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# Optimizing Purchased Services Contracting

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## | Disclosures

- Andy Motz & Raelyn Wilson are affiliated with Valify Solutions Group
- Max Washko & Joey Dickson have no real or perceived conflicts of interest related to this presentation

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## | Learning Objectives

*At the end of this session, participants should be able to:*

1. Explain the process of identifying, collecting, and establishing benchmarks across multiple categories
2. Discuss the components of collaboration between a health system, an implementation partner and a technology partner
3. Identify methods and tools for effective collaboration with external supplier partners

## Introductions

### *Moderator:*

*Andy Motz – AVP, Custom Contracting & Advisory Services, Valify Solutions Group*

### *Panelists:*

*Joey Dickson – AVP, Strategic Sourcing & Corporate Counsel, Supplier Diversity Officer, HealthTrust*

*Max Washko – Senior Strategic Sourcing Manager, Trinity Health*

*Raelyn Wilson – AVP, Client Success & Account Management, Valify*

# What is Purchased Services?

# Definition of Purchased Services (PS)

A purchased service is any service contract for or performed by a third party rather than a hospital's in-house staff



- Facility Support Services**  
241 subcategories including:
  - Food Services
  - Housekeeping
  - Utilities
  - Biomedical Engineering

- Financial Services**  
147 subcategories including:
  - Property Mgmt.
  - Banking/Financing Fees
  - Financial Software
  - Revenue Cycle

- IT & Telecom Services**  
441 subcategories including:
  - IT Infrastructure
  - IT Resellers
  - Security/Privacy/Risk

- HR Services**  
133 subcategories including:
  - Temporary Staffing
  - HR Software
  - Patient Satisfaction Surveys

- Clinical Services**  
259 subcategories including:
  - Reference Lab
  - Dialysis
  - Blood Bank

- Insurance**  
29 subcategories including:
  - Workers Comp
  - Property & Casualty
  - Disability

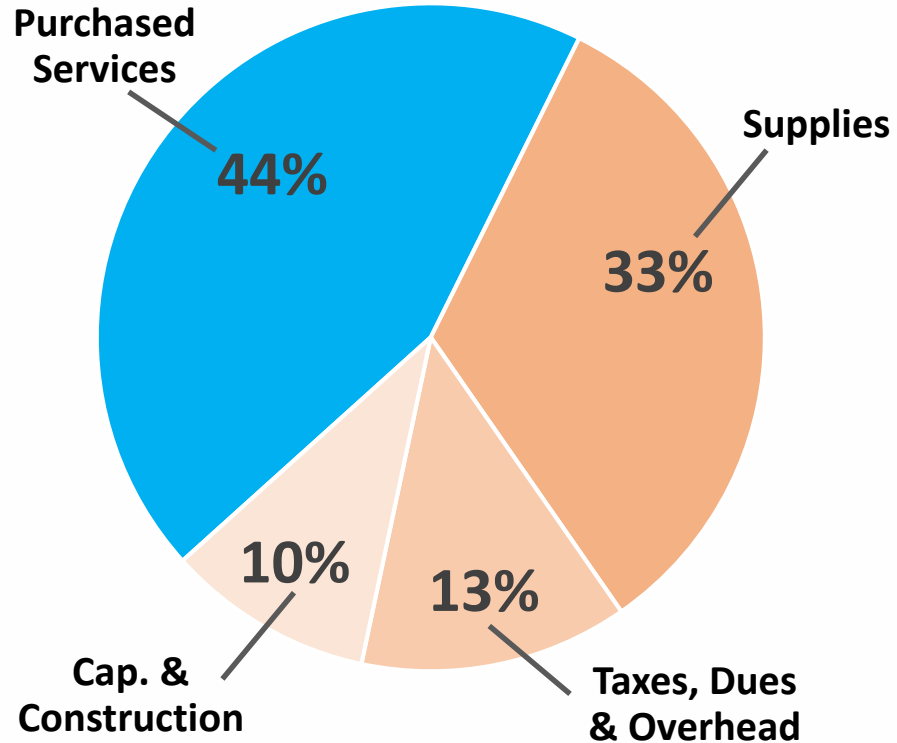
- Ancillary Services**  
140 subcategories including:
  - Document Mgmt.
  - Courier Services
  - Interpretation Services





