

Purchased Services

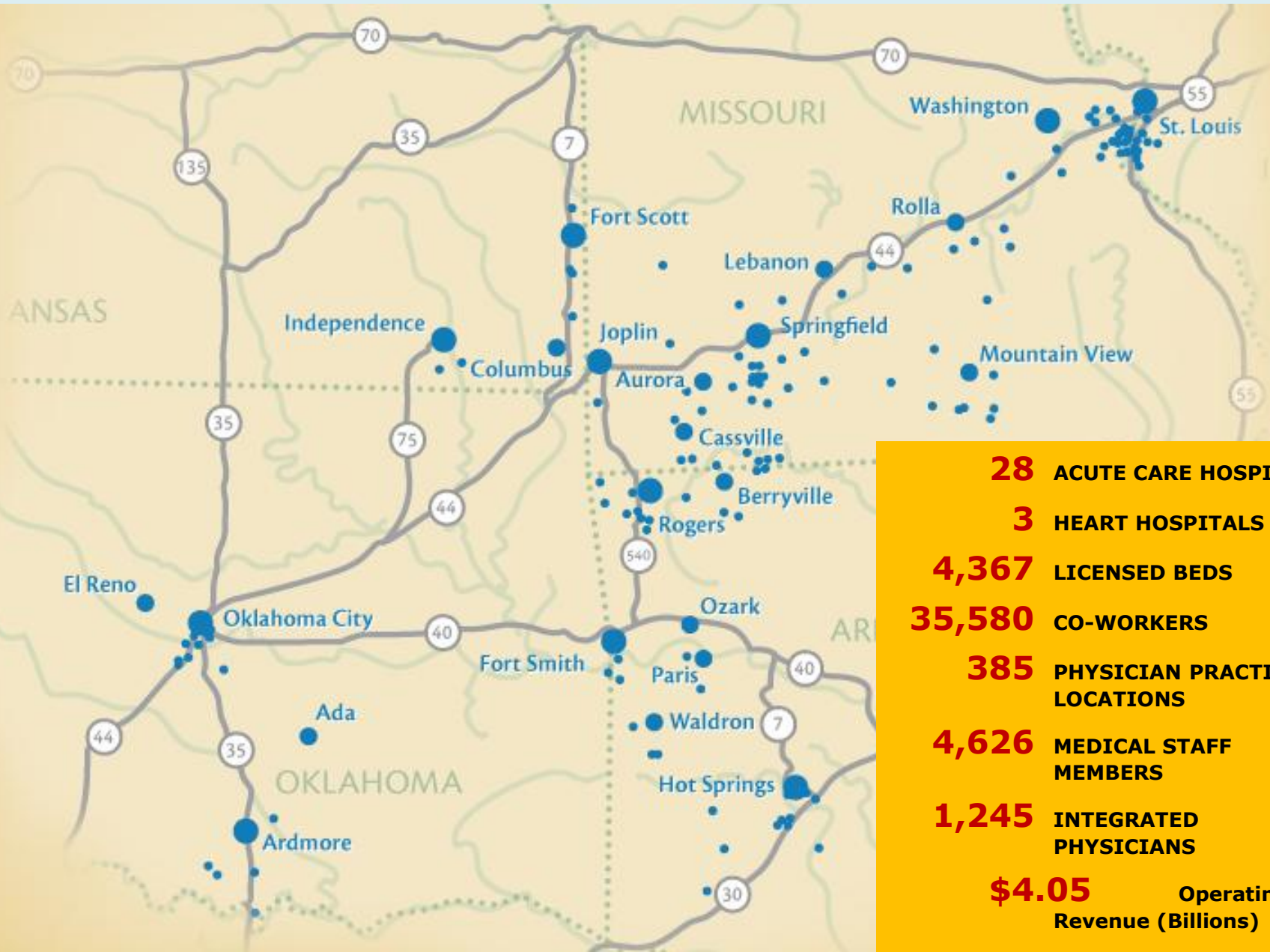
ROI

John Kautzer

Learning Objectives:

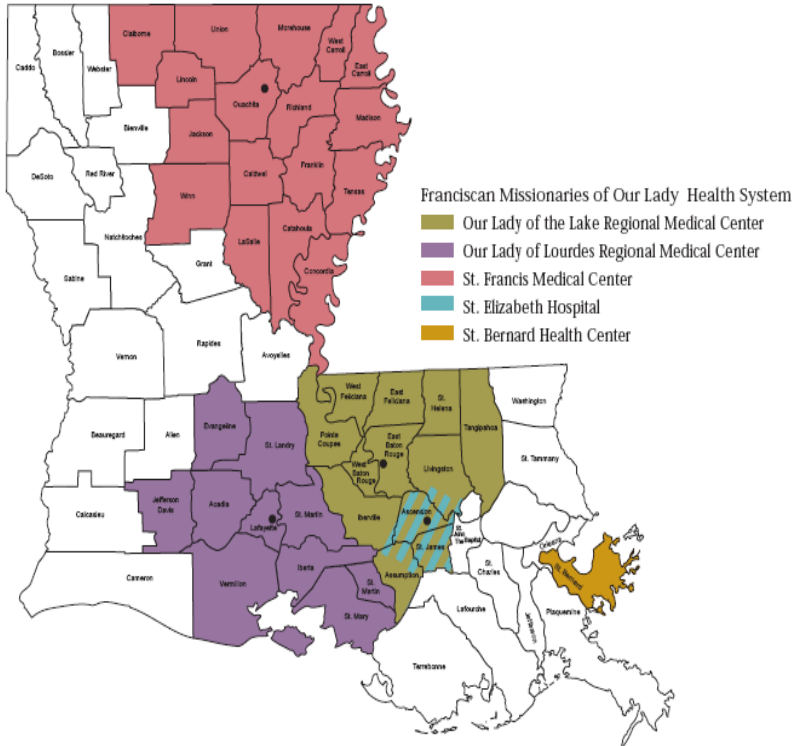
- How is Purchases Services contracting different from traditional contracting
- What are the challenges unique to negotiating purchased services and how to address them
- Gain effective purchased services contracting techniques

Mercy System



28	ACUTE CARE HOSPITALS
3	HEART HOSPITALS
4,367	LICENSED BEDS
35,580	CO-WORKERS
385	PHYSICIAN PRACTICE LOCATIONS
4,626	MEDICAL STAFF MEMBERS
1,245	INTEGRATED PHYSICIANS
\$4.05	Operating Revenue (Billions)

Franciscan Missionaries of Our Lady Health System



St. Elizabeth Hospital

- Member Facilities**
- Our Lady of the Lake RMC
 - St. Francis Medical Center
 - Our Lady of Lourdes RMC
 - St. Elizabeth Hospital
 - Joint Ventures/Mgmt Services

Assets	\$2.2 Billion
Total Operating Revenue	\$1.4 Billion
Net Patient Revenue	\$1.3 Billion
Co-workers	8,887
Medical Staff	1,667
Inpatient Discharges	Acute: 68,112
Outpatient Visits	1,297,771
Emergency Room Visits	210,673
Surgeries	33,803
Uncompensated Care	\$102 million
Beds	1,667 licensed beds
Annual Spend	\$245 million in supplies \$240 million in services \$216 million construction & capital

Our Structure...

Integrated Sourcing Solutions

- ▼ Product and Services Contracting
- ▼ Utilization Optimization
- ▼ Contract Compliance Monitoring
- ▼ Rebate Management
- ▼ Pricing Administration
- ▼ Member Services

Integrated Business Solutions

- ▼ Purchasing Services
- ▼ Information Solutions
- ▼ Account Implementation
- ▼ Customer Service

Manufacturing Solutions

- ▼ Pharmaceutical Repackaging
- ▼ Custom Procedure Tray Manufacturing
- ▼ Print Operations

Supply Chain Solutions

- ▼ Warehousing and Distribution Services
- ▼ Inventory Management
- ▼ Transportation Management
- ▼ Process Improvement



- Facilities**
- Corporate Office – St. Louis
 - Consolidated Services Center – Springfield, MO
- Co-workers** 300 FTEs from varied clinical and business disciplines

MISSION:
to improve clinical, operational and financial performance of our customers through a clinically integrated supply chain.

