

South Florida Hospital News[®] and HEALTHCARE REPORT

THE REGION'S MONTHLY NEWSPAPER FOR HEALTHCARE PROFESSIONALS & PHYSICIANS

Purchased Services: The Last Frontier in Expense Reduction

If given an opportunity to generate rapid and significant savings and improve efficiency and quality of care at your organization, with minimal time investment on your part, would you take it? If you answered “yes,” take a look at your organization’s purchased services spend, a lucrative but often untouched area of opportunity for hospitals and health systems.

Purchased services, sometimes called “contract services,” include all areas that do not fall under labor or supplies, ranging from bed rentals, to legal services, to food and nutrition services. They are a hospital’s third largest spend, typically accounting for 10-20% of expenses. Purchased services are often managed by different departments and/or facilities, which makes it difficult to secure consistent and competitive rates and service levels and creates inefficiencies that can affect quality of care and the patient experience. A thorough review of purchased services can deliver sizable savings and increase efficiency:

1. Organize and Centralize: Advanced organizations centralize all purchased services through their supply chain department. But more often, individual hospital departments and facilities handle purchased services independently, with minimal or no interface with supply chain. This limits visibility of the spend, minimizes competition and access to the most competitive rates, and hinders consistency of service levels and overall contract value. Reviewing and centralizing purchased services through the supply chain department ensures contracts are competitive and managed appropriately.



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2. Lean on Subject Matter Experts to Maximize Value: Effective purchased services management requires strategy and expertise. Many supply chain executives have the training and skills to scrutinize and negotiate purchased services contracts. When in-house resources are not available, organizations can turn to consultants, who have broad market understanding and provide the best practice and benchmarking data needed to review and negotiate the diverse range of purchased services contracts.

3. Develop Contract Management Tools: Many hospitals and systems do not monitor purchased services contracts after negotiation to ensure they receive full expected value. This can increase the organization’s risk exposure, especially when contracts are millions of dollars. Implementing and regularly monitoring processes and performance metrics drives vendor performance and holds all parties accountable.

Reviewing and negotiating/renegotiating purchased services can yield benefits and

have a direct impact on the bottom line. Prism conducted a purchased services savings project for a recently merged 4-hospital system. Prism benchmarked environmental and food service costs and helped the system standardize to one provider with a 5-year contract for both service areas. This delivered \$4 - 5 million in one-time and recurring benefit. Beyond tracking contract performance, the system will not need to revisit this area for several years.

You can drive similar savings and efficiencies within your organization. Line up your resources to start today and reap the benefits.

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