Rutgers University Final Presentation
December 10, 2018 | 3:00 PM (Eastern)

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Welcome

Perry Fri
Executive Vice President, Industry Relations, Membership & Education, HDA; and Chief Operating Officer, HDA Research Foundation
Before we get started...

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2. Click the SEND button to submit your question.
Managing Change in Contracts and Chargebacks

Supply Chain Management Industry Project
December 10, 2018
Professor Irene Gerlovin

David Solomon
Kyle Nosker
Linas Rackus
Olena Stratiyenko
Ying Hong
THANK YOU
<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
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<tbody>
<tr>
<td>Linas Rackus</td>
<td>Project Manager</td>
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<tr>
<td>David Solomon</td>
<td>Backup Project Manager</td>
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<td>Kyle Nosker</td>
<td>Communications Director</td>
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<tr>
<td>Ying Hong</td>
<td>Quality Assurance</td>
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<td>Olena Stratiyenko</td>
<td>Quality Assurance Status Reports/Communication</td>
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Milestones

Over the last three months the Rutgers Team accomplished:

- Developed an understanding of the contract administration and chargeback processes
- Created and administered a survey
- Conducted multiple interviews with SMEs
- Analyzed survey responses and interviews
Change in Contracts and Chargebacks

Manufacturer A Divests Product 2 and Manufacturer B Acquires Product 2

Before

Manufacturer A
Manufacturer B

Distributor X

Product 1
Product 2

EDI 844/849

After

Manufacturer A
Manufacturer B

Distributor X

EDI 844/849
EDI 844/849

Legend

EDI 844/849

Product 1
Product 2
Survey Background

- **Purpose** – The purpose of the survey is to find out more about the issues faced by industries during M&A activities and system conversions that can lead to disruption during chargeback administration.

- **Format** - 42 questions on the survey, including close-ended, rating scale, heat-map, and open-ended using Qualtrics.

- **Date** - Survey opened on 10/12/2018 and closed on 11/2/2018 (opened for 21 days).

- **Response** - Survey was sent to 147 participants. Total number of responses was 67. After removing incomplete or blank responses, we had a total of 32 responses: 2 are GPOs, 18 are Distributors and 12 Manufacturers (4 Branded and Generic, 8 Branded). Response rate is approximately 22%.
Survey Response Profile

Number of Responses by Organization Type and Revenue

- Distributors
- GPO
- Manufacturer (Branded & Generic)
- Manufacturer (Branded)

n=30
Over the past 24 months, 28 survey respondents indicated their organizations were involved in 94 transactions.
Interview (SME) Profile - 10 Interviews

3 Manufacturers:
9/25       9/27       11/1       11/9

2 Distributors:
9/28       10/1       11/5       11/13

2 GPOs:
10/1       11/21
## Current Situation

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<th>Situation</th>
<th>Complications</th>
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<td>• In the past 24 months, survey respondents reported 94 transactions occurring.</td>
<td>• EDI for contract data and chargebacks, use is not 100% across the supply chain.</td>
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<td>• According to the 2017 HDA Factbook, the industry weighted average for chargeback rejections was 0.7%, approximately a 4 Sigma process.</td>
<td>• Lack of standardization for Class of Trade across the supply chain.</td>
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<td>• 100% of distributors report having EDI 844/845/849 capabilities according to the 2017 HDA Factbook.</td>
<td>• Post-transaction, chargeback rejection rates increase.</td>
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<td>• The cost associated with preventing rejected chargebacks is additional headcount, or bad debt resulting from unpaid rejected chargebacks.</td>
<td>• Communication, pricing discrepancies, and aggressive timelines result in the most issues during a transaction.</td>
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<td>• Three processes were identified by survey respondents where the majority of the issues occur (see following slides).</td>
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Issues in the Supply Chain

Survey respondents identified points in the processes where most of the issues occur, two of the three lie with distributors.

All three processes are related to data transmission through the EDI 844 or 845.
Issues in the Supply Chain

- Survey respondents identified points in the processes where most of the issues occur, two of the three lie with distributors.
- All three processes are related to data transmission through the EDI 844 or 845.
Post-transaction, chargeback rejection rates increase above historical industry weighted average of 0.7%. For companies handling a high volume of chargebacks, this increased rate translates into a large number of rejected chargebacks in need of resolution.

