



LEARNING
CENTER

Basics Of Healthcare Product Contracting



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Basics Of Healthcare Product Contracting

GPOs? Contracts? Chargebacks? What's Happening?



How We'll Tackle It

1. The very basics of healthcare product pricing
2. Key contract administration processes
3. Best practices for efficient contract administration



**THE BASICS:
GPO CONTRACTING
MADE SIMPLE**

GPO CONTRACTING

~~MADE SIMPLE~~ IS COMPLICATED

The Physical Supply Chain



Manufacturer

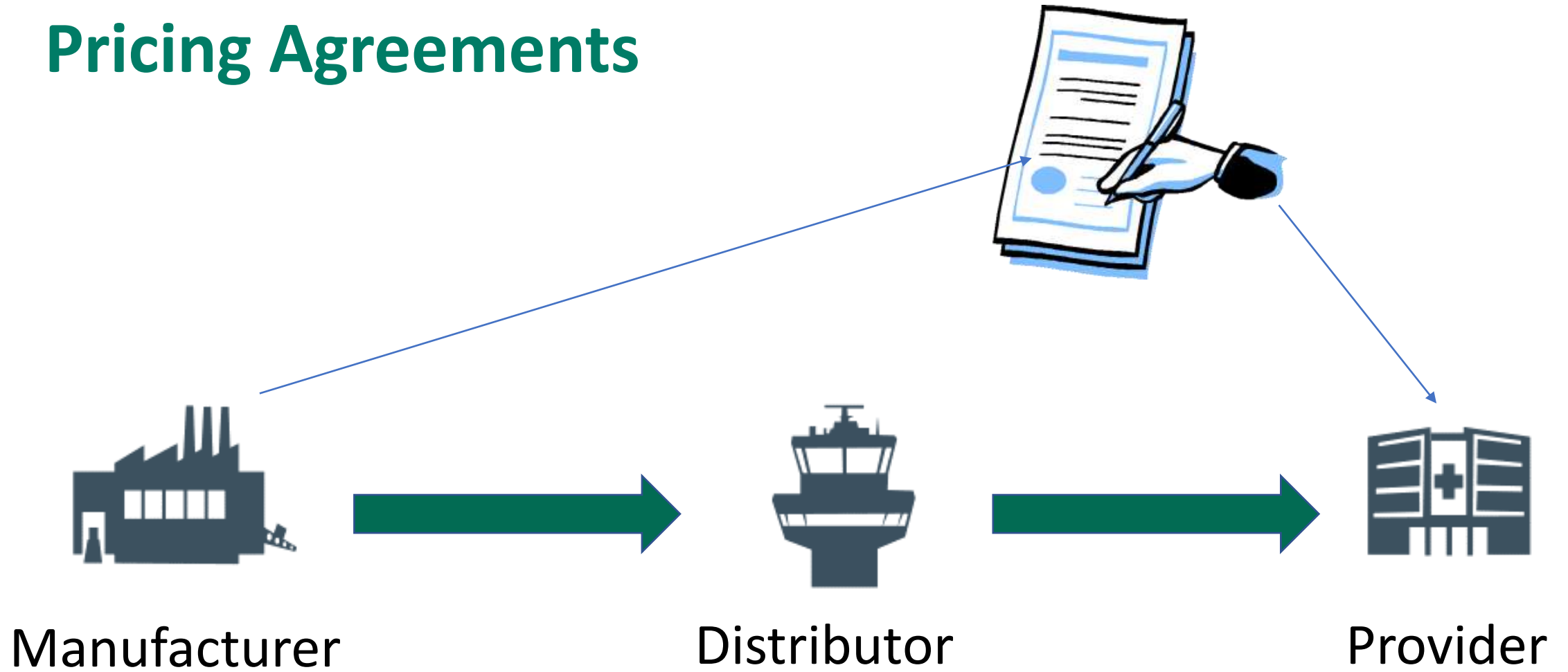


Distributor

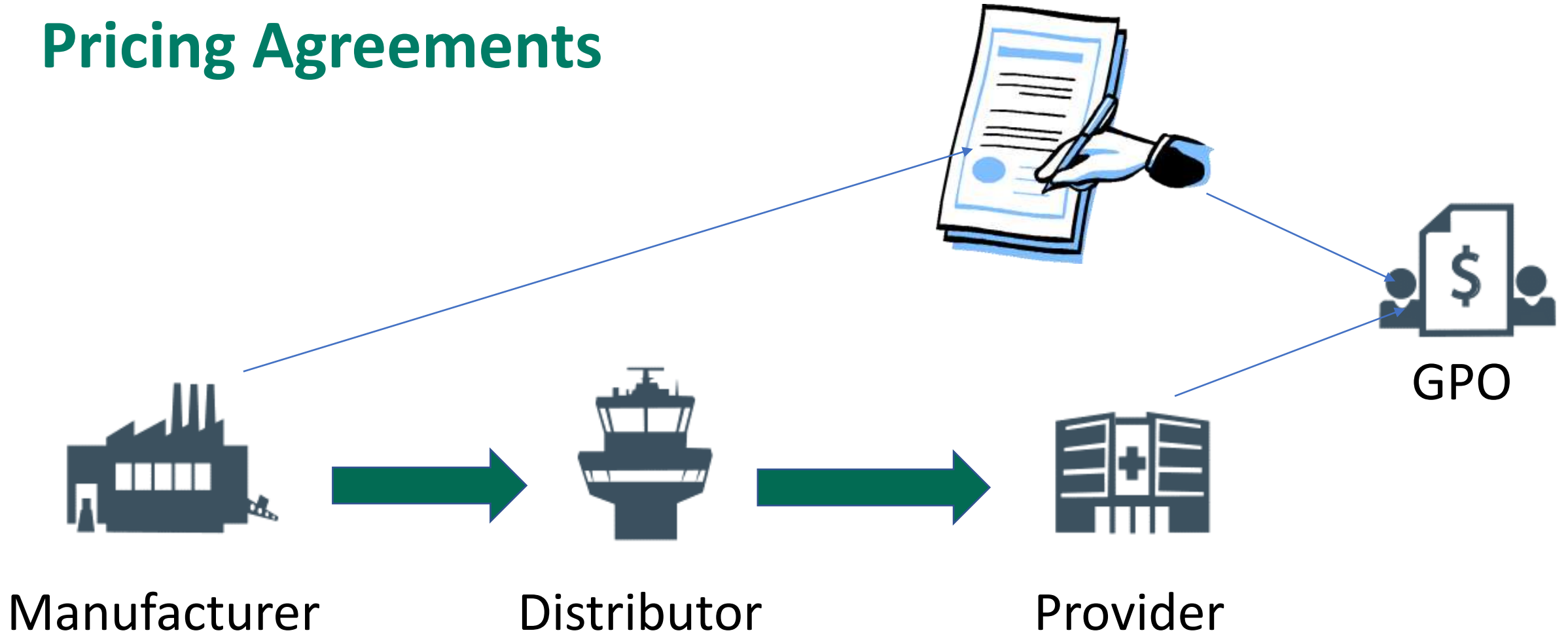


Provider

Pricing Agreements



Pricing Agreements



What's a group purchasing organization?