# Purchased Services can be a hospital's largest non-labor expense

## NON-LABOR OPERATING EXPENSE



- \$300 billion estimated annual purchased services spend (U.S.)
- Compared to expense management practices for supplies, purchased services management contain:
  - Over twice the amount of vendors to manage
  - Highest amount of spend per bed
  - Fewer dedicated employee resources
- Challenges
  - Lost savings due to lack of complete spend visibility
  - Lack of actionable insights
  - Potentially overspending on services; lack of leverage in negotiations

# Begin with a repeatable process

## Insight to Data

- Do you have enterprise-wide spend visibility?
- Access to vendors and categories
- Identify rogue spending

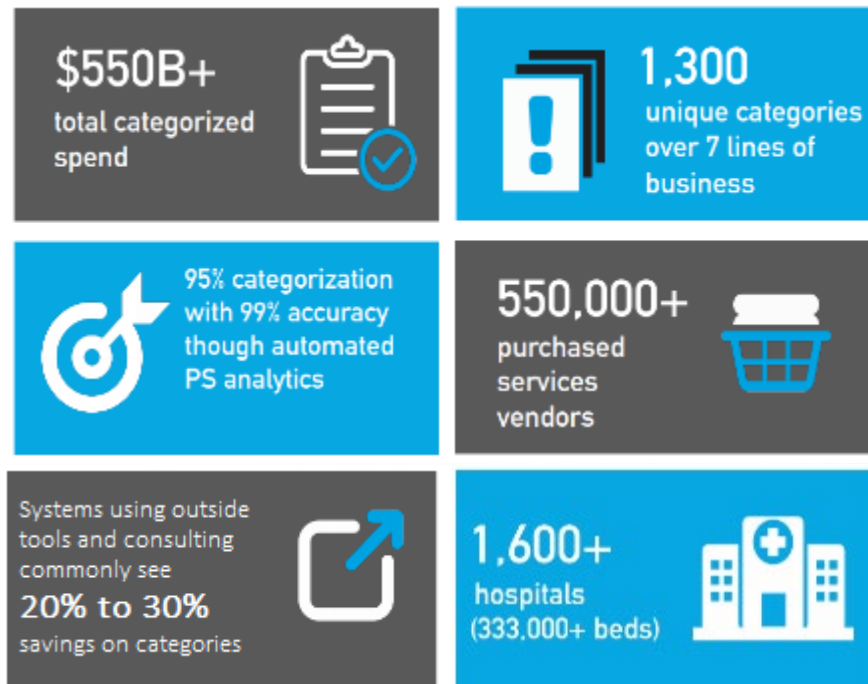
## Empowered Decision-making

- How do you identify actionable savings opportunities?
- Consolidate duplicate vendors

## Sustainable Savings

- Track annual goals and monthly progress
- Can you track and react to rogue spending?

Use technology tools to benchmark, manage & monitor savings initiatives





# Common Challenges in Purchased Services

# Common Challenge #1

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Incomplete categorization of service spend

## | Myth: *“I know what I’m spending.”*

- Issue: No item numbers, no item master, no general ledger number, no industry standards
- Issue: Generalized General Ledgers (using “Purchased Services Other”, “Maintenance”, “Repairs”, etc.)
- Normal business intelligence tools don’t work with dirty data like this (Garbage In/Garbage Out)
- Consultants only look at the 15–20 categories that they care about
- What’s the point of knowing what your total spend is in Environmental Services for example?
  - You must see your data at the lowest category-level possible to make real decisions (the “RFP-able” level of detail)

