

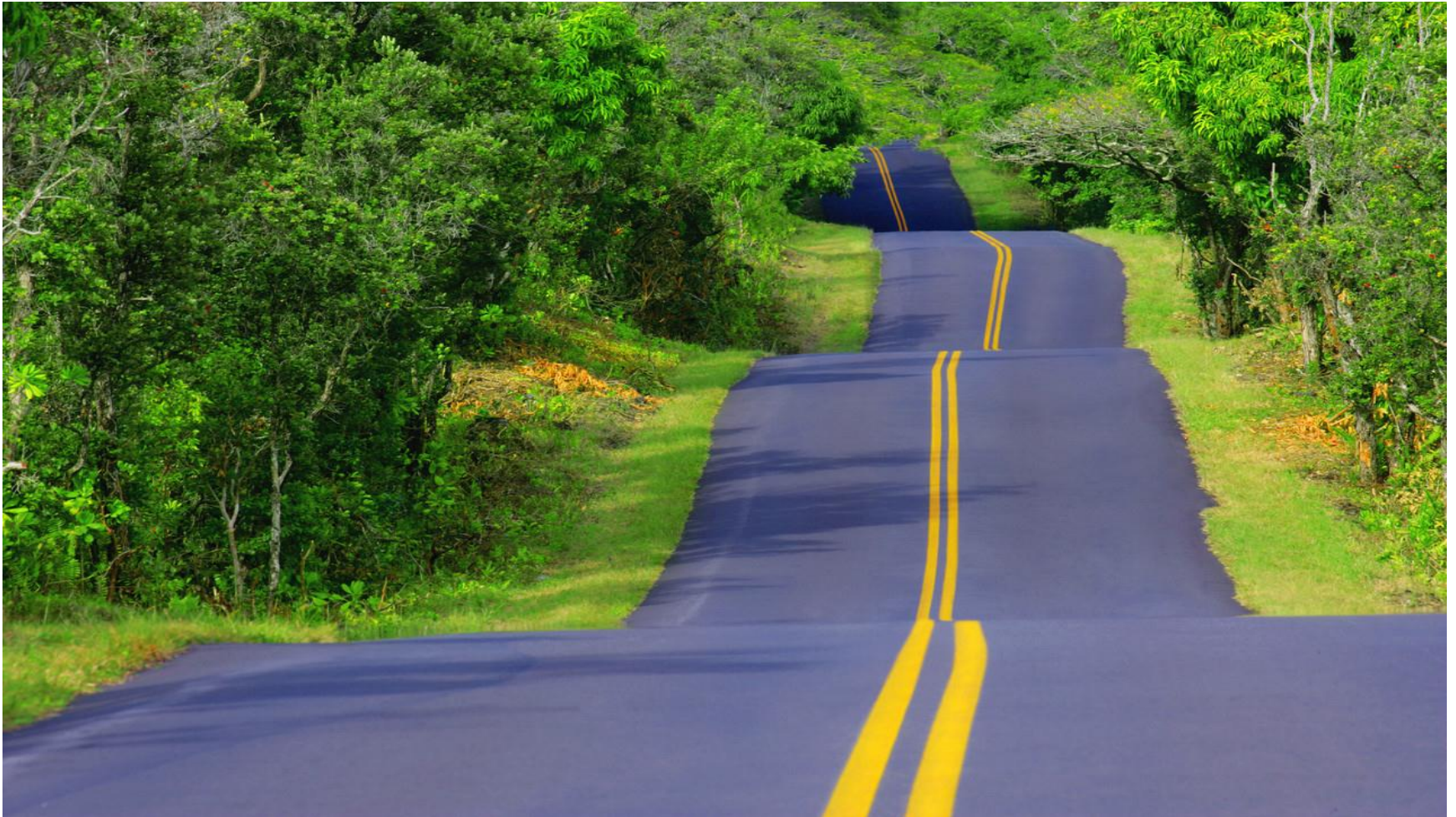
SELECTION AND SOURCING

(VALUE ANALYSIS & PURCHASED SERVICES)

Sponsor:



Where do you find your Cost Reduction Opportunities?