FOCUS & DIRECTION:

- ▶ Leverage Infrastructure – Reduce Costs, Increase Service
- ▶ Reduce Variation – Product Selection/Use and Process
- ▶ Improve Value – Improve Revenue and Reduce Cost



Unique Programs

The ROI Difference...



Private Label



CPS
CUSTOM PACK SOLUTIONS



Mercy Meds

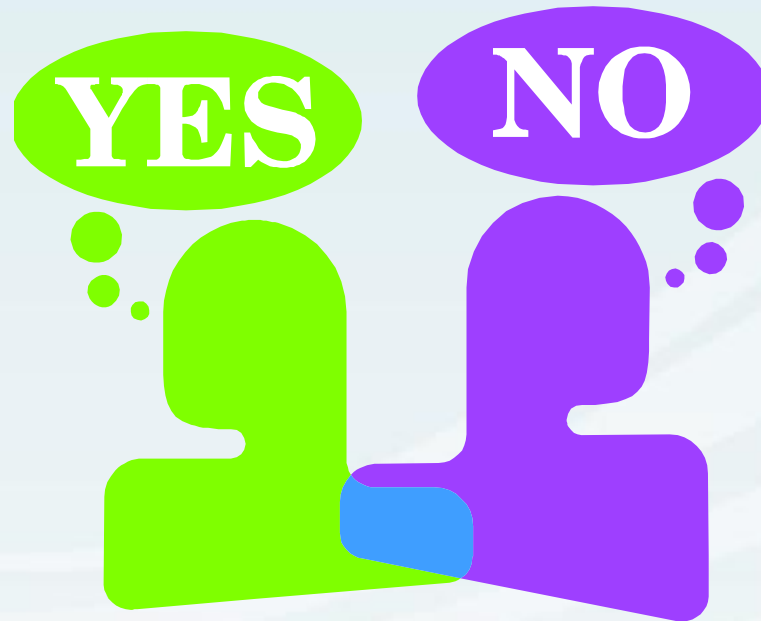


**INSTRUMENT
REPAIR
SERVICES**



ROI
Print Solutions

Purchased Services Contracting Great Idea ?



What Are Purchased Services?

Clinical Services:

- Lithotripsy Services
- Perfusion Services
- Hemodialysis Services
- Apheresis Services
- Specialty Beds
- Equipment Rental Services
- Laser Equipment Rental
- Orthotics and Prosthetics
- Durable Medical Equipment (DME)

Ancillary Services:

- Reference Laboratory Services
- Mobile Imaging (MRI/CT) Services
- PET Services
- Ambulance Services
- Helicopter Transport Services
- Physicist Services (NM Calibration)
- Transcription Services
- Record Retention
- Coding Services
- Translation Services

Support Services:

- Information Technology
- Linen Services
- Uniforms/Lab Coats Cleaning Svcs
- Security Services
- Parking and Valet Services
- Dietary Services
- Housekeeping Services
- Travel & Car Rental
- Document Destruction
- Printer/Copier Maintenance

Finance, HR & Admin. Services:

- Collection Agency Services
- Billing Services
- Benefits Administration
- Insurance
- Temporary Labor
- Language Services

Facility Services:

- Medical Gases (Bulk & Cylinder)
- Telecommunications (PBX/Cell/Beeper)
- Utilities (gas, electric, water)
- Internal Plant/Decor Management
- Interior Design
- External Landscaping
- Pest Control/Elimination
- HVAC/Chiller Maintenance
- Water Treatment
- Plumbing, Electrical, & Painting Services

Repair & Maintenance:

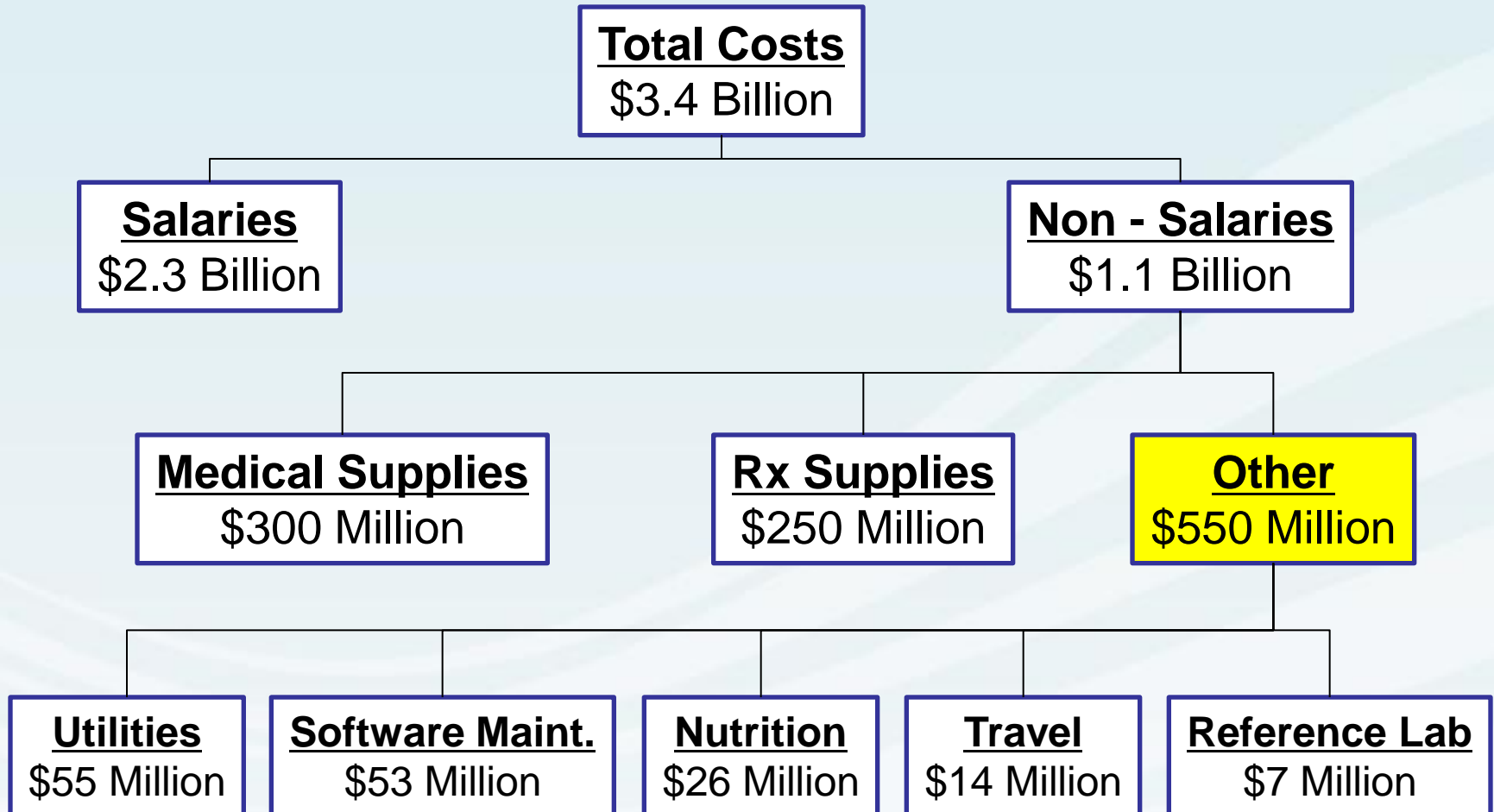
- Instrument Repair Services
- OR Tables/Lights Maintenance Services
- Sterilizer/Cart Washer/Instrument Cleaner Maintenance Services
- Elevator Maintenance Services
- Alarm Systems
- Biomedical Engineering Services

Why is focus on Purchased Services important?