## | Know What You Are Spending

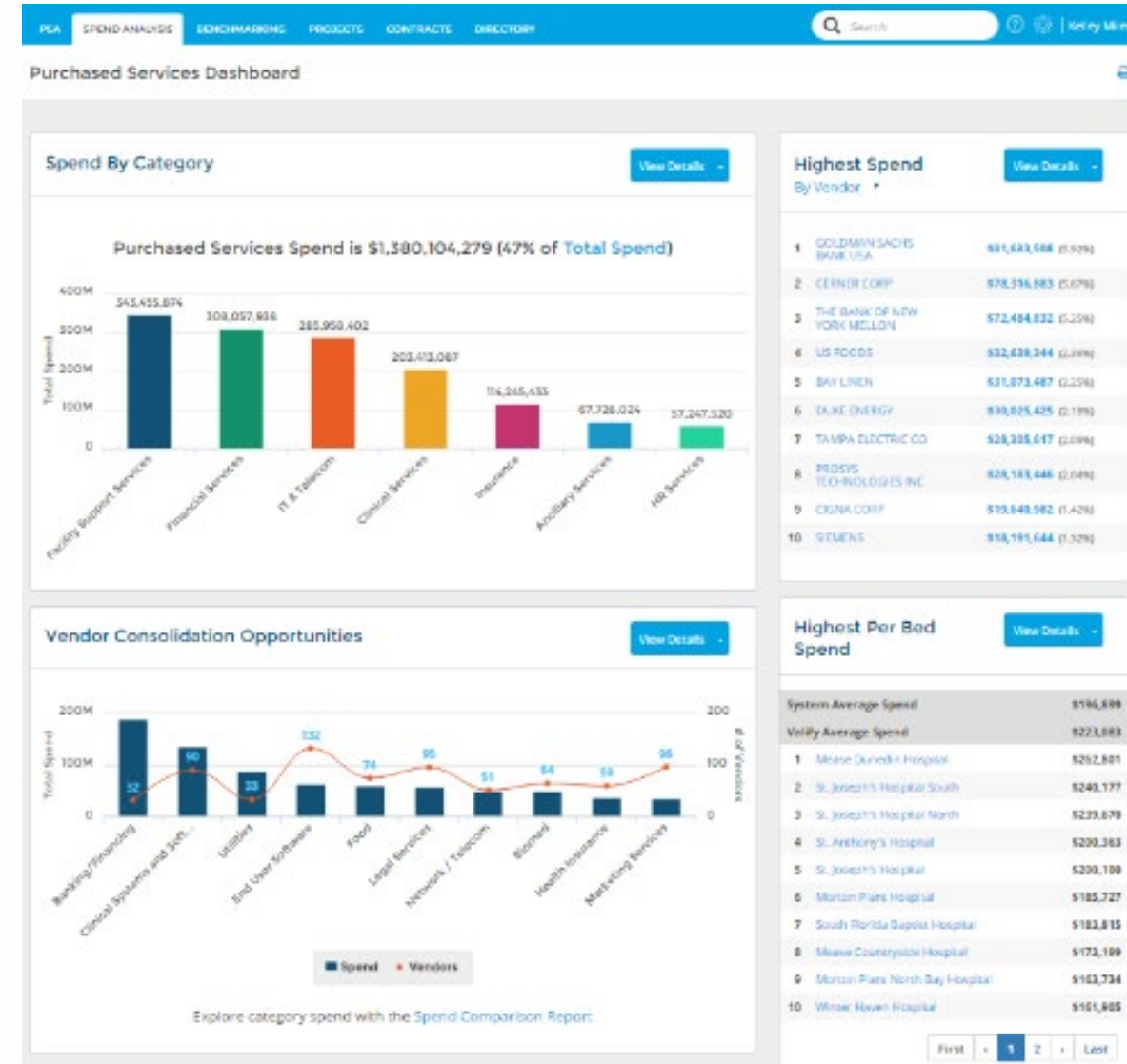
- Review entire non-labor spend to ensure capturing of all services
- Categorize your spend beyond the GL into more specific categories
- Reasonable expectations are that you should be able to specify where 85% to 90% of your spend is going by category
- Update your spend categorization monthly
- Check for introduction of new suppliers especially where you were previously sole or dual sourced in a category

Challenge #1:  
**Incomplete  
categorization of  
service spend**

# Visualize Where Your Dollars Are Going

A spend analysis tool helps you “see” your spend

- Get an overview of total PS spend
- Divide Purchased Services categories into “service lines”
- See largest spend by category/vendor
- Visualize consolidation opportunities



## Audience Poll:

What is the average percent of non-labor spend in Purchased Services?

