The Challenges and Opportunities of Contract Price Alignment in Healthcare

***Frank Benoit**, MBA, Contract Analyst, Supply Chain, Saint Francis Hospital and Medical Center*
***Lee Ann McWhorter**, Director Corporate Accounts, GHX*

Managing contract pricing more effectively—from creation to renewal or expiration—can deliver real operational and financial benefits for healthcare organizations. Yet because of its complexity, contract price management may be one of the most underutilized tools for maximizing cost savings in healthcare. Disparate information technology (IT) systems that do not share information and lack of widespread adoption of industry data standards for product and organizational/location identification all contribute to this complexity. Compounding these issues are the large volume of contracts, frequency of pricing updates and changes, and new activations and additional contracts executed to cover new products.

Industry research suggests that the average hospital has more than 1,200 group purchasing organization (GPO) and local contracts in its portfolio and activates contract pricing for more than 40,000 new line items every six months.[1] Adding to the complexity is the fact that contracting in healthcare involves multiple parties and procedures. Healthcare organizations purchase hundreds of thousands of supplies every year, and for the average hospital, 85 percent of those supplies are covered by a local or GPO contract.[1]

Contract price misalignment adds significant labor and costs to not just provider organizations but all parties throughout the healthcare supply chain. When one or more parties to a contract - provider, supplier, distributor and GPO – have inconsistent, inaccurate and/or outdated contract pricing in their systems, it frequently leads to all parties having to perform backend, manual labor to identify and resolve pricing discrepancies. This contributes to the industry's high administrative costs, which make up roughly 30 to 40 percent of healthcare costs, compared with 3 to 6 percent in the grocery industry.[2]

While the healthcare industry has made tremendous strides in reducing price exceptions – cutting them by 50 percent over the last decade - GHX tracked 9.25 million price exceptions between healthcare providers and suppliers through the GHX electronic trading exchange in 2013. [1] By conservative estimates, it costs between $10-25 for a provider to resolve each price discrepancy, meaning price exceptions cost the provider community $92 million annually in labor alone. [1] Not to mention the revenue leakage that results from providers paying higher than negotiated prices for products on contract.

<u>An Industry-Wide Problem</u>

All parties to a contract contribute to pricing misalignment. Each party has different capabilities, different systems, different definitions of customers and different internal contract management processes. To compensate for this lack of a common, electronic platform for data sharing, manufacturers send approximately 86 percent of their contract price information to distributors via email or Excel spreadsheet[3], which is time/labor intensive and prone to human error. Because of the manual, error-prone nature of pricing alignment in healthcare today, agreed-upon contract prices have

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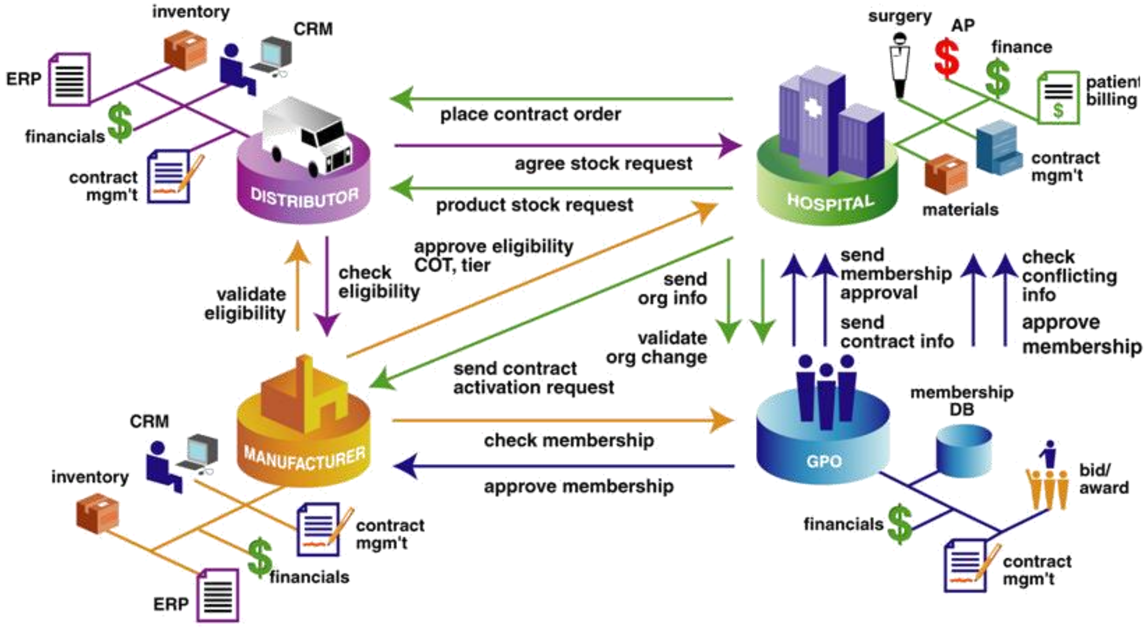
1 Source: GHX, based on transactional data from GHX Electronic Healthcare Exchange
2 DeJohn, P. "Standards in motion." Materials Management in Healthcare 17 (July 2008).
3 HIDA

historically taken 45–60 days to be loaded into the respective systems of all parties to a contract[1]. The following graphic demonstrates the complexity of today's model.