Majority of survey respondents reported that chargebacks are resolved within at least two weeks.
Weighted Top Focus Areas Identified through the Survey

Obstacles that prevented smooth transition

- **Communication** - lack of information ahead of a transaction; follow-up/additional changes not communicated to all stakeholders
- **Lead Time** - lack of lead time for planning and integration purposes
- **IT/Systems** - difficulties integrating legacy systems; system conversions that result in new data fields
- **Project Management** - large scale projects are managed at high level and details are left uncontrolled; lack of coordination among internal and external stakeholders
- **Terminology/Definitions** - need for clear and concise definitions
- **Other** - difficulties aligning different cultures; silos within organization with conflicting priorities; reluctance to try new tools; complex pricing structures/rebates

Success Factors that contributed to smooth transition
**Communication - (comments from Survey)**

- “Lack of information **ahead** of transition for planning purposes”
- “… ensure all **internal** and **external** stakeholders stayed apprised of **evolving timelines** and **progress**”
- “Communication is key. **Needs to be clear, transparent and provided on time.**”

**Communication & Lead Time - (comments from Survey)**

- “…. **Any other changes (such as data definitions, terminology, system process changes) can be effectively managed if communication and lead time are adequate.**”
- “Lead time is most significant, especially in instances where a member (pharmacy) is required by a manufacturer to take additional steps (e.g. completing/submitting a form), in order to become eligible for a certain program …”
- “**Time must also be allotted to resolve any discrepancies**, and ensure manufacturer/member alignment, prior to the manufacturing submitting such pricing to distributor.”
91% of survey respondents reported correlation between the amount of lead time and issues experienced.
Lead Time Required to Make Changes

- 1 day: Distributor (3), GPO (1), Manufacturer (Branded & Generic) (1), Manufacturer (Branded) (2)
- 2 days: Distributor (1), GPO (1), Manufacturer (Branded & Generic) (1), Manufacturer (Branded) (1)
- 3 days: Distributor (1), GPO (1), Manufacturer (Branded & Generic) (1), Manufacturer (Branded) (1)
- 5 days: Distributor (10), GPO (2), Manufacturer (Branded & Generic) (3), Manufacturer (Branded) (5)
- More than one week: Distributor (1), GPO (1), Manufacturer (Branded & Generic) (1), Manufacturer (Branded) (1)

n=30
Contract and Chargeback Team Involvement

- Testing

- Planning
- Implementation
- Testing
Rejected Chargebacks

Root Cause for Rejected Chargebacks

- Eligibility Issue: 44%
- Date Issue: 26%
- Pricing Issue: 9%
- Misdirection Issue: 20%
- Not applicable (GPO): 1%

n=31, 8 manufacturers (branded), 4 manufacturers (branded and generic), 17 distributors, 2 GPO not applicable
Classes of Trade Across Organization Types

Comments from Survey

- “Too Many. We have the main classes of trade then subsets underneath (ie. Pharmacy then LTC Pharmacy, Specialty Pharmacy, Retail Pharmacy, Infusion, Specialty Infusion)”

- “Multiple…Class of Trade distinctions are not universal and are often specific to a given company. As a distributor, our Contract Administration departments are equipped to accommodate a different class of trade description for every company that we do business with. Each contract is unique.”
Chargeback Process

- Overall process for handling chargebacks is similar across the industry

- At an industry level, specific recommendations to improve the process are difficult
  - Take a lean six sigma approach to identify waste, defects, and rework in the process

- General recommendations include:
  - Chargeback rejection reporting to identify trends and isolate root causes of issues
  - Including comments to supplement rejection codes on the EDI 849
Trade Letter Announcement

- Information on trade letter announcement is not consistent across board
Trade Letter & Chargeback

- In trade letter announcement where chargeback is included 60% or more of the time, chargeback claim rejected rate over 10% is 3x lower and time it takes to resolve rejected chargeback over 2 weeks is 4x lower.

