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REPORT

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HOW TO GUARANTEE EXTRAORDINARY PERFORMANCE FROM YOUR OUTSOURCED SERVICE PROVIDERS

STRUCTURING AN OUTSOURCED
SERVICE PROVIDER AGREEMENT
TO ENSURE OPTIMAL RESULTS

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EXECUTIVE SUMMARY

Lisa Miller is the nation's leading healthcare consultant.

She is a trusted advisor to hospital leaders on margin improvement initiatives including cost reduction, revenue improvement, patient experience and strategic growth opportunities.

She's developed proprietary technology to allow for significant and guaranteed financial improvements in healthcare and is a leader in data optimization and intelligence.

Historically, revenues in the healthcare sector have generally risen faster than expenses, allowing room for flexibility and margin improvement within hospital budgets. That trend is changing. More recently, the growth of expenses has begun to outpace that of revenues and predictions suggest a period of slower revenue growth for the foreseeable future. It is estimated that average hospital costs will need to fall by 24% by 2022 in order to break even¹. In the face of intensifying margin pressures, outsourcing services is seen as a vital strategy to balance the cost to revenue ratio.

Our team at VIE Healthcare Consulting[®] has compiled this research paper to ensure your outsourced service provider delivers the highest quality return on investment (ROI) and best possible performance by implementing contract terms and pricing that solidify optimal results.

¹ <https://www.healthcarefinancenews.com/news/hospital-costs-should-be-cut-24-percent-2022-break-even-outsourcing-may-help-survey-say>

INTRODUCTION

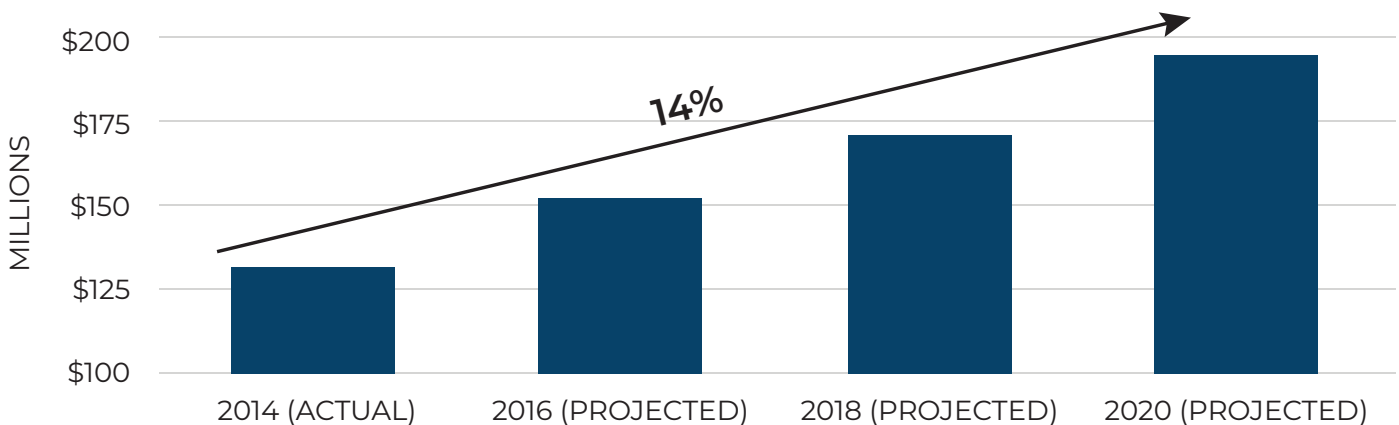
It is estimated that 18-35% of a hospital's operating expenses is comprised of outsourced services (see *Figure 1*). This requires effective and regular management of outsourced providers in order to maximize the benefits from each contract but working with an outsourced service provider can be a challenge.

A lack of financial visibility, which is underlined by not having insights into service cost line item data, increases the risks of overpaying for services. The reputation of your hospital is also at risk if services performed are not up to industry standards. This could also lead to poor patient satisfaction which would negatively affect Medicare reimbursements.

Figure 1:

PURCHASED SERVICES MARKET EVOLUTION

The hospital purchased services market was nearly **\$132B** in 2014 and is expected to grow at an average **14%** over the next several years.



SOURCE: AMERICAN HOSPITAL ASSOCIATION, 2014

Purchased services are typically **35% to over 50%** of a hospital's Total Operating Expense

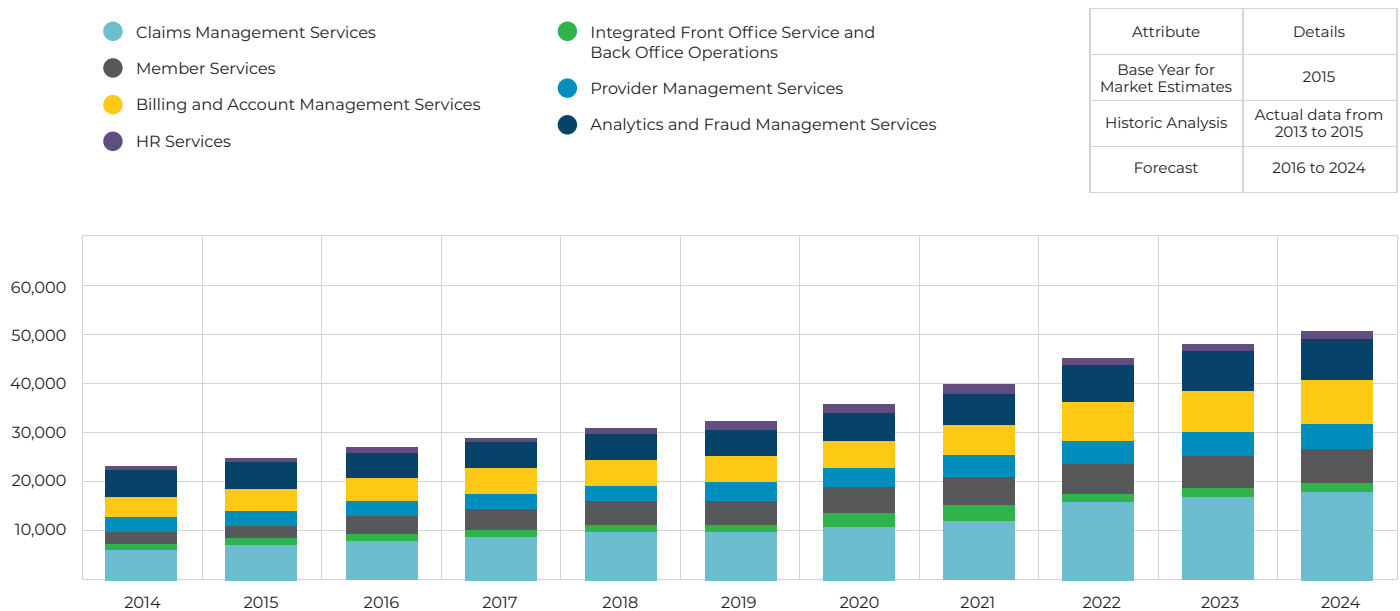
Sources: Deloitte; Mercy/Roi

This special report explores an exclusive six-point guide to optimizing the value in your outsourced service provider agreements prepared by VIE Healthcare Consulting®. It also explores when to leverage a performance-based contract structure, explains how to define core needs while adapting to market change and what to look for in an outsourced service provider.

6 WAYS TO OPTIMIZE THE VALUE IN YOUR OUTSOURCED SERVICE PROVIDER AGREEMENTS AN EXCLUSIVE GUIDE PREPARED BY VIE HEALTHCARE CONSULTING®

As the demand for outsourced services increases, it is predicted that contract models will form a significant part of that demand (see Figure 2 below). A well-structured model secures cost efficiency and prevents any misunderstandings or breakdown in communication relating to costs.

Figure 2: North America healthcare payer services market, application 2014 to 2024 (USD Billion)



ALTHOUGH THIS CHART ONLY SHOWS STATISTICS FOR THE NORTH AMERICAN REGION, THE GLOBAL HEALTHCARE PAYER SERVICES MARKET IS PROJECTED TO STEADILY GROW AT A CAGR OF 8.5% UNTIL 2024 DUE TO AN INCREASING DEMAND FOR ADVANCED TECHNOLOGIES THAT COULD OPERATE BUSINESS PROCESS SERVICES IN A COST EFFECTIVE WAY THROUGH DIFFERENT ENGAGEMENT AND CONTRACT MODELS.