1. 25%
2. 45%
3. 60%
4. 80%

**45%**



## Common Challenge #2

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**Confidence that your pricing is competitive**

## | Myth: “*Benchmarking purchased services is hard*”

- Ok, so this actually isn't a myth...
- It *is* more challenging to benchmark services than products
- Historically, it was impossible to find comparable data
- Since no SKUs, you can't create a price checker type of tool

## Analyze Cost With Two Types of Benchmarks in Mind

### KPI Benchmark

- **Directional related to spend**
- Calculated by dividing A/P spend by seven metrics (# Beds, Adj. Days Pat. Rev., etc)
- **Example: Hospital spent \$1,100 per staffed bed on laundry and linen processing last year. The median within Valify is \$900 per bed. Savings opportunity is \$200 per bed**

### Category Benchmark

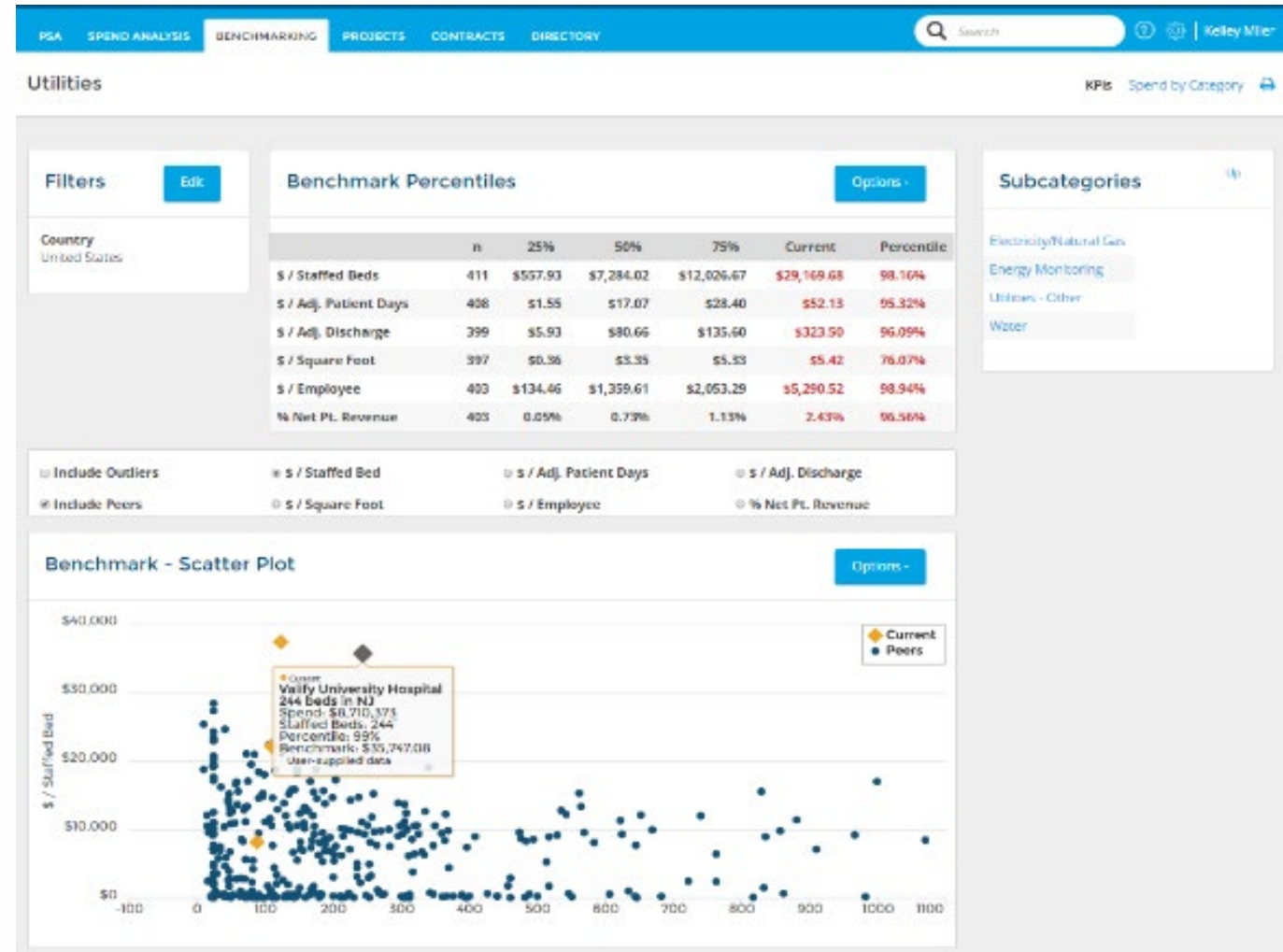
- **Specific related to price and utilization**
- Applies vendor specific price and utilization benchmarks from other hospitals
- Requires additional pricing and utilization data to unitize costs
- **Example: Hospital's linen processing cost is \$0.525 per pound. The median cost is \$.415. Hospital averages 14 pounds of laundry per APD. Its peers average 16 pounds per APD. Savings opportunity is \$1.54 per APD.**

