THE LAST FRONTIER

Purchased Services:

THE LAST FRONTIER

Define, Review, Analyze, Contract
AGENDA – PURCHASED SERVICES

- Potential Impact & Value
- Definitions and Considerations
- Process and Negotiations
- Contract Management Systems
- Purchased Services Categories & Examples
PURCHASED SERVICES

Healthcare Operating Expenses

- Salaries - 50%
- Supplies - 20%
- Capital and leases - 13%
- Other Operating - 17%

Purchased Services, Leases and Equipment Depreciation could exceed 30%
PURCHASED SERVICES DEFINITION

**Definition**

- Services outsourced to external vendors (HFMA)
- Cost Classification that includes costs not under direct labor, direct supplies, or overhead, such as consulting, freight, travel, etc. (BusinessDictionary.com)

**Examples**

- Any vendor who brings in experts to perform a function
- Consultative Expertise to analyze & manage one of your non-core business operations
- Delivery of a supply that requires significant expertise to install or replenish
- Components of a function that include parts and replacements
**PS IS A DIFFERENT ANIMAL**

- Typically purchased directly by the department
- Often not on a PO
- Frequently long term contracts
- Many long term relationships without competition
- Suppliers often include evergreen clauses
- Some auto-renewals have very restrictive out periods
- Difficult to determine if the work is done
- Harder to determine if the work is acceptable
- Difficult to record the receipt
SUPPLY CHAIN EXPERTISE

- Contracting Expertise
  + Standard Terms and Conditions
  + Pre-defined organizational legal requirements
  + Unique requirements and deliverables

- Objectivity / Analytics
  + Vendor research & qualification
  + Spreadsheet to compare all costs and services
  + Expertise to normalize variations in price structures
  + Ensure all services are being used!

- Negotiating Skills
  + Introduce / Maintain Competition
  + Balanced Outcome: Price, Terms, Deliverables
  + Win / Win
SOURCES OF DATA

- **AP Annual Spend Report**
  - List all vendors paid
  - Sort Descending Total Annual Spend
  - Identify key Cost Center / Business Owner

- **Contract Database and/or Documents**
  - Search for Contracts and vendors which have not been reviewed or negotiated
  - Check Contract Expiration Dates

- **Request Supplier Reports**
  - Summarize services delivered and payments
  - Identify all price points and types of fees
  - Measure volume of services delivered
  - Report adherence to defined service levels

- **Invoices**
  - Verify all price points and fees match Supplier Reporting
PS CONTRACT PROCESS - PART 1

- **Establish Authority**
  - Obtain Executive support / endorsement

- **Create / Identify SOP**
  - Contract Management System / Database
  - Contract Locations, Responsibility and Access
  - Review and Approval process - part of Value Analysis

- **Establish PS Contract Categories**
  - Support services
  - Equipment Maintenance / Building & Grounds
  - Professional / Clinical Services / Human Resources
PS CONTRACT PROCESS - PART 2

- Obtain / Assign resource responsibility
  + Designate Buyer / Contract Manager / Analyst

- Review / Target Contracts for action
  + Schedule using expiration dates
  + Obtain stakeholder input, support
  + Identify competitors, service requirements, goals
  + Review GPO offerings

- Establish Project process
  + Initial Research and timelines
  + Outline RFP / Negotiating process
  + Develop analytics to compare results
  + Utilize standard T&C’s, templates
CONTRACT NEGOTIATIONS

Key Considerations
- NO Evergreen clauses
- NO Price Gag Clauses
- Define specific requirements based on type of service

Performance Expectations
- Consider risk and quality concerns
- Consider impact of service or vendor failure
- Required Vendor measurement and reporting
- Identify and negotiate penalties for failure to meet performance expectations
- Required periodic Business Reviews
CONTRACT NEGOTIATIONS

- **Negotiate Pricing**
  - Identify all potential price points and fees
  - De-bundle cost of non-value added services
  - Volume discounts
  - Minimize any risk of price escalation

- **Define acceptance**
  - Completion of service
  - Process for dispute of completion
  - Process for documentation of completion
  - Authorization for payment
# CONTRACT MANAGEMENT SYSTEM