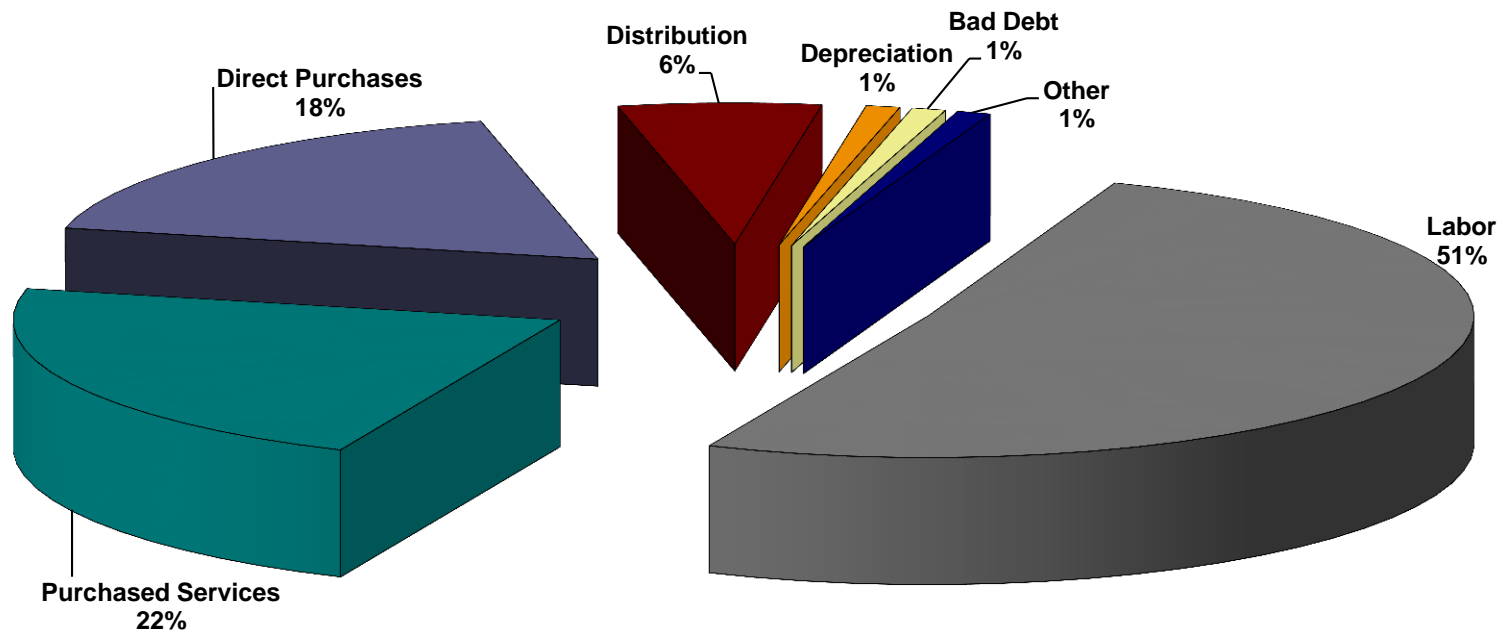


Typical Approach

- *Supplies*
- *Major Suppliers/Distributors*
- *GPO Contracts*
- *Expiring Contracts*

“Show Me the Money”

