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Purchased Services Transformation: Connecting People, Processes, Technology and Metrics

Health care organizations know that huge potential savings hide in the largely uncharted waters of their purchased services spend. But the decentralized, unmonitored nature of service purchasing creates a stumbling block that's difficult to overcome.

Dozens of departments are purchasing potentially hundreds of services from largely unvetted sources. Inconsistent processes, lack of data and insufficient metrics add to the complexity.

Even though the challenges are tough, many supply chain leaders are making the deep dive into their purchased services spend to effect change. But success takes more than hope and hard work—you need the right people, processes, technology and metrics working in alignment to achieve common goals.

Significant savings potential

In the typical health care organization, dozens of miscellaneous, decentralized purchased services add up to 19 to 24 percent of operating expense—equal to the annual outlay for supplies.

Average operating expenses

Salaries, wages and benefits		56%
Purchased services		18%
Supplies		18%
Other		8%
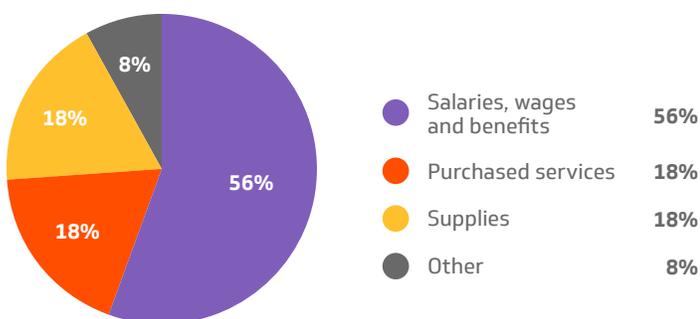
In our 2016 Vizient™ white paper, "Purchased Services: An Untapped Source for Savings," we identified potential savings from 5 to 25 percent left untapped in a variety of key categories, including:

- **Support services**—8 to 22% (advertising and marketing, asset management, courier services, dietary services, freight management, information system software, maintenance, laundry and linen services)

- **Clinical areas**—10 to 20% (dialysis services, durable medical equipment, equipment rental services, hospitalists and all physicians, pathology services, perfusion services, reference lab, specialty beds)

- **Ancillary services**—5 to 15% (ambulance services, biomedical engineering services, blood products/ supplies, forms management, mobile imaging services, reprocessing, translation/interpreting services)

- **Plant operations and utilities**—7 to 19% (alarm systems, generator/power, HVAC/chiller maintenance, telecommunications, utilities—gas, electricity, water, sewer)

- **Repair and maintenance**—5 to 15% (biomedical equipment, clinical equipment, equipment/surgery instrument repair services)

- **Financial, administrative and human resources**— 5 to 25% (accreditation and certification, accounts payable audit, benefits administration, claims management services, collection agency services)

Who's buying what?

For additional details about the types of services purchased in a typical health care system and the departments usually responsible, view Appendix A at the back of this document. The list clarifies how many parts of the organization are involved—and the wide variety of services being negotiated and purchased.

Current challenges

In most buying situations, vendor selection and contract review protocols are informal, inconsistent or nonexistent. And in most cases, there's no clear way to analyze competitiveness, track value or measure results.

The challenges are real—but not insurmountable.

Lack of transparency. In most organizations, supply chain management is responsible for sourcing only 5 to 10 percent of purchased services.[1] When you can't identify, categorize and analyze what's being purchased, it's virtually impossible to track spend, ensure value and achieve savings.

Weak contracting and oversight. Many service agreements aren't contracts at all—services are simply paid for invoice by invoice. And when contracts exist, they're seldom audited for pricing and service-level compliance. The purchasing controls and automated reviews that prevail in supply and medical-surgical categories are lacking.

Shaky criteria. The dozens of individuals buying services are making financial commitments that affect the entire organization—usually without market reviews or competitive bidding. In too many cases, managers select vendors based on long-standing connections or perceived political advantage. Though these relationships are tricky to unravel, a closer look often identifies real untapped savings.

On the radar for most leaders

Hospital executives and supply chain leaders recognize they're leaving dollars on the table. As incremental savings in other categories become harder to achieve, they're turning to the untapped, uncharted "wild west" of purchased services.

"About 33 percent of our overall expenses are purchased services. But it's over 50 percent of gross opportunity."

"It's basically the one space left that's not managed centrally or effectively."

"I'm absolutely sure we're leaving dollars on the table and probably not negotiating the best terms and conditions."

Executive insights

Leaders are finding that traditional approaches can't deliver the results they need. When supply chain managers are involved in purchased services at all, they tend to:

• Focus only on the services they're responsible for
• Work with the departments they have relationships with
• Review the purchase orders they're familiar with

As teams expand their efforts, the sheer scope and variety of services being purchased makes the task seem practically impossible. They realize they lack the information it takes to identify and evaluate opportunities on the front end—while also tracking and measuring progress on the back end.