Challenge #2:  
Confidence that  
your contract is  
competitive

# Applying Benchmarks to Your Data

Know how you compare to others

- Compare your own facilities to each other
- Compare your health system to others of like sizes in your region or around the country
- Use a trusted advisor to know if you are paying the right unit costs for services
- Test the market through and Request for Proposal or Request for Quote



## Audience Poll:

What is the average savings members have realized when utilizing outside support?

1. 5%
2. 9%
3. 18%
4. 24%

**18%**

## Common Challenge #3

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**Finding/prioritizing savings opportunities**



## | Myth: *“Savings priorities are driven by contract expiration dates”*

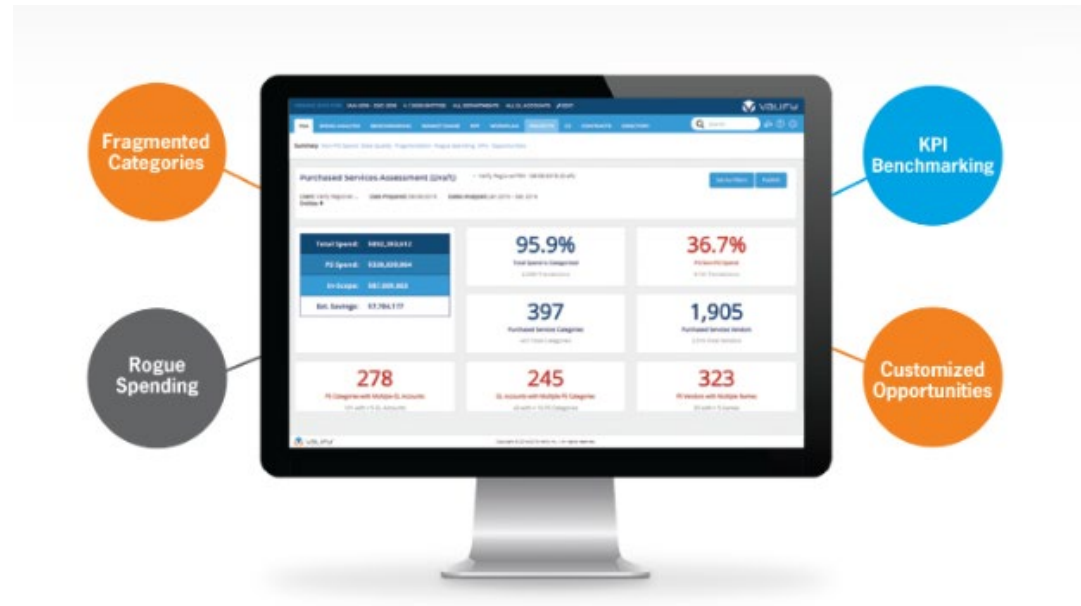
How do you find savings opportunities today?

