

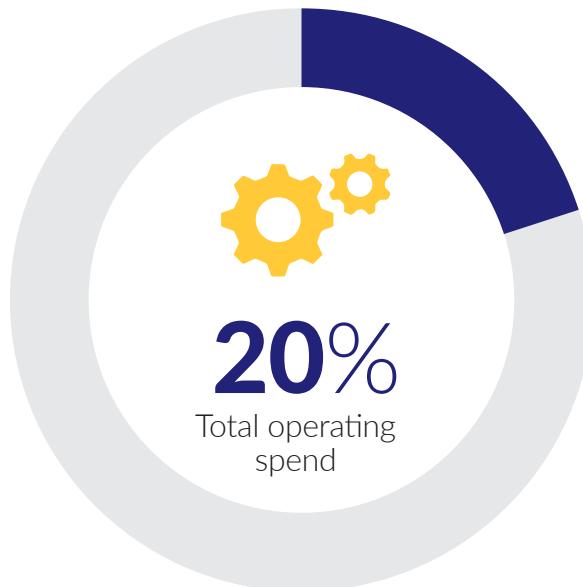


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# PURCHASED SERVICES

C A T E G O R Y   B R I E F

## Hospital Purchased Services



Hospital purchased services account for approximately 20% of total operating spend and 35% of non-labor spend.<sup>1,2</sup> In fact, purchased services can actually account for more hospital spend than medical/surgical and physician preference items. These significant numbers can be attributed to the

fact that the category is largely decentralized, with contract processes owned by several departments.

As purchased services are exercised by many service lines, the opportunity for savings is huge—clearly an area of interest for hospital and supply chain leaders.

# Challenges & Considerations

Many health systems have yet to develop a purchased services strategy, even though it is well known that there are inefficiencies and wasted dollars. This is most likely due to the many challenges that surround this category.

For one, there are inconsistencies in how to define what falls under the broad description of purchased services. This is a big issue, as it makes it very difficult to measure the exact size of the market. The lack of definition also presents a challenge for supply chain leaders who are trying to gain insight into the scope of this category in their organizations. An understanding is needed in order to present it as an opportunity to hospital leadership and receive permission to dedicate more resources to confront the many barriers to cost reduction.

A lack of industry benchmarks is another impediment to managing purchased services. Many of these services present benchmarking challenges, including geographic differences in pricing (e.g., snow removal in New York versus North Carolina) and limited transparency in unit of measure.

► Acurity and Premier can assist with benchmarking challenges, as we aggregate benchmarks across our membership, which can demonstrate where spend is elevated within an entire system compared to its geographic peers.

The key to overcoming purchased services challenges is to be proactive. For example, waiting to conduct an RFP until a contract is about to expire is a common reactive

strategy frequently used for these services. Hospital leaders can be better served by first defining the category and focusing on capturing spend data for the defined areas in one place. It can be helpful to create a purchased services list that encompasses all areas of service spend and where these expenses reside.

## TIPS FOR TACKLING PURCHASED SERVICES

1. Be proactive.
2. Establish your organization's definition of the category—what service areas should be categorized as purchased services?
3. Capture all purchased services spend data in one place.
4. Consider which areas might be the easiest wins. Contact your Acurity Business Solutions Director for suggestions.
5. Apply a value analysis approach in order to most effectively involve (and prevent pushback from) the user departments.

► If your hospital experiences difficulty categorizing all purchased services spend manually, Acurity and Premier can help by providing an automated process that assigns categories and sub-categories to the vendors in an accounts payable file.

## Purchasing Methods

Since purchased services typically involve multiple departments, supply chain leaders can tackle several areas simultaneously. Once you have a list of all the areas of service spend in your organization, the next step is to evaluate the top expense areas and identify which ones might be the easiest wins. The majority of these should include service contracts that don't currently flow through the supply chain's procurement process. Examples include

- areas where a large number of vendors are used for the same service in the same geographic region. If 80% of the total category spend is directed to a few vendors, it might be advantageous to eliminate some of those that are used less frequently;
- areas within a facility that purchase similar services but aren't using the same vendors (e.g., translation services). To achieve significant savings, one best practice is to extend the vendor agreements in these service categories to cover several areas and then go to market with more volume;
- facilities within a health network, where like services are not centralized. Centralization makes it easier to manage agreements and leverage volume; and
- contracts with limited service complexity and clear expectations.

Categories such as temporary staffing and inbound/outbound freight are promising areas of opportunity, as the decision-makers are oftentimes primarily concerned about quality and urgency of need. Bringing these vendors into the supply chain's procurement process can help garner significant savings yet still provide the requesting department with the expected level of service.

Hospitals can also apply a value analysis approach to purchased services. Value analysis is a great way to involve the department leads in the process and eliminate pushback. In this scenario, the user/requesting department defines their needs then hands over sourcing and contracting to supply chain. Supply chain may not be expert in the service, but they have the purchasing expertise needed to make sure the contract includes compliance or contract language updates, termination clauses, and performance guarantees. Implementing a strong value analysis process can help healthcare providers reduce the cost of these services by 30% annually.<sup>3</sup>

If your Supply Chain Department simply doesn't have the time to evaluate the diverse purchased services picture, outsourcing may be a good alternative.

- Acurity's supply chain consulting partner, Nexera, offers short- and long-term workforce solutions that provide support for an array of purchasing categories. Nexera's management services team has deep experience in analysis, comparing costs, and negotiating contracts. Our professionals are known for their ability to integrate into hospital teams and fully manage specific purchase areas, freeing up hospital FTEs to focus on other important areas or projects.

# The Acurity/Premier Contract Portfolio

The Acurity Purchased Services Contract Portfolio lists all contracted suppliers and services—both medical and non-medical—that can be performed in a hospital by an outside entity. Technology hardware and related products can be found in our Health Information Management & Technology Contract Portfolio.

We understand that when our members choose to outsource a service, it may not be for financial reasons only but also related to a quality decision. We include performance and outcome metrics in many of our purchased services contracts to ensure that your costs don't exceed an agreed upon amount per month and that you continue to receive the level of service promised. Our agreements frequently include a price rollback

for contracted suppliers that offer several outsourced services, should your organization "turn on" the other services available from that supplier.

Most important, our contract portfolio provides an excellent opportunity to jumpstart internal conversations about creating a proactive strategy for purchased services.

## REFERENCES

1. Purchased Services Portfolio Overview and Resources. Premier. September 2015.
2. "Purchased Services: A Strategic Approach." *The Journal of Healthcare Contracting*. October 2015.
3. "Thinking about 'Outsourcing' Outsourcing? Straight Talk about Purchased Services." Association for Healthcare Resource & Materials Management. *Supply Chain Strategies and Solutions Magazine*. July/August 2014 Issue.



 acurity.com

 555 West 57<sup>th</sup> Street  
New York, NY 10019

 (212) 246-7100