Tackling priority areas

Executives and supply chain leaders participating in a Vizient purchased services webinar identified nine categories where they focused their improvement efforts during the past 18 months:

75%	Laundry and linen
75%	Print management
75%	Waste management
63%	Food services
38%	ePayables
25%	Clinical equipment
25%	Environmental services
25%	Instruments and scope repair
13%	Bad debt collection

Readiness to tackle purchased services

We asked executives about their sense of readiness in four key areas: people, processes, technology and metrics.

People

Eighty-four percent of executives said their supply chain operations teams have the influence and internal relationships to drive purchased services savings. Thirteen percent were neutral, and only 3 percent disagreed.

But even if the influence and relationships are strong, supply chain teams often lack sufficient data to spark interdepartmental discussion and substantiate the need for change. It's difficult for teams to know who to work with first. Purchasing happens in so many different areas for so many different services—and there's no single source to see it all.

Processes

Executives were less sure about their strategic sourcing processes. Only 40 percent agreed that their internal strategic sourcing processes for purchased services were set up for success—regardless of service category. Thirty-seven percent disagreed, and 23 percent were neutral.

Technology

Most executives felt that their purchased services technology was lacking. Forty-one percent agreed or strongly agreed that they have the appropriate technology in place to help categorize purchased services spend and drive savings. Thirty-six percent disagreed or strongly disagreed, and 23 percent were neutral.

Supply chain teams lack visibility into purchased services spend data. They need a single tool that lets them review and manage all of their organization's purchased services information—from national contracts to local, one-off agreements.

Metrics

Executives also had some doubts about their ability to measure purchased services performance. Thirty-four percent disagreed or strongly disagreed that their organizations know which metrics are important for success in purchased services. Thirty-four percent felt they had metrics under control, and 32 percent were neutral.

For most organizations, it's nearly impossible to know if they're getting the best price compared to similar facilities. They need benchmarks and metrics that let them know how their pricing aligns with the market.

What success looks like

Improving purchased services spend management requires a holistic approach that breaks down silos and broadens the focus beyond spend management and accounts payable analysis. The success factors for better service purchasing are the same fundamentals that drive improvement efforts in other areas of your organization.

Executive champion

Because purchased services affect nearly every department, it's critical to have an executive champion at the highest level in the organization. Potential champions include the chief operating officer, CEO and chief supply chain officer.

This individual—or individuals—plays a key role by communicating the importance of transformation efforts, identifying priorities, positioning the leadership role of the supply chain team, motivating cross-team commitment and ensuring access to resources, including data, staff time and funds for technology and consulting support.

Commitment to change

Centralizing purchased services under supply chain operations requires a significant shift in mindset—both for the supply chain team and the departments currently buying services on their own. All stakeholders must share a willingness to disrupt the status quo.

Stakeholder engagement

Even if the supply chain team will eventually assume responsibility for purchased services throughout the organization, they can't do it all alone—or all at once.

Departmental stakeholders should play a key role in the transition and a continued role in identifying needs, validating bid criteria and selecting vendors.

Keeping these departmental end users involved will soften the shift in ownership and ensure that purchasing decisions save money while continuing to meet their operational needs.

Comprehensive implementation process

Creating a cross-departmental project team is an important first step. With the executive champion, this team can set priorities, create a formal and centralized implementation process, create metrics, communicate progress to key stakeholders throughout the organization, and ensure that project timelines and goals are met.

Ability to secure information

Success requires an organizationwide commitment to transparency and data sharing. The executive champion and project team should ensure that departmental managers respond quickly to information requests—and develop a clear escalation path if roadblocks arise.

Consolidated data

Managing purchased services better requires new, flexible approaches for measurement and benchmarking—and technology can help. Long-term success in centralization depends on an integrated information platform that lets supply chain managers see total spend across categories, set benchmarks, and evaluate current and future market conditions.

Four levels of maturity in purchased services contracting

Working with health care organizations nationwide, Vizient identified four levels of maturity in purchased services contracting and placed them into what we call our levels of maturity model. The model captures an organization's evolution and preparedness in the four areas touched on in our executive survey:

- **People**—the structure and internal expertise for success
- **Process**—a clear, shared understanding of the path to value
- **Technology**—the right tools to improve workflow and speed results
- **Performance metrics**—knowing the measures that matter and understanding how to drive results

