

## Outsourcing Linen Services

To operate an in-house laundry or outsource? Balancing notions that operating a laundry is more economical and ensured a ready supply of textile items when needed with emerging trends to outsource challenges the decision making process. Many facilities are finding that outsourcing linen services meets financial, operational and environmental considerations.

According to Modern Healthcare magazine, laundry services are now the third most outsourced service in healthcare facilities; even more notably is that laundry services is also the segment of operations being outsourced the fastest in the healthcare industry.

The section has a bias towards outsourcing for the reasons described below. However, after a thorough cost/benefit analysis, operating an inhouse laundry might still be the right way to go for your facility—the point is to consider all the impacts below.

### Why are administrators choosing to outsource?

There are several trends that are leading hospital, nursing home, surgical center and other medical facility managers to outsource:

**Rising Cost of Operating a Laundry** – In this decade, there has been a sharp increase in the cost of the resources necessary to operate a laundry. Between 2003 and 2004, natural gas prices rose by 20.5% and by an additional 30% in 2005. Water and sewer rates also have increased. In some municipalities, like Boston, water and sewer rates have increased by as much as 50%. The trend will continue to send prices higher as publicly-owned water treatment (POTW) facilities age and local communities struggle to find the funds to upgrade them. Chemical costs also have been rising as the price of the core resources to produce them—such as oil—have doubled and even tripled in price. Other operating expenses that also are making running a laundry more expensive are production labor and employee benefits.

**Cost of Upgrading to Efficient Equipment** – Linen service companies have been able to counteract increases in energy, water, chemical and labor costs through the implementation of innovative laundry equipment. However, these upgrades, which have been commonplace in the healthcare textile services industry this decade, are costly. Not only is the laundry equipment more expensive – for example, a highly-efficient tunnel washer averages about \$ 1 million each—but in order to get the maximum benefit of the technology a laundry often must be retrofitted or torn down to build a new one. When faced with the millions of dollars in expense necessary to upgrade or build a new laundry, administrators are increasingly choosing to invest those funds into healthcare and outsource laundry services.

**Cost of Keeping Up with Growth** – As the Baby Boomer generation ages, the number of patients and medical procedures in hospitals, nursing homes and surgical centers continues to rise. This is leading to an increase in laundry volume. Many laundries run by hospitals can no longer keep up with the growth. New equipment and personnel are required, driving up costs. For example, the 1.1 million square-foot King's Daughter Medical Center in Louisville, KY recently closed its on-premise laundry as the number of adjusted patient days rose by nearly 10%. The potential cost of keeping its on-premise laundry open? Including linen replacement (\$400,000), wages/benefits (\$682,770) and utilities (\$165,272), the yearly charges for the OPL totaled more than \$1.58 million. That comes out to about 59 cents per lb. in processing costs. What's more, to keep up with the growth, the hospital would have needed another \$500,000 in new equipment.

**Focus on Providing Healthcare** – In all industries, not just healthcare, there is a trend to specialize on the organizations core functions and outsource other activities. Given the importance and difficulty of operating a modern healthcare facility, administrators increasingly see running a laundry as taking critical personnel resources and funding away from providing quality healthcare to its community.

Healthcare Consultant Glen Phillips, Phillips & Associates, wrote the following to explain the need for healthcare organizations need to specialize:

In 1980, the AHA reported that America's Hospital Workers totaled 3,412,500 or 1 employee per 2.5 licensed beds; that number has increased to 6.09 employees per licensed bed in 2006. Hospital labor costs alone account for 45% of the expenses in the average community hospital with another 15% going to employee benefits. The major tactic for reducing hospital costs is by flattening the cost of labor and its associated employee benefits. Employee shortages, high physical plant costs, critical space deficits and the need for increased on-site patient care and related functions all create situations where hospital executives have to rethink their priorities. What must be kept on-site and what can be outsourced? Increasingly, economics is driving the most logical decisions. That includes all textile-related services; this is clearly one of those non patient-critical activities that can and should be outsourced.

**Improve Linen Utilization** – Evidence is emerging that hospitals that outsource are seeing improved linen utilization rates. For example, when the University of Nebraska Medical Center outsourced its linen services it saw its pounds per adjusted patient day decrease. The savings were nearly \$100,000 in the first year and anticipated savings in the future is \$250,000 per year.

