What is a vendor contract, what does it include, and how does it affect your radiology department?
• Authors: Jennifer Wu MD MPH, Charles Lugo MD, Ross Myers MD, Ajay Patel MD, William Gao MD, Michelle Larosa MD, David Bass, Tariq Rashid MD, Michael Seiler, Perry Gerard MD MBA FACR.

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Objectives

1. What is a vendor contract and may it include.
2. Why understanding vendor contracts is important to radiology house staff.
3. When should a vendor contract be created?
4. What comprises a good vendor contract?
5. Aspects of a vendor contract important to radiology.
6. Types of general sales/business related contracts.
7. What are potential pitfalls that can be avoided during negotiation?
Background

• In medical education there is relatively negligible training and preparation for the business aspect of medicine. This gap in education is even further accentuated when newly minted medical grads begin their residency and more apparent when starting a job as a board certified radiologist.

• One of the many business oriented facets of radiology that is rarely discussed or implemented within a formalized structure is vendor contracts related to radiologic equipment and services. Almost certainly when radiologists join radiology practices, private or academic, they will inevitably be involved in purchasing equipment or services from vendors.

• This presentation aims to expand the knowledge base of the basics of vendor contracts, and provide tools to best optimize maintenance expenditure.

• We review several types of key components in our vendor contracts we use at our institution as they can come in different flavors and with various services that can be negotiated.
What is a vendor contract, what does it include, and how does it affect your radiology department?

A written agreement between a purveyor and the consumer which will vary depending on what goods and services are being provided. It is essential for maintaining radiological equipment such as fluoroscopy, MRI, ultrasound, and PET/CT scanners.

- Should include basic elements such as price, quantity, delivery times, equipment and or services.
- Should include clear language regarding maintenance of equipment; including but not limited to mechanical/network failures or errors, accidental and non-accidental damages, warrantees, product services, privacy concerns, etc.
- Essentially a contractual agreement which is a legal binding entity which ensures that both parties are held accountable for their ends of the agreement in writing. Failure to adhere or violation of the contract can result in legal action.
- All radiological staff are integral because we heavily rely on the efficiency and productively of equipment/software to operate the radiology department.
When should a vendor contract be created?

Why should a vendor contract be created prior to beginning a business relationship?

- Both parties have interest in being fair at this stage to avoid losing the contract and accomplish respective goals.
- Negotiating a vendor contract after the relationship is already established will likely favor one party over the other.
- A reliance may develop on the vendor’s products or materials, which makes seeking an alternate source inconvenient and potentially costly.
Types of general sales/business related contracts

- **Purchase order**: A purchase order is a legally binding agreement that commits a business owner to purchase an item/quantity of items at an agreed-upon price, specifying the delivery date and payment terms.

- **Bill of sale**: A bill of sale is a hybrid legal document that transfers title of a piece of property and serves as evidence that a legal agreement (contract) was reached.

- **Security agreement**: An agreement that pledges an asset or piece of property as collateral to secure a loan. In the event of a default, the asset is forfeited to the lender.

- **Partnership agreement**: A partnership agreement spells out the relationship between partners, as well as their individual obligations and contributions to a business/practice.

- **Indemnity agreement**: An indemnity agreement is a contract in which one person agrees to indemnify, or “hold harmless” another person for damages resulting from a specific agreement. For example, it may be part of a contract for equipment (i.e., MRI).

- **Nondisclosure agreement**: Nondisclosure agreements give a business owner legal status if a vendor, supplier, service provider, independent contractor, or employee shares proprietary or confidential information about your business.

- **Property and equipment lease**: These contracts spell out the terms and conditions of a lease for a building or piece of equipment, including monthly payment, deposits, terms, maintenance agreements, and other related items.
Steps for a Vendor Contract

- First, a decision is made typically at the department level to enter into a contract with a vendor.
- Department administer will negotiated with the vendor and set terms. For example:
  - MRI service contract, full coverage may be 8AM – 4PM however other hours would be at a set price.
  - PACS system, first image display must be within 3 seconds.
  - PACS system should hold 20k exams annually.
  - Other elements that can be negotiated include who will perform software updates/how frequent they should be, if there will be application support, whether it will be in person or virtual, if there will be training sessions for new equipment, and warranty to ensure product reliability.
  - Machine maintenance whether it be a new machine under warranty or a machine that is out of warranty.
- A contract request above would then go to the department VP/SVP.
Steps for a Vendor Contract

• Legal
  • It is important that an attorney is assigned with the vendor attorney to settle terms in the contract. Financing and payment are worked out at this time.
  • Key issues debated include how long it takes the vendor to be paid once hospital invoiced.
  • Term NET30 means vendors paid in 30 days. Term NET90 means vendors paid in 90 days. Vendors prefer NET30 while hospitals prefer NET90.
  • Penalties are also discussed, for example what would happen if PACS vendor didn’t meet requirement of displaying a first image in 3 seconds.
  • Other components include when the contract can be terminated or mediation/arbitration as a solution if one party breaches the agreement.

• Contract executed by signature of a hospital SVP or higher and vendor SVP or higher.
Above are key components of vendor contracts that our institution includes in negotiation. These components are integral to increasing efficiency and productivity of equipment/software to operate the radiology department.
Contract form

- It is helpful when requesting a contract to include:
  - Vendor and contact information
  - Type of service being provided
  - Financial terms and which accounts being accessed
  - Patient information
  - Department approval
  - Legal involvement
What comprises a good vendor contract?

### General elements

- Detailed description of the goods or services to be provided under the contract and the terms of delivery or term if a service is the subject of the agreement.

- Agreement on the price captured in your agreement, should include specific payment types expected and when the payment or payments are due. If there is any concern for privacy, terms should also be captured in your agreement.

- Should include any specifics on how or when the contract can be terminated (i.e., must have 30 days notice and what happens if one of the parties does not adhere to the terms of the agreement, is there any penalty?). Also should include whether mediation or arbitration as a solution should one party breach the agreement, and a narrative on how to settle the differences should be negotiated.

### Elements specific to radiology

- **Software Updates**
  - Who will perform updates?
  - How frequent will they be needed?

- **Applications Support**
  - Will there be boots on the ground?
  - Virtual technical support?

- **Training**
  - For newly installed equipment/software
  - Costs and time commitment

- **Guarantee and Service**
  - What is the reliability of the product?
  - Is service bundled?
Conclusions

- Understanding the basics of vendor contracts is an important tool for operating as a radiologist. Given the radiologist ultimate position as it pertains to the reliance on radiologic equipment, uptime and ability to service patients, operation cost, revenue generation, and the radiological staff required to operate a radiology department/unit it is vital that the radiologist understand vendor contracts.

- Radiology residents who will eventually enter the work force with inevitably be placed in positions where they will be responsible for securing or participating in a contract with a vendor. Understanding the basics of vendor contracts would improve informed decisions before making purchases safe guarding investments and allowing the radiology department to operate efficiently and productively.
Conclusions

• In using vendor contracts, we find that it leads to a good relationship with the vendor and clarifies the expectation of a product.

• Over time, we found it is important to include clear language regarding what each party is looking for, maintenance of the equipment, failures or errors, accidental and non-accidental damages, warranty, product services.

• Vendor contracts are helpful in providing a written agreement and determining types of services that a radiology department will receive. Terms are integral to increasing efficiency and productivity of equipment/software to operate the radiology department.
References


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