A GPO is an entity that helps its healthcare provider members — such as hospitals, physician practices, and nursing homes— save money by **combining their purchasing volume** and using that buying power to **negotiate discounts** with manufacturers, distributors, and other vendors.*



* HIDA AMS Course "Fundamentals of GPOs and Healthcare Contracting"

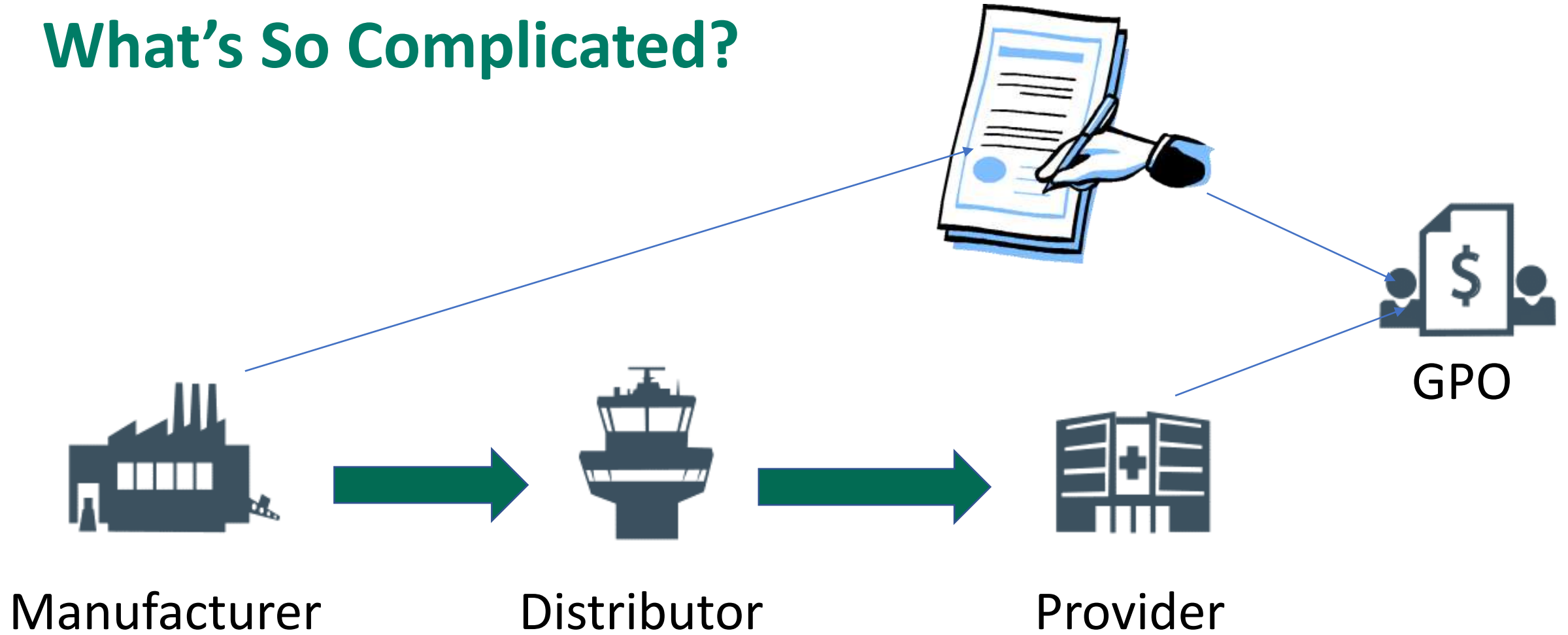
Do GPOs sell products?

- Good question! GPOs generally do not actually buy or sell medical products.
- They **negotiate pricing contracts** that their provider members can use when making their own purchases.

GPOs' Business Model

- GPOs usually take a percentage of product sales (like a sales commission) – called *admin fees*
- Distributors pay admin fees too, often a smaller %
- Vendors must report on-contract sales to the GPO through an “admin fee report” and pay the fees

What's So Complicated?



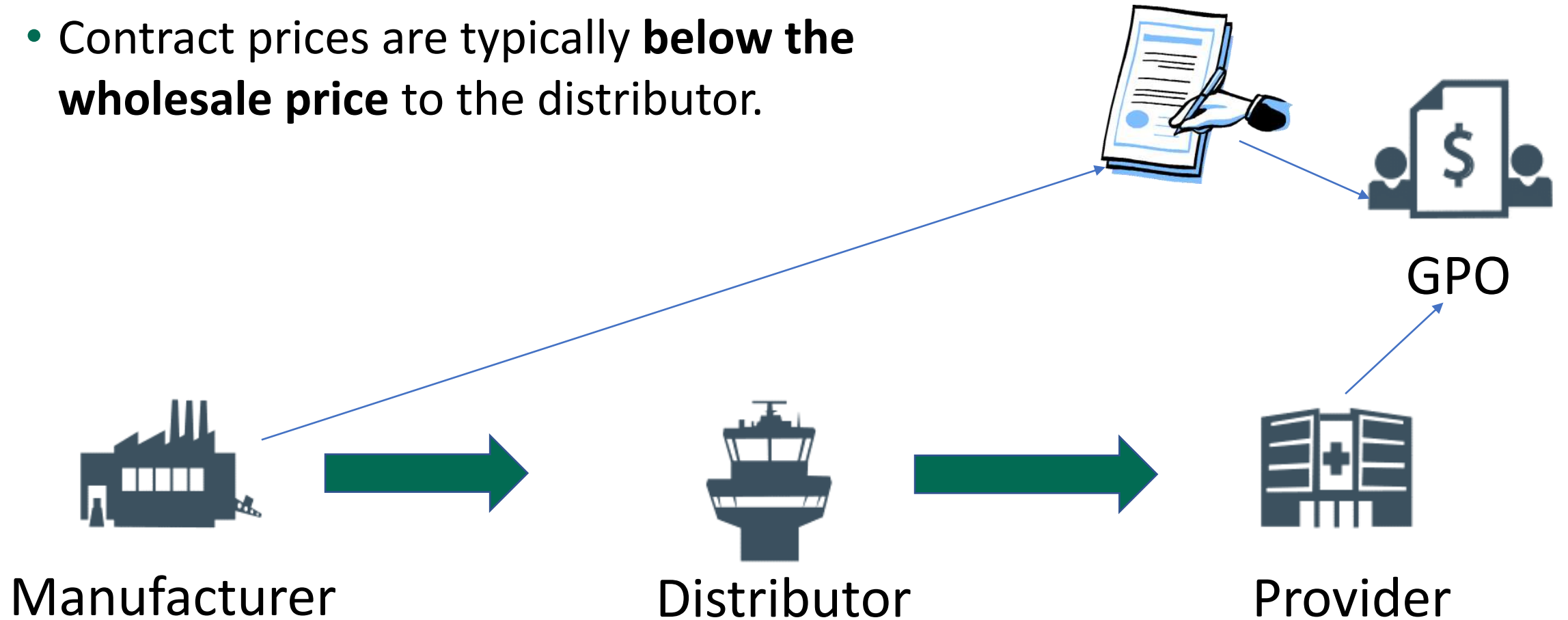
What's So Complicated?

