Improving Pricing Accuracy:
Recommended Solutions For Common Contracts And Chargebacks Scenarios

Overview

Every day, pricing discrepancies increase operating costs for providers, group purchasing organizations (GPOs), manufacturers, and distributors. Different factors can cause these discrepancies, but the issues could be moderated if involved stakeholders embrace better business practices. At HIDA's 2017 Contract Administration Conference, attendees were asked to examine and discuss sample scenarios that typically occur within medical products contracts and chargebacks processes. Under the three topics of "Contract Eligibility," "Contract Notification," and "Chargebacks/ Rebates," groups identified various stakeholder pain points, as well as possible process improvements or suggestions that could benefit trading partners. These recommendations are not industry standards, but rather voluntary actions a company may choose to pursue or adopt. Some suggestions may only produce short-term benefits for one stakeholder group, but all are intended to achieve long-term fairness, efficiency, and pricing accuracy for the healthcare community.

Contract Eligibility

Different locations, different GPOs: Different locations within an integrated delivery are utilizing different GPOs or different pricing tiers. The distributor and the IDN are likely to want a single price for the whole system based on the aggregated spend; manufacturers sometimes want to continue pricing at location levels.

Recommended Solutions:

- **Identify and connect the locations.** All active bill-to, sold-to, and ship-to addresses should be on membership rosters, should be consistent, and should be tied to the parent. It is impossible to achieve price synchronization if supply chain partners identify the customer and its locations differently.
- **Centralize billing.** If all parties bill the parent, pricing and compliance variations are easier to identify and address.
- **Clearly communicate what GPO is primary.** An IDN that belongs to multiple GPOs should communicate (ideally electronically) to its distributor and manufacturer which GPO is the primary.
- **Educate trading partners.** IDNs have an opportunity to educate all of its locations/affiliates on accurate pricing expectations. Strong distributor reps also have an opportunity to point out aggregation and commitment issues to the IDN and ask the IDN to make a decision/choice if purchasing is centralized.

Contract Eligibility *continued*

Affiliate/ownership: An IDN directs its distributor to extend pricing to all its affiliates. The manufacturer is only willing to offer the contract pricing to hospitals owned, managed, or controlled by the IDN. If the distributor follows the customer's direction and applies pricing across all affiliates, significant denials are generated between the manufacturer and the distributor.

Recommended Solutions:

- **Write clear contracts.** The contract should specify what types of affiliates are included in the contract pricing, and clearly define terms such as "managed" and "owned" entities. Any class of trade exclusions that occur should also be specified in the contract. Contract terms should be communicated to all trading partners.
- **Share eligibility rosters.** Manufacturers must communicate all eligible owned, leased, or managed providers to distributors via EDI 845 or equivalent communication. Acknowledgement from a provider back to manufacturers (and distributors) confirming eligibility is helpful.
- **Collaboratively address conflicts.** Even with crystal clear contracts, disagreements can happen. Distributors should get on the phone with both the provider and manufacturer together to sort out these issues and get clarity on all locations (sold-to, ship-to, or bill-to) up front.
- **Educate trading partners.** Manufacturers should also educate their customers and their distributors on the distinction between owned and affiliate entities, and clarify how their business rules treat these two groups.
- **Identify all entities.** In most cases, GPO rosters should be used to identify an IDN's locations, but these rosters need to clearly identify which locations are designated as owned and which are affiliates. For GPO tier activations (or IDN negotiations), providers should proactively list all owned/leased/managed facility locations rather than only select locations.
- **Use EDI.** Manufacturers should consider implementing the ability to send EDI 832s to IDNs to help maintain pricing alignment. Regardless, providers should be ultimately responsible for maintaining accurate location and roster data.
- **Other notes:** Consider early/pre-eligibility verification for all sites.

Price tier: A provider is removed from a GPO price tier because it does not meet the GPO's required tier purchasing commitment. However, the GPO's website is not immediately updated, creating a disagreement between the distributor and the provider over which tier pricing is correct.

Recommended Solutions:

- **Establish and follow a standard tier change communications process.** For tier increases or decreases, manufacturers need 45 days' advance notice to effectively notify providers, distributors, and GPOs. The primary chain of communication should follow: manufacturers to distributors to providers to GPOs.
- **Use sales tracings to help identify future price tier changes.** Manufacturers should develop a standard list of questions—who, what, where, and when—to identify non-compliance before it occurs. Use the basis of sales tracings to validate. In non-compliance instances, manufacturers should contact providers to discuss how to either achieve compliance or agree that a tier price will change and when.

Contract Eligibility *continued*

- **Use EDI.** EDI 845 is the preferred communication from manufacturers to distributors and, to preserve data consistency, manufacturer portals are preferred over sending emails.
- **Standardize LOC form design.** GPOs should design LOC forms to ensure pricing change notifications are sent to the correct GPO point of contact—including all contact details—as determined by the GPO. Contracts between providers and GPOs should clearly specify the GPO's role in facilitating electronic LOCs so manufacturers can ultimately approve and implement price tier changes.