**Space Considerations** – As administrators consider how to increase operating revenue, determining how facility space is currently utilized is an important research point. When they look at an on-premise laundry, they see an expense where there could see revenue. The square footage now used for a laundry can instead house new medical equipment or provide space for additional operating rooms, more patient beds or other services. This issue is especially germane when a facility is faced with the cost of expanding its current facility.

### Is your on-premises laundry calculating all of its operating costs and poundage accurately?

If you are operating an on-premises laundry and considering outsourcing, you should begin by conducting a study to determine the actual cost per pound of processing a pound of textiles. This begins by accurately determining the amount of pounds processed by the on-premise laundry. Because the cost per pound is directly related to the amount of pounds of laundry washed, laundry managers may inflate the number of pounds they process in order to show they are efficient. However, in these cases, administrators are not getting a true picture of their on-premise laundry costs and may be making decisions on false data. Healthcare laundry consultants can assist in accurately determining laundry weight; Practice Greenhealth members may contact the Textile Rental Services Association at 877/770-9274 to find a consultant in their area.

Beyond determining the accurate weight of the goods processed, the following are line items that must be taken into account when determining the cost of operating an on-premise laundry:

- **Laundry Production Payroll** – Payroll costs for wages paid to hourly employees who handle linen, including laundry production, soiled sort, washroom, flatwork, ironing, tumble dry operation, etc.
- **Management Payroll** – Employees who handle linen inspection; linen control; janitorial services; machinery repairs and maintenance; and internal linen distribution.
- **Employee Benefits** – Includes payment of social security, workers compensation, holidays, one-or-two week vacations, state unemployment (varies), health insurance (varies), union contributions, etc.
- **Laundry Chemicals** – All detergents, alkalis, bleach, sour, fabric softener, bacteriostatic agents, starch, etc.
- **Maintenance, Repair, and Parts Costs** – Includes all machine repair parts, lubricants, drive belts, iron pads and covers, tools, boiler treatment and water softener salt.
- **Utilities** – Gas, electricity, fuel oil and water account for a large part of expenses.
- **Taxes, Licenses & Permits** – Taxes, licenses and operating permits paid by the facility and allocated to laundry operations.
- **Equipment Costs** – Equipment experiences wear every time it is operated. Replacement costs must be considered.
- **Insurance / Other Business Expenses** – Insurance, lease charges, safety expenses, uniforms, training, and other expenses allocated to the OPL.

### Hospital Textile Cost Calculator and Manual

The Textile Rental Services Association of America (TRSA) is offering an efficient and professional way for Practice Greenhealth members to help determine true costs of hospital laundering and linen with its Hospital Textile Cost Calculator. The publication is a series of spreadsheets in Excel that can be used to calculate and understand all of the costs associated with hospital linen and laundering. The TRSA Hospital Textile Cost Calculator is a companion piece to the Hospital Textile Costs Manual, How to Determine Hospital Laundering and Linen Costs. Administrators can use the 32-page Hospital Textile Costs Manual to acquire an in-depth understanding of how to conduct a laundry cost study. They can use the TRSA Hospital Textile Cost Calculator to quickly enter, compute, and analyze data and costs for specific healthcare institutions. The Calculator has spreadsheets and formulas to accumulate and calculate direct and allocable laundry and linen costs. It can be used to accumulate and calculate laundry and linen cost per pound, per bed, and per patient day. This powerful tool also contains spreadsheets to record data on fuel use and costs, as well as formulas to calculate these.

#### [Download the Hospital Textile Cost Calculator](#)

#### [Download the Hospital Textile Costs Manual](#)

### What are the environmental benefits of outsourcing?

Because of the significant investment the healthcare textile services industry has made in upgrading to more efficient equipment in this decade, outsourcing generally will help a healthcare organization reduce its overall environmental footprint.

Innovations in laundry equipment have led to tremendous increases in efficiencies. Large tunnel washing systems, with the capacity to wash more than 3,000 pounds of textiles at one time, have significantly decreased water usage from 3 gallons per pound to less .75 a pound today. These systems, along with chemical injection systems that precisely control the amount of chemicals injected into the washer, have allowed healthcare textile service companies to reduce the amount of chemicals they need to wash a pound of laundry. Water reuse and recycling systems are becoming more commonplace in professional laundries and also are helping to reduce the

amount of water necessary for the wash process. Heat reclamation systems are allowing energy to be captured throughout the laundry process and returned to heat wash water.