- **Many pricing “tiers”**
 - Tier 1 or base tier: applies to all GPO members
 - Higher tiers: better prices based on commitment to shift market share or buy some particular volume
- **Sometimes, pricing restrictions** based on “class of trade”



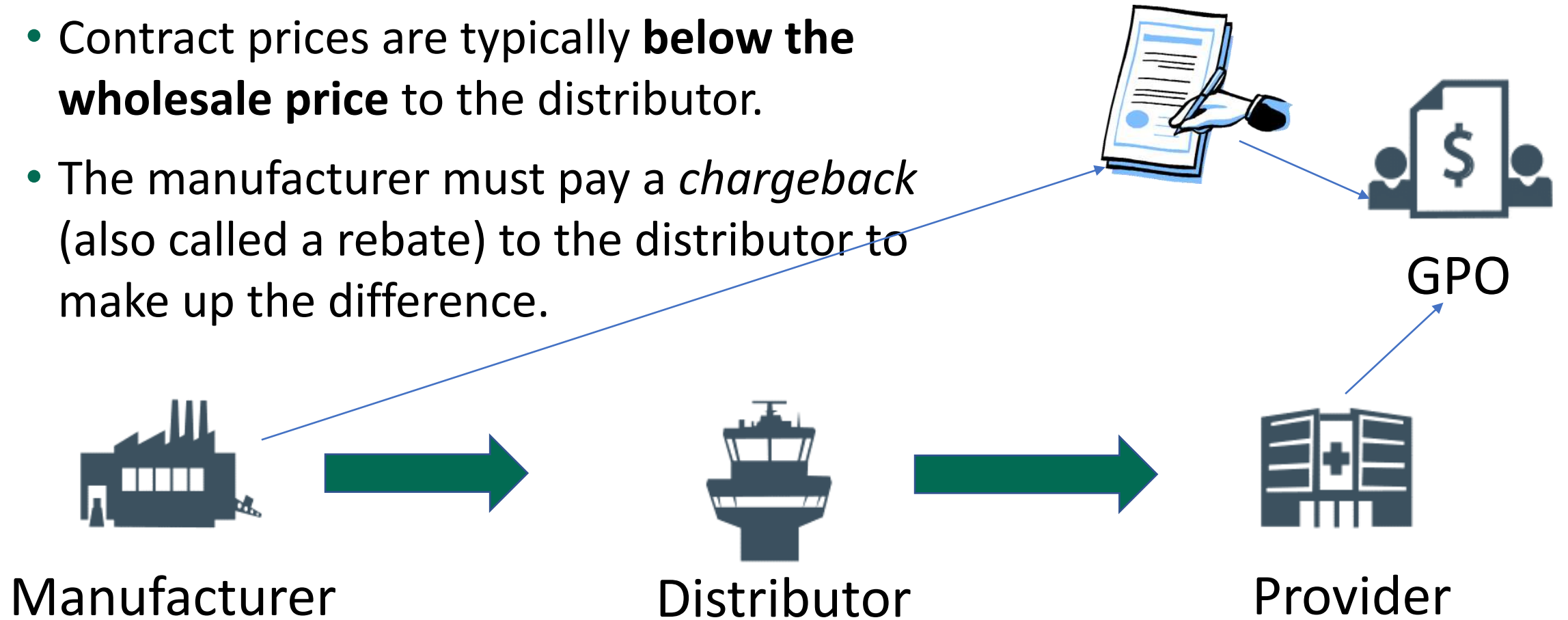
What's So Complicated?

- Contract prices are typically **below the wholesale price** to the distributor.



What's So Complicated?

- Contract prices are typically **below the wholesale price** to the distributor.
- The manufacturer must pay a *chargeback* (also called a rebate) to the distributor to make up the difference.