**Software:** Web Hosted or Packaged

**Alternative:** Simple Access Database or Excel Spreadsheet

### Key System or Database Elements:

<table>
<thead>
<tr>
<th>Service Provider name</th>
<th>Type of Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Number(s)</td>
<td>Contract Source (Facility, Local or GPO)</td>
</tr>
<tr>
<td>Contract Start and End Dates</td>
<td>Department Owner / key contacts</td>
</tr>
<tr>
<td>Contract Termination notice period / date</td>
<td>Price List (link to file)</td>
</tr>
<tr>
<td>Description of services</td>
<td>Performance requirements</td>
</tr>
<tr>
<td>Performance Metrics</td>
<td>Issues Correction Process</td>
</tr>
<tr>
<td>Remedies for failure to correct</td>
<td>Other Terms and Conditions</td>
</tr>
</tbody>
</table>
## Key System Benefits / Functions:

<table>
<thead>
<tr>
<th>Feature</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Repository</td>
<td>• Upload, Store Maintain</td>
</tr>
<tr>
<td></td>
<td>• Controlled Access for multiple users</td>
</tr>
<tr>
<td>Contract Development &amp; Edit</td>
<td>• Modification to <strong>YOUR</strong> T &amp; C’s</td>
</tr>
<tr>
<td></td>
<td>• Development of Templates</td>
</tr>
<tr>
<td>Reports</td>
<td>• Monitor Expiration &amp; Notification Dates</td>
</tr>
<tr>
<td></td>
<td>• Calculate and track Savings</td>
</tr>
<tr>
<td></td>
<td>• Report Writer</td>
</tr>
<tr>
<td>Dashboards / Action Lists</td>
<td>• Track movement through Process</td>
</tr>
<tr>
<td>Related Functions / Modules</td>
<td>• Research, Documentation, Due Diligence</td>
</tr>
<tr>
<td></td>
<td>• Conflict of Interest</td>
</tr>
<tr>
<td></td>
<td>• Vendor Credentialing</td>
</tr>
<tr>
<td></td>
<td>• Value Analysis Tracking System</td>
</tr>
</tbody>
</table>
PURCHASED SERVICES CATEGORIES
BROAD CATEGORIES

- Support Services
- Equipment & Building & Grounds
- Professional and Clinical Services
SUPPORT SERVICES

- Reference Lab Service
- Waste Handling
- Record Storage
- Laundry Services
- Telecommunications Services (Internal system, Cell phones, Pagers)
- Courier / Messenger Services
- Print Management / Marketing & Graphic Design / Web Mgmt / Shredding
- Subscription / Benchmarking services
- Transport Service (Ambulance, Medi-Van, Helicopter service)
- Procurement Card Service
- Asset Management / Asset disposal / Electronics recycling / Storage
- Vending / Coffee / Snack Shop / other Retail services
- Instrument Repair / Reprocessing
- Transcription service / Interpreter (Language) service
- Computer System Support Services
Maintenance & Repair Services
Warranty vs PM vs CM
Response time; Hours of service; Cost of after hours repair; Parts availability and costs, etc
In House Biomed coverage and training
Managed Maintenance services
Examples
+ DI Equipment
+ OR Tables, Lights, Scopes & Video / SPD Sterilizers
+ Elevators / HVAC / Boilers
+ Landscaping / Snow Removal / Window cleaning
Examples

- Dialysis Service / Perfusion Service / DME / Custom Orthotics / Home Health
- Consulting Services: Revenue Cycle, Operational Improvement for specific Departments
- Architecture, Design, Marketing programs
- Employment Recruitment and Advertising
- Outsourced MD Groups: ER, Anesthesia, Radiology, Pathology, etc.
WASTE HANDLING

Key Considerations

- Types of Waste & Services
  - General and food waste
  - Regulated Medical Waste
  - Pharmaceutical Waste
  - Integrated Waste Streams
  - Hazardous Waste & Services
  - Reusable Sharps Services

- Frequency of Pickup / Container Exchange
- Vendor Support for keeping waste streams appropriately segregated

Regulatory Coverage

- Healthcare Compliance Services
- Manifest documentation for DOT
- Individual State requirements – on line reference tool
- Custody Documentation
- Lab packing, profiling and waste characterization

Negotiate Pricing

- Volume discounts / Bundled services discounts / Incentive rebates
- Price Protection and escalation caps
- Fuel Cost
RECORD STORAGE

Key Considerations
- Security / HIPAA requirements
- Access and retrieval
- Conversion to electronic records
- Backup / loss prevention and recovery
- Shredding Services
- Documentation to meet HIPAA

Performance Expectations
- Retrieval Turnaround time
- Retrieval accuracy and monitoring
- Penalties
LAUNDRY SERVICE

