



# **Moai Contract and Commitment Price Management**

## **White Paper**

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## Executive Summary

Inefficiencies in the health care supply chain management process and concomitant opportunities for cost-savings are well documented. Numerous commercial ventures have sought to realize both new revenues and potential cost-savings in the industry. This paper will describe the Moai solution which automates the management of complex pricing rules resulting from the established health care group procurement process and integrates the result into a convenient user friendly tool to expedite and fulfill timely and accurate purchasing of health care products and services.

The roles of health care purchasing groups<sup>1</sup> in the business models of supply chain management ventures vary. In several well-publicized examples, deliberate disintermediation of GPOs and IDNs has been a core strategy. In others, GPO's and IDNs have figured as one of several key players. These generally include suppliers, providers, and distributors as more or less equal beneficiaries of the venture's value proposition.

Rarely are purchasing groups enabled beyond their current scope in these existing business models.

In the real world of health care economics, GPOs and IDNs serve as a key transaction point in the supply chain. It is unlikely -- given their pervasive and dominant role in the health care economy -- that radical but necessary change will occur in managing the supply chain if it doesn't leverage and build on the existing efficiencies of these large buyers.

In today's paper-based system, administrative revenues are computed incorrectly or lost altogether because supply chain partners have incorrect or incomplete information on items covered and eligibility to purchase under contract. Off-contract purchases are incorrectly made resulting in both reduced savings and rebates for providers. Delays are common, encouraging more off-contract purchasing. In the end, the value proposition of the purchasing group and its provider members itself is diminished because its overall potential to leverage its true scale cannot be achieved. The system is frustrating and time-consuming to the people who work in it. And it is an expensive and inefficient use of human resources. In the current system, the retrospective nature of pricing requires orders to be placed prior to the calculation of the exact price. The only check on pricing is the post facto audit. In an ideally integrated system, pricing can become *proactive*, with an accurate price available before the order is placed. The results of such pricing include greater ordering accuracy, fewer invoice errors, and fewer delays in the calculation of rebates and fees.

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<sup>1</sup> In this paper, the term "purchasing groups" and "health care purchasing groups" will refer inclusively to group purchasing organizations (GPOs) and to integrated delivery systems (IDNs) Contract and Commitment Price Management

With annual purchasing volumes of over \$325 billion projected for 2004<sup>2</sup>, purchasing groups control a major segment of the health economy. The task of managing the variation in members' contract commitments, handling the resulting multiple tiers of pricing eligibility, as well as costly exceptions to negotiated agreements represents the single largest roadblock to optimized supply chain management as experienced by GPOs IDNs ultimately select and manage one pricing method per contract, but are faced with complexities of contract compliance monitoring resulting from inconsistent contract purchase data collection and reporting, and pay a premium when the correct contract price is not invoiced.

Moai believes that the industry's most substantial and immediate revenue creation and savings can occur at the GPO/IDN level, and therefore have tailored a targeted technology and services solution.

## **The State of the U. S. Health Care Market**

The U.S. health care market represents one-seventh of the Gross Domestic Product, or approximately \$1.6 trillion in expenditures. The combined current annual purchasing volume of GPOs and IDNs is approximately \$325 billion. While this paper focuses on procurement management processes of large purchasers (GPOs and IDNs), the same problematic inefficiencies occur in other health care settings including physician practices, clinics and nursing care facilities. The liabilities and problems inherent throughout this system include:

### Diminished Revenues

- Lost revenues due to poor administrative fee reporting and off-contract ordering resulting from misinformation or inaccessibility of information concerning contract pricing terms. The task of the 600 domestic health care purchasing groups is to administer and reconcile the terms and conditions of its negotiated agreement with suppliers on the one hand, with the terms and conditions of its agreements with its member organizations on the other. The point at which these agreements converge determines the price point for the transaction. However, in a paper based system that is neither centralized nor standardized, the difficulty and complexity of correctly calculating the price point erodes the essential value proposition of the purchasing group. Fully 24% of avoidable supply chain costs<sup>3</sup> occur through inefficient information sharing and accessibility. Contract managers managing large contract portfolios have no single reference repository for myriad contract requirements, nor an efficient means of communicating relevant amendments and other changes to their members and partners.