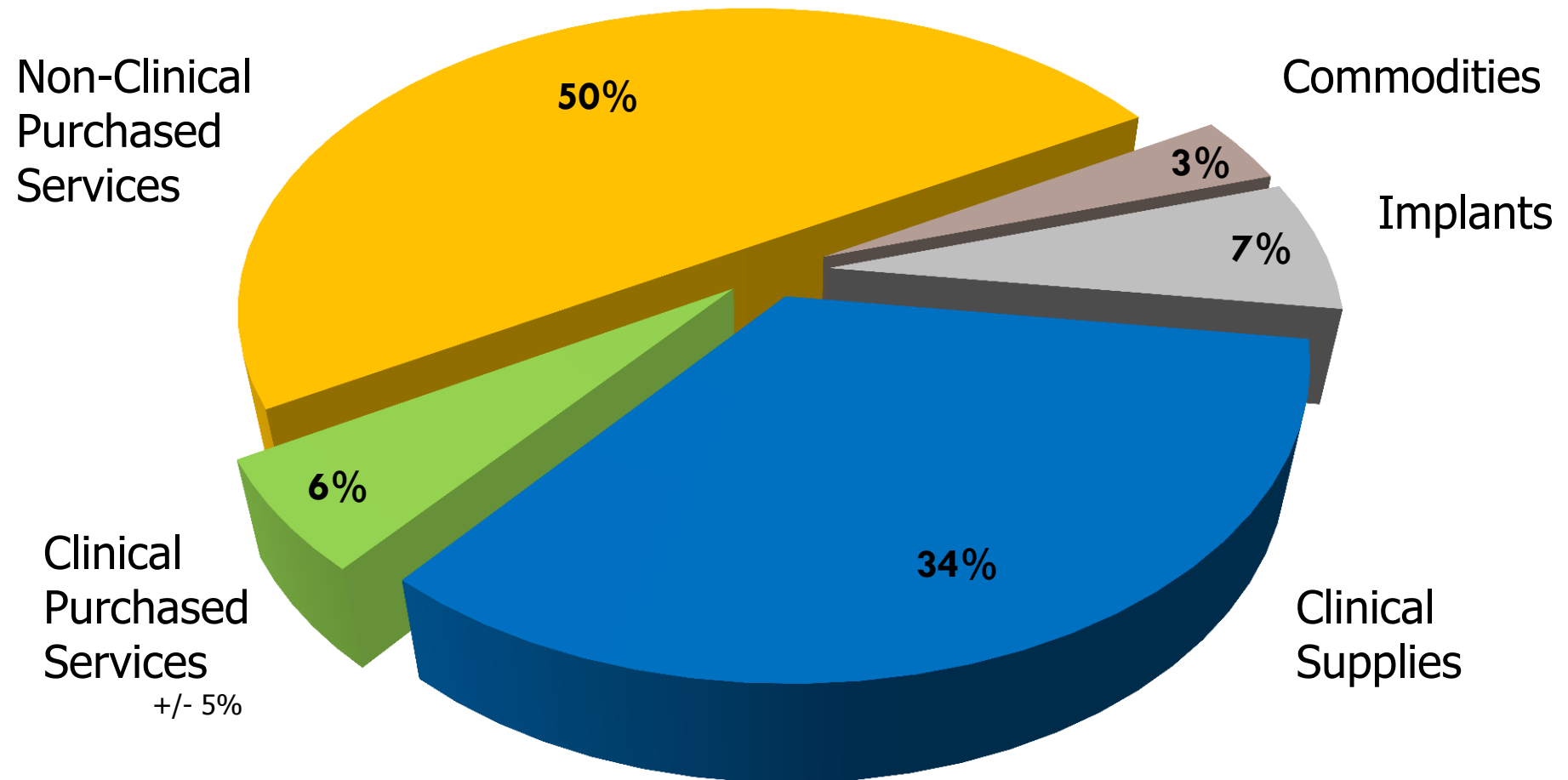
Average Hospital Operating Expense Breakdown



+/- 5%

“Show Me the Money”

Typical Savings by Category



Leading Change

- Create a user driven environment & approach, not SCM driven
- Expand the scope of cost reduction activities to include not only supplies, but purchased services as well
- Embrace selection decision processes that are consistently utilized
- Ensure involvement & participation by all end-users & key stakeholders; orchestrate physicians involvement as needed
- Incorporate administrative support to provide assistance to overall accountability and roadblock removal
- Obtain dedicated resources for analytics, process management, and pursuit/implementation support
- Establish communication channels regarding activities & decisions

Value Analysis

Value Analysis is a methodology for selecting the highest-valued supplies and services to be used in fulfilling the Hospital's patient care mission by determining the appropriate supplier and most effective sourcing method for acquisition.

All new technology, replacement supplies (improved wound care dressing) new procedural items, physician requests, and items for trial seen in magazines, and at shows should all go through the Value Analysis process.

Value Analysis

- **Opportunity Identification**
- **Preliminary Analysis**
- **Initial Approvals**
- **Pursuit Activities**
- **Final Approvals**
- **Implementation**
- **Monitoring/Contract Management**

Scope of Supply Chain Expenses

Supplies represent 20% of most Hospital's Operating Expenses

▶ **Commodity Items**

- Med/Surg Supplies
- Pharmaceuticals
- Imaging Products
- Laboratory Products
- Food Products
- Office Products

▶ **Physician Preference Items**

- Ortho Implants
- Spinal Implants
- Cardiac Implants
- Diagnostic and Interventional Products

Purchased Services represent 15% of most Hospital's Operating Expenses

▶ **Clinical Services:**

- Lithotripsy Services
- Perfusion Services
- Dialysis Services
- Orthotics and Prosthetics
- Durable Medical Equipment (DME)
- Reference Laboratory Services
- Registry /Travelers Staffing
- Mobile MRI/CT Services
- PET Services
- Equipment Rental Services

▶ **Financial & HR Services:**

- Temp Staffing
- Collection Agency Services
- Billing Services
- Benefits Administration
- Insurance

▶ **Facility Services:**

- Transcription Services
- Linen Services
- Biomedical Engineering Services
- Instrument Repair Services
- Waste Management
- Medical Gases
- Security Services
- Record Retention
- Telecommunications
- IT Licenses/Services
- Utilities
- Pest Control/Elimination
- Water Treatment
- Alarm Systems

Value Analysis Structure

**Steering
Committee**

New Tech/PPI



Cardio/Imaging Team



Surgical Services Team



Laboratory Team

Support Services Team

Patient Care Team

Administrative Team

Pharmacy Team (P&T)