SOURCE: [GRAND VIEW RESEARCH](#)

At VIE Healthcare Consulting®, we know that a successful partnership with your service provider starts with a clear and concise contract agreement to ensure that expectations are fully understood by both parties. As the supply chain leader, it is your responsibility to ensure quality, ROI and high performance from your partners. To ensure this is achieved, all expectations must be outlined and documented within a clear and concise contract. This is the basis for all successful partnerships.

One of the most frequent challenges we hear from our clients relates to their outsourced service provider failing to deliver on promises. Following a close analysis of the terms and conditions, however, we often find the subject of their complaint is not included within the contract.

This highlights a need for due diligence to ensure that all verbal commitments are formally agreed upon and written or documented in the current contract.

To avoid these problems, we recommend the following five steps:

- Before your contract is drafted, all assumptions, dependencies, risks and appropriate mitigation strategies must be tracked.
- All terms and conditions must be clearly stated in your contract agreement.
- Monthly, quarterly and annual measurements should be highlighted and explained.
- Monthly invoices with line item details of the service costs must be analyzed each and every month for pricing accuracy and utilization improvement opportunities.
- Ensure you have the best-in-class services provider and have negotiated the most competitive pricing for their services. (See our bonus section titled “*What to Look for In an Outsourced Service Provider*”).
- Ensure that your senior leadership team is fully engaged with this process.

Ultimately, the key to a well-structured contract is preparation and experience. We have drawn on our experience to highlight six ways your hospital can optimize the value of your outsourced agreements.

#1

MAKE DATA, USAGE AND COSTS TRANSPARENT AND EASILY UNDERSTOOD

Between 40% and 70% of outsourcing value may be lost due to unsustainable contract terms, incorrect pricing and poor relationship management. Understanding these factors, and their impact on revenue and value leakage over time is absolutely essential to maximizing the value of an outsourced partnership. Ensure that all invoices are accurate, understandable, and that there are no issues relating to non-standard or complex pricing schemes that make invoices difficult to validate.

It's important to have insights from those who are working with your outsourced provider. Carry out quarterly performance reviews, quality services and an annual meeting with key end-users to understand how the outsourced provider is performing. Reviews should identify potential gaps, unresolved issues and opportunities for improvement. A well-designed feedback system will ensure a mutually successful outsourced partnership.

#2

COLLECT END-USER FEEDBACK

#3

TREAT YOUR OUTSOURCED PROVIDERS AS AN EXTENSION OF YOUR ORGANIZATION

Setting expectations at the outset is vital to avoiding potential 'utilization' issues. Treat your outsourced provider as an extension of your organization, committed to cost, process and revenue improvement.

VIE Healthcare Consulting® has identified 'utilization' issues with services provided to our clients but when we bring it to the attention of the provider, they insist they are meeting their obligations according to the agreement.

It is your outsourced provider's responsibility to ensure utilization is optimized. For instance, if you oversee laundry services, you are responsible for delivering best-in-class services and standards in the industry per pound/patient a day. If this exceeds the "norm" then it is the outsourced provider's responsibility to take the initiative to fix it.

In a performance-based contract, the outsourced provider delivers specific benefits to your hospital, such as cost reductions or revenue generation. In return, the provider shares in the value created as payment. A portion of the contract pricing is linked to a series of key performance indicators that the supplier is responsible for delivering. Contract pricing is also linked to business benefits that your hospital has achieved once the contract has been fulfilled. Recent demand for effective healthcare administrative processes will most likely require this type of contract (see *Figure 3*).

Performance-based contracting agreements create an incentive for the provider to control their costs as these contracts align the interests of both parties. This type of contract also tends to encourage closer relationships – and therefore more trust - with providers. It's important to note that a performance-based contract can be used for any type of agreement, including small dollar-value contracts.

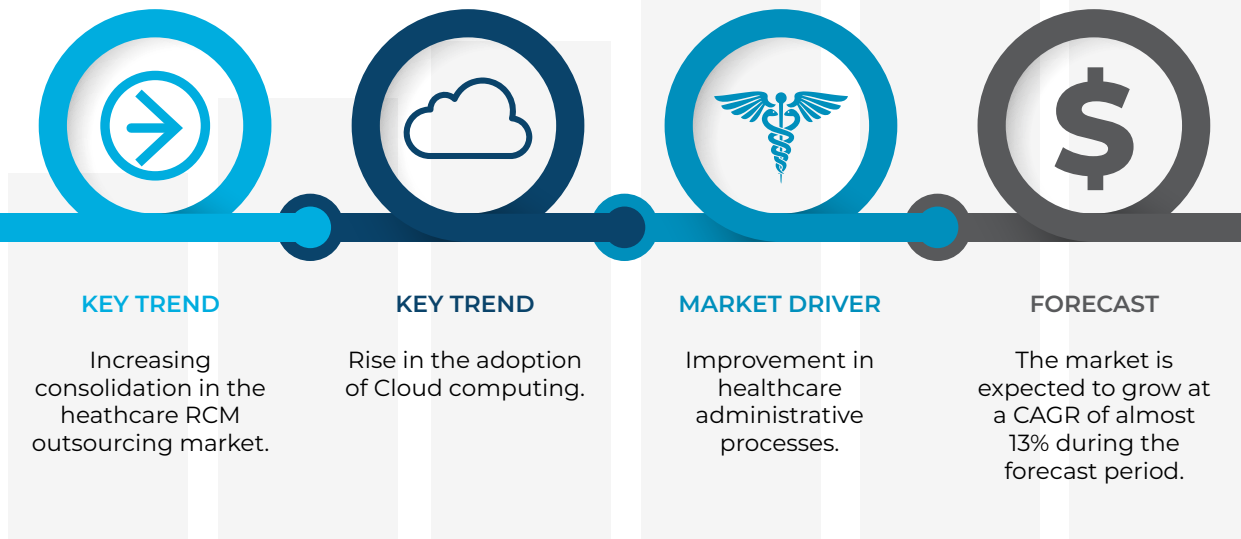
Please refer to the section titled "When to Leverage a Performance-based Contract Structure" for more information about the most common scenarios for a performance-based contract model.

#4

CONSIDER PERFORMANCE- BASED CONTRACT ARRANGEMENT

Figure 3:

HEALTHCARE RCM OUTSOURCING MARKET IN THE US 2018-2022



THE US HEALTHCARE RCM OUTSOURCING MARKET IS EXPECTED TO GROW AT A CAGR OF AROUND 13% DURING THE PERIOD OF 2018-2022 WITH IMPROVEMENTS TO THE HEALTHCARE ADMINISTRATIVE PROCESSES AS ONE OF THE MAIN DRIVERS FOR THIS DEMAND. SOURCE: [TECHNAVIO](#)

#5 REQUEST MARKETPLACE VISIBILITY, THEN BENCHMARK

At any time during the period of your agreement with your outsourced provider, you are entitled to review what is available in the marketplace in terms of services, prices, incentives and innovative thinking. Once you have had the opportunity to review this data, VIE Healthcare Consulting® recommends that you benchmark marketplace offerings for the best possible pricing and services.

In many cases, you may need to renegotiate your existing agreement with your provider. This can be a challenge for hospital employees who lack strong negotiating skills. In this situation, many organizations hire a trained negotiator to represent them, or provide specific training to a member of their staff.

Our benchmarking services for our client's outsourced initiatives result in an average of 17% to 39% in financial gains.



#6 TEST THE RELATIONSHIP

A test phase may be beneficial for your organization before entering a formal agreement with your service provider. A testing phase assists in the decision making process when selecting a suitable provider. To ensure these tests are carried out objectively:

- Define the period of the test phase before commencing.
- Confirm that realistic tests can be carried out and evaluated.
- Ensure that the environment stays consistent throughout the duration of the contract.
- Ensure that any investment from both parties is recoverable.
- Ensure that it is not possible for either party to influence the results.
- Include re-contracting intervals if the initial tests are not reliable.

Keep in mind that costs incurred during this test phase may be higher than those agreed in the final contract.



WHEN TO LEVERAGE A PERFORMANCE-BASED CONTRACT STRUCTURE

The move from a transactional contract model to a performance-based contract is often most effective when an established relationship and a level of trust already exists with a current outsourced service provider. However, entering a performance-based contract with a new provider may not always be the most ideal solution.

Research suggests that performance-based contract structures are gradually growing in use among hospitals and healthcare institutions as healthcare organizations recognize the value that they offer.² At present, just one in ten healthcare providers state that the majority of their contracts are performance-based. Nearly half stated that performance-based contracts represent a small percentage of their overall contracts at this stage, however that number is predicted to grow.

Performance-based contracts should ideally be considered for projects where the outcome must be measured objectively. This may include situations when a hospital prefers measures that are more directly related to its profitability, such as the quality of leads generated, sales volume generated, or even high-margin sales volume generated.

² <https://home.kpmg.com/us/en/home/media/press-releases/2018/06/healthcare-organizations-see-greater-optimism-about-value-based-care-kpmg-poll.html>

If these measures are mutually accepted, it could be used to compensate the vendor for behaviors that are also profitable for the client. Contracting based on these measures would allow for risk shifting, risk sharing, and profit sharing.

For instance, a social media manager would be compensated for the number of leads he or she generated through their online marketing efforts, while the hospital benefits from these very same leads as brand awareness and patient satisfaction. Patient satisfaction, as we know, affects a hospital's Medicare reimbursement.

Another example is when a salesperson is compensated for the number of sales they've generated for the organization, while the organization obviously benefits from the sales themselves. These two types of outsourced providers were paid for the results they generated, which translated into profits for the organization.

A performance-based contract is most appropriate in the following contexts:

- When projects are large, high risk, or involve new technology. (see our section on "*New Technology for Hospital Operations*" as an example).
- When existing contracts can be converted to define as much of the requirements in performance-based terms as possible.
- When large umbrella contracts are experiencing cost overruns or performance problems.
- When benefits contributed by providers can be quantified. (see our section on "*Social Media and Patient Satisfaction*" as an example).
- When project implementation and production time needs to be reduced.

New Technology for Hospital Operations

Implementing new technology into your operations is a perfect scenario for this type of contract.

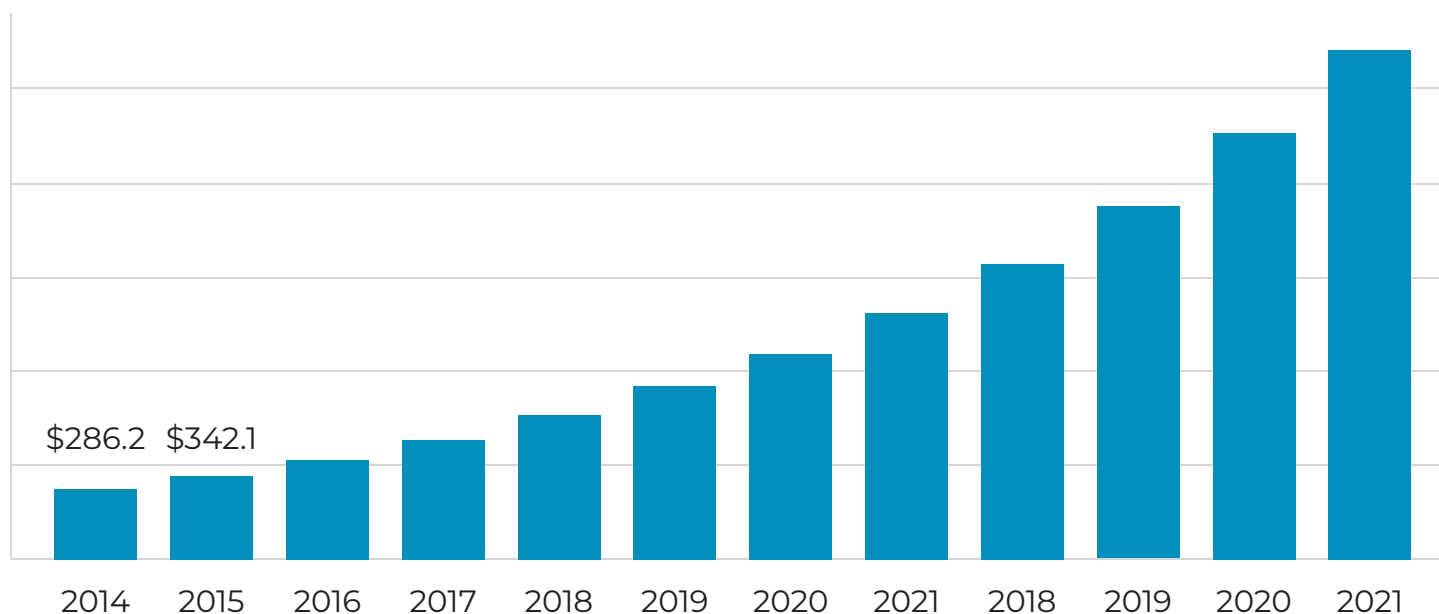
Implementing technologies like Invoice ROI™ from VIE Healthcare Consulting® would require a unique approach to measure for results because outcomes would depend on the amount of cost savings achieved. For an arrangement like this, a performance-based contract could clearly outline expectations for all parties involved.

