Northern Arizona Healthcare, Intalere and Cardinal Health Collaborate on Using Exception Metrics to Drive Price Accuracy and Maximize Contract Savings

THE CHALLENGE

Intalere member Northern Arizona Healthcare (NAH) is the largest healthcare organization in Northern and Central Arizona, with nearly 3,000 employees and 300 physicians on its active medical staff. NAH provides healthcare services through Flagstaff Medical Center, Verde Valley Medical Center (with campuses in Cottonwood and Sedona), Northern Arizona Homecare and Hospice, the Heart & Vascular Center of Northern Arizona, Cancer Centers of Northern Arizona Healthcare, Fit Kids of Arizona and Guardian Air.

As an active and engaged Intalere member, NAH Materials Manager, Ronda Wirth, was well aware of the savings available through Intalere’s vast portfolio of solutions contracts. However, she found herself battling an increasingly difficult problem – making sure that the contract price was actually the price she was paying.

“Ensuring pricing accuracy can actually be a very complicated process,” said Wirth. “It requires the facility, their distributor, the group purchasing organization (GPO) and the supplier to communicate and implement contract and price changes concurrently. Delays in communicating these changes cause inaccuracies between purchase order and invoice amounts and often reflect inaccurate price increases.” Or as Mike O’Connor, NAH Director of Materials Management, likes to put it, “You can have the best contract in the world, but if you are not paying the right price, what good is it?”

A SHORT TAKE ON SUCCESS

Challenge
Price discrepancies had resulted in increased costs and inefficiencies in vendor payment.

Solution
Formation of a cross functional team to formulate a best practice process focused on improving price match and days sales outstanding (DSO) rates in order to facilitate price accuracy and prompt payments.

Outcome
Price match increase to 98% and reduction of DSO rates by more than half, allowing facility to maximize contract savings.

“The collaborative efforts of this project allowed us all to improve our best practice methods.”

Utilization Manager ∙ Intalere
Initially, NAH and their distributor, Cardinal Health, formed a team focused on improving their price match and days sales outstanding (DSO) rates in order to facilitate pricing accuracy and prompt payments. The goal was to achieve a 98% price match rate and a DSO less than 15 days.

As they began to work through the process, they realized that in order to achieve their objectives, and perhaps have a broader impact concerning this industry-wide challenge, they would need to involve representatives of Intalere to collaborate and identify problem areas that were causing pricing inaccuracies.

“One of the problems we identified was the challenge of expiring contracts and the difficulties and timing of communicating price changes and updates between the facility, distributor and GPO,” said Wirth. “We formed a joint task force with NAH, Cardinal Health and Intalere to set about building a best practice process that would identify expiring contracts well in advance, ensure follow-up plans were in place, and make sure pricing was identified and communicated to all parties.”

But more than just address their particular situation, the team saw this as an opportunity to establish practices that could be standardized and applied throughout the industry. “As we began to share our story on this initiative, we found that this was a significant problem for many healthcare facilities and their supply chain partners,” said O’Connor.

By working together using various reports provided from each company, they identified problem areas and worked with suppliers as needed to prevent inaccurate future price increases. NAH also worked internally to address open purchase orders and invoice issues. Intalere made adjustments in their contracting and reporting processes in order to facilitate more timely responses, action and communication.

According to Intalere’s utilization manager, the collaborative efforts of the project allowed all stakeholders to improve best practice methods. He noted that although NAH, Cardinal Health and Intalere had previously worked together to meet mutual goals, the collaboration on a regular, ongoing basis as a team was a new approach. He added that the issues identified also allowed Intalere to work on best practice contracting methods and further enhance their contracting process, to the benefit of all of Intalere’s member facilities.

Price matching increased to 98% and NAH’s DSO with Cardinal Health improved from 27 days to an average of 13 days, allowing them to maximize contract savings. “By tightening up the process and ensuring greater price match, we realized $132,000 in savings in a very short period of time,” Wirth said. Improvements were measured by tracking the weekly and monthly price match rate, the quantity of price exceptions, invoice payments and the DSO rate, and by reviewing dates and prices of expiring contracts and future price change notification reports. “The pricing accuracy project has reduced time spent working price exceptions and invoice problems and has helped reduce NAH’s medical supply costs,” said Wirth. “By ensuring contracted prices are kept in place, it ultimately helps ensure the patient is not overcharged for medical supplies.”

The team has found much interest and acceptance as they share their success at national supply chain events and through forums such as the Intalere National Healthcare Alliance (INHA) meetings, a regional purchasing coalition in which NAH is an active member. “We are finding there is great value in the practices and process that we have implemented that can be shared,” said Bob Glover, Cardinal Health Vice President. “But we also know that this is not a one-time fix. It is a challenge that requires collaboration on a continual level.”

Not content to rest on their laurels, the team began exploring how to better integrate suppliers and manufacturers into the process to bring even more efficiency. “For things to truly work perfectly, we must view this as a four-legged stool, with the healthcare facilities, GPOs, distributors and suppliers each sharing evenly,” said O’Connor.