- However there is no correlation between chargeback over and under 60% and the root cause of rejected chargeback.
Recommendations

Handle each transaction as a Project (keeping in mind that it is a one time process and each transaction is unique):

1. Initiation
A. Create a Contract Administration/Chargeback Integration team as soon as transaction is announced consisting of:
   a) **Project Manager** who will serve as a representative for Contract Administration/Chargeback team at the main Integration team meetings. Project Manager should have solid understanding of: all players in the supply/value chain; contract administration/charge back process; and business models and cultures of the entities involved in the transaction
   
   b) **Subject Matter Experts**

c) **Membership/Eligibility expert(s)** in organizations that will need support integrating contracts, membership/eligibility expert(s) will work on aligning eligibility and membership information prior, during and following a transaction
2. Planning/ Due Diligence

A. Identify all stakeholders involved and all products/contracts affected following a transaction – identify how members under all contracts will be defined during and following a transaction.
   a) Manufacturer
   b) Distributor
   c) GPO
   d) Health Entity

B. Identify all resources affected prior, during and following a transaction including:
   a) employees
   b) IT/Systems

C. Create a Terminology reference document – where each definition is clearly defined. Automatically attach to all internal and external communication.
2. Planning/ Due Diligence (continued)

D. Create Communication plan – all Communication managed by the Project Manager including:

a) Internal Communications SOP –
   - general mailbox (with terminology document automatically attached to all e-mails) should be set up with ALL identified (need to know) internal stakeholders included on the distribution list – e-mails sent or received would be sent to general mailbox and automatically forwarded to all recipients on the distribution list; if participants are added to the distribution list – they will also have access to full content of the mailbox
   - Weekly calls should be set-up among all internal stakeholders – to discuss completed steps and next steps
   - Status Report should be sent each week – with completed and next steps

b) External Communications SOP –
   - general mailbox (with terminology document automatically attached to all e-mails) should be set up with ALL identified (need to know) external stakeholders included on the distribution list – e-mails sent or received would be sent to general mailbox and automatically forwarded to all recipients on the distribution list; if participants are added to distribution list – they will also have access to full content of the mailbox
   - Weekly calls should be set-up among all external stakeholders – to discuss completed steps and next steps
   - Status Report should be sent each week – with completed and next steps
Recommendations

2. Planning/ Due Diligence (continued)

D. Create **Communication plan** – all Communication managed by the Project Manager including:
   c) Communication with respect to details of the transaction:
      - Information in the trade letter announcement
      - Follow up communication after trade letter announcement

E. Create and Maintain CHANGE LOG – for Internal and External steps

F. Create a **timeline** indicating a critical path
   a) specify **minimal amount of time** needed to complete **each step** (3-5 days as per Survey)
   b) Identify **interdependent steps** and allocate more time if changes are needed
   c) Take into consideration **additional steps required** to complete paperwork to verify that entities are
      eligible under certain programs, as well as allocate time to verify that DEA numbers are up to date
2. Planning/ Due Diligence (continued)

G. Create IT/Systems Integration and Testing timeline
   a) Identify which systems will need to change
   b) Identify which technical people will be needed to make the changes and get buy-in on the changes and the schedule
   c) Seek out opportunities to minimize change required by other parties
   d) Whenever possible validate changes in a non-production environment
   e) Pursue multiple incremental changes instead of one very large change

H. Create risk identification/management such as an FMEA (failure modes and effects analysis) to understand potential risks that may be faced, their priority, and mitigation plans.

3. Execution

A. All planning/ due diligence steps should be completed prior to start of the execution stage
Recommendations

4. **Monitor/ Control** *(for the entire duration of the project)*

A. Relentless follow-up (timing is crucial)

B. Monitor deliverables against the plan and timelines

C. Monitor changes to original requests - make sure that all changes to timelines are immediately communicated to all applicable stakeholders (internal and external)

D. Develop reporting for chargeback rejections in order to capture trends and understand root causes

E. Monitor testing of all system changes
5. Close/ Post-Close

A. Make project documentation accessible that documents what decisions and changes (and justifications) were made as part of the project.

B. Capture Lessons Learned after each transaction/system conversion.
   a. What went well and why?
   b. What didn’t go well?
      i. How do we mitigate these in the future?

A. Create centralized repository of Lessons Learned for knowledge sharing in the event of employee turnover.

B. Review previous Lessons Learned prior to a new transaction/system conversion and share key points with all parties involved.
Questions