In healthcare, there is a growing demand for advanced technologies to cost-effectively operate business processes through different engagement and contract models (see *Figure 4*). A need for emerging technologies to automate this process, like our Invoice ROI™, will only grow stronger as hospitals look for innovative ways to manage their spending.

Social Media and Patient Satisfaction

Social media marketing might be another time when hospitals would want to consider a performance-based contract. Social media in healthcare has become a primary platform for patient engagement and hospital brand recognition and many organizations have started to see its value.

U.S. DATA ANALYTICS OUTSOURCING MARKET SIZE 2014-2025 (USD MILLION)



LARGE DATA COLLECTION FROM DIFFERENT SEGMENTS OF AN ORGANIZATION REVEALS ACCURATE MARKET ANALYSIS AND INSIGHTS, NECESSARY TO MAKE EFFECTIVE BUSINESS DECISIONS AND GAIN INSIGHT INTO CUSTOMER ENGAGEMENT BEHAVIORS. MOSTLY DUE TO EMERGENCE IN SOCIAL ANALYTICS AND RAPID VOLUME INCREASE OF USER DATA, THE GLOBAL DATA ANALYTICS OUTSOURCING MARKET IS EXPECTED TO GROW AT A CAGR EXCEEDING 22.8% FROM 2018 TO 2025.

SOURCE: [GRAND VIEW RESEARCH](#)

Social media marketing provides a better patient experience through online conversations, via chatbots and other applications, which has been driving a demand for marketing analytics³. Measuring the ROI for this type of service comes in the form of analytics for website visits, engagement, leads and eventually conversions. To frame a contract like this requires a unique format that would map out specific quantifiable outcomes that are beneficial for both parties. Negotiations for this type of contract should benchmark surrogate measures that offer payment for results instead of payment for behaviors.

Similar to clinical trials, use surrogate measures to do the following:

- Gain insight about certain intangible variables.
- Gauge variables that are too impractical to measure directly.
- Structure a contract that closely observes certain objectives and desired outcomes.
- Negotiate terms and pricing.

³ <https://www.grandviewresearch.com/industry-analysis/data-analytics-outsourcing-market>

HOW TO DEFINE CORE NEEDS WHILE ADAPTING TO MARKET CHANGES

As technology disrupts the healthcare sector, it is inevitable that the needs of your organization will evolve. Whether you are currently involved in an outsourced agreement, in the process of outsourcing a contract renewal, or simply researching your options, the key is to recognize your organization's core needs and understand that those needs will change over time.

