

# HEALTHCARE COST CONTAINMENT

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+ supply chain strategies +

## MaineHealth Uncovers Savings In Purchased Services

By Luis Soto and Emil Layacan

*Cloud-based technology and external support helped one health system improve its data collection and analysis, as well as its negotiation strategies.*

One large component of hospital supply chain spend is purchased services, which make up roughly 40 percent of the average hospital system's total supply chain costs. Although purchased services seems like a logical place to trim costs, it is also an area that is notoriously difficult to define, track, and source. As a result, it represents an untapped source of savings that could help healthcare providers meet their budgets.

### Challenges

Purchased services categories are often difficult to manage and negotiate because of the following challenges.

- > A lack of itemized spend data
- > Missing or poorly executed contracts
- > Resistance to centralization and vendor standardization
- > Limited group purchasing organization contracts in place with local and regional suppliers
- > Unobtainable or unreliable benchmark information
- > Difficulty monitoring new contracts and savings over time
- > Unclear or unknown service-level requirements



However, organizations such as Portland-based MaineHealth have figured out how to tackle this bucket of spend to reduce costs and improve their bottom line.

### MaineHealth: A Case Study

Ranked among the nation's top 100 integrated delivery networks, MaineHealth is a 2,000-bed health system with 10 acute-care facilities and multiple other entities. Leaders at MaineHealth started to address purchased services in 2012 when their supply chain became an integrated service that supported their member hospitals and affiliates.

MaineHealth had the following goals.

- > Lower costs by expanding the amount of purchased services spend under management—spend that is managed as a part of a cost saving initiative and is actively sourced and contracted with suppliers
- > Improve the cycle times for competitive bids and contracts
- > Acquire meaningful market intelligence and benchmarking data
- > Diversify strategies for creative sourcing

### Solutions

With \$85 million in purchased services spend, MaineHealth had several challenges to overcome, including a lack of spend visibility, multiple dispersed vendors, no benchmarking information, and insufficient dedicated staffing to source purchased services efficiently and effectively. Working with an external partner, MaineHealth developed a local sourcing strategy that has increased their spend under management.

To do this, MaineHealth used a cloud-based sourcing platform to negotiate with multiple vendors at the same time and increase the speed of their sourcing cycle to maximize savings opportunities. A live bid is conducted when all the suppliers are online at the same time. This significantly reduces the time to develop an electronic request for proposal (RFP) to approximately two to three hours, compared to the traditional paper model, which can take several months to complete.

In addition, MaineHealth can take on more projects in less time because leaders have access to an extensive knowledge base of purchased services, expertise, and competitive bidding data. This includes using third-party strategic sourcing managers to support multiple initiatives and category-specific templates to expedite the RFP development process.

### Results

For the first six projects, MaineHealth achieved more than \$6 million in savings from purchased services. This represented a 20 percent total cost reduction and a 40 percent faster sourcing time.

After the real-time negotiations are performed, MaineHealth's supply chain leaders and department stakeholders review a final negotiation analysis, which includes prices, terms, and conditions. This information is used to support their awards scoresheet. Often times, "finalists" are brought in for an interview before making an official award.

MaineHealth uses analytics to quantify the dollar value that the supply chain brings to its member hospitals through

each project and to support their return on investment. A dashboard is published monthly to show progress toward annual savings goals.