- Fire drills when contracts are about to expire
- The “Squeaky Wheel” method (from a department head, etc.)
- Comb through spreadsheets
- Vendor brought you an opportunity
- Working through GPO contract list
- Heard about a category at a conference

# Mine for Opportunities in Several Ways

Don't wait for the opportunity to come to you

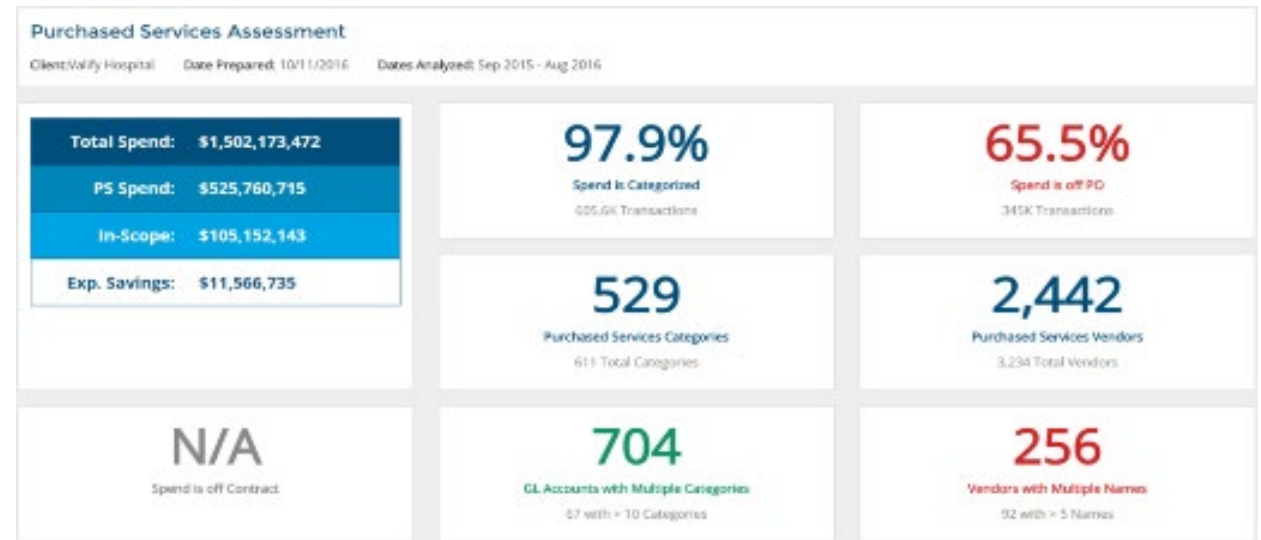
- Standardization
- Rogue Spending
- Benchmarks ranked (highest savings to lowest)
- Customized opportunity list



Challenge #3:  
Difficulty finding or  
prioritizing savings  
opportunities

# Start With a Purchased Services Assessment (PSA)

- High-level overview of total spend
- Insight into non-PO Purchased Services spend
- General ledger clean-up
- Opportunity identification
  - Standardization
  - Rogue spending
  - Benchmarks ranked (highest savings to lowest)
- Develop an opportunity list
  - Celebrate your successes
  - Track your works in process



## Potential Rogue Spending ⓘ

Category	Total Spend	Top Vendor	# Vendors	# Vendors to 80%
Operations Improvement Consulting	\$18,891,958	DELGITTE CONSULTING	19	1
Biomed Service Contract	\$10,416,080	CP MEDICAL SYSTEMS	54	1
Blood Bank Services	\$10,302,193	COMMUNITY BLOOD CENTER	8	2
EMR - Other	\$8,757,145	EPIC SYSTEMS CORP	4	1
Equipment Financing	\$8,421,061	GE HEALTHCARE FINANCIAL SERVICES	10	2
Insurance - Other	\$6,997,480	RMS MEDICAL PROFESSIONAL LIABILITY	34	1
Workers Compensation Insurance	\$6,235,510	SENTRY INSURANCE	3	2
Food Distribution	\$5,463,445	US FOODS	7	1
Wireless Services	\$5,299,830	AES1 DATA COMM	5	1
Banking/Financing - Other	\$4,783,029	JP MORGAN CHASE BANK	6	2

On average, how much of a health system's purchased services spend is *not* on a PO?

1. 15%
2. 25%
3. 40%
4. 65%

65%

## Common Challenge #4

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**Identifying changes, trends or obstacles in realizing value from current vendors**

| Myth: *“We already did that category. We’re good.”*

How do you know when you’re “good?”

- Are you 100% sure all of your facilities converted?
- Are you 100% sure your vendor(s) are invoicing the new rates?
- Do you know when a vendor upsells outside the contracted category?
- Are you tracking utilization to make sure the lower spend isn’t due to lower patient census or something similar?

*Sounds a little bit like sourcing for Physician Preference Items, doesn’t it?...*

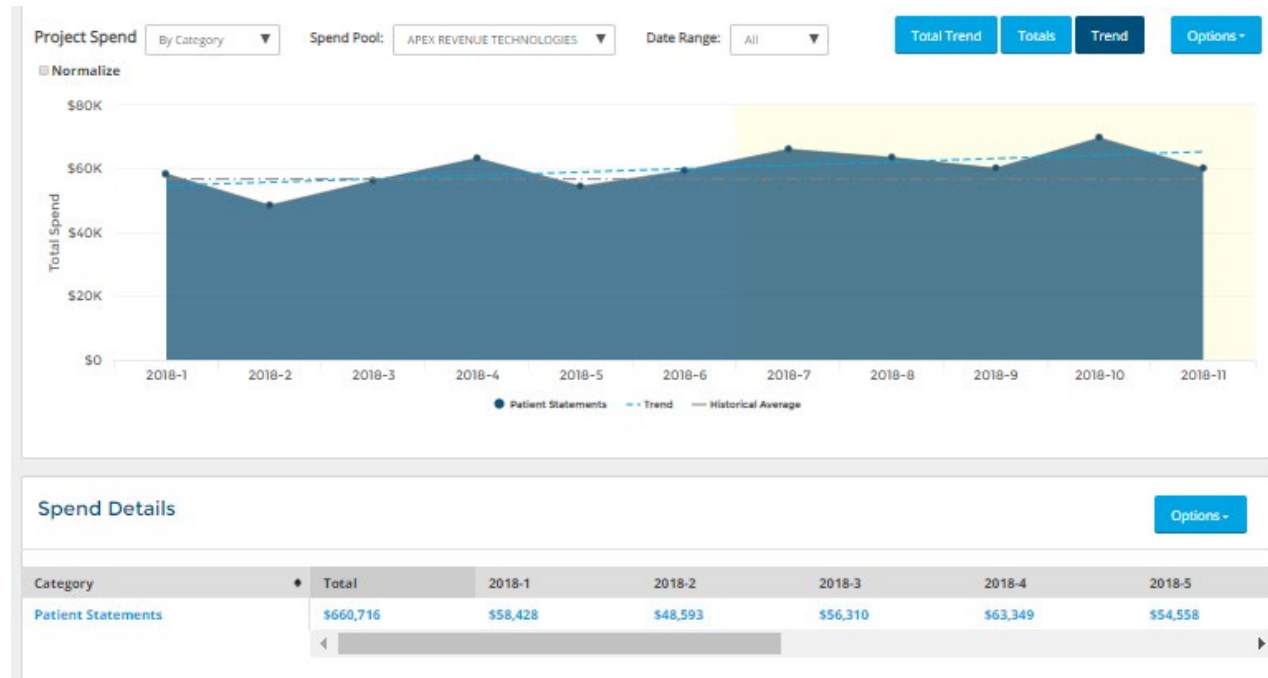


# Track Your Data for Trends & Supplier Challenges

Be alert!

- Track actual savings
- Set alerts on initiatives
- Track newly negotiated rates and incorporate utilization
- Track vendor compliance

Challenge #4:  
Identifying changes,  
trends, or obstacles in  
realizing value among  
current vendors



## Audience Poll:

On average, how many purchased services vendors are used at a hospital?

1. 100
2. 500
3. 1,500
4. 10,000

1,567

854

## Common Challenge #5

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**Insufficient market visibility of vendors in specific categories**

| Myth: *“We can’t find alternate supplier(s) to the one(s) we’ve partnered with over the years.”*