AP Vendor/Contract GAP Analysis

- *AP Vendor File Analysis*
 - *Exclude:*
 - *Non Purchased Service GL Coded Vendors*
 - *Physicians*
 - *Employee Reimbursements*
 - *Contractors/Architects*
 - *Banks/Finance/Insurance Companies*
 - *Categorization*
 - *General Knowledge/Internet*
 - *Contract/PO information*
 - *Prioritization, based on vendor/category spend*
 - *Identify consolidation opportunities*

AP Vendor/Contract GAP Analysis

- *Contract Listings*
 - *Obtain Listings from:*
 - *Supply Chain Management*
 - *Legal/Administration*
 - *BioMed/Facilities/Info Systems*
 - *Nursing/OR/Lab/Imaging*
 - *Identify expired/expiring contracts*
 - *Identify contract consolidation opportunities*
- *Gap Analysis*
 - *Identify AP Vendors without contracts*

AP Vendor/Contract GAP Analysis

- **Based upon the analysis performed:**
 - Is there an opportunity to reduce the operating expenses of the organization?
 - Is the opportunity going to increase the costs?
 - How will the opportunity impact revenue?
 - How will the opportunity impact utilization?
 - Who will the opportunity impact?
- **Development of the strategy will always:**
 - Document the current state or condition (baseline)
 - Describe the anticipated future state, condition or anticipated result
 - Include all research, benchmarks and other supportive documentation
 - Document and understand leverage opportunities (hospitals and vendor)

Vendor Business Reviews

Another way to obtain valuable information, including insight into past contracting activities, current contractual obligations, organizational purchasing culture(s), rebates (earned/received/audits), and current business relationships, is through Vendor Business Reviews.

Purpose of Meeting (Objective)

- Understand supplier's relationship with Hospital
- Obtain their cooperation and assistance in obtaining contracts, usage reports, etc.
- Obtain a list of potential opportunities, that from their point of view, are low hanging fruit versus the more involved
- Develop a collaborative relationship that will assist in achieving cost reduction goals

Performance Standards

Performance Standards clearly define what services the vendor will provide and how achievement of those standards will be measured.

- Establish clear, measurable and manageable performance expectations
- Should relate to outcomes (fill rates, equipment downtime, invoice accuracy, timeliness, quality, measures, etc.)
- May have penalty/breach implications

Performance Standards

Example:

Delivery Schedule – Contractor shall deliver gases no later than 3:00p.m. on the regularly scheduled date agreed to by each hospital. Contractor agrees to notify the approved hospital representative of any delay in meeting this schedule. Receipt of the products being delivered late, must be agreed to by the hospital representative in advance. Late deliveries are subject to a \$50.00 late fee, which will be applied to invoices pending payment. Any delivery received after 6:00p.m. will be subject to a \$100.00 late fee.

Performance Standards

Contractor shall be notified in writing and given a fifteen (15) day cure period to correct each breach due to poor service, up to a total of two (2) cure periods in a six (6) month period. If Contractor is not able to correct all performance deficiencies identified within the fifteen (15) day cure period, Hospital shall have the right to terminate the Agreement due to the Contractor's breach of the Agreement by giving Contractor a written notice of termination at least sixty (60) days prior to the termination date.

Notwithstanding the above, upon the third (3rd) time that Contractor is in breach, due to poor service, within a six (6) month period, Hospital shall have the right to terminate the Agreement due to Contractor's breach of the Agreement, by giving Contractor a written notice of termination at least thirty (30) days prior to the termination date.

Notwithstanding the above, upon the fourth (4th) time that Contractor is in breach due to poor service, within a six (6) month period, Hospital shall have the right to immediately terminate the Agreement without advanced notice.

If Contractor can not cure a service deficiency, due to no fault of their own, a mutually agreed upon cure period will supersede the fifteen (15) day cure period.

Contract Management

- Periodically monitor customer satisfaction, performance standards and contractual compliance
- Validate pricing is received from Provider
- Monitor contract expiration, notice and review dates to support a proactive approach
- Periodically compare pricing to marketplace to ensure agreement is still competitive
- Periodically review volume utilization and threshold levels to ensure tier level improvement opportunities are taken and volume commitments are being achieved

Key Take-Aways

- **Cost of Healthcare is only going to increase**
- **Leadership will continue to expect SCM to lead in cost management efforts**
- **Managers need your support**
- **Expand your scope of influence into all supply and purchase service categories**
- **Don't Be afraid to ask for help or additional resources**
- **Data Integrity is essential**
- **Be Target Driven and Proactive!**

QUESTIONS AND ANSWERS

THANK YOU

Sponsor:

