

# GPO Pricing Study: Guidelines for Success

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## **Abstract**

The purpose of this paper is to provide guidelines for success in conducting a Group Purchasing Organization (GPO) pricing study. Although there are many factors that must be looked at in assessing a GPO relationship, a valid assessment can not be made without a clear understanding of the pricing component. Benefits will result in a fair, accurate, and meaningful approach to conducting a pricing study.

The question of line item product pricing and how to determine “best” pricing have long challenged organizations. In our experience with health care organizations, we continuously encounter confusion and frustration around how to assess “best” price. The variables that impact price are similar across organizations; however, the approach to addressing those variables is inconsistent.

Here we take a look at the variables and address how best to manage them. The recommendations and guidance are based on the compilation of work done with major health systems, group purchasing organizations, and some medical device and pharmaceutical manufacturers. Additionally, we have interviewed several leading health care organizations and group purchasing organizations to get their perspectives and share some of their experiences in either managing or responding to a pricing market basket. The recommended method and guidelines for conducting a pricing market basket are based on these observations, interviews, and experiences. The method includes consideration of some variables impacting contract pricing and a suggested process by which to develop the pricing market basket; as well as, an approach for analysis and validation of the pricing component of the GPO selection process.

This paper is focused on the market basket portion of a GPO pricing study. The line item contract pricing is a component of the overall analysis and selection of a GPO partner. Other factors such as share-back, membership fees, rebates, and service offerings are not addressed here.

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# Overview

Higher supply spends, decreasing revenues, increased demand for new technologies, and increased scrutiny on vendor relations are among all current market pressures. How can the typical health care organization address these pressures? How does an organization understand the true cost for an individual product or supplies overall by line item and its impact on the bottom line? What are the variables impacting the price an organization pays for a product?

In most cases, health care organizations are reliant on a Group Purchasing Organization (GPO) for best product pricing through contracts. But how is contract pricing evaluated in the GPO selection process? There are many factors beyond product pricing that go into a GPO assessment or selection including the value of services the GPO can provide, administrative fees paid back to the organization (share-backs), the breadth of the GPOs portfolio, and the “fit” of the GPO with the health care organization’s culture. While all factors do need to be considered, many health care organizations simply become mired down in analysis of the various “value add” factors and lose focus on the analysis of the contract pricing portion of the assessment. In the absence of a sound and thorough analysis of the contract pricing, the ability of a health care organization to accurately assess the overall financial value that the GPO can generate for the health care organization can be misunderstood or lost in the process.

- How does a health care organization develop a pricing market basket and get meaningful responses?
- What does a thorough and accurate analysis look like?
- Why does the pricing methodology matter?

This paper will address these questions and the variables that come into play when conducting a GPO assessment by providing a step-by-step guide for health care organizations who are involved in this type of assessment.

## Variables Impacting Pricing

Pricing Variations	Contract Considerations	Other Variables
<ul style="list-style-type: none"> <li>• Timing</li> <li>• Volume</li> <li>• Distribution channels</li> <li>• Distributor Mark-ups</li> <li>• Unit of Measure</li> <li>• Product packaging</li> <li>• Rebates</li> <li>• Date of pricing</li> <li>• Shelf-Life/Expiration dating</li> </ul>	<ul style="list-style-type: none"> <li>• Contract terms/ability to commit</li> <li>• Custom and enhanced pricing</li> <li>• Product additions and deletions</li> <li>• Price protection</li> <li>• Compliance requirements</li> <li>• Length of commitment</li> <li>• Product mix/bundling requirements (example: suture and endo-mechanical)</li> </ul>	<ul style="list-style-type: none"> <li>• Conversion Costs</li> <li>• Emerging technologies</li> <li>• Clinician practice patterns</li> <li>• Physician relationships</li> <li>• Regional and/or local considerations</li> <li>• Ability to consider substitute/alternative products</li> <li>• Regulatory considerations</li> </ul>

# Step 1: Defining the Market Basket

Defining a pricing market basket should provide clarity that will drive accurate responses from the GPOs. Accurate responses from GPOs will enable a pricing analysis that is thorough and specific to each health care organization. To begin building the pricing market basket, the health care organization must first determine what products or product categories will be included and how pricing responses will be analyzed. The following section discusses the method for defining the market basket and collection of line-item pricing data. It also provides recommendations for product segments that need additional consideration.

## Defining the Market Basket

To define how the analysis will be conducted, the health care organization needs to consider the following:

1. What products or product categories should be included?
2. What products or product categories will be excluded?
3. Will the health care organization consider alternative or substitute (generic or otherwise) products and, if so, for what products?

## Include Medical/Surgical and Pharmaceutical Top Spend Line-items

It is important to build a market basket that is meaningful and manageable. A selection of products from both the medical/surgical and pharmaceutical categories provides the most thorough assessment. A market basket should not include every item in the item master. But should be reflective of a health care organization's current product mix, spend, and utilization.

In reviewing items to include in the market basket, consider any circumstances that may impact the volume for a specific line item or product category. For example, if a particular product was a high volume, high spend item but the health care organization has recently switched to a different product be sure to assign the correct volume to the new product based on the purchase history for the product it replaced. Likewise, consider any major initiatives that include new product introductions or product conversions that may be in progress to determine if they should be included or excluded from the market basket

## Include Medical/Surgical Top Spend Line-items

Use the 80/20 rule (focusing on the 20% of the products that make up 80% of the health care organizations spend) to ensure that the line items all with the greatest financial impact are included but that those with minimal impact are excluded. Generally the market basket should consist of 200 to 400 medical/surgical line items and will cover approximately 80% of the medical/surgical supply spend.

## Include Pharmaceutical Top Spend Line-items

Use the 80/20 rule (focusing on the 20% of the products that make up 80% of the health care organizations spend) to ensure that the line items all with the greatest financial impact are included but that those with minimal impact are excluded. Generally the market basket should consist of 200 to 300 pharmaceutical line items and will cover approximately 80% of pharmaceutical supply spend.

## Exclude Physician Preference Line-items

Physician Preference Items (PPI) such as orthopedic implants, cardiovascular products (ICD's), and other product categories which represent dynamic clinical technologies present a challenge in any type of pricing study. Although the expenditure for the health care organization for these items is likely significant, the market dynamics and the

prevalence of locally negotiated pricing add complexity if included in a GPO market basket assessment. Generally, decisions pertaining to physician preference items should be based as part of an integrated clinical and financial strategy and not a GPO market basket pricing study. Other factors such as physician satisfaction, efficacy, the availability of the product, training requirements, and additional equipment needed to support the use of the product should be considered in the decision-making process. To practically consider such complex factors, pricing for PPI items should be considered outside of a GPO pricing market basket where the appropriate level of diligence to a specific product category can be best managed.

## Exclude Custom Products

Custom products should be excluded from the market basket. By nature, custom products are very specific to a health care organization and have requirements too complex to address in any market basket study. Custom products include custom packs and kits or custom negotiated contracts such as forms and linen/laundry.

## Exclude Purchased Services and Major Capital

Other product categories or groupings that do not lend themselves to analysis as part of the GPO market basket include services based contracts, major capital equipment (beds, infusion pumps), and any supplies that would be included as a lease or bundled arrangement.

## Exact Line-item Matches

Items with the same manufacturer and exact manufacturer number or UNSPSC are considered exact match line items. To minimize product conversion and the associated expense and burden to the health care organization, the organization must consider what items must be available from the GPOs as exact matches.

Also, there are private label items for which a different GPO could provide an exact match but the item will have a different manufacturer number (Example: NOVAPLUS product line from Novation or Choice from Amerinet). This needs to be considered when pulling the data and when analyzing the GPO responses.

Identify individual items or item categories where an alternative item could not be considered by the health care organization. If the organization has recently gone through a major product conversion has corporate contract obligations, or capital equipment standards, the ability to convert these items may be limiting and would not be considered. IV solutions and sets and pulse oximetry probes are items that may fall into this category because of their interdependencies with existing equipment, extensive training requirements, or existing corporate agreements.

## Substitutes and Cost of Conversion

In addition to price, each health care organization should understand the impact of change or conversion for particular products or product categories. Careful consideration must be given to identify those products that the organization could evaluate a substitute for. The cost of product conversion can include the value of existing inventory, the cost of additional associated equipment, the cost of training, and the impact conversion could have on other product categories.

In some cases consideration of a substitute item would require a product trial and/or clinical review. The expense of any trial, including expense for trial product and staff training, must also be included in the consideration for the overall decision process. Additionally, when considering generic or alternative items additional due diligence by the health care organization is required to determine if the alternative is a generic offering or a fair substitute that would be acceptable.

# Step 2: Data Collection

After the health care organization has defined the market basket, the item data can be gathered and baselines established. Baseline values must not include distribution markups or markdowns, manufacturer rebates, or incentives. Baseline values must be calculated based on the contracted price for the item and is not calculated off of pricing for substitutes or other purchase anomalies (back-orders).

To most efficiently and effectively gather the required data, it is important to understand what data the health care organization has available. Generally, purchase volume and line-item pricing data are available in a health care organization's item master. Data not available in an item master will need to be obtained through distributors or directly from the manufacturers. To collect meaningful data for the market basket from the item master, it is important to understand how the item master is managed.

- Work closely with the staff in your health care organization who handles item master maintenance to understand what data fields are available, any standard nomenclature, and the timings for setting up products in the item master.
- Identify the timing for item master maintenance and new item additions. If there are long lead times for adding items to the item master, additional diligence will be required to ensure capture of the most current items and pricing.
- Understand exactly what is and what is not set up in the item master. In some health care organizations, items used in certain areas, such as the cardiac cath lab or radiology, are not loaded into the item master. These items (catheters, contrast media) generally have high-volume usage and high-dollar spend but are not included in the item master. Data for these items will need to be collected from a different source such as a distributor or manufacturer report. The item master will direct how that data is collected and if additional sources for the data will be needed.

Many health care organizations have multiple materials management systems and therefore do not have a single item master that is common to the entire health care organization. In these cases, data will have to be collected from each system source and/or distributors and manufacturers. In cases where data is collected from multiple systems or data sources, such as across multiple facilities that do not have a common item master, that data must be standardized. Standardizing includes ensuring consistent units of measure for same items as well as normalizing the item descriptions.

**Tip:** Identify the volume by item, facility, and class of trade for pharmaceuticals.

## Pharmaceutical Data Collection

Collecting the data for the pharmaceutical market basket is generally straight forward. The regulatory nature of the pharmaceutical category dictates the limited channels through which these items are acquired and how the data is managed. As a result the sources for data acquisition are generally limited to a pharmaceutical distributor and, in some case (generally as a result of product shortages or product allocation situations) the manufacturer. To ensure a complete sample of the pharmaceutical data, be sure to include purchases from both the distributor and any direct purchases from manufacturers. Identify the data by facility or location and by class of trade (acute care, acute care Disproportionate Share Hospital, home health care, long-term care, ambulatory pharmacy, HMO managed care, physician's clinics, and retail pharmacies).

**Tip:** Be sure to include high-volume, top-spend generics in the pharmaceutical market basket.

For pharmaceutical items, use the National Drug Code number as the key field. The National Drug Code number or NDC provides the most accurate means of identifying pharmaceuticals to ensure exact item-for-item matches. The NDC serves as a universal product identifier for human drugs and should be one of the main data elements provided for each pharmaceutical item within the GPO market basket. Drugs listed under the NDC are identified by an 11-digit number composed of three segments. The example below demonstrates the NDC number breakdown.

## NDC Number Breakdown Example

1. The first segment, assigned by the FDA, identifies the vendor (or labeler) involved with the manufacturing, packaging, or distribution of the drug.
2. Product codes, listed in the second segment, comprise the generic entity, strength, and dosage form.
3. The third segment, or package code, indicates the package size.

NDC Number			Product Description
0004	0268	06	Demedex 5mL amps
Vendor	Generic Entity, Strength & Form	Package Size	

The manufacturer assigns the second and third segments of the code for a given product.

## 340B Pricing

Certain federally funded grantees and other safety-net health care providers may purchase prescription medication at significantly reduced prices for outpatient use. If the health care organization qualifies for the 340B drug pricing program, data for those pharmaceutical products should be excluded from the market basket. Pricing for these items are set by the manufacturer using a statutory formula. To determine if the organization is a covered entity, check the Health Resources and Services Administration web site.

## Disproportionate Share Hospitals (DSH)

Qualified, publicly funded, safety-net hospitals are eligible for DSH in-patient pricing. For these hospitals, pricing for certain pharmaceutical products is set by the government and is formula based. If the health care organization qualifies for DSH pricing, the items which it receives DSH pricing for need to be identified in the data. A health care organization's DSH eligibility can be confirmed through the HRSA Web site.

## Medical/Surgical Supply Data Collection

Medical/surgical items are brought into the organization through two primary channels; the distributor or the manufacturer. Most health care organizations have an item master in which the majority of medical/surgical items are loaded and managed. Data for the medical/surgical market basket can be collected directly from an item master, distributor(s), or the manufacturers. What differentiates the medical/surgical data collection from the pharmaceutical data collection is that each source (item master, distributor, manufacturer) may use a different item identifier. The most accurate identifiers for each product are the manufacturer item number or the United Nations Standard Products and Services Code (UNSPSC) which are referenceable numbers that GPOs can accurately cross validate to provide pricing for the item requested. The graph below shows an example of three reference numbers for each of the items listed; distributor SKU number, manufacturer product number and facility item number.

## Item Identifier Numbers

Distributor SKU Number	Manufacturer Product Number	Facility Item Number	Facility Item Description
3477MJ200S	MJ-200S	5103233	Collar J Super Short
3477MJ200L	MJ-200L	5103247	Collar Miami J Stout
3477MJ300	MJ-300	5103265	Collar Miami J Small
3477MJ400	MJ-400	5103274	Collar Miami J Medium
3477MJ500	MJ-500	5103283	Collar Miami J Large
3477MJ250	MJ-250	5364378	Collar Miami X-Small

Use the Manufacturer Product Number or UNSPSC as the referenced item number.

When gathering the medical/surgical supply data be sure that either the manufacturer product number or the UNSPSC number are included to ensure that the GPOs are able to provide pricing for the exact item requested.

### UNSPSC

The UNSPSC is a hierarchical convention that is used to classify all products and services. The UNSPSC was jointly developed by the United Nations Development Program (UNDP) and Dunn & Bradstreet Corporation (D&B) in 1998. While currently widely used in consumer products industries, it is gaining recognition in health care provider settings as the universal product identifier. Detailed information regarding the UNSPSC code set can be accessed through the UNSPSC web site at [UNSPSC.org](http://UNSPSC.org).

## Unit of Measure

Attention must be given to unit of measure to ensure accurate volume information is provided in the market basket. Volume can determine the tier-level pricing by product for which the health care organization is eligible. Certain items may be issued in both bulk units and at low units of measure. Use the lowest unit of measure to calculate the most accurate total purchase volume for each item, clearly identify what unit of measure has been used to calculate the volume for each item. To ensure an accurate total purchase volume reflects seasonal variability, use either a full twelve months of data or annualizes no less than six months of data. The example below shows how unit of measure and volume can impact pricing submittals.

### Sample of Unit of Measure Impact on Analysis

Item	Current Unit of Measure from Hospital	GPO A	GPO B	Price Difference	Annual Volume	Total Price Difference
Surgical Scrub	Case of 6	Case of 6 \$198.80	Each \$37.25	\$161.55	70	\$11,309
Sponge	Box of 150	Box of 150 \$232.50	Each \$1.96	\$230.54	320	\$73,773

**Checklist: Data Collection**

Pharmaceutical Data	Medical/Surgical Supply Data
<ul style="list-style-type: none"> <li>✓ Collect data from all pertinent sources; distributor(s), direct manufacturers</li> <li>✓ Collect data by “class of trade”</li> <li>✓ Exclude items with 340B pricing</li> <li>✓ Use the NDC number as the item marker to ensure exact item matches</li> <li>✓ Prior to compiling data from multiple facilities, be sure to designate the volume by facility</li> <li>✓ Focus on top spend line items (200-300)</li> <li>✓ Ensure generics are included not just branded items</li> <li>✓ Volumes should be reflective of most recent 12 months purchases</li> <li>✓ Exclude distributor mark-downs, manufacturer rebates and incentives from current pricing</li> <li>✓ Identify effective date of pricing</li> <li>✓ Identify DSH eligibility and 340B items</li> </ul>	<ul style="list-style-type: none"> <li>✓ Collect data directly from an item master, materials management system or distributor</li> <li>✓ Use the manufacturer catalog SKU number as the item designator to insure exact item match</li> <li>✓ Focus on top spend line items (200-400)</li> <li>✓ Volumes should be reflective of most recent 12 months usage</li> <li>✓ Use the lowest unit of measure to calculate volumes</li> <li>✓ Volume should be reflective of UOM</li> <li>✓ Provide product description</li> <li>✓ Exclude Physician Preference Items</li> <li>✓ Exclude Custom Products</li> <li>✓ Exclude major capital items</li> <li>✓ Exclude services, capital equipment and products associated with lease</li> <li>✓ Exclude bundled arrangements</li> <li>✓ Exclude distributor mark-ups, manufacturer rebates and incentives from current pricing</li> </ul>

# Step 3: Instructing the Respondents

To ensure thorough and consistent responses from each of the GPOs, a clear communication about the market basket pricing, analysis, and validation process is required. Clearly communicating the purpose and goals for the market basket as well as how specific elements of the response will be reviewed will enable the GPO respondents to submit clear and accurate responses. This will help facilitate the health care organization's ability to analyze and validate those responses.

Kick-off the market basket study with a pre-response conference inviting all of the GPOs to be included in the solicitation. The pre-response conference sets the stage for the overall GPO assessment by providing:

- An opportunity for the health care organization to communicate the guidelines and requirements of the health care organization's process
- A forum to introduce the health care organization's approach, priorities, and methods for evaluating and validating responses
- The opportunity for the GPOs to ask clarifying questions and to more fully appreciate exactly what aspects of the response may have greater value to the health care organization
- The opportunity to clearly state if there are products or product categories included in the market basket that the organization will not consider any substitute or alternative product

## Questions to Consider

- What is the priority for the organization in conducting the GPO pricing analysis?
- Will substitute or alternative items be considered?
- Does the item purchase volume reflect annualized usage?
- Do the items in the market basket represent top spend for the organization?
- What date of pricing is the GPO expected to provide; how is the effective date for the pricing to be indicated?
- How are tier requirements to be reflected in the responses?
- Is the organization eligible for pricing as a system?
- For pharmaceuticals how is class of trade designated?
- When does the organization expect to make an award?
- Will pricing be the only factor considered in the GPO selection process?
- How will pricing be analyzed?

## General

As general instruction, inform the respondents of the specifics of the process, including due dates, how questions about the process and completing the response will be handled, who the GPOs can correspond with during the process, and any organizational requirements that GPOs must be aware of in order to conduct business with the health care organization. Clearly state to the respondents if the organization is eligible for pricing as a system or if pricing must be submitted based in individual facility volumes.

## Format

To conduct a side-by-side analysis of the responses, develop an MS Excel worksheet that is provided to the GPOs with the solicitation. Require that this worksheet be completed by the GPOs. Review the worksheet during the pre-proposal conference. Include instructions in the solicitation for completing the worksheet and review the instructions in detail at the pre-proposal conference. The worksheet must contain the market basket items with relevant data for each item to be priced by the GPOs (manufacturer item number, item description, unit of measure, annual item volume). Each data point must be in a separate column. Each line item should have a unique line-item number assigned by the organization. The line-item number will be the designator used to sort and compare responses to the same line item.

Explicit instructions must be included for completing the electronic version of the Excel document. Instruct the GPOs that for a response to be considered it must follow the exact format as requested in the Excel response worksheet and it must contain information in all of the required fields. Include a definition of each column in the worksheet and the information that is required to be completed by the respondents as a guide. Provide an example of what should be entered into each column while reviewing the worksheet during the pre-proposal conference.

The following is an example of a column by column instruction to respondents for both pharmaceutical and medical/surgical line-items.

### Example: Pharmacy Product Pricing Spreadsheet Instructions

#### **PRODUCT PRICING: Pharmaceutical**

Pricing is to be provided as an exact match to the NDC in column F (NDC) in the appropriate Class of Trade.

Where no NDC exact match is made, generic product of the same strength and dosage may be substituted.

All items that are not NDC matches must be generic equivalents (USP generic name)/ with FDA AB rating.

Unit dose items must be matched to unit dose items

**Submit “ Pharma Pricing.xls”, by completing columns L – Q as follows (DO NOT ALTER ANY OTHER COLUMNS IN THE SPREADSHEET) Volumes shown in column K are annualized historical volumes.**

**Column L**, “Match Type”, indicate the following:

A = Exact matches

B = Generically equivalent products\*\* same packaging

C = Alternative products\*\*

D = Products not contracted

E = No match found

**Column M**, “Contract Price” - enter the GPO contract price for the NDC number column F. Price must NOT include rebates or incentives.

**Column N**, “Price Effective Date ” - enter the effective date for the pricing submitted for the item on that line. If a price is entered for an item an effective date must be specified.

**Column O**, “Commitment Level” – indicate the commitment level, volume, market share, etc., required to attain the price entered in column M.

**Column P**, “Rebate/Discount” – enter any rebate or discount that applies to the item.

**Column Q**, “Comments” – indicate the contract number and any additional information or comments for the item. If additional space is needed it may be provided as an attachment. Attachments must be clearly marked.

### Example: Medical Surgical Product Pricing Spreadsheet Instructions and Spreadsheet Sample

#### PRODUCT PRICING – Medical/Surgical

Provide pricing and additional information as indicated for each item in the attached worksheet, "Medical/Surgical Pricing.xl", by completing columns H – P as follows.

DO NOT ALTER ANY OTHER COLUMNS IN THE WORKSHEET.

Volumes shown in column G are annualized historical volumes.

Column H, "Match Type", indicate the following:

- A = Exact matches
- B = Substitute Product\* with like function and packaging
- C = Alternative Product - with like function but different packaging
- D = Products not contracted
- E = No match found

(\*facility reserves the right to determine acceptability of substitute or alternative products.)

Column I, "UOM Price" - enter price by unit of measure specified in column D. Price must not include rebates or incentives

Column J, "Price Effective Date " - enter the effective date for the pricing submitted for the item on that line. If a price is entered for an item an effective date must be specified.

Column K, "Commitment Level" – indicate the commitment level, volume, market share, etc., required to attain the price entered in column I.

Column L, "Rebate/Discount" – enter any rebate or discount that applies to the item.

Column M, "Sole or Multi-Source" – indicate if the item is a sole or multi-source contract by entering "S" for sole-source or "M" for multi-source.

Column N, GPO Contract # - provide the GPO contract number for the item price submitted.

Column O, "Comments" – indicate any additional information or comments for the item. If additional space is needed it may be provided as an attachment. Attachments must be clearly marked.