- **Key Considerations**
  - Owned vs Rented Linen
  - Frequency of delivery / exchange
  - Loss prevention and assistance

- **Performance Expectations**
  - Level of Par Stock available (night / weekend coverage)
  - Product selection / quality and variety for special needs
  - Clinical quality requirements vs cost
  - Quality monitoring, measurement and reporting
  - Management of Torn / Stained linens

- **Negotiated Pricing**
  - Price per pound
  - Clean Weight vs Soiled (20% more)
  - Other fees or costs (rental linen loss)
  - Price protection / escalation for increasing energy / transport
COURIER / MESSENGER SERVICE

- Key Considerations
  + Services required for your owned facilities
  + Scheduled Routes / “On Call” services
  + Types of materials moved: Specimens, supplies, linen, food, instruments, mail, interoffice communications; loaner equip
  + Services to non-owned entities

- Performance Expectations
  + Turnaround time for on call services
  + Coverage for scheduled routes
  + Types of vehicles
  + Accuracy / quality control / monitoring / measurement

- Negotiate Pricing
  + Adjustments for changes to base services
  + Volume discounts
  + Fuel escalation
TRANSPORT SERVICES

**Key Considerations**
- Ambulance / Medi-Van / Helicopter
- Staff qualifications / credentials
- Reliability, Responsiveness, & Reputation

**Performance Expectations**
- Response time guarantees, measurement & reporting
- Billing process and capacity

**Negotiate Pricing**
- Costs for Hospital – Reimbursed transports
- Services price listing
INSTRUMENT REPAIR

- Key Considerations
  - On-Site Repair vs Mail-in repair (or combination)
  - Guaranteed frequency / Turnaround time
  - Loaner / Parts availability
  - Scope repair, Set/Tray/Container repair
  - Item specific price lists with specified turnaround times
  - Shipping containers and pre-paid ship labels with insurance

- Performance Expectations
  - Warranty of services / guaranteed replacement
  - Replacement parts meet or exceed industry standards

- Negotiate Pricing
  - Identify all potential price points and fees
  - Tiered & Volume discounts
  - Minimize any risk of price escalation
Print Management = Total Integrated Solution
(Printers, Supplies, Parts, Installation, Maintenance, Management)

Printing is one of the last frontiers of unaudited expense

- 4.7% of total expenditure is spent on printing costs
- 90% of organizations do not know how much they spend on print
- 35-41% of printer acquisitions avoided the formal procurement process
- 75% of all print output is waste. (PC Magazine)
- Document obsolescence accounts for up to 25% of print purchased
- Managed print solutions can save hospitals 30% - InfoTrends
Free comprehensive print cost and savings analysis
Guaranteed savings program (5 – 28%)
Forms design and standardization
Inventory Management
Online ordering
Direct Mail / Desktop delivery
SHIPPING & FREIGHT MANAGEMENT

- SMALL PARCEL GROUND FREIGHT
  - Savings on Outbound Freight
  - Parcel tracking / Receipt management
  - Inventory Management System
  - On Campus Ship Management

- OVERNIGHT SHIPPING
  - Express Discounts range: 30-65%
  - Ground Discounts range: 16-35%

- INBOUND FREIGHT IS MOST SIGNIFICANT
DISTRIBUTOR PROGRAMS
- Savings of 30-50%, on average, for inbound and outbound small package freight costs
- Benefits: vendor management and compliance, cost allocation management, freight pay and audit services and freight consulting resources that are critical to effectively manage the customer’s in-bound freight expense
- Partnership with Small Package nationwide carrier
- Partnership with Air Freight Carrier

3PL: THIRD PARTY LOGISTICS
- In-bound freight management with their expertise
- Tiered Discount off List Pricing
  - Cost Plus Pricing / Flat Fee Pricing Option
  - Partnership with Small Package nationwide carrier
  - Partnership with Air Freight Carrier
VALUE ANALYSIS WEB-HOSTED SYSTEM

- Web Software to manage VA Process
- Standardize introduction of new products
- Engage all stakeholders electronically
  - Multi-disciplinary team input
  - Impact on safety / quality / regulatory
  - Financial impact
  - Educated decisions
  - Support strategic goals

- Inexpensive Web hosted software
  - Customized to your needs & requirements
VENDING / RETAIL SHOPS

Key Considerations
- Rental income or profit sharing
- Adherence to Policy, Culture, Appearance
- Service Delivery / Product Offerings

Performance Expectations
- Staffing / Hours of Operation
- Frequency of delivery / replenishment
- Repair / reimbursement for malfunction