Cherry-picking: A provider belongs to more than one GPO and, as a result, is eligible for different contract pricing for the same product. The provider wants to pay the lowest product cost based on the most favorable GPO contract and directs its distributor to 'honor the contract price'. However, the manufacturer maintains a provider contract hierarchy that does not prioritize access to products based on lowest price.

Recommended Solutions:

- **Establish and follow a standard hierarchy approach.** Manufacturers should either prioritize hierarchies by lowest negotiated price or clarify the correct eligible price with distributors (especially when acute and non-acute differences occur). Distributors should follow manufacturer hierarchy rules, but also have a responsibility to help educate providers on the selection process using accurate data provided by manufacturers. If a manufacturer does not allow cherry-picking, providers should designate a primary GPO and abide by this decision.

Contract Notification

Contract expiring: A provider wants to extend or renew an expiring GPO contract, but each trading partner needs advance notification timing to negotiate, make decisions, or update systems. This situation results in conflict, delays, and miscommunication.

Recommended Solutions:

- **Start negotiations early.** Manufacturers and GPOs must be proactive, communicating expirations and working on contracts well in advance of expirations—upwards of 90 to 120 days prior. If providers are switching tiers, manufacturers may have a significant backlog of contracts to update.
- **Establish and follow a notification process.** Manufacturers should notify distributors of extensions 45 days prior to expirations. With support from GPOs, manufacturers should also own the communication of explaining GPO tiers and published website pricing to providers, as well as ensure providers know and track contract dates/extensions. One-month eligibility effective dates should be pushed out for providers that are on tier 1; for pre-slotted providers, they may need up to 90 days to re-sign.
- **Clearly define default or backup plans.** Strong upfront legal language in contract agreements can help make all parties accountable for actions. If no new terms are agreed to or an expiration date passes, then the default should be to courtesy extend existing agreements. Regardless, final terms need to be available 45 days prior in order to allow all systems and parties to update accordingly.

Tier request timing: An IDN sends an LOC to its GPO for tier four and directs its distributor to use that pricing. The distributor follows the IDN's direction, but the product manufacturer has not yet processed and approved the LOC. When the distributor applies for chargebacks to the manufacturer with the tier four pricing, numerous discrepancies and denials occur.

Recommended Solutions:

- **Establish and follow a notification process**. Any price authorization should come from the manufacturer directly as the source of truth, in an expedient way without unnecessary delays. 45 days advance notice is needed between GPOs and manufacturers to notify distributors, who then notify providers, when pricing was approved, will be activated, and will become effective. Do not back-date.
- **Utilize data exchange technologies.** All parties should be aware of price tier data so everyone is on the same page regarding connections (audit trail); leverage a common technology platform. Portals should work both ways, so a manufacturer could go into the portal, change a tier, and all are notified. Conversely, providers could dispute and rectify changes before a price tier is changed.

Late LOC: A provider's hospital purchasing manager was on vacation for two weeks and forgot to send a GPO LOC (tier request) to its manufacturer for approval. The contract is up for renewal/extension, but there is not enough time to notify all affected trading partners without conflict or delay.

Recommended Solutions:

- **Let the contract serve as the source of truth.** Terms and conditions should be clearly defined upfront by manufacturers with support from the GPO, which requires provider communication and education. Effective dates should be the date fully executed—no back-dating.
- **Establish a backup plan.** Providers should be required to have a process in place for when these situations occur. Identify all providers/sites under a contract up front, and then prioritize the order in which contracts are completed. Consider whether the GPO award/manufacturer contract allows pre-dating. Alternatively, determine how many days distributors are required to load pricing (pre-effective and post-effective date).
- **Use available technology to help avoid these occurrences.** Contract analytics can play an important role, since visual metrics often prompt someone to act. e-LOCs can help reduce notification processing days if used effectively. Regardless, managing these situations is labor intensive and can take up to 45 days for activation.

Different formats: A distributor receives contract details from multiple manufacturers via email, in separate excel files distinctly different in format and layout. The distributor wants to streamline these communications in a standard way with its trading partners.

Recommended Solutions:

- **Use EDI 845 communications for notifications.**
- **Use HIDA's EDI 845 Excel file equivalent if EDI use is not possible.** This is a good, alternative starting point for all contract communications (big and small) to follow in a consistent format. Start with key contract attributes, and then build out as necessary but in a consistent manner.
- **Standardize the lead time needed to process contract notifications.** Streamlined communications requires proactive change management, awareness, and collaboration between partners.