- GPO's have had limited contracts in the Purchased Services sector - focus has been Clinical:
 - Medical Supplies, Medical Devices, Pharmacy, Lab, Radiology, etc....
- Supply Chain owners have been focused on Clinical areas
- Opportunities are plenty for standardization, leverage of volume, process improvement, quality improvement and **cost savings**



Mercy's Spend Waterfall



Purchased Services at ROi

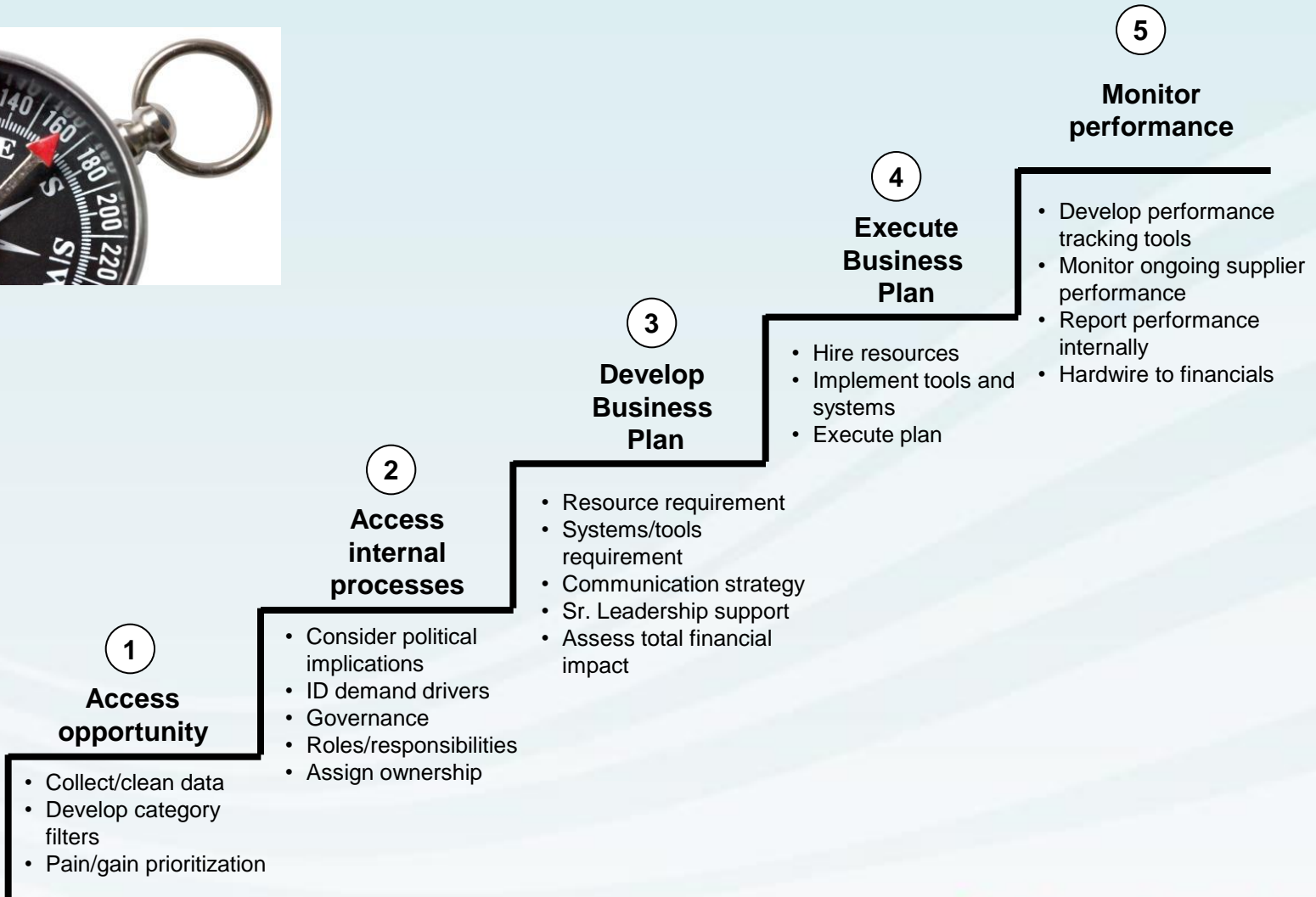
- ROi has been intently focused on purchased services for 4+ years
- Business plan developed for resource investment
- Formal organizational structure implemented
 - 4 Contracting Resources (strategy, sourcing, negotiation)
 - 1 Utilization Resource (strategy, adoption, monitoring)
 - 2 Analysts (data analysis, RFP prep, utilization monitoring)
 - 2 Administrators (support)
- External resources engaged, as needed, for benchmarking and speed of execution
- Corporate and Community C-Suite support
- Finance and IT heavily involved