To see the purchased services levels of maturity model and diagnose where your organization is today, view Appendix B at the end of this document.
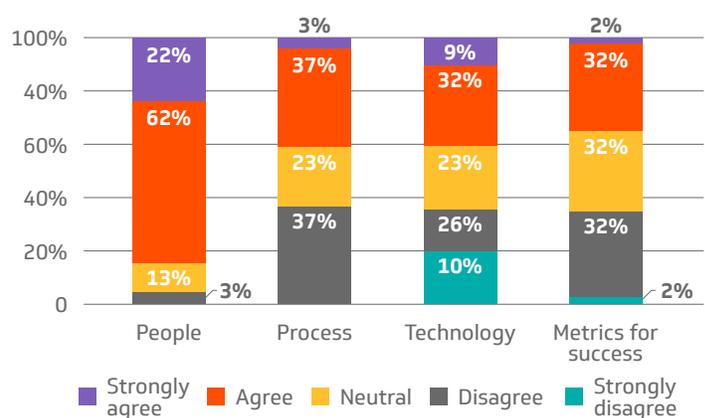
Here's a composite look at how our surveyed executives felt their organizations were "set up for success in purchased services across people, process and technology."

As noted, their confidence is strongest when it comes to people, and less certain when it concerns processes, technology and metrics for success.

A new solution to an age-old challenge

Vizient has a long history in helping organizations improve purchased services performance—including contracting, advisory services and analytics. The purchased services module within Vizient Savings Actualyzer™ is the most recent addition to our comprehensive solutions portfolio.

The Vizient path to purchased services value

At Vizient, we transform your purchased services data into actionable analytics using Savings Actualyzer. But that's only the first step on the path to purchased services value. We don't believe that simply identifying your opportunities is enough.

We're then able to use the Savings Actualyzer integrated platform to directly connect you to the contract(s) in our extensive, industry-leading, purchased services portfolio.

Our experts have a deep understanding of hospital operations, paired with the ability to perform data-centric evaluation of sourcing opportunities and value analysis. Using the data and insights acquired through Savings Actualyzer, they can help provide the answers your organization needs to continually advance along the path toward ultimate purchased services success.

About the platform

Savings Actualyzer is the Vizient online supply chain analytics platform that integrates savings opportunities in medical-surgical, capital, purchased services and pharmacy—and automatically measures the results of improvement initiatives.

By supporting cost reduction and performance improvement across the organization, Savings Actualyzer helps supply chain teams focus limited resources on the highest-potential projects. It's a better way to make reliable, data-based decisions and achieve results that just aren't possible without this systematic data access.

- A single, easy-to-use dashboard
- An always-on data connection
- Customization in project setup and workflows
- A repeatable, reliable and flexible framework
- Complete visibility for smarter decisions
- Power to increase returns and demonstrate value

Powerful purchased services capabilities

Because of the critical need for better data to manage and optimize service purchasing, we've developed a specialized module that brings this complex area into sharper focus.

We're piloting the purchased services module with leading Vizient members across the country, including Care New England Health System in Providence, Rhode Island; Seattle Children's Hospital; Cleveland Clinic; Indiana University Health in Indianapolis; Mayo Clinic Health System in Rochester, Minnesota; Partners HealthCare in Boston; ProHealth Care in Waukesha, Wisconsin; Baptist Health in Little Rock, Arkansas and Sanford Health in Sioux Falls, South Dakota.
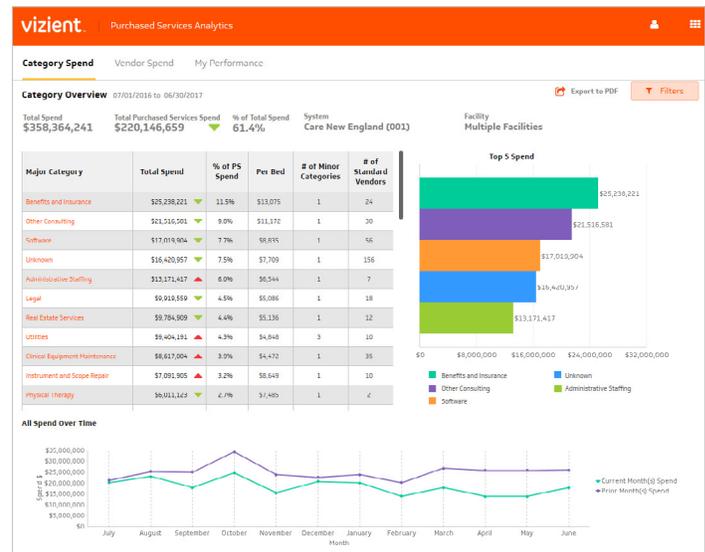
The purchased services module provides a comprehensive view of purchased services spend—with normalized benchmarking data to ensure apples-to-apples comparisons. Information is sortable by vendor, category or department—and directly linked to the Vizient catalog for easy contract management.

Capabilities

- **Smart categorization**—This intelligent software categorizes your complex purchased services data in real time. Users have constant visibility into purchased services spend by category.

- **Insights into spend**—The system makes it easy to understand purchased services expenditures across categories, facilities and cost centers—down to line item-level detail. These data and insights make it easy to identify savings and standardization opportunities.