Contract Notification *continued*

Multiple notifications: A distributor receives multiple contract price authorization acknowledgments daily from the same manufacturer. Some of these updates are individually categorized by U.S. state and sent in separate communications. Others are sent by multiple employees on the same day, yet contain similar or identical contract information already received on that same day. The distributor is unsure in what sequence or order to process these updates, and seeks a way to improve communications and eliminate redundancies.

Recommended Solutions:

- **Establish a process and central communication points.** Distributors should first notify manufacturers to stop sending duplicates. Then, both partners should establish a mutually agreeable policy that identifies a central point of communication from the manufacturer and a central receiving point for the distributor in order to remove duplicate price authorizations. Collaboration and communication are key here.

Chargebacks/Rebates

Pricing discrepancy: A provider orders a product from its distributor. While the manufacturer has negotiated a GPO tier price of $1, the distributor does not have this provider connected to the GPO tier price. If the distributor's product price is higher than the GPO tier price, a short pay could occur between the provider and distributor for the product. To resolve this issue, distributor and manufacturer reps often exchange multiple emails or phone calls, creating rework and subsequent chargeback discrepancies.

Recommended Solutions:

- **Maintain up-to-date provider eligibility rosters.** Accurate documentation helps facilitate chargeback discrepancies in a timely manner.
- **Use electronic notifications.** These can help automate and accelerate the eligibility and connection process.
- **Resolve the issue between distributor and manufacturer.** The provider should not be penalized. The manufacturer's pricing department should resolve the price issue, communicate the correct tier to the distributor to fix disputes, and communicate decisions to the GPO.
- **Communicate proactively.** If more than three emails result from the same person on the same problem, set up a call.
- **Establish a tolerance window.** This window should account for before and after price change activations (terms and conditions could address how many days accepted prior to and afterwards in negotiations), when the old or new price is accepted, and should eliminate results or reviews that ultimately would have been paid anyway. Manufacturers could also allow distributors to credit and rebill providers to the GPO tier price if the transaction occurred while the provider was eligible.

Chargeback under-/over-reporting: A distributor qualifies for multiple manufacturer chargebacks, but only applies for certain ones—either unknowingly or only for certain amounts that meet or exceed a specific dollar threshold. As a result, omitted chargebacks go unacknowledged by both the distributor and manufacturer, which influences reconciliation reports, provider credits, and internal chargeback/rebate files.

Recommended Solutions:

- **Establish chargeback thresholds.** Distributors and manufacturers should work together to set these limits or triggers, determine next actions, and clarify stakeholder responsibilities. Since distributors use chargebacks and sales tracings files to determine administrative fees and commissions, these can also help determine reporting thresholds and exception reports.

- **Fulfill reporting requirements.** Manufacturers should not be obligated to pay chargebacks for those not submitted by distributors. However, they may still be responsible for obtaining full sales tracings to meet GPO administrative fee obligations, depending on negotiated agreements.
- **Use a central data source.** Manufacturer portals can help provide distributors automated visibility into issues, as well as omitted chargebacks if internal systems determine additional chargebacks are due.

Backdated contract: A provider converts from one GPO to another. The manufacturer continues to honor the former GPO's pricing while the new GPO's tier assignments are negotiated, leading to thousands of credits being processed during the conversion.

Recommended Solutions:

- **Alert affected stakeholders.** An official termination notice should be provided to the original GPO. Providers should also be informed that contracts cannot be executed within a week after negotiation.
- **Do not jump the gun.** Providers should not be moved from one GPO to another until the correct documentation of change is received from the GPO or manufacturer.
- **Do not back-date.** Manufacturers should allow for contract overlapping, and clearly communicate an effective date upon which everyone agrees, but contract back-dating should never be allowed.

Sold-to/Ship-to: Specific sites within an IDN qualify for different contract pricing than others. A manufacturer sends a distributor notification to align certain provider sites to the pricing, but does not include sold-to numbers in the notification. The distributor inputs ship-to information into the sold-to field since it is included. This connects ineligible IDN ship-to's to the specific contract pricing, leading to denied chargebacks and the provider receiving the specific contract pricing for all products.

Recommended Solutions:

- **Automate.** An easy way to identify a provider across all partners would be to use GLNs (Global Location Numbers) and ensure all locations are rostered.
- **Be flexible.** Distributor systems should have the ability to accommodate one-to-one and one-to-many relationships to reduce sold-to/ship-to errors.
- **Clarify intent.** Distributors should work with manufacturers to establish a standard 10-15 question template for setting up a chargeback relationship on all sold-to and ship-to locations.
- **Cross-reference data.** Manufacturers and distributors should share cross-reference data with each other, within the framework of established chargeback rules, to ensure exclusions are not reentered.

For more information on HIDA's Pricing Accuracy Initiative, visit www.StreamliningHealthcare.org/Improving-Pricing-Accuracy.

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