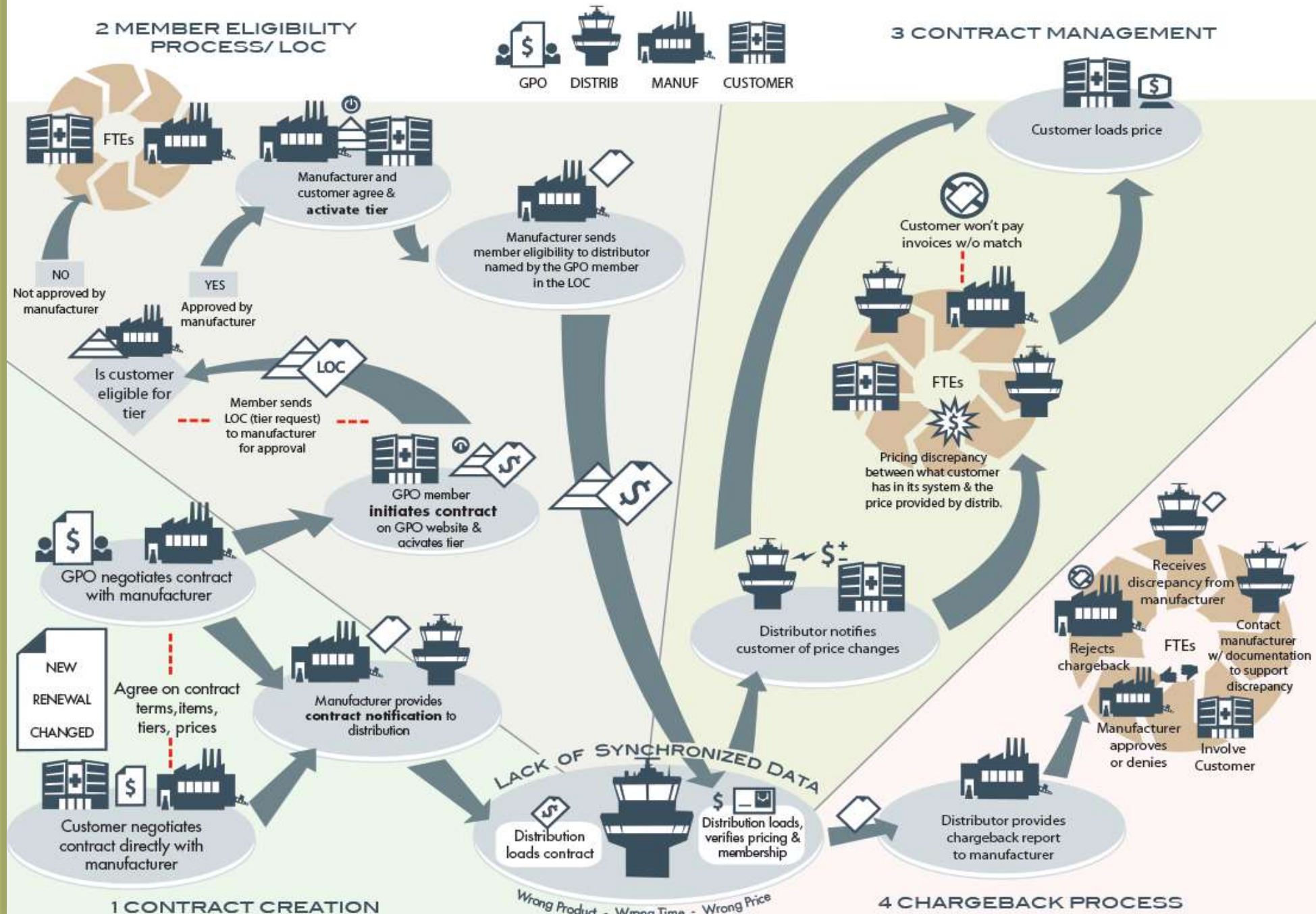


Multiple Layers of Contracting

- Many providers belong to multiple GPOs
- Special GP programs for members who make bigger commitments
- Aggregation groups
 - Often affiliated with a national GPO.
- Health systems forming their own GPOs
- “Local” contracts negotiated between the provider and the vendor