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<sup>2</sup> HIGPA

<sup>3</sup> "The Efficient Health care Consumer Response" study estimates "avoidable costs in the supply chain" at \$11 billion per year.

### Reduced Provider Value

- Reduced value delivered to the health care consumer caused by inaccurate pricing and/or poor availability of contract details. The commitment management is entirely paper-based, resulting in lengthy cycle times, frequent errors, and high transaction expenses on low-dollar value supplies. Inefficiencies in order management accounts for 15% of the avoidable costs in the health care supply chain management process. Incorrectly processed contract exceptions that may apply to one member but not to others are particularly time-consuming. Three processes (initial key-in, deletion of incorrectly keyed material, corrected key-in) require additional administrative and overhead costs and simultaneously reduce savings and administrative fees. More paper-based corrections -- manual and audited -- drastically increase transaction costs. Moai estimates that approximately 80% of the errors resulting from traditional order processing can be eliminated by utilizing Internet-based ordering and that the cost of an average transaction can be reduced to \$4 from current costs varying between \$75 and \$175<sup>4</sup>.

### Decreased Leverage of Scale

- Reduced savings for providers from lost rebates, diminishment of the greater leveraging of scale during price negotiations of the purchasing group, and inaccurate pricing. Covered items purchased outside a contract dilute to the overall bargaining power of a purchasing organization and therefore its value to its providers. By optimizing contract conditions, purchasers can actually boost revenues for GPOs. For IDN providers, reduced expenditures increase their operating surplus.

### Loss of Focus to Strategic Business Issues

- In the current cumbersome and unwieldy environment, the focus remains on tactical instead of strategic initiatives. The business of getting the job done precludes dedication of resources to higher order strategic efforts to promote growth.

The Moai solution seeks to add these GPO revenues and savings to its providers' bottom lines.

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<sup>4</sup> AMR Research

## The Moai Solution

Moai **automates** the management of **complex pricing** rules resulting from the established health care group procurement process and **integrates** the result into a **convenient** user-friendly **tools** to **expedite and fulfill** timely and accurate purchasing of health care products and services.

The Moai Solution enhances the role of the purchasing group by providing their member organizations with an Internet-based platform supply chain solution including Catalog Management Tools, Contract Management Tools, Directory Management Tools for both Member and Supplier Organizations, Commitment Management Tools and Content Tailoring Services.

Integration of legacy system to web-based services: The single greatest obstacle to optimizing the health care supply chain is the requirement for an integrated system architecture. This integration layer must allow the three primary system users (GPOs/IDNs, providers, and suppliers) to interact with catalogs, contracts and order processing, as well as to negotiate contracts. In turn, transaction data must reflect real time contract commitments and cost analysis, and accurately perform sales and contract administrative fee (CAF) reporting. All functional components need to be integrateable with each other and with existing legacy systems. System-wide integration increases accuracy, eliminates double keying, and therefore reduces costs along the entire chain.

A full array of customizable vendor- independent tools and functionality must be available and integrateable, both with each other and existing legacy systems. The following are examples of the functionality required:

- Order Management ?
- Catalog Management
- Contract Management
- RFP/RFQ Tools
- Database Management
- Report Manager
- Data Mining
- Analysis
- Automated Email
- Instant Messaging
- Personalization
- Video Conferencing
- Virtual consultation
- Links to Financial/Inventory

Benefits to the system partners: Benefits to the system partners include product standardization, more effective leveraging of scale, producing a streamlined procurement process as well as improved management information and reporting. Furthermore, users can track product use and consumption, evaluate sourcing strategies, improve service from existing suppliers and develop new supplier relationships as well as coordinate with product end users and improve comparison capabilities. However, such a broad suite of functionalities can only add value if they are built upon deep and broad integration architecture.

