

# Review of Supplier Capacity and Expansion Plans

The Medicare Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS) Competitive Bidding Program bid evaluation process is designed to result in a sufficient number of contract suppliers to ensure that beneficiaries throughout the competitive bidding area (CBA) have ready access to quality products and services at reasonable prices during the entire contract period. This fact sheet describes how the Centers for Medicare & Medicaid Services (CMS) conducts its review of supplier capacity and expansion plans during the bid evaluation process.

Suppliers that bid in the DMEPOS Competitive Bidding Program must provide in Form B in DBidS (the online bidding system) their estimated capacity for each item being bid. To determine estimated capacity, each supplier: (1) calculates the number of units per HCPCS code or payment class that it currently provides on a yearly basis in the CBA, and (2) adds any additional units it is capable of providing throughout the entire CBA annually, beginning with the first year of the contract period. CMS expects suppliers to be capable of sustaining this level of capacity throughout the entire contract period. Suppliers must be prepared to do so beginning on day one of the contract period. Suppliers that are new to a CBA, new to a product category, or otherwise plan to expand their capacity beyond their current levels must submit an expansion plan in Form B in DBidS. All bidders must also submit the required hardcopy financial documents specified in the Request for Bids (RFB).

The estimated capacity and financial documents are considered by CMS as part of the bid evaluation process. CMS begins the bid evaluation process by verifying bidder eligibility. All bids are checked for compliance with enrollment standards, licensure requirements, financial standards, quality standards and accreditation requirements, and other program requirements. Please note that CMS evaluates compliance with financial standards by first calculating **standard accounting ratios** for each bidder using the financial statements and tax extract submitted during bidding. An aggregate or total score is determined using the financial ratios and the credit score. The supplier's total financial score is then evaluated against a threshold score to determine if the supplier meets the minimum requirements to continue in the evaluation. Only suppliers that submit qualified bids are eligible for contracts.

An important step in the bid evaluation process is determining projected beneficiary demand. In the bid evaluation process, the sum of the projected capacity of eligible suppliers is compared to the projected demand. The DMEPOS Competitive Bidding Program demand calculation methodology not only takes into account the actual historic beneficiary utilization, but also considers expected changes in the number of beneficiaries enrolled and the expected growth in beneficiary services. CMS compared the projected demand calculated for the initial Round 1 to actual 2008 utilization and found that this methodology produced demand estimates well in excess of the actual utilization. This method of projecting demand helps to ensure further that a sufficient number of qualified contract suppliers is available to meet actual demand for items and services.

After calculating the projected demand, CMS sums the cumulative capacity of qualified suppliers bidding for a product category for a CBA and determines how many of these suppliers are needed to meet beneficiary demand throughout the contract period. CMS evaluates and adjusts supplier capacity as follows:

- If a supplier submits an estimated capacity that is greater than 20 percent of projected beneficiary demand in the CBA, CMS will lower that supplier's capacity to 20 percent of beneficiary demand. This lowering of a supplier's projected capacity does not limit the number of items a supplier could furnish if awarded a contract.

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- To evaluate the capacity of a supplier that plans to expand its capacity (i.e., total estimated capacity exceeds historic claims in the CBA or product category), CMS looks at the expansion plan as well as the hardcopy financial documents to determine the ability of that supplier to furnish its estimated capacity. CMS compares each qualified bidder's total financial score (this is the same score used to determine whether a bidder meets the minimum financial requirements to participate in the program) to an expansion threshold score. If a supplier is new to an area, new to a product category or submits estimated capacity that represents substantial growth over current levels, CMS may conduct a more detailed evaluation of that supplier's expansion plan to verify the supplier's ability to provide items and services in the CBA on day one of the contract period. If a bidder's financial health and expansion plan do not support the supplier's estimated capacity, we will adjust the capacity to the supplier's historic level. Adjustments to the supplier's estimated capacity have no effect on whether or not a supplier is awarded a contract.