- **Benchmarking**—Supply chain teams can benchmark their spend to other comparable health systems by total spend, category and market segment.

- **Access to contract and support**—Savings Actualyzer provides instant access to the Vizient catalog and existing contracts. It's also integrated with our knowledgeable advisory and consulting services for total, integrated solutions.

Accelerate your purchased services transformation

Clearly, purchased services is a spend category with enormous potential that no health care system can afford to ignore. Evaluate your organization's position on the road to purchased services maturity. Are your people, processes, technology and performance metrics aligned to deliver the results today's tighter budgets demand?

Wherever you are on the path, Vizient has the people and solutions to help you accelerate your progress. From contracting and consulting to integrated information through Savings Actualyzer, we're here to help.

References

1. MedAssets client hospital expense data analysis.

To learn more, please visit
www.vizientinc.com/expandyouruniverse,
email supplychain@vizientinc.com
or call (800) 842-5146.

Appendix A: Who's buying what?

Here are additional details about the types of services purchased in a typical health care system and the departments usually responsible.

Department	Services
Administration	• Telecommunications • Information technology (IT) services
Biomed	• Instrument and scope repair
Dietary	• Food service
Emergency department	• Psychiatric services • Acute rehabilitation • Wound care services
Facilities	• Waste management • Landscaping • Document destruction • Elevator maintenance • Utilities (if deregulated)
Finance	• Accounts payable audit • Construction audit • Document management • Electronic invoice payment • Financial auditor • Medical coding • Patient account services • Revenue cycle services (bad debt collections, aged claims, billing and statements, eligibility services) • Transcription
Health information management	• Medical coding • Transcription • Transfer DRG audit
Hospitality	• Food • Environmental services • Janitorial • Laundry • Security
Human resources	• Administrative staffing • Dependent eligibility audit • Executive staffing • Locum tenens staffing • Nurse and allied staffing • Patient handling • Travel management

Department	Services
Imaging	• Mobile diagnostic imaging • Teleradiology • Equipment maintenance
IT	• Data equipment maintenance • Print services • Desktop and IT resellers • Telecom • Temporary staffing
Lab and operating room	• Perfusion • Neuromonitoring • Reference lab • Blood procurement
Other clinical	• Anesthesia (if outsourced) • Behavioral health (if outsourced) • Dialysis (if outsourced) • Laser rental and lithotripsy • Perfusion • Medical device reprocessing • Wound care
Patient services	• Patient satisfaction surveys • Interpretation
Strategic sourcing	• Medical device reprocessing • Record storage • Freight management • Courier (including lab)

Appendix B: Four levels of maturity

By evaluating organizations' current resources, approaches and functionality in the four areas, the model describes four distinct levels: emerging, intermediate, advanced and transformative. Here's a closer look.

Emerging			
People	**Processes**	**Technology**	**Performance metrics**
No centralized responsibility or ownership of purchased services spend Little interaction between supply chain and purchased services stakeholders	No business reviews conducted with purchased services suppliers Little legal involvement in contracting	Little visibility into purchased services spend	A number of "evergreen" contracts with longer than five-year terms

Intermediate			
People	**Processes**	**Technology**	**Performance metrics**
Desire to tackle purchased services, but structure doesn't support it Some interaction between supply chain and other stakeholders but motivation for change is unclear	Business reviews conducted sporadically with some suppliers Legal reviews some purchased services contracts	Technology is available to categorize spend from accounts payable file, but not much else	Purchased services contract terms are monitored for length Metrics for success in purchased services are somewhat understood, but not routinely measured

Advanced			
People	**Processes**	**Technology**	**Performance metrics**
Clear organizational understanding that supply chain operations is responsible for sourcing and negotiations for purchased services contracts Positive internal relationships to influence change with stakeholders	Quarterly business reviews are regularly scheduled with most purchased services suppliers Legal reviews and signs off on most purchased services contracts	Technology is available to categorize spend from accounts payable file, but not much else	Purchased services contract terms are monitored for length Metrics for success in purchased services are somewhat understood, but not routinely measured

Transformative			
People	**Processes**	**Technology**	**Performance metrics**
Total ownership and management of purchased services agreements lies with supply chain operations Stakeholders provide appropriate input to sourcing and contracting process	Quarterly business reviews with all key purchased services suppliers Legal reviews and advises on all purchased services contracts	Spend is categorized, competitiveness is known and ongoing market competitiveness is tracked	Supply chain operations is performing well on key metrics: contract cycle time, on-time completion, number of suppliers for 80% of spend Constant feedback loop from stakeholders on service is in place

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As the nation's largest member-driven health care performance improvement company, Vizient provides network-powered insights in the critical areas of clinical, operational, and supply chain performance and empowers members to deliver exceptional, cost-effective care.

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