According to the 2005 Comparative Operating Revenues and Expense Profile for the Healthcare Textile Maintenance Industry, healthcare textile linen rental companies are more efficient in their use of energy and chemicals:

Electricity Natural Gas Chemicals Healthcare Linen Rental .0178 .0247 .0135 Hospital OPL .0205 .0275 .0164 Nursing Home OPL .0221 .0356 .0255

## LaundryESP®

In 1999, the textile services industry, which includes laundries processing healthcare, hospitality, industrial and dust control textile products created the LaundryESP® program with the U.S. Environmental Protection Agency (EPA) to reduce the industry's environmental footprint. Members of TRSA and the Uniform Textile Service Association (UTSA) set out to reduce the amount of water, energy and chemicals used in its facilities while also reducing the amount of pollutant discharge.

In 2004, the industry presented the initial results of its program to EPA:

- 40% Reduction in Pollutants Discharged
- 12.6% Reduction in Water Use
- 11% Reduction in Energy Use
- Significant substitutions of environmentally-friendly wash chemicals

The LaundryESP program continues today with hundreds of facilities throughout the United States participating in the effort to conserve resources and improve the environment.

## Is there an accreditation program for healthcare textile laundries?

Yes. The Healthcare Laundry Accreditation Council is a non-profit organization formed for the purpose of inspecting and accrediting laundries processing healthcare textiles for hospitals, nursing homes and other healthcare facilities. Becoming accredited is an entirely voluntary process. The Council does not have members, but is comprised of a 12-person Board of Directors who serve on a voluntary basis. The Board includes representatives from the Centers for Disease Control, Department of Veterans Affairs and U.S. Army Medical Command. Six associations also are represented on the HLAC Board: American Society for Healthcare Environmental Services (ASHES), American Reusable Textiles Association (ARTA), Association for Professionals in Infection Control and Epidemiology (APIC), International Association for Healthcare Textile Management (IAHTM), National Association of Institutional Linen Management (NAILM) and TRSA.

## How can I find a healthcare textile services company nearby?

TRSA provides an online search tool to find a healthcare textile services company in your area. By visiting TRSA's Rent Linen Web site you can enter either your city and state or ZIP code and select Healthcare Services to find professional healthcare textile service companies in your area. All of the companies listed in the system are members of TRSA and meets the association's standards for membership.

## Talking Points

If your healthcare organization is currently laundering its own textiles, you should consider the answers to the following questions in order to help determine whether or not to outsource:

- Have we considered outsourcing laundry services?
- Has the healthcare organization determined what is the cost per pound it currently pays for processing its own laundry? Have administrators invited local healthcare textile service companies in to conduct an assessment?
- Do we know the accurate cost of processing our own laundry?  
Ask how the laundry determines the total number of pounds it processes. Can this number be verified independently by a consultant or outside service? If the amount of poundage is overstated, administrators will not get an accurate cost of operations or properly determine how environmentally efficient the operation is. Be sure that the laundry is accounting for all of the cost of laundry operations as noted earlier in this section.
- What is the environmental impact of doing our own laundry?  
Determine how much water, energy and chemicals are used to process one pound of textiles. Ask if these figures can be benchmarked against previous periods – as equipment ages it becomes less efficient. Also, ask if these totals have been benchmarked against healthcare textile service companies and other on-premise laundries.

- How efficient is our equipment?  
Are washers using more than 1.5 to 2 gallons of water per pound of textiles laundered? If so, your organization may be wasting water resources. Also, compare the efficiency of dryers and ironers to new models; how much more efficient is the new technology?
- Are we reclaiming water and energy in our laundering process?  
In modern healthcare textile service laundries, water and energy can be captured and reused using new technologies. Is your organization using these technologies to reduce the amount of natural gas, oil and water it is using in its laundering process?
- Can the laundry handle increased volume?  
If, as trends suggest, that healthcare services will increase as the Baby Boomer generation ages, will your organization's on-premise laundry be able to handle the increased volume of textiles that will be necessary? If so, how cost- and energy-efficient will the operation be with the increased volume? How much would it cost to upgrade equipment, add employees and expand laundry space to meet the increased need?
- Can we better use the space we now dedicate to the laundry?  
Determine what the organization's current revenue per square foot is. By eliminating the laundry, how could that number be increased? Options include adding new medical equipment, patient beds or surgical space.