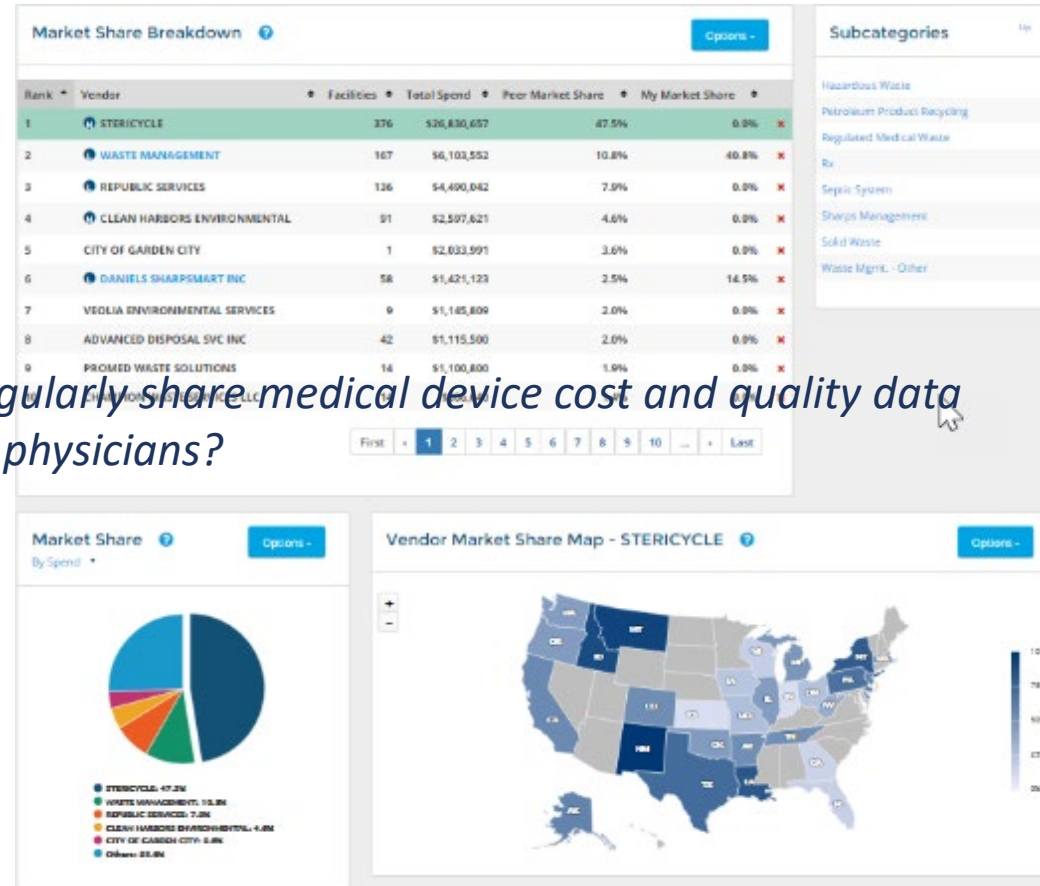
- Yes, we do hear this...
- This leads to evergreen contracts, compliance issues and more.
- The vendor most likely has been increasing pricing by Consumer Price Index each year
- How do you know which vendors to include in an Request for Proposal?
- What about local and diverse vendors?
- Where do you find the vendors?
- It’s difficult to know who is in your area

# Know the Marketplace

What suppliers are available in your city or region?

- How do you know which vendors your peers are using for specific service?
- Talk to your GPO and ask who is already on a national contract and if they have market share in your geography
- Are there diverse suppliers available?

*Do you regularly share medical device cost and quality data with your physicians?*



Challenge #5:  
Insufficient market  
visibility for  
vendors in specific  
categories

## Audience Poll:

On average, what percent of purchased services spend is on a GPO contract?

1. 15%
2. 25%
3. 40%
4. 80%

15%

80%



## Common Challenge #6

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**Purchased Services is not managed by Supply Chain, it is managed by many departments.**

| Myth: *“Other departments are equipped to negotiate their own deals”*

- Be confident in what you’re spending at the enterprise level down to the department level
- Department leaders are subject matter experts, NOT negotiation experts
- Back up your dialogue with data to open up the conversation for Supply Chain to be involved
- Departments may lack accessibility to data

*What is your process today for pulling data needed for savings initiatives?*

# A Proven Approach to Fostering Collaboration Across Your Health System

Challenge #6:  
Services are managed by many departments



True or False:  
I learned something valuable today!

True

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# Thank you...

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