THE HEALTHCARE LEADERSHIP EXPERIENCE with LISA MILLER

EPISODE 25

Prioritizing Purchased Services with Richard Dormer

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Lisa Miller (00:00):

If you think about what's going to happen with inflation, a six-pack of Coke is double the price, and all these costs, we hear milk, we hear paper products, and so on. But if you hear these things, it's really going to get you to think like, "Wait a minute, that is going to have an impact on the hospital." The Americans... The households are spending $175 more now per month for the same items they did previously. How does that $175 example compare to what a hospital is going to increase? It's gonna be big. Hospitals need to be proactively prioritizing purchased services, because they gotta get ahead of all these cost increases. I'd encourage everyone listening to stay ahead of this curve. This curve is not a good curve, and it's prioritizing all of your purchased services, because you're going to see the impacts of inflation on service spend.

Speaker 2 (00:57):

Welcome to the Healthcare Leadership Experience, a place where healthcare leaders will share proven strategies and innovative approaches to leading the clinical and business side of healthcare. This show is sponsored by VIE Healthcare Consulting, who's proudly helped hospitals save over $700 million in non-labor costs since 1999. Here's your host, Lisa Miller, founder and CEO of VIE Healthcare.

Lisa Miller (01:20):

Hi, welcome to the Healthcare Leadership Experience. I'm Lisa Miller, and today we are going to be speaking with Rich Dormer about prioritizing purchased services. This is such an important topic. We happen to talk a lot about purchased services for a, a lot of reasons, but particularly because of our approach, which is line-item detail focused, and it's very unique to VIE. We don't look at aggregate data, monthly data. We look at invoice, granular data, and we have patented technology that allows us to extract those invoice details and to analyze and benchmark and put together a cost

savings opportunity by line item detail, fully automated. So we love this topic, because our clients are achieving results that they can't achieve anywhere else just by the nature of our approach, which again, is invoice line item detail level. The same as you would do for any other spend, because you would have that on the PO detail report. So today, we're gonna talk about why you should prioritize purchased services. So Rich, welcome. So my first question to you is why do healthcare executives need to prioritize purchased services now more than ever?

Rich Dormer (02:37):

Thank you for having me on, Lisa, and with my role as Chief Operating Officer at VIE Healthcare, you know, I work with, [inaudible 00:02:45], you know, all the projects and initiatives with each and every one of our clients that we have throughout the country. We see the trends. We see what people are working on. And while they're still cost savings opportunities with physician preference items and bed surge items, the greatest area of opportunity still remains with purchase services. The reason is, it's more challenging. And it's just like if it logically, if the more challenging something is, the more sensitive it is, the more complex something is, that's gonna offer the best opportunity, because it's harder to do. It's, it's, it's not clear cut. It's not just one thing. There's multiple layers. There's multiple reasons by, you know, the cost structures, and all the things that support it.

When we look at three areas in, uh, breakdown of purchase services, and why again? You know, from a challenge standpoint, is the, the availability of data. So you're looking at running a report on spend for a specific vendor, or initiative, or type of category. You're not gonna get the real line item detail. So a lot of the information is trapped on the invoices, and a lot of times the invoices don't even detail all the costs, and they just have one number on there. So that's one reason why purchase services are very difficult and challenging to work on.

Uh, the other one is that... and I mentioned before, a lot of them have these complex contracts. So there's bundled rates. There's things that are tied together. There's these gray areas that are in the contracts that are eventually put onto the invoices. And a lot of times just it's, it's depending on the volume of invoices. It's hard to match up. And a lot of times, people don't even have the contract to actually process the invoices. So then we see a lot of challenges, just understanding the contract and understanding where the invoices are, and to actually make sure that it's accurate.

And then a big part of a lot of the purchase services is that these are outsourced agreements. So a lot of times it's the hospitals health systems are working side by side with representatives from these companies, these vendor partners. So be it, uh, physician groups, or red cycle side or support services. So a lot of times, it's difficult to question, or to negotiate, or to push back on certain things within a contract, within an invoice, within costs. If it's someone that you're relying on, if it's someone that's there day-to-day is that you have that relationship you see in the, in the hallway, you see in the, in the lunchroom, you see at the... you know, all the events that happen. So

it's that relationship piece as well that ties a lot of the complexity, the sensitivity around these purchase services. But again, executives need to prioritize looking at this. This is a really big area of opportunity for organizations.