Item #	MFG Name	MFG Catalog Number	PUOM	Input Item Description	Annualized Volume	Match Type	UOM Price <sup>1, 2</sup>	Price Expiration Date	Commitment Level Required	Rebate/ Discount <sup>2</sup>	Sole/ Multi Source <sup>1</sup>	GPO Contract #
1	B. BRAUN MEDICAL (BRAUN MED)	352442	CA	PUMP SET FILTERED (SS3100)	316	A	\$82.54	01/01/2009	Tier 5 Volume > or = \$8.5M Hospital or System With Intracon - 80% Commitment to Intracon Safety Level I.A.		Multi	PP-NS-119
2	B. BRAUN MEDICAL (BRAUN MED)	352442	EA	PUMP SET FILTERED (SS3100)	1950	A	\$3.44	01/01/2009	Tier 5 Volume > or = \$8.5M Hospital or System With Intracon - 80% Commitment to Intracon Safety Level I.A.		Multi	PP-NS-119
3	B. BRAUN MEDICAL (BRAUN MED)	352458	CA	PUMP SET (HORIZON) (V7401)	68	A	\$82.31	01/01/2009	Tier 5 Volume > or = \$10M Hospital or System without Intracon Level I.B.		Multi	PP-NS-119
5	B. BRAUN MEDICAL (BRAUN MED)	352461	CA	SET UNIVERSAL HORIZON INJ SET	78	A	\$174.87	01/01/2009	Tier 5 Volume > or = \$8.5M Hospital or System With Intracon - 80% Commitment to Intracon Safety Level I.A.		Multi	PP-NS-119
6	B. BRAUN MEDICAL (BRAUN MED)	375038	CA	PUMP SET METRISET AD (BURETROL)	1308	A	\$118.37	01/01/2009	Tier 5 Volume > or = \$8.5M Hospital or System With Intracon - 80% Commitment to Intracon Safety Level I.A.		Multi	PP-NS-119
7	B. BRAUN MEDICAL (BRAUN MED)	375038	EA	PUMP SET METRISET AD (BURETROL)	1868	A	\$5.92	01/01/2009	Tier 5 Volume > or = \$8.5M Hospital or System With Intracon - 80% Commitment to Intracon Safety Level I.A.		Multi	PP-NS-119
8	B. BRAUN MEDICAL (BRAUN MED)	375100	CA	ADMINISTRATION SET IV REG DRBP	802	A	\$121.42	01/01/2009	Tier 5 Volume > or = \$8.5M Hospital or System With Intracon - 80% Commitment to Intracon Safety Level I.A.		Multi	PP-NS-119
9	B. BRAUN MEDICAL (BRAUN MED)	375100	EA	ADMINISTRATION SET IV REG DRBP	19540	A	\$2.43	01/01/2009	Tier 5 Volume > or = \$8.5M Hospital or System With Intracon - 80% Commitment to Intracon Safety Level I.A.		Multi	PP-NS-119
10	B. BRAUN MEDICAL (BRAUN MED)	375101	CA	ADMINISTRATION SET IV MICRODRP	90	A	\$126.59	01/01/2009	Tier 5 Volume > or = \$8.5M Hospital or System With Intracon - 80% Commitment to Intracon Safety Level I.A.		Multi	PP-NS-119
12	B. BRAUN MEDICAL (BRAUN MED)	375105	CA	PUMP SET VENTED (V7430)	72	B	\$61.61	01/01/2009	Tier 5 Volume > or = \$8.5M Hospital or System With Intracon - 80% Commitment to Intracon Safety Level I.A.		Multi	PP-NS-119
15	B. BRAUN MEDICAL (BRAUN MED)	375150	CA	PUMP SET METRISET PD (BURETROL)	1046	A	\$118.37	01/01/2009	Tier 5 Volume > or = \$8.5M Hospital or System With Intracon - 80% Commitment to Intracon Safety Level I.A.		Multi	PP-NS-119
16	B. BRAUN MEDICAL (BRAUN MED)	375150	EA	PUMP SET METRISET PD (BURETROL)	3100	A	\$5.92	01/01/2009	Tier 5 Volume > or = \$8.5M Hospital or System With Intracon - 80% Commitment to Intracon Safety Level I.A.		Multi	PP-NS-119
17	B. BRAUN MEDICAL (BRAUN MED)	533140	CA	PUMP SET PRIMARY (SS3140)	5282	A	\$67.55	01/01/2009	Tier 5 Volume > or = \$8.5M Hospital or System With Intracon - 80% Commitment to Intracon Safety Level I.A.		Multi	PP-NS-119

## Pricing

Inform the GPOs if pricing is to be provided based on system volume, facility status, such as academic health center, or any other qualifiers specific to the health care organization. Clearly instruct the respondents that the market basket pricing submitted at the line-item level must be at the tier level associated with the annualized volume for the organization and be exclusive of any rebates or other incentives. Additional information such as total volume for a specific category may need to be provided so that all GPOs respond with tier appropriate pricing.

Any information regarding rebates or incentives may be submitted in the appropriate column and must include the detail for eligibility in the comments section. For pharmaceutical items review with the GPOs which classes of trade the organization is eligible for.