Putting a team together

- Customer involvement
 - Identify key customer stakeholders
 - Mercy System VP's of Support Services
 - Director or key managers within the Mercy System
 - FMOLHS Sourcing team
 - Utilize existing committee structures
 - Service Lines and councils

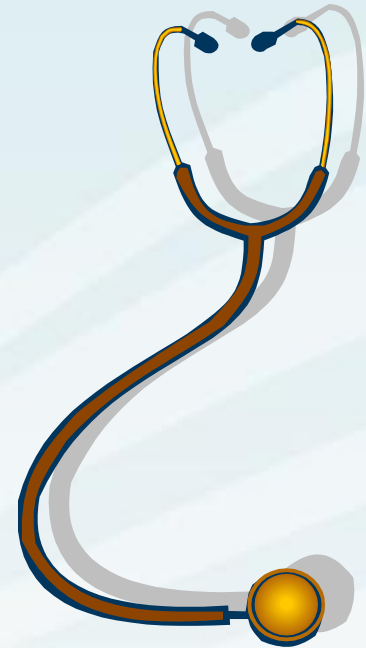


Process Followed



What is different

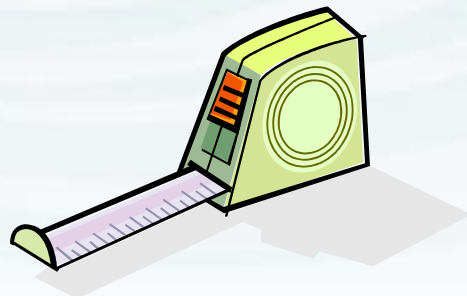
- **Traditional contracts**
 - Clinically focused
 - Product driven
 - Fixed pricing for term
 - National Vendors
 - Established GPO presence
 - National account representation



What is different

- **Purchased Services**

- Rarely product driven
 - May be included, but are not primary focus
 - Typically parts or repair kits
- National Vendors?
- Many services require regional vendors
- Multi-sourcing due to coverage issues



What is different

- **Written Statement of Work**
 - Contractual language that defines the work and resources the Vendor will provide
 - Performance/service standards
 - What is billable
 - When and how payment occurs
 - i.e., hourly rates, response times, travel charges, uptime guarantees, savings share

Unique Challenges

- Decentralized ownership (multiple stakeholders)
 - For the same category, i.e. Painting Contractors
 - Facilities, Construction, Housekeeping, Interior Design, etc.
- Lack of contracting discipline (local contracts)
 - Typically many of these categories have been managed at the facility level
 - Conflicts will arise if Members are not involved in the process
 - Weigh the return on the specific category

Unique Challenges

- Vendors
 - Little or no GPO presence
 - Limited contracting experience
 - Rarely national accounts
 - National / Regional Coverage issues
 - Understand potential political issues
 - Board level affiliations



Purchased Services at ROi

- Formal programs in place for:
 - Administrative supplies and services
 - Dietary
 - Contingent Labor
 - Transportation (courier services) and fleet management
 - Printer repair services
 - Instrument repair
 - Telecommunications
 - Rx Repack
- Working on:
 - Facilities / Maintenance
 - Clinical Engineering
 - Construction
 - Waste Management
 - Laundry

Make?
Buy?
Partner?

Key Learnings

- Develop a business plan
 - Dedicated resources (contracting and utilization)
 - Capital
 - Benchmarking database(s)
 - External assistance, as needed
- Recruit experienced talent
- Uncover key stakeholders – watch out for local affiliations at Board level
- Prioritize opportunities (pain vs. gain)
- Benchmark
- Leverage C-Suite support to break down local silos
- Establish customer engagement
- Metric driven management!!!