Moai develops data-centric applications to full- fledged applications including integration-based repositories, including:

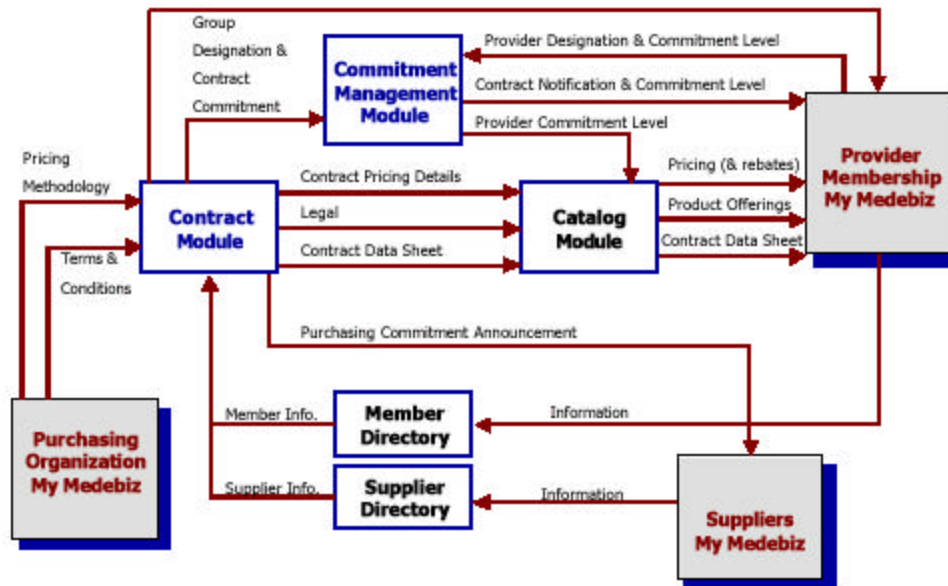
*Data Warehousing* - Most purchasing organizations have limited IT resources. Data warehousing can be very costly both in terms of time and financially.

Organizations need assistance with the data warehousing planning effort, which includes source data analysis, the complete modeling of the target data warehouse, the definition of the data warehouse inter-tool architecture, and software tool evaluations. A well planned and executed data warehousing effort permits full system integration with legacy systems and insures that new functionalities can be added or customized to wrap around the entire data base.

*ERP and Software Implementation* - In a 2000 survey of IDNs conducted by Moai, 58 % of responding organizations described their systems as "a combination of automated and manual purchasing systems." Another 15% described their systems as wholly manual. It is reasonable to assume that at least fully 73% of IDNs are not yet automated or have limited automation capabilities. In order to realize fully automated systems, these organizations will require ERP implementation and other stand-alone software package conversions. These decisions must be made so that all implementations are compatible with each other, as well as with customer catalogs or MMIS legacy systems. The result must reflect unique user functionality and fully automated processes. Finally, the system owner must have the option of choosing to implement independently or to contract the project on a turnkey basis. In either case, consultation and training must be available to system owners to insure that any system delivers its full potential value.

ASP Services: As the Internet occupies an increasingly prominent role in every aspect of the economy, GPOs and IDNs also experience pressure to put their operations online. Private e-marketplaces allow companies to focus on their core competencies with a high degree of differentiation. But lengthy time-to- market for such applications, as well as constraints on internal IT resources, make ASP services and application hosting an attractive option for health care purchasing groups because they eliminate or reduce capital costs -- but only if they are fully integrateable and transparent with on-site systems. ASP services and application hosting allow the purchasing entity to maintain control of all applications with adequate privacy and security yet at the same time insuring accessibility of information to those who require it.

In addition, in an integrated environment, these services stimulate an ever-shortening development cycle and provide system maintenance, and software upgrades as needed. Resulting rapid deployment, advanced technology and lower costs are benefits that allow GPOs and IDNs to serve providers efficiently and seamlessly. The following modules and features, while separate, must continually interact and exchange data for real time accuracy.