Review the process for providing pricing for substitutes (generic or alternative products) which are clinically or functionally equivalent and clearly explain how the items will be evaluated.

## Valid Pricing Dates

Price effective date is not the same as contract date. It is critical to the analysis that all GPO respondents supply the organization with the price effective date for each item priced. To ensure that the GPO respondents consistently submit pricing that will be effective at the time of the pricing analyses, instruct the GPOs to provide the valid date of pricing for each item submitted. Effective date of pricing is particularly important for pharmaceutical items. As an example, Amgen, Inc. increased all GPO contract pricing for EPOGEN on January 3, 2008. In this example, one month difference in the effective data of the pricing submitted could skew the analysis.

Product Description NDC	Note	December 3, 2007 Pricing	January 3, 2008 Pricing	Price Difference
EPOGEN 10,000 UNITS/ML VIAL 55513014410	All GPOs have the same price	\$1,164.49	\$1,176.13	\$11.64
EPOGEN 40,000 UNITS/ML VIAL 55513082310	All GPOs have the same price	\$4,913.24	\$4,962.42	\$49.18

### Checklist: Instructing the Respondents

- ✓ Kick-off the project with a pre-response conference for the GPO respondents
- ✓ Inform the respondents of the specifics of the process (due dates, process protocol)
- ✓ Review the electronic worksheet in which the responses are to be submitted
- ✓ Provide a column by column review of the worksheet
- ✓ Review which columns the respondents are required to complete
- ✓ Clearly instruct respondents that worksheet columns are not to be altered
- ✓ Clearly state to the respondents that distribution fees or mark-ups are NOT to be included in the item price
- ✓ Define exact match items
- ✓ Define substitute (generic and alternative) products and how they will be analyzed
- ✓ Review the process for the respondent to identify their response as an exact match, substitute (generic equivalent), product not contracted, or no match found
- ✓ Instruct the respondents regarding how to include additional comments

# Step 4: Data Set-up and Validation for Analysis

Before any analysis of the pricing can be conducted, validation of the responses must be done to ensure accurate results. Validation of data accuracy allows the health care organization to make an informed decision based on good information. Below are the steps setting up and validating the data.

## Response Set-up

To begin the validation, review the submittals for completeness; determine if all required formats were followed, and that any required documents were submitted. Also review all documentation to validate that pricing was appropriately submitted based on system or facility.

To begin the analysis of the pricing, set up the data in a master workbook. All validation and analysis can be conducted from the master workbook. Do not perform an analysis in the original electronic submittals from the GPOs. Copy the responses to the master workbook to preserve the original responses to begin validation and analysis.

## Contract Coverage

To determine the ability of each GPO to provide contract coverage, identify the portion of the market basket that each GPO has responded to with exact matches and calculate that as a percentage of the entire market basket requested. A higher percentage of exact matches require fewer line-items for conversion. Below is an example of a percentage analysis based on the match type. This analysis provides an initial high-level “snapshot” of the overall responses across the GPOs.

### Example Analysis of Contract Coverage

GPO	Responses (%) by Match Type						Total
	A = Exact Match	B = Generic Equivalent	Alternative Products	Products NOT Contracted	No GPO Contract	No Match Found	
GPO A	55%	18%	0%	6%	6%	15%	100%
GPO B	79%	0%	0%	0%	5%	16%	100%
GPO C	57%	35%	0%	6%	0%	2%	100%
GPO D	55%	27%	0%	0%	4%	14%	100%

## Pricing Validation: Exact Match Items

To determine pricing variances that require validation, identify items that have an exact match to the manufacturer or NDC number. Verify that the exact matches are exact manufacturer and unit of measure matches. For each line-item that is an exact match, review the pricing variance across the responses as well as the health care organization current contract price. Any line item for which a pricing variance between proposals is 20% or greater requires further examination and clarification with the GPOs submitting the pricing. A pricing variance of this magnitude could indicate that a rebate has been factored into the price, that different tier levels have been

considered, or an incorrect unit of measure has been used. Validate the pricing for each item with a 20% or greater variance with each of the respondents. If an item is an exact match and pricing has been submitted based on same volume and contractual requirements, line-item pricing should not vary by more than 20%.

## Pricing Validation: Date of Pricing

Review all price effective dates. To produce an accurate pricing assessment, pricing from each of the respondents must be current and firm for a period of six to twelve months. For pharmaceutical pricing, it is important to ensure that all respondents use the pricing for the same specific date due to the volatility of the pharmacy market.

For any pricing that is expired or about to expire, follow-up must be done with each respondent. Further investigation of the pricing cycle for that product or product category is required. Pricing that is not current or that is part of an upcoming contracting cycle will invalidate the analysis. The health care organization will need to determine how they want to handle discrepancies in the pricing dates; in some cases the product or product category will need to be removed from the analysis.