### Three Keys to Success

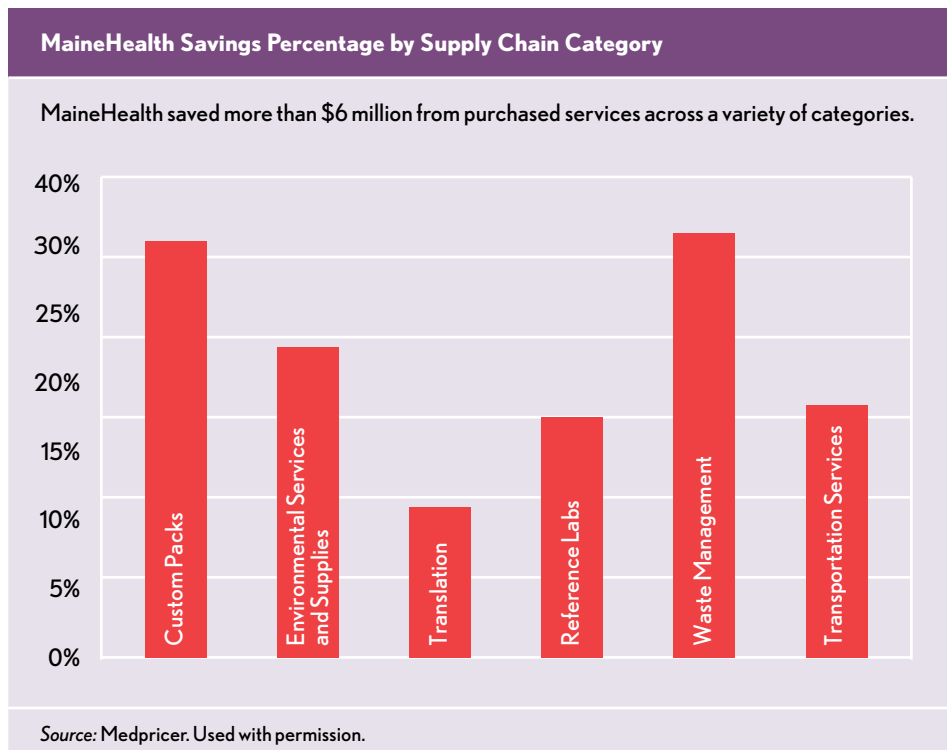
Leaders at MaineHealth credit their success to embracing the following best practices.

*Understand what you are spending.* The biggest challenge to overcome is getting a clear understanding of how much is being spent on purchased services and with which vendors. If you cannot uncover your current situation, then standardizing vendors, reducing costs, and tracking savings effectively will be extremely difficult.

To get the most from purchased services spend, the first step is to identify and classify the following metrics.

- > Overall purchased services spend
- > Spend by purchased services category
- > Spend by supplier
- > Spend by location or stakeholder group

*Know how much a service should cost.* Once you know what you are spending on purchased services, you should understand



the true cost of these services. The best way to be certain you are paying a competitive price is to issue an RFP with three or more competing service providers, which can help you achieve significant savings, sometimes as high as 40 percent or more.

In addition, benchmarking can determine how much a service should cost and if you have a fair market cost in place. The costs for purchased services vary greatly based on geographic variations in labor costs, service volume and frequency requirements, and prevailing marketing conditions. For example, a health system can provide category information, including current suppliers, pricing, and terms. That information is compared with a sourcing database of competitive bidding results so a health system knows what it should be paying in that category based on current contracted rates. At MaineHealth, benchmark information was used to negotiate the best market price and best practices in services delivery, including quality control

and turnaround time for reference labs and transcription.

*Use analytics to validate savings projections.*

Sourcing a purchased services category can take you months and months of work, but how do you know if you are on track to realize the savings you projected? Using technology to track spending in real-time by category, vendor, and department level can help accomplish this goal and offer answers to the following questions.

- > Are you actually getting the savings you were expecting?
- > Are you using the vendors that you awarded?
- > Are your vendors charging the prices that were agreed on during your negotiation?
- > Has anyone changed the service levels after implementation?

## Future Margins

Healthcare organizations are embracing new ways of thinking and looking for proactive, creative ways to drive more cost savings. Purchased services represent an untapped area in most organizations, and cloud-based solutions can accelerate data collection, analysis, and negotiation in this arena. The resulting savings potential from a strong purchased services strategy can relieve real budgetary pressures caused by increasing expenses and decreasing reimbursement rates. +

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