Depending on your unique requirements, a needs assessment will include a variety of elements such as cost savings, revenue improvement and/or the lack of internal specialization. Based on our experience at VIE Healthcare Consulting®, we recommend the following as a minimum:

Needs Assessment – Key Activities

- Define business needs and key objectives.
- Benchmark current processes.
- Understand standard activities and service level measurements (“as-is”).
- Review future state service delivery options (“to-be”).
- Assess the gaps between current and desired state.
- Assess feasibility of options and define strategy for service delivery alternatives (Insource, nearshore, multi-shored delivery, etc).
- Investigate implications of assessment.
- Validate associated costs, cost savings, revenue and process improvements.
- Identify risks, assumptions, dependencies, and create mitigation plan.
- Business case development and sponsor alignment.

Once the assessment is complete, your hospital will have a system in place to ensure you are optimizing the return on your investment. For organizations that do not wish or need to outsource an entire department, a further option is ‘selective outsourcing’ that enables you to outsource just one aspect of a larger service.

You might want to outsource the accounts payable portion of your accounting operations only or just the recruiting aspect of your human resources department. You don't have to outsource the entire department.

Conclusion

As revenue growth slows, the effective negotiation and management of agreements with outsourced service providers will play a vital role in your hospital's strategy to improve margins and transform patient care. Understanding how to navigate the complex issues that can arise during this process and throughout the contract period is a skill that requires commitment and effort and is one that can be managed by margin improvement experts.

BONUS: WHAT TO LOOK FOR IN AN OUTSOURCED SERVICE PROVIDER

Many service providers claim to deliver similar services, but we strongly recommend interviewing potential candidates to determine which ones truly possess the qualities you need. This will enable you to gain invaluable insight into their work ethic and industry knowledge. You will also want to hear about their proven results.

Due to the importance of communication, your service provider must also provide clear details of their exact deliverables and expected payment. All terms and pricing should be confirmed in a contract agreement.

It is always good practice to interview several different service providers before choosing who to work with. During that process, ensure you ask and receive a clear answer to these four critical questions:

1. What services should be outsourced or performed internally using hospital staff?
2. For those services that should be outsourced, how should the contract be structured?
3. For those services that should be outsourced, how should the contract be negotiated?
4. For those services that should be outsourced, how should the relationship be managed to ensure its continued strategic success? When will the relationship be terminated?

Once you have decided if an outsourced service provider is the best option for your organization, interview suitable candidates and select the best one based on the following criteria.

Industry Knowledge

Work with someone who has delivered proven results in the healthcare industry. Many claim to be experts, but you'll want someone who has insider knowledge about the healthcare industry and their own field of expertise, to enable you to leverage that knowledge in your own operations. Choose someone who has worked with hospitals across the country and is known to boost and maximize quality and efficiency so you can focus on your primary goals, which is to deliver the best patient care.

Innovative Technologies

Many outsourced service providers use their own processes to gain an expected level of results, but few have designed innovative technologies to gain a higher level of outcomes. Search for providers that leverage their own proprietary tools and information databases to identify and engage optimal results that will benefit your unique situation. It is also extremely useful to benchmark those proprietary tools for your organization to continue with that process on your own.

In addition to our Invoice ROI™ technology to reconcile, optimize and leverage internal intelligence, the proprietary contract database offered by VIE Healthcare Consulting® delivers management tools for complete contract maintenance from initial execution to renegotiation.

Proven Results

Find a provider that has delivered proven results and has pioneered best practices, is a leader in their industry offerings and keeps you informed of healthcare reform that could affect the future of your hospital's operations. Make sure your outsourced service provider also benchmarks the latest market competitive pricing, trends and offerings that you could leverage in your own contract agreements.

WHAT OUR CLIENTS SAY ABOUT VIE HEALTHCARE CONSULTING®:



Lisa and her team at VIE Healthcare Consulting® gave our hospital a significant boost to our bottom line at a time when we really needed it. Even with a GPO in place, they were able to help our hospital reduce our supply costs and contracted costs in so many areas. A good example of this was when they negotiated an exclusive agreement with a top orthopedic knee and hip vendor to be our sole source vendor. It was a huge boost to our bottom line and helped us standardize our joint program at the hospital. I just can't say enough good things about VIE and the savings they can find for your organization.

Chief Financial Officer



Lisa and the VIE Healthcare Consulting® team did an outstanding job on an expense reduction initiative at our hospital. The VIE Healthcare Consulting® team worked closely with our staff to identify and implement significant cost saving opportunities. Based upon their thoroughness, persistence, professionalism and results delivered I highly recommend the services provided by Lisa and the VIE Healthcare Consulting® organization.