## Substitutes and Cost of Conversion

Items submitted as substitutes (generic, alternative) need to be reviewed line item by line item. Substitute products require validation of generic equivalence and acceptance of a generic substitute by the health care organization. Alternative product submittals should generally function with the same outcomes and would cause minimal disruption to the health care organization. To validate these items, request data sheets and product sample for review.

For all items submitted as generic or alternative/substitute, a deeper analysis beyond price needs to be conducted to determine the health care organizations' acceptance of each of these items. In some cases, product samples will need to be requested and clinical trials may need to be conducted. The cost of conversion will need to be calculated taking into consideration value of existing inventories, investment that would be required for any staff retraining, and considerations specific to existing bundled agreements, corporate agreements, or other arrangements that would be impacted by converting from an existing product. Many of these factors may not be obvious without proper due diligence. Examples of items that may require this more in-depth review would be pulse oximetry probes and contrast media.

## Checklist: Data Set-up and Validation

Below is a step-by-step guide for set-up and validation of the responses.

Data Set-up and Validation	
<b>Data Set-up</b>	<p><b>Validate each response upon receipt to ensure compliance with process requirements</b></p> <ul style="list-style-type: none"> <li>• Validate completeness of files submitted by GPO</li> </ul>
	<p><b>Copy each response worksheet to a master workbook</b></p> <ul style="list-style-type: none"> <li>• Create a separate tab/worksheet for each response</li> <li>• Label each tab/worksheet with a vendor designation for each e.g., PRE = Premier</li> </ul>
	<p><b>Associate each line item with the respondent</b></p> <ul style="list-style-type: none"> <li>• In each response in the master workbook, insert a new column "A"</li> <li>• Label the vendor designation in column "A" for each line item</li> </ul>
	<p><b>Create the worksheet from which all responses can be viewed and analysis can be performed</b></p> <ul style="list-style-type: none"> <li>• Copy each complete response into a separate spreadsheet labeled as "combined responses"</li> </ul>
<b>Data Validation</b>	<p><b>Group each line item number for side-by-side review of responses</b></p> <ul style="list-style-type: none"> <li>• Sort combined responses worksheet by line item number</li> <li>• Validate manufacturer and item number</li> <li>• Validate item description</li> <li>• Validate UOM</li> <li>• Review comments</li> <li>• Request update to response(s) as required</li> <li>• Validate that pricing was appropriately submitted, e.g., system vs. facility</li> <li>• By line item, look for item pricing variance of 20% or greater</li> <li>• Follow up with each respondent on all items with 20% or greater price variance</li> <li>• Confirm that rebates and/or incentives are NOT included in the price</li> </ul>
	<p><b>Sort Combined Responses by Pricing Effective Date</b></p> <ul style="list-style-type: none"> <li>• Validate that effective dates are consistent across responses</li> </ul>
	<p><b>For pharmaceutical items:</b></p> <ul style="list-style-type: none"> <li>• Validate all responses through the organization's pharmacy department</li> <li>• Review dosage and packaging type for acceptability</li> <li>• Validate that effective dates are consistent across responses</li> <li>• Review comments</li> </ul>

# Conclusion

The ability of a health care organization to conduct a valid GPO assessment is contingent on the line item pricing in the market basket. Many specifics of the various pricing offerings can be overlooked and often misunderstood.

To ensure that a health care organization is successful in performing an accurate GPO assessment requires:

1. Defining the market basket by determining what items will be included and what items will be excluded.
2. Understanding the available data to produce a meaningful market basket that is representative of the health care organization's current product mix and volume.
3. Providing clear and detailed instructions to all in a pre-proposal conference.
4. Validation of data and variances from all respondents ensures an accurate analysis. This allows the health care organization to make an informed decision based on good information.

The following guidelines address many of the variables that impact pricing and provide direction for conducting a pricing market basket.

General Guidelines for Conducting a GPO Pricing Study

**1) Defining the Market Basket**

- Include representative products:
  - 200-300 Pharmacy line items
  - 200-400 Med-surgical line items
- Do not include Physician Preference Items or Custom Products
- Do not include services based contracts, major capital equipment, products included as a lease or bundled arrangement or services contracts
- Volume should be reflective of most recent 12 month history

**2) Data Collection**

- Work closely with the staff in your healthcare organization who handles item master maintenance
- Identify the timing for item master maintenance and new item additions.
- Understand exactly what is and what is not set up in the item master.
- Attention must be given to unit of measure to ensure accurate volume information is provided in the market basket.

**3) Instructing the Respondents**

- Kick off the process with a pre-response conference
- Communicate the approach, priorities and process for evaluating the responses
- Review the required response format

**4) Data Set-Up for Analysis and Validation**

- Validate completeness of responses
- Identify pricing variances between responses of 20% or greater
- Analyze and validate exact matches
- Perform due diligence on alternative and/or substitution products

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