

Case Study



Northern Arizona Healthcare

Northern Arizona Healthcare Generates Significant Savings Through GHX Contract and Content Management Solutions

Overview

With nearly 3,000 employees, 300 physicians on its active medical staff and more than 167,000 patient visits each year, Northern Arizona Healthcare (NAH) is the largest healthcare organization in Northern and Central Arizona. 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. The organization includes a state-designated Level I Trauma Center, Pediatric Intensive Care Unit and extensive cardiovascular surgical services including traditional and minimally invasive open-heart surgery.

Challenges

In 2012, the Northern Arizona Healthcare (NAH) supply chain team was faced with year-end price changes that exceeded \$468,000 resulting from distributor discounts and changes in supplier contract pricing. Price exceptions rose to record levels because the buyers and contract team did not have a way to manage them in a standardized, accurate and repeatable method, and there was no automated and efficient process for price validation. Furthermore, contract data among NAH, its distributor and GPO were not synchronized, with each party having different tier levels and pricing within their systems.

NAH supply chain staff members spent a minimum of two weeks to process price changes from the organization's distributor because of duplication of manual processes. It took the team two to three weeks or more to resolve price exceptions and release invoices, resulting in an average days sales outstanding (DSO) of 28 days, which impacted its distributor's cash flow.

"There was duplication, inefficiency and long delays in our process and that was crushing our productivity and ability to get control. In addition, we were

Organization:

- Northern Arizona Healthcare
- Flagstaff, AZ
- Total licensed beds: 378

GHX Products & Services:

- GHX Exchange
- CCXpert
- NuViaSM

Group Purchasing Organization (GPO):

- Amerinet

Highlights:

With the belief that paying any price for a product other than what has been negotiated with the supplier is a disservice to its customers, the supply chain team at Northern Arizona Healthcare (NAH) engaged in a collaborative effort with its group purchasing organization (GPO), main distributor and GHX to improve contract compliance and order accuracy through process improvements and price validation using GHX solutions. This collaboration enabled the organization to achieve \$450,000 in cost avoidance through correct pricing at the point of purchase, an estimated \$25,000 in annual savings from DSO reduction, and an additional \$132,000 in savings from price change validation.





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Management, Northern
Arizona Healthcare

paying the wrong price a good portion of the time,” said Mike O’Connor, director of Supply Chain Management for Northern Arizona Healthcare. “Fueling this was the lack of communication between us, our distributor, GPO and suppliers. Our GPO would negotiate a price with a supplier but the supplier would not communicate this change to our distributor—the communication links were all broken.”

Solution

The NAH supply chain team implemented the GHX NuViaSM content management solution to continually monitor the organization’s item master for changes and updates, and then systematically correct product data inaccuracies, removing duplicates and infilling missing information. They also employed the GHX CCXpert contract management tool, which helps maintain pricing accuracy through price validation, detailed historical purchasing reports and contract updates. When an order is placed, the CCXpert tool performs a three-way price match between the purchase order (PO), purchase order acknowledgement (POA) and contract price to help ensure the right product is purchased at the right price.

To get the most out of their supply chain solutions investment, Ronda Wirth, Procurement Operations Manager, Supply Chain Management, Northern Arizona Healthcare, became certified in GHX Order Center, CCXpert and Reports Center. She also encouraged her team members to earn their certifications so that they could use these tools to their full potential.

“The first step in addressing price alignment is to understand the applications you are using,” said Wirth. “When I first joined NAH I found the buyers and contract team members were working exceptions through GHX in different manners. Earning our GHX certifications has completely changed the way we manage contract price exceptions by standardizing our processes for greater accuracy and efficiency.”

Once NAH had an automated process in place for managing its item master and contract data, the supply chain team began meeting weekly with the organization’s distributor and GPO to determine how it could collaborate to improve pricing accuracy across the board. Using GHX solutions, the team

ran reports to identify problem areas. Northern Arizona Healthcare’s GPO and distributor ran their own reports as well so that all three parties could compare data.

“It’s a collaboration of what we need to do as a provider, what they need to do as a distributor and GPO and how we can all work together to meet our goals,” said O’Connor. “You can negotiate all you want and get the best prices but if one of the parties doesn’t have that right price in its system, you will get price exceptions and potentially lose money through overpayments.”

Northern Arizona Healthcare, its GPO and distributor uncovered a number of issues that were driving contract price discrepancies. These included:

- When the GPO and supplier did not negotiate contracts far enough in advance of the contract termination date allowing sufficient time for all parties to implement any contract changes
- When the supplier failed to notify the distributor of a contract extension or renegotiation
- When the distributor failed to notify the provider of price changes received from the supplier
- When any one of the parties had not loaded contract information timely or correctly in its systems

Over the past 18 months, Northern Arizona Healthcare, its GPO and distributor have worked collaboratively to address these and other issues. Each week they generate reports from their own internal systems, share this information with one another and then engage in a 15 to 30 minute telephone conference call during which they review current processes and develop plans to correct discrepancies and synchronize pricing. All three parties also engage suppliers so that they too are in sync in terms of data and process improvements.

“This has been a big success for us but one of the things we’ve discovered is that it’s not one of those projects that you can implement and be done with. It takes continuous work,” said Wirth. “There is always one contract or vendor that can throw things off so you need to keep on top of it. We use GHX reports and scorecards to establish goals and metrics for our contracts team, and trend them, so that we can easily identify the source of the problem when something doesn’t match.”

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— Ronda Wirth,
Procurement Operations
Manager, Supply Chain
Management, Northern
Arizona Healthcare

Results

Through this teamwork and leveraging GHX solutions, NAH, its distributor and GPO have significantly improved the efficiency and accuracy of the procure-to-pay process. The results of this effort allowed Northern Arizona Healthcare to achieve:

- \$450,000 in cost avoidance by ensuring products are purchased at negotiated prices
- DSO reduction from 28 days down to 8 days, resulting in a distributor mark-up decrease that generates an estimated \$25,000 in annual savings
- \$132,000+ in savings resulting from validation of 2013 price changes
- GPO expired contracts reduced from 32 to 5 per month, an 84 percent improvement
- Distributor expired contracts reduced from 30 to 4 per month, an 87 percent improvement
- Elimination of overpayments and underpayments

The Future of Price Alignment in Healthcare

The results generated from the collaboration among Northern Arizona Healthcare, its distributor and GPO reinforce the need for an industry-wide solution for contract price alignment. Working with its community of healthcare providers, suppliers, distributors and GPOs, GHX is deploying Collaboration Portal, a single industry platform that enables all stakeholders to collaboratively synchronize contract pricing in an automated, electronic manner. This initiative will create the healthcare industry’s only four-way collaborative solution for contract management, helping enable all parties to a contract to:

- Agree on key terms and conditions
- Generate and/or confirm an electronic letter of commitment (eLOC) in real-time
- Automate a contract file to a distributor on the same day it is executed
- Activate new pricing with all parties in less than a week, versus the 45-60 days it typically takes to synchronize contract data



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