VP Supply Chain



I have worked with VIE Healthcare Consulting® on more than one project and found Lisa and her team to be subject matter experts. They have an affinity for details and picks up things that many have missed in prior reviews. They have access to a variety of experts within the hospital environment.

Vice President Perioperative Services



Just as a sports team would not walk onto a field without a meticulous playbook and without a coach to lead them, nor should an organization enter into an outsourced service provider arrangement without an expert coach.

VIE Healthcare Consulting® is an experienced strategic outsourcing advisor to hundreds of hospitals. We have assisted hospitals and organizations with outsourcing decisions and benchmarking strategies since 1999. We are committed to your priorities.



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HOW TO WORK WITH US

VIE Healthcare Consulting® delivers dramatic margin improvement strategies and value driven solutions for breakthrough results. There are several ways your hospital or healthcare organization can work with us:

Margin Improvement Strategies

Engage our in-house team of analysts to identify opportunities for non-labor savings, develop customized cost-saving reports and deliver the best pricing available anywhere on the market today. Our team of experts offer proven strategies to guide our clients into a profitable partnership with their outsourced service provider.

Consulting and Advisement

VIE Healthcare Consulting® is passionate about empowering our clients to transform the patient experience and deliver smarter healthcare. Our team of experts conduct comprehensive assessments to deliver rapid results aligned with your core business goals for increased profit.

Invoice ROI™

Consult with our margin improvement specialists to review your purchased services spend. Our unique Invoice ROI™ delivers guaranteed margin improvement and identifies cost saving opportunities in real-time.

Data Analytics

As leaders in the field of data analytics in healthcare, we work on the principle of 'what can be measured can be improved'. Retain our expert data analysts to deliver actionable insights to drive your success.

Call or email today for
a complimentary consultation:

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ABOUT US

Since 1999, VIE Healthcare Consulting® has supported hundreds of hospitals and healthcare organizations in reducing their non-labor costs. Lisa Miller and the VIE Healthcare Consulting® team are passionate about working with hospitals to extract unnecessary healthcare costs and improve operating margins and patient care using proven and innovative margin improvement strategies.

The unique cost reduction services offered by VIE Healthcare Consulting® thoroughly analyze operational expenses and quickly identify costs that can be extracted from your organization. These include overutilization, standardization, pricing opportunities and process improvements.

- The VIE Healthcare Consulting® team are specialists in hospital non-labor expense reduction. We are independent advisors to hospitals in achieving best pricing in the marketplace, to optimize their resources and reduce clinical variation.
- Our specialization includes: Cost Analysis, Physician Preference Items, Purchased Services, IT/Telecommunications and Operating Room Performance Improvement Services.
- Our approach is data driven, customized, collaborative and sustainable for every client.
- Cost savings realized by our clients range between 17% and 39%.

Why VIE Healthcare Consulting® Does This Work

When you partner with VIE Healthcare Consulting®, you will strengthen the financial health of your organization. You'll strengthen the financial health of your organization when we increase your operating margin and profitability by securing the most value from what you spend on your technology, equipment, testing, drugs, medical devices, supplies and services. Your hospital can then utilize these savings to provide exceptional care for your patients without ever needing to reduce labor costs. We guarantee you will pay the best prices, gain the most favorable agreement terms and optimize your utilization – all while increasing the quality of care.

By achieving this, VIE Healthcare Consulting® also enables you to fully commit to YOUR mission. As a financially healthy organization, YOU can devote more time, energy and resources to YOUR patients and empower YOUR employees to focus on what they do best: providing excellent patient care with better outcomes.

Lisa T. Miller, founder and CEO of VIE Healthcare Consulting®, is a proven healthcare strategist and a recognized leader in hospital purchased services, healthcare supply chain management and performance improvement. Having generated over \$600 million in non-labor cost savings and revenue improvements for healthcare clients, Lisa's approach is comprehensive and enterprise-wide, specializing in clinical expense reviews and direct impact of supply chain reimbursement.

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