Source: GHX

Each party to a contract experiences significant operational and process issues because of the inefficiencies and inaccuracies of today's contract pricing alignment model:

- Manufacturer: Must identify the provider customer, verify eligibility and tier information and accept or counter the provider request to access pricing. The manufacturer must then communicate this information to the distributor, who in turn must supply to the manufacturer rebate and pricing information for each approved provider.
- Distributor: Must consume contract data to make pricing available to providers and, with 86% of the data coming to them via excel spreadsheet, it can take in excess of 45 days under the current model.
- GPO: Manufacturers are required to log into GPO price activation portals to accept price activations for each of their provider customers. They have little visibility across GPOs and have to "swivel chair" from one GPO portal to another.
- Provider: Expect that they should have pricing available to them on a specific day. The pricing is not available as a result of the above inefficiencies and their exceptions begin to accumulate. This leads to costly price discrepancies and a labor-intensive credit and rebill process.

<u>Potential Solutions</u>

The current healthcare pricing alignment model is far too time consuming, labor intensive and costly to serve as an option moving forward, particularly at this time in the industry when resources are stretched to their limits. Because contract price alignment requires collaboration, communication and transparency among all four parties to a contract - provider, supplier, distributor and GPO – it is not something that is easily solved.

Increase Staffing Levels

One potential solution is for all parties to a contract - provider, supplier, distributor and GPO – is to increase staffing levels in an effort to better manage contract pricing. The theory is that with more resources available to make pricing updates and changes, perform new contract activations and discard pricing from expired contracts, organizations can effectively align pricing within their systems and with their business partners.

There are a number of downsides to this approach. In today's challenging economic climate, most organizations are being pressured to decrease rather than increase staffing levels. Everyone in healthcare is being forced to do more with less. And even for those organizations that are fortunate enough to be able to increase their head counts, the sheer volume of contract data they must maintain and changes they must make are far too overwhelming to manage in a manual way. The continuous data churn is an insurmountable task.

Leverage Technology
A second option is for all parties to leverage a technology solution that can automate the price alignment process, making it more efficient and effective for greater accuracy across the board. The challenge here lies in the fact that healthcare business partners today largely use disparate IT systems that cannot share information. Furthermore, because they have different capabilities and processes, they typically cannot adopt new industry solutions at the same pace.

A collaborative, technology-neutral solution to overcome these challenges is currently under development at GHX. The solution enables healthcare business partners to synchronize contract pricing data through a common online portal and then bring the data they need, in the format in which they need it, back into their internal systems. Premier will make the second national GPO live on the contracting platform and will begin migrating suppliers in the second quarter of 2015. "Our partnership with GHX directly supports our vision to provide innovative solutions that lead the transformation to high-quality, cost-effective healthcare," said Durral R. Gilbert, President of Supply Chain Services for Premier. "We are enhancing the price activation experience we deliver to our members today. Ultimately, this will further reduce costs not only for providers, but also for suppliers and distributors leveraging our contract portfolio. This expanded relationship with GHX is a win-win for everyone involved in the supply chain."

This unique solution enables all participants to a contract to automate what has historically been a highly manual process, helping to ensure rapid price synchronization and invoice accuracy. At its core is a common information exchange infrastructure through which manufacturers and GPOs can share pricing changes in a timely manner. It allows distributors to integrate contract data into their systems and eliminates the excel spreadsheet and email communications that occur today. "There is a heightened sense of urgency around this issue because of the costs the inefficiencies add to the system. It's critical that manufacturers, distributors, GPOs and providers come together to address what amounts to a solvable problem. Accurate pricing means more cost-effective healthcare, and we have to work to add discipline to the process," said Steve Inacker, Cardinal President, Hospital Sales and Service. Collaboration Portal allows all stakeholders to load new prices into their respective systems in days vs months. This helps eliminate inaccurate purchase orders, disputed invoices and rebate/chargeback discrepancies.

Data standardization is critical to automation. Establishing consistent, standard data file formats for sharing contract price data electronically across trading partners, ensures each party has the contract data it needs in the format in which they need it. This includes accurate information related to factors such as tier pricing and commitments, customer eligibility and price activation dates.

This industry-wide collaborative solution facilitates contract data sharing within a secure, on-line environment, enabling a virtual "handshake" among all parties as they agree on key contract terms and conditions. It provides ongoing, real-time access to pricing and eligibility information to ensure all parties are consistently operating with accurate and up-dated information within their respective systems.

The challenge to this approach is that all parties to a contract must be willing to collaborate in order to make it work. The healthcare industry has historically been slow to change and trading partners are often resistant to share information on their business operations with each other. If healthcare is to overcome the challenges it faces with pricing alignment today, the players must be willing to become more transparent, embrace new technology solutions and move beyond outdated business practices.

<u>Conclusion</u>

The inability of healthcare trading partners to share contract pricing data in an accurate and timely manner results in widespread errors throughout the supply chain. These errors cause significant financial issues for the various parties, such as inaccurate pricing, rebates and chargebacks, diverting resources from the primary focus of the healthcare supply chain: the delivery and use of products to optimize patient care.

An industry-wide collaborative solution would help streamline the contract price alignment process for all parties, significantly reducing the time and labor associated with this task. A single, neutral platform would drive visibility into contracting and the various breakpoints that cost hospitals, manufacturers, distributors and GPOs millions of dollars a year in rework, credits and rebills.