

Who Wears the Pants in your Purchased Services Relationship?

Bob Pavlik

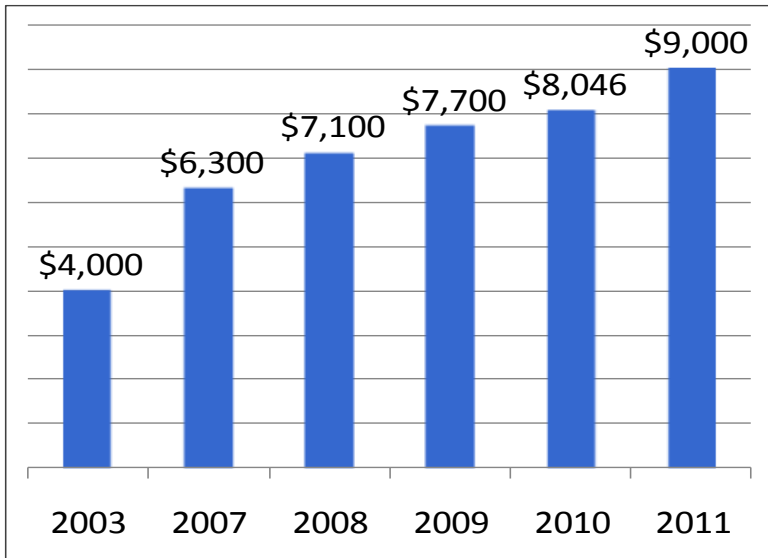
Associate Director Supply Chain
Management

UPMC

UPMC Overview



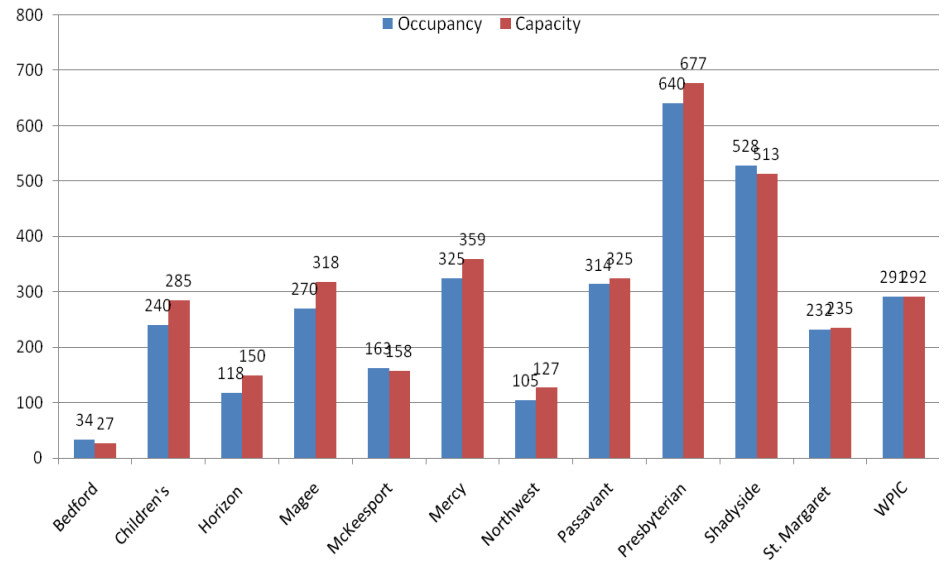
UPMC's mission is to provide outstanding patient care and to shape tomorrow's health system through clinical innovation, biomedical and health services research, and education



Annual Patient activity

- ✓ More than 187,000 admissions
- ✓ More than 4.5 million outpatient visits
- ✓ More than 480,000 emergency visits
- ✓ More than 165,000 surgeries
- ✓ More than 800,000 home care visits

- ✓ \$9.0 billion revenue
- ✓ 20 hospitals
- ✓ More than 500 service locations
- ✓ 50,000 employees
- ✓ 1.4 million members covered by UPMC Health Plan products
- ✓ More than 4,200 licensed beds



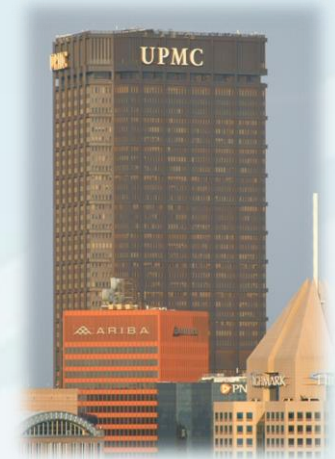
UPMC's Supply Chain Environment

Spend Managed:

- \$1.8 billion

Transaction Volumes:

- Process 70,000+ invoices per month
- Process 4,000+ purchase requisitions per week
- Manage over 600 point of consumption material carts
- Receive 1.1M packages per year; central distribution center



**When did “Outsourcing become
Purchased Services”?**

Reasons IDNs Contract for Purchased Services

- Reduce and control operating costs
- Improve company focus
- Free internal resources for other purposes
- Resources are not available internally
- Make capital funds available
- Gain access to world-class capabilities
- Share risks

Factors in Vendor Selection

- Commitment to quality
- Price
- References/reputation
- Flexible contract terms
- Scope of resources
- Additional value-added capability
- Cultural match
- Existing relationship

Factors for Success

- Understanding company goals and objectives
- A strategic vision and plan
- Selecting the right vendor
- Ongoing management of the relationships
- A properly structured contract
- Senior executive support and involvement
- Careful attention to personnel issues
- Near term financial justification

Purchased services can be a double-edge sword if not contracted correctly and managed effectively

Failure to Contract Correctly Can Lead to:

- Increased costs
- Lost negotiating power
- Lost savings opportunities and revenues
- Reporting challenges
- Inability to drive vendor behavior

A Systematic Approach to Writing the Agreement

- Define your objectives in priority order
- Decide on the basic contract type:
 - **Fixed price** – Vendor will do everything listed for a fixed fee. Additional items must be negotiated as contract changes.
 - **Time & material** – Vendor will do everything listed, plus anything else you add, and simply bill you for the time at an agreed rate.
 - **Hybrid** – Vendor will do everything listed for an agreed price; additional items can be added and will be carried out with time paid for at agreed rates.
- Start with your paper!

