor fair, appreciated the fairness and transparency of the process and believed that through the centralized process that they were able to achieve some financial and administrative efficiencies.

## **THE FINAL WORD**

This approach to a large bulk-purchase venture proved to be a successful, transferable and scalable model, which can be applied to future procurement needs. Designing a process based on fairness and transparency encouraged and garnered hospital participation and fostered a relationship with the vendor community built on trust and respect. This relationship will benefit the ministry and hospitals alike for future purchasing projects.

The bulk-purchasing initiative surpassed ministry expectations. Hospitals were able to purchase high-quality equipment at reduced prices with savings on time and money in administrative and operating costs. As a direct result of the overall success of the bulk

purchase, all hospitals were able to acquire improved technology (i.e., 64-slice CT scanner – and Ontario now has the greatest number of 64-slice CT scanners than any province in Canada or any individual state in the United States). Vendors enjoyed the experience, felt confident in the integrity of the project and achieved cost-efficiencies through the centralized RFP process. But, most importantly, the people of Ontario now have access to some of the most advanced diagnostic imaging technology available today. It was indeed a win-win scenario for all involved. 

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