THE CURRENT CONTRACT ADMINISTRATION PROCESS



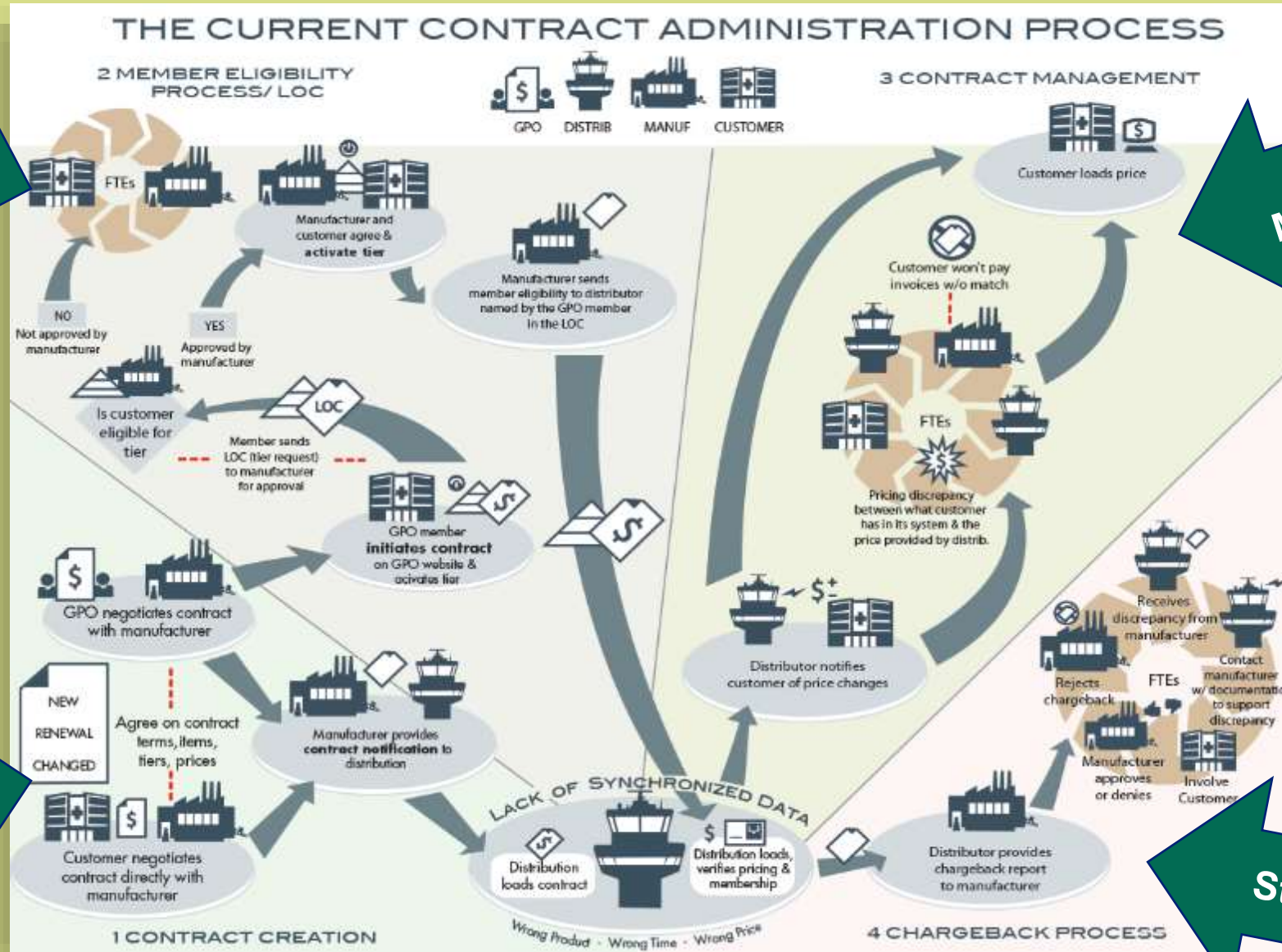
Four Distinct Steps

Step 2: Eligibility

Step 1: Contract Creation

Step 3: Contract Management/Invoicing

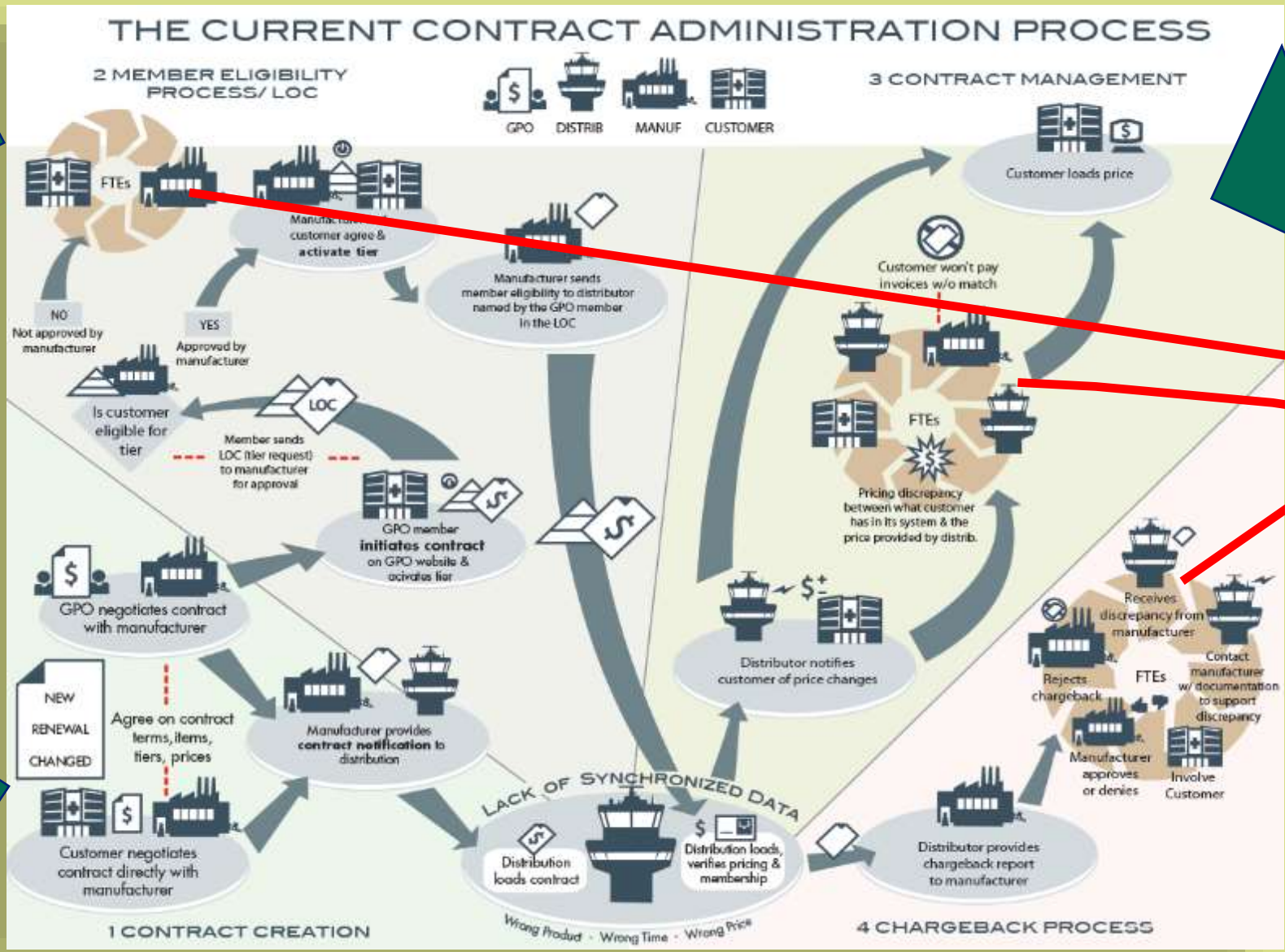
Step 4: Chargebacks



Break Points

Step 2: Eligibility

Step 1: Contract Creation



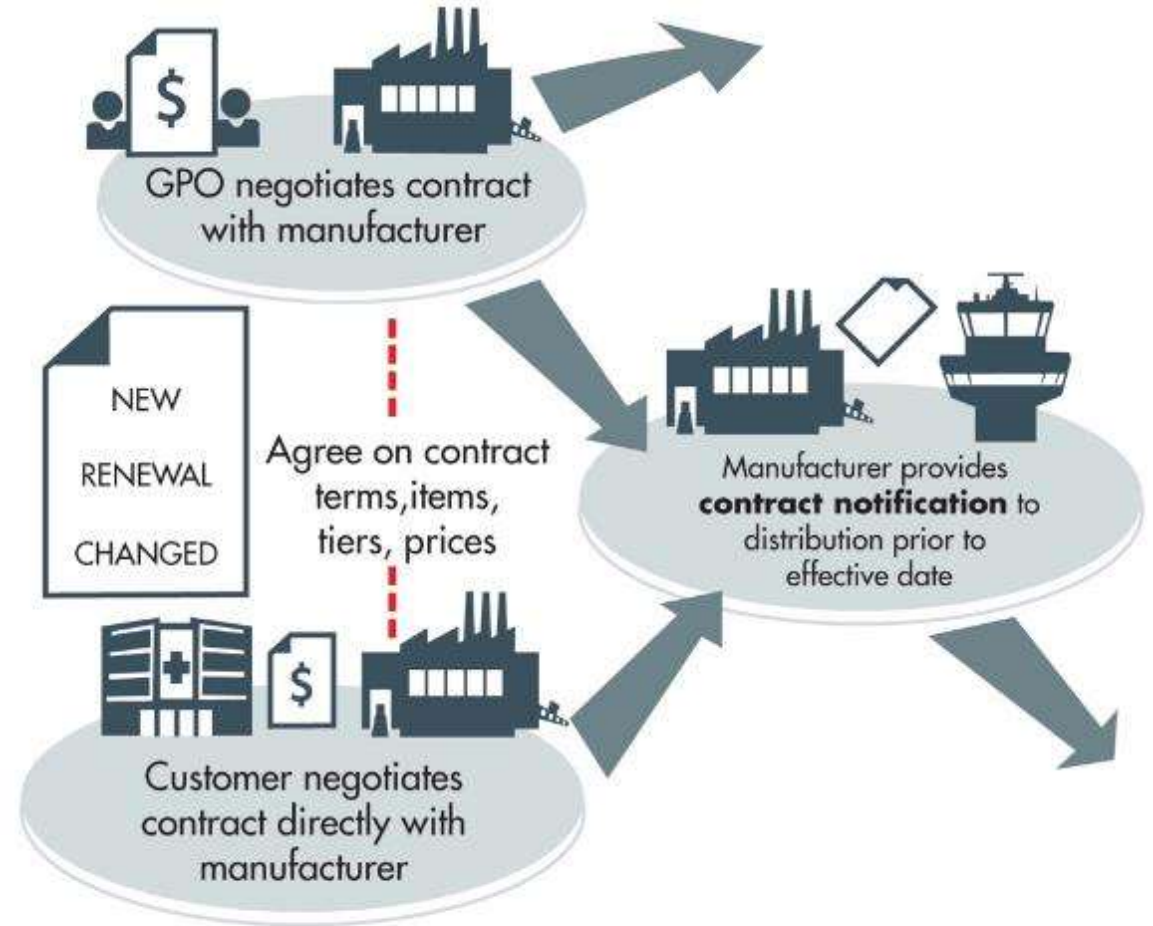