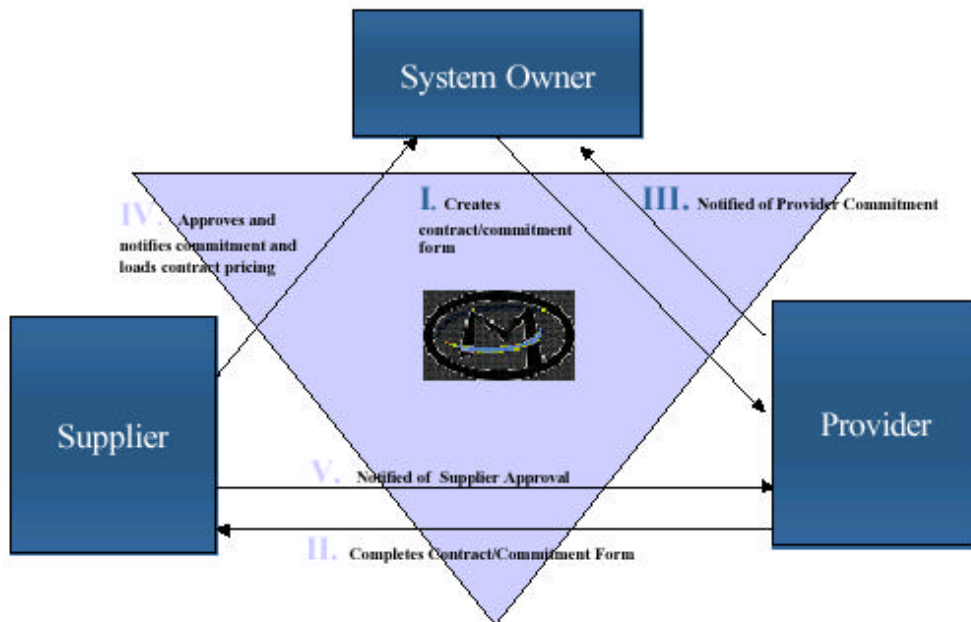
*Catalog Management* -- GPOs and IDNs require three fundamental components of product information necessary for effective procurement: pricing, description, and purchasing options. Customer branded catalog software provides extensive functionality including: comprehensive search ability, rapid deployment, customer specific products and pricing. Customers require a choice between using their own catalog management tools and having one custom-designed to their own specifications. In either case, the catalog tool must incorporate contract pricing details, legal conditions, and operating terms and conditions, along with provider commitment level data. Only then can the purchasing group determine pricing and rebates related to its own product offerings to its membership.

*Commitment/Designation Management Features* – Purchasing groups must accurately and automatically track their members' user commitment levels to specified contracts. A commitment management module has to be integrated with the Contract and Catalog

modules, and is an essential element in assigning pricing discounts to member organizations. Customized pricing, an integral part of purchasing group offerings, is managed by the Commitment Management and the Contract Management tools.

The Commitment Manager Process is triggered when the system owner creates a contract from a series of flexible system templates. They also create a commitment form with contract specific parameters and associated pricing tiers. After the contract is created, a commitment request is triggered on a release date entered by the system owner. A commitment request notification is sent out via email to provider organizations indicating the availability of the contract and that a contract commitment is required to activate improved pricing or terms.

The provider completes the commitment form to designate their pricing and terms preference, forwarding it to the supplier. After the provider completes the commitment form, a notification is sent via email to the appropriate suppliers as well as a notification to the system owner for tracking. The supplier organization approves the commitment request form and the system automatically notifies the system owner of the approval from the supplier organization. The system loads the final commitment levels and a notification is sent to the provider organization stating that the contract is now active.



*Contract Management* -- The contract defines the business pricing logic. Member commitments define member parameters. Only where the two intersect is it possible to achieve a transactable price per customer.

Groups must be empowered to easily create and manage contracts, and to distribute them automatically to their members, to receive accurate commitment level promises, and to calculate customized pricing for each member organization. Unique contract templates must allow purchasing officers to create a comprehensive and effective contract communications to distribute to their users.