3 Major Parts of a Services Procurement Contract

1. Scope of Work
2. Terms and Conditions
3. Service Level Agreement

Scope of Work

- It is very important to cover every aspect of the Purchased Service. The vendor will base their price on the content of this section, so if you leave something out, they will quite legitimately want more funding to add it in later.
- You might want to include such detail as:
 - Equipment they must procure and/or maintain, including type and serial number
 - Software they must procure and/or maintain, including module names and versions, if existing
 - Work Plan. Ask the Vendor to provide a detailed plan of how they intend to accomplish the work. Once you agree that it is reasonable, make it part of the contract
- What's "**in scope**" and "**out of scope**" will be discussed *daily* once the contract is in force. Make sure it covers your needs!

Terms and Conditions

- The devil is in the details!
- Early termination
- Service type specific issues
 - Fuel surcharges
 - Vacant positions
- Inflation clause
- Right level of insurance
- Approval of their subcontractors
- Hiring of each others' employees
- What background checks do you require of their employees
- Etc.....

Services Level Agreements

- The SLA should emphasize measurable items so you can see in objective terms whether you are receiving what you have paid for
- A Good SLA should include:
 - A description of the services provided to the customer
 - Service level performance targets which are benchmarked against industry best practices
 - Roles and responsibilities of the IDN and Vendor
 - Rates for services provided and billing process
 - Dispute resolution process
 - The process for communicating
- Tie in penalties and contract back-out options - this is the actual big stick in the SLA
 - Breach of SLA parameters should be tied to serious penalties and possibility for contract termination
 - Do not accept a penalty to be compensated with other goods or services from the same supplier

Who Manages Who?

Health Care Facility

Management Company



Purchased Services Governance

- Who Owns Supplier Performance Management?
 - Procurement or Operations?
- Who gets the finger pointed at them when something goes wrong?

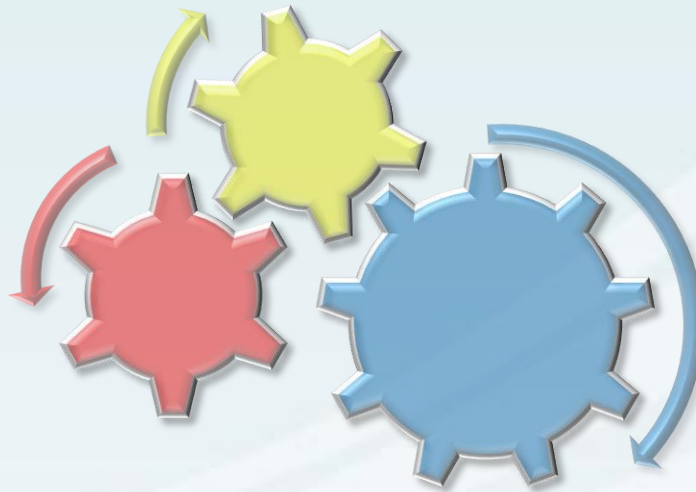
Well Managed Purchased Services Relationships Yield Four Key Benefits

Consistency

People, Quality of Services,
Customer Service, etc...

Business Alignment

Ensures business
priorities are
reflected in service
performance



Results

Monitoring & reporting,
performance data to
improve the
cost and quality of
customer experience

Communication

and effective
dissemination of feedback
and information to effect
positive change and
business alignment

“Purchased Service” Comes in all Shapes and Sizes and Covers a Gamut of Areas of Responsibility



Food Service

Failure to contract correctly and managed effectively result in:

- Lost oversight, lost manufacturer rebates, discounts, administrative fees.
- Lost oversight in food safety
- Lost purchasing power at a manufacturer level
 - In 2010 UPMC remained well below the 4.5% inflation rate at 3.0%
 - Reduced manufacturer volume and SKU's
- Lost patient satisfaction scores without service expectation penalties.

In 2010 UPMC realized \$1.5m in savings opportunities

Waste

Failure to contract correctly and managed effectively result in:

- Loss in assuring Federal, State and Local regulation are met
- Loss of Indemnification
- Loss of internal process standardization
- Loss in negotiating power
- Lost reporting

In 2011 UPMC realized a \$1.2m in savings across five waste haulers with a contracted 10% reduction in cost built into each contract for every year.

Environmental Services:

Failure to contract correctly and managed effectively result in:

- Lost manufacturer rebates, discounts, administrative fees
- Lost quality and process improvements, HAI's and patient satisfaction scores.
- Lost control over staffing levels and costs
- Lost purchasing power at a manufacturer/distribution level
- Lost patient satisfaction scores without service expectation penalties

Bottom Line

- Take control, assume responsibility for all areas where financial gain or loss can occur
- Partner to assure all goals and future directions are meant successfully
- Reassign all receipts (dollars) allocated to the management companies through collection to a hospital account
- Pay only the costs associated with the management aspect nothing more.
- Gain knowledge by utilizing data – on demand reporting tools
- **Don't move to a Purchased Services model for the sake of moving! Consider bringing it back in if it makes sense!**