Step 3: Contract Management/Invoicing

Poor Processes Can Grind The Gears At Any Step

Step 4: Chargebacks

Contract Creation

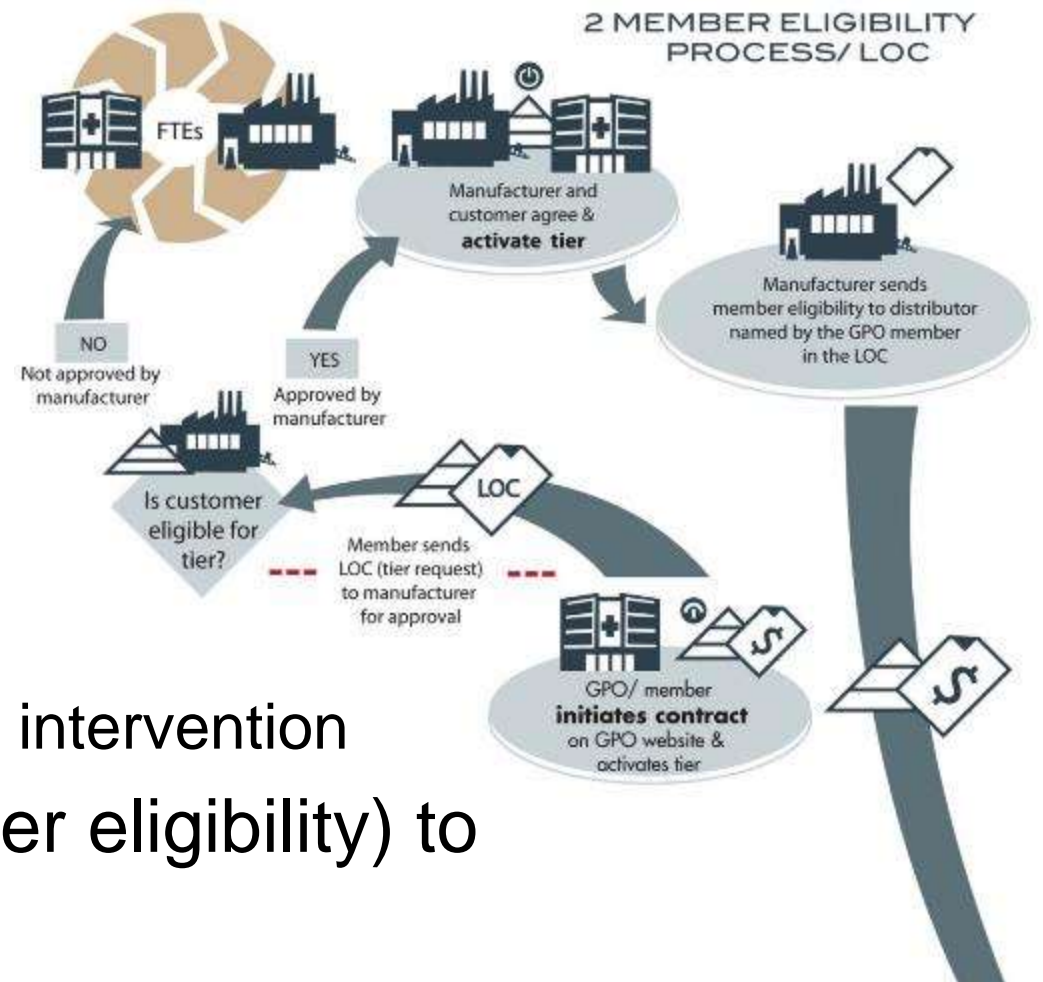
- **Negotiation:** manufacturer and GPO (or self-contracting customer) agree on terms, items, tiers and prices.
- **Contract notification to distribution**



1 CONTRACT CREATION

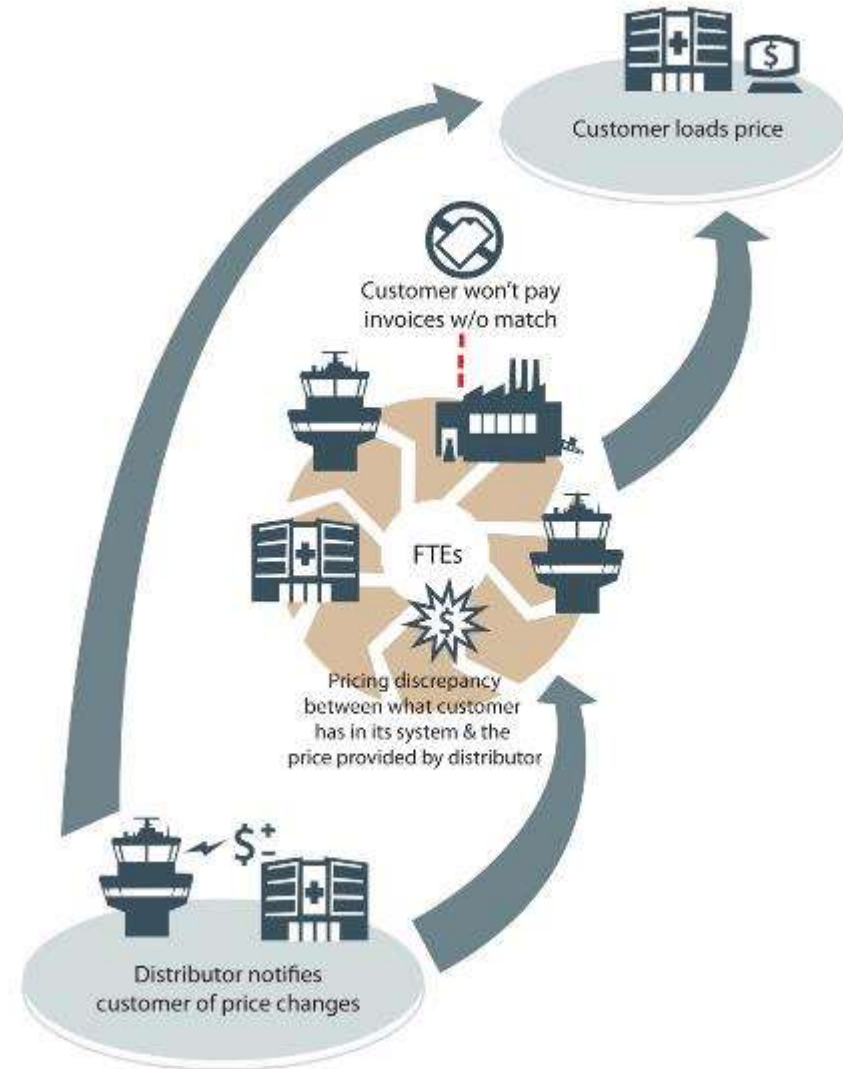
Member Eligibility Process

- Customer goes to the GPO website and signs up for a tier on GPO website
- Manufacturer may approve or reject tier request
 - Tier rejections generally require human intervention
- Manufacturer sends tier info (member eligibility) to distributor



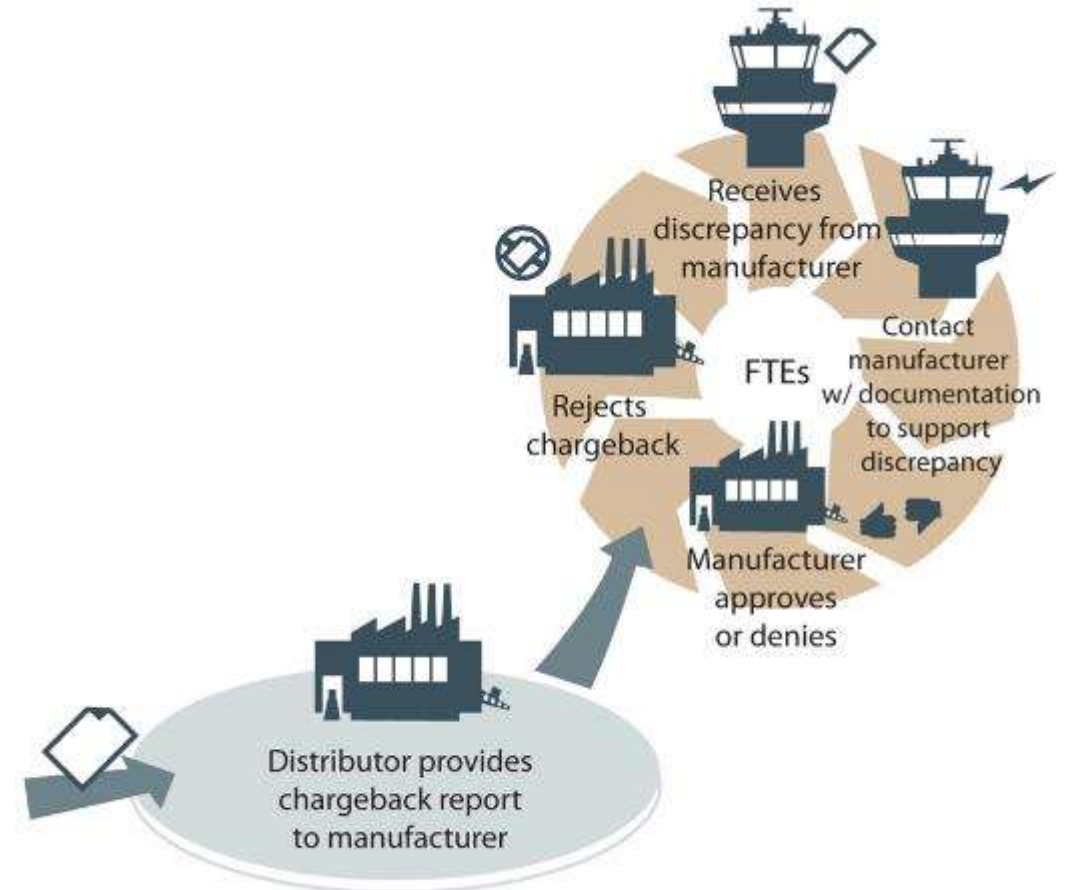
Contract Management

- Distributor notifies customer of price changes
- Customer loads pricing
- Purchasing and invoicing begins
- Price mismatches result in invoice rejection and manual intervention



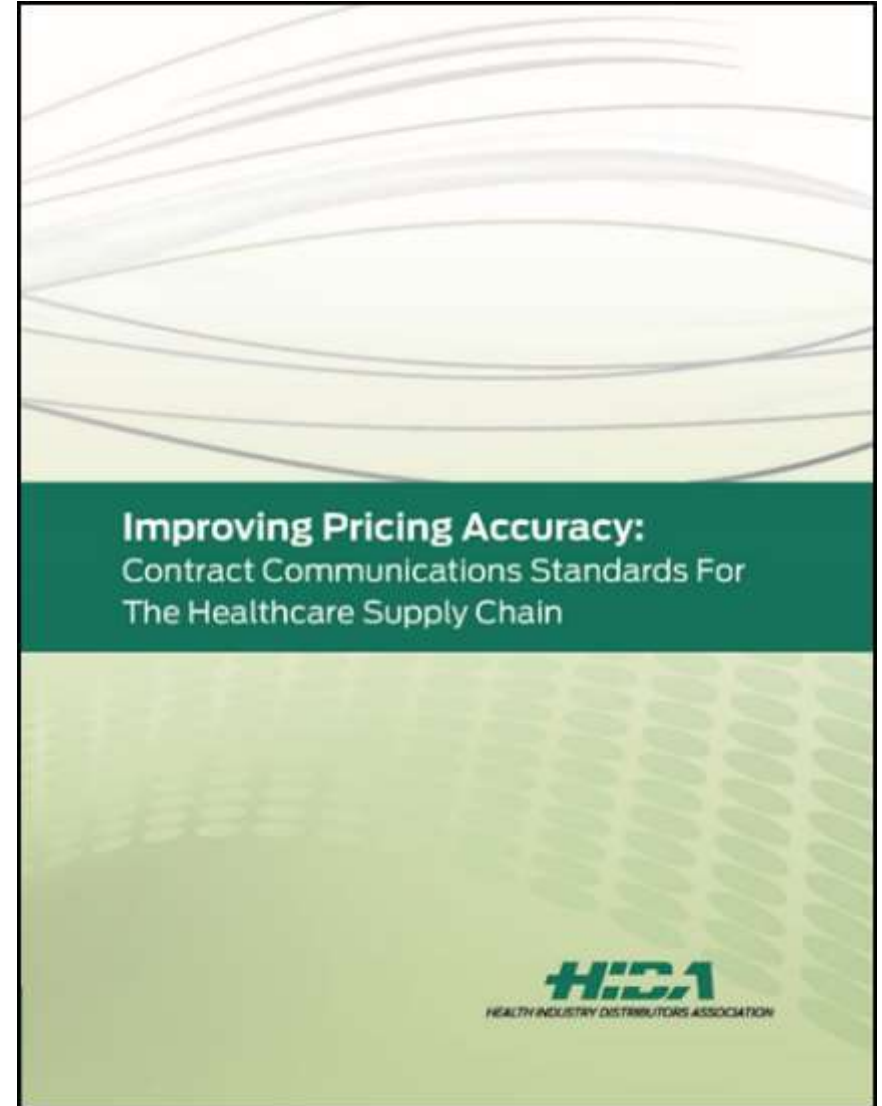
Chargeback/Rebate Process

- Distributor sends chargeback request to manufacturer
 - Reimburses distributor for difference between GPO member price and distribution acquisition cost
- Manufacturer may reject chargeback based on:
 - Price mismatch
 - Member ineligibility
 - Class of trade ineligibility
 - Late rebate application
 - Other



4 CHARGEBACK / REBATE PROCESS

BEST PRACTICES



Three Pillars For Pricing Accuracy

Automation



Timeliness



Standards



Automation

- Push for 100% electronic transactions
- Redesign any process that cannot be automated
- Use recommended EDI formats, or CSV equivalents, to share data



Timeliness

- Commit to contract negotiation deadlines that allow timely notice and implementation of contract changes to all parties
- **45 days' notice to distributors** prior to a contract's effective date
- Distributors get 15 days to load pricing and communicate to customers, customers get 30 days to load pricing
- No back-dating

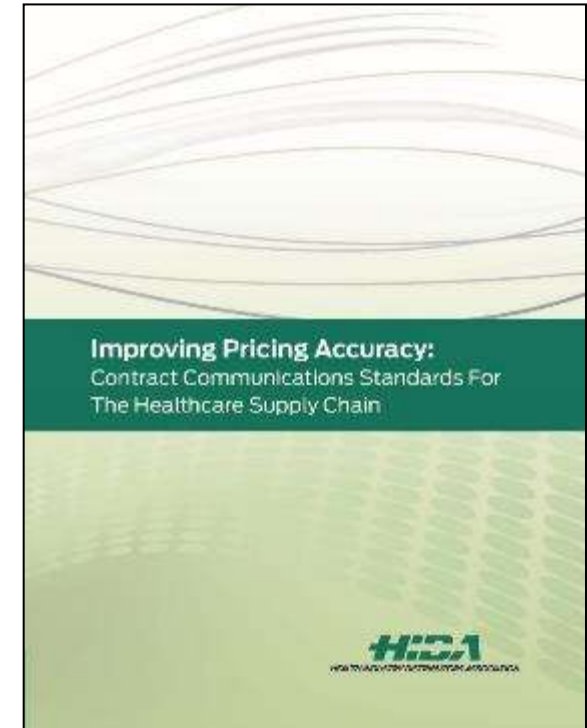


Accuracy Over Speed

Standards

- Follow standardized processes and format for information-sharing
- Utilize third-party standards for customer and product identification

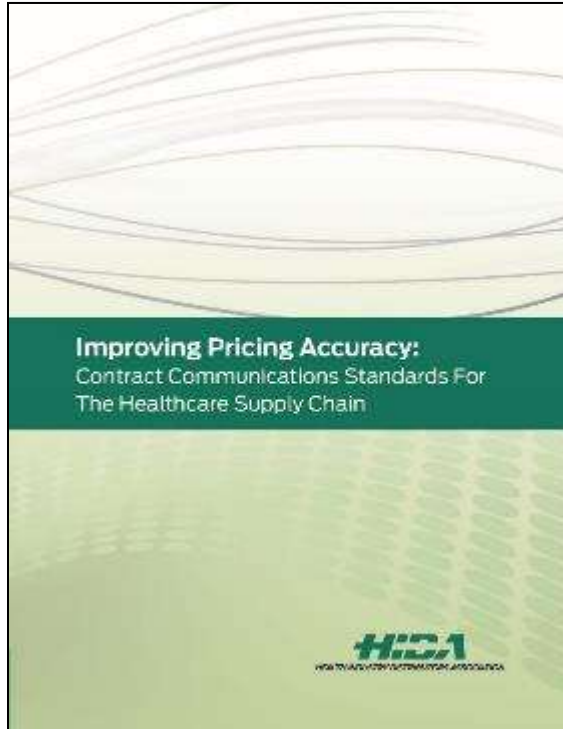
Standard	Location Identifier	Product Identifier
GS1	Global Location Number (GLN)	Global Trade Item Number (GTIN)
HIBCC	Health Industry Number (HIN)	Labeler Identification Code (LIC)



White Paper “Bible” And Related Resources

www.hida.org/pricingaccuracy

Tab #:	Tab Name Link:	Description:
1	Info, Overview & Instructions	History of this document. How to use this document. Recommended best practices. Test plan recommendation.
2	Header Columns and Definitions	List of columns, definitions, codes, and additional resource links.
3	Use Case Examples	Header template with sample data populated for each use case.
4	CSV Template Spec	Blank template only with headers.
5	How to save Excel as a CSV	Saving an MS Excel document as a .csv file.





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