Negotiate Pricing
- Coverage for overhead costs (power, maintenance, housekeeping)
- For Profit Sharing: Percent or rebate per item
- Supply Purchase rebates from vendors
- Audit and validation of payment levels
OUTSOURCED FOOD MANAGEMENT

Key Considerations
- Maintain your “Right to Purchase” / Profit on Retail
- If cost is significantly less, how to maintain quality
- Catering services
- Nutritional Counseling / patient care
- Floor stock: snacks, paper products

Performance Expectations
- Requirement to maintain / improve Pt Satisfaction
- Required Measurement of meals / revenue / costs
- Identify and negotiate penalties for failure to meet performance expectations

Negotiate Pricing
- Identify all potential price points and fees / Minimize Risk
- Volume discounts / escalation of revenue if volumes increase?
- Minimize any risk of price escalation
EQUIPMENT PLANNING / BENCHMARKING

- Equipment Price Benchmarking
- Quote review and eRFP Auction Process
- Guaranteed Cost Reduction Program (Average Of 18% Savings)

- Capital Acquisition Planning Tool
  - Match GPO contracts to Capital Budget
  - Comparative Pricing with Unlimited Licenses and access to databases
  - Comparative Quote Review with Unlimited Licenses and access to databases

- Acquisition Planning & Procurement Services (for new construction projects)
- Fee Structure:
  - Pay as you go (Pay as you Save) pricing structure (no risk)
  - Or prepaid subscription fee with all services included
**MANAGED EQUIPMENT MAINTENANCE**

- **Vendor A**
  - Includes a Decision Support Analysis (Financial Review) to deliver the guaranteed savings
  - Estimated annual savings between 18% - 22%

- **Vendor B**
  - No cost – no obligation service financial audit to guarantee 15 - 20% capital expense reduction on current service programs

- **Vendor C**
  - Asset & Service Management program
  - Guaranteed discount of between 12-18% off the price of a customized program
REFERENCE LAB SERVICES

- **Key Considerations**
  - Formulary of most frequent Tests / Firm Pricing
  - Increased Discounts for Volume growth
  - Process to add new tests; capture price discounts

- **Performance Expectations**
  - Ordering / labeling / packaging / pickup / reporting
  - Guaranteed turnaround time (identified exceptions?)
  - Quality control / reporting / indemnification
  - Collection Supplies (or credit / discount)

- **Expected Savings**
  - 5 – 10%
COMMUNICATION SERVICES

* Wireless Communication
  - Review use of Cell phones, Pagers, PDA’s, in-house cell phones
  - Economies with fewer devices for multiple needs
  - Expect Double Digit savings for first contract

* Voice & Data
  - Local, Long Distance, Data, service, equipment and solutions
  - Security systems
  - Business Continuity Systems
RECRUITMENT

- Executive Recruitment, Consulting
- Interim Healthcare Managers
- Permanent and Temporary Staffing
  - Savings and Performance Guarantees
  - Turnaround time expectations and guarantees
  - Auction pricing arrangements
  - Nursing, Pharmacy, DI, PT, etc
Revenue Cycle and Operational Improvement Consulting

+ Throughput consulting (Registration >> Collections)
+ Transfer DRG Payments
+ Managed Care potential savings
+ Disproportionate Share

Should Guarantee RIO or contingent fee
FINANCIAL MANAGEMENT SOLUTIONS

- Financial Services Consulting Programs
  - Revenue cycle consulting,
  - Application delivery,
  - IT and business process outsourcing solutions

- Key Features & Benefits
  - Initial no cost assessment
  - National and peer benchmarks
  - Opportunities for financial improvement
  - 3%-5% Cash-flow improvement
  - Contingency based fees
Revenue cycle software
- Charge master, patient bill estimating, and linking supply costs and charges

Features
- Toolkit and Online Reference
- Bill Analyzer
- Patient Charge Estimator
- Pharmacy cross match from bill to product
- Supplies cross match from bill to product
- Dashboard to monitor KPI’s
OUTSOURCING MD SERVICES

Common Myths

- Cost Effectiveness is # 1 (look carefully at RISKS)
- Don’t worry about regulatory requirements
- Let the vendor handle the transition
- Performance Standards go without saying
- Certificate of Insurance and Indemnification
- Exit process is simple
- We can always find an alternative source
- Indemnity ceases with the end of contract
- If provider goes out of business, don’t worry
Purchased Services:

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