The feedback from feature to feature is continuous. Contract, commitment management and catalog module data are provided to group membership according to their member access criteria, and the provider contract designation and commitment information is transmitted to the procurement process partners according to the Moai contract and contract commitment work process flow.

The result is a user specific price for each contract line item linked to the group's contract, the provider commitments and the supplier systems.

*Supplier/Directory Management* -- Effective management tools must extend to all participating supplier organizations and must be personalized to the specific requirements of each. Manufacturers and vendors must be integrated into the system with the permission of the purchasing group. Supplier profiles, products and history should be available in the system for the benefit of providers and users. Such tools can provide GPOs and IDNs opportunities to work together with suppliers in special joint projects and partnerships.

*Network/Member & User Directory Management* -- User directory management tools provide purchasing groups with an organized, detailed list of their provider organizations and system users. This comprehensive tool establishes the unique user functionality for each buyer. The User Directory tool should contain important information about each provider organization and system user, and in turn automate the process of assigning access control into the system, and assigning specific functionality within the system.

All of the features described here drive and manage the pricing engine, which can be integrated with any catalog or ERP. See "*Catalog Management*," above.

Content Tailoring: A major obstacle for many purchasing organizations is poor or inaccurate data. Product information exists in a multitude of data formats or using different nomenclature. This data discrepancy creates a major hurdle for any set of tools that utilize this type of data. The result is an ineffective, inefficient and costly purchasing process.

In order for the catalog to be both searchable and transactive, the basic product description should be filtered, normalized, classified. User-searchability requires structuring of non-uniform content. Furthermore content must be continually updated.

The Moai Content Tailoring process ensures that purchasing agents receive effective search data upon which to compare similar characteristics, suppliers can keep product information up to date, and purchasing groups can deliver cost reducing product evaluation tools.

Product information should be cleansed and standardized prior to being obtained by the system. Any effective system is predicated on the foundation of standardized information. Once the data system is in place, other tools can be integrated to increase its productivity and effectiveness.

- Content tailoring permits system users to effectively search, find and organize contracted items from supplier organizations. It also provides purchasing officers with uniform electronic product data available with complete, decipherable, comparable product data.

### **Moai Content Tailoring Example**

**Before:**

SEATING 16x 16x 3, XYZ Pommel Wedge Cushion (WC10), Dark blue cover on a laminated, tractor seat design. Pommel-shaped foam created comfort, stability & support. Cushion is 3.5" high in front sloping to 2.75" in back, w/a sling base. Medicare code E0963. (Priced Per Case – 1 per case)

**After:**

NOUN: Cushion  
CHARACTERISTICS: Size: 16 x 16 x 3  
Material: Foam  
Additional Detail: Pommel Wedge,  
Dark Blue Laminated, Medicare Code  
E0963  
Trade/Brand Name: XYZ Package/Quantity:  
1 Per Case

Professional Services: In-depth knowledge and extensive experience with B2B e-commerce technology are necessary for successful system operation. GPOs and IDNs require the highest-level professional services to help streamline the health care supply chain. These services

consist of strategic consultation, e-commerce planning, design and implementation, web-based solutions, data management, offshore development, training and more. Professional service team members assist clients in evaluating available products that match their business requirements.

Networking and Hosting Services: Communication Networks are needed that are lifecycle solutions. As networks evolve into digital nervous systems of business, demand on network performance and capability expand exponentially. Reliable, flexible, manageable and scaleable infrastructures are required for GPOs and IDNs to succeed in their missions. Groups should seek a set of comprehensive network and hosting solution offerings that address the challenges of speed, collaboration, and reliability. Teams of architecture and technology experts should be evaluated for extensive domain experience and deep technological grounding in B2B process.

## **Conclusion**

Moai is the only company focused on empowering GPOs and IDNs.

Moai differentiates itself by enabling purchasing groups to enhance their value proposition, to provide them with a low cost entry solution to e-business technology, leverage existing relationships with suppliers and providers, and tap negotiated agreements for instant commercial activity.