

Thinking about Outsourcing “Outsourcing”? Straight Talk about Purchased Services

PURCHASED SERVICES MAY truly be the next great frontier for supply chain savings. It’s a vast and complicated landscape to navigate alone, so many hospitals are turning to independent third-party experts to help them save big on their full range of outsourced services.

Recently, supply chain management consultant John Strong sat down with ECRI Institute’s Jennifer Myers to talk about how healthcare providers can overcome the challenges of managing purchased services and save money in the process.

John Strong (JS): Why are supply chain managers taking a closer look at purchased services as a source for savings?

Jennifer Myers (JM): In my conversations with close to one hundred hospital supply chain leaders across the country, I hear two recurring messages. One is that they feel they have squeezed as much out of their medical supply spend as they possibly can, so purchased services is the next great area to mine for savings.

The other is that purchased services in the past have been handled at the department level, and hospitals are now trying to centralize these services under supply chain and/or materials management. Most supply chain departments don’t have the time nor the staff to look at the diverse, often confusing, purchased services picture, so they are reaching out for guidance and support from a variety of third-party sources. I call it “outsourcing outsourcing.”

JS: What can hospitals hope to save by centralizing and streamlining their purchased services process?

JM: Purchased services is believed to represent more than \$100 billion in healthcare industry spending annually; often close to one quarter of a healthcare provider’s total operating budget. This translates into hundreds of contracts a year for some organizations. By implementing a strong value analysis process and vendor negotiating strategy, healthcare providers can reduce the cost of these services by as much as 30 percent annually.

JS: Many experts feel that purchasing services is significantly harder than buying PPI and medical supplies. Why?

JM: Supply chain departments are already stretched to the limit as they try to do more with less. They may not have the specific subject matter expertise, relevant data, or experience with contracts in areas like window washing, lawn services, getting the hospital painted, parking – the truth is, no one really does!

Supply chain managers tell me that they just don’t have the time or resources to comb complex databases, develop custom RFPS, and leverage the vast number of vendor negotiations required for their purchased services.

JS: Can you tell us about a hospital that is saving significantly on its purchased services?

JM: We recently completed a purchased services project for Virginia Mason Medical Center in Seattle, Washington, where we helped them renegotiate their contracted cylinder medical gas services. As a result, Virginia Mason expects to save close to \$700,000 over the five-year term of the contract.

In the course of the project, we uncovered many of their challenges with outdated contracts and multiple vendors, and also discovered they were paying excessive surcharges and rental fees related to their gas cylinder contracts.

We developed a custom request for proposal, sent it out for bid, and analyzed all vendor responses before making our recommendations. This enabled Virginia Mason to select *one* supplier for all of its locations, negotiate a contract with consistent terms and conditions, and secure lower cylinder pricing for a five-year period.

JS: As a busy supply chain manager, what should I look for when researching a purchased services partner?

JM: Look for an independent, objective third party with deep bench experience in analyzing,

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comparing costs, and negotiating service contracts. Your partner should act as an extension of your own supply chain – managing your process from start to finish and freeing you up for your other important duties. An ideal service will provide a dedicated purchased services manager who provides unlimited one-on-one consultation.

Many services offer comparative data and price benchmarking in a web-based tool, but that is just a small piece of the puzzle. For each renewing or new contract you are looking at, your

partner should perform a detailed needs assessment, interview all of your key stakeholders, and develop a customized request for proposal, not an off-the-shelf, templated RFP.

Most importantly, you should choose a resource with the expertise to set up a competitive bidding environment among your vendors, and guide and mentor you in your contract negotiations. ▲

Jennifer Myers directs ECRI Institute's *SELECTplus* advisory service for the procurement of capital and health

information technology. ECRI Institute is an independent nonprofit organization that researches the best practices to improving safety, quality, and cost-effectiveness of patient care. Learn more at www.ecri.org.

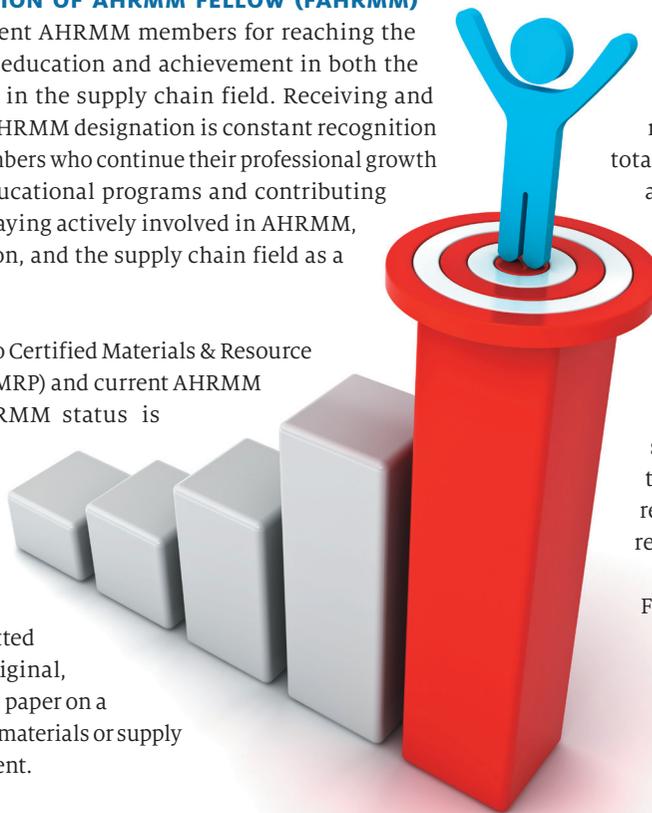
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