Lisa Miller (05:19):

I agree, Rich. And I, you know, I appreciate that thoughtfulness. And I think the challenges is that most hospitals would say, "Well, we are, we are looking at purchase services. We are prioritizing." However, I think what happens is, is that there are certain areas that just don't get looked at. And, oh, you know, we talk about prioritizing purchase services. We're talking about every single aspect layer department costs, not just the usual, you know, suspects of hospitality services, or, you know, maybe blood services, reference lab. We're talking about every single service you could possibly think of, even to consulting services, even to hourly rates, such a great area to look at is to look at hourly rates for all different services across the system. And, you know, setting some standards around that, looking at red cycle, IT, clinical purchase services, outsource position services.

You know, we're one of the few companies, if really, anyone, out... is out there, not just benchmarking outsource position agreements, but being able to review those complex P&L statements, being able to, again, benchmark, look at contract compliance, look at rates, and really help a hospital put together a fair agreement, fair for the physicians with outsource physician services, like ER, radiology. But, you know, fair to the hospital, you know, there's a lot of requests for subsidies, and the subsidy request are going up. But when we dive into those subsidy requests, there's not a lot of foundation to why they should be getting those requests [inaudible 00:07:00] some, or warranted, or a portion. But sometimes, most of the times, the, the degree of the amount is too excessive, and that's not fair to the hospital either. So I think when we, when we talk about prioritizing, we're saying, "Prioritize everything, do a suite, do one complete assessment of all your purchase services, uh, you get a, a provider that can help you with all aspects." You don't want 10 people looking at different departments, but have somebody who has complete expertise.

So I agree on that. And if you think about what's going to happen with inflation, I wanted to have these numbers for this podcast today. I didn't have a moment to do the research that I heard on the radio, but something like a six-pack of Coke, right? Is double the price. And all these costs, you know, we hear milk. We hear, um, paper products, and so on. But if you hear these things like potato chips, they're double, like Pringles or things like that, it- it- it's really going to get you to think like, "Wait a minute, that is going to have an impact on the hospital." The Americans are now... the households are spending $175 more now per month for the same items they did previously. How does that $175 example, how does that weigh, or compared to what a hospital is going to increase?

So it's gonna be big, and so hospitals need to be proactively prioritizing purchase services, because they got to get ahead of all these costs increases that probably, you

know, a lot of them are legitimate. Again, I think it was Procter and Gamble, I forget who, who has to budget an additional $2.1 billion into their margin, whether it's logistics, y- you know, all these different aspects. And guess, who's gonna pay for that? The, the consumers have to pay for that. And so, how is the hospital going to have to pay for those increases, 'cause all those are legitimate, but there are purchase services agreements where those rates are, are not competitive, or things are not being utilized, or [inaudible 00:09:01] standardize. And I'd encourage everyone listening to stay ahead of this curve. This curve is not a good curve, and it's prioritizing all of your purchase services, because you're going to see the impacts of inflation on service spend. So Rich, next question, what processes need to be put in place to do this?

Rich Dormer (09:23):

Great question. Lisa. You know, from a high level standpoint, we need first and foremost a report a categorization of all the vendors services spend for the organization. You know, we break them down into six categories, six purchase service categories, clinical purchase services, facilities, and sports services, uh, finance HRM, red recycle, biomed repair, service and maintenance, IT, telecom, telehealth, and then administrative, and HR. So once you have that picture, which a lot of... you know, we see this is very common. We've always historically done this for our clients. We come in, we get their AP standard report. We categorize their standards, and so we give it back to them.

There's some other companies out there that charge for this. You know, we basically do it as part of our setup, because it's the first step, right? So then the next step, which is the most important once you start to see, you know, where do we wanna look at either from a vendor standpoint, or a category, or initiative standpoint, is we wanna look at the invoice details, and we wanna compare the invoice details to the contract. Now, this is a big step that a lot of people miss. The second one is those end user conversations. We wanna understand what's the history? What's the challenges? What are we not seeing in the data? Because, they're the ones that are living it day-by-day. And they know all the little issues that are happening, all the little gaps that are in the service, which you wouldn't see in the data.

So I think those are two big critical steps that a lot, a lot of people miss, because a lot of people go to this next step, which is benchmarking, right? So they go to what's the vendor? What's the benchmarking, and they miss this whole invoice to contract, comparison, analysis, and then, also that end user feedback, because it's so critical when dealing with some of these complex purchase services. So once we have that benchmarking, we have the end users, we have that match, we have the real picture of what's going on, and then we can develop a plan. And we work with the end, end users. We work with the different stakeholders and the, the client. And then we engage the representatives, and I think previous podcasts, I think it was number 22. We talked a lot about negotiations. So there's a lot of strategies around it, uh, but you build those strategies based on just historically what has happened, you know,

where's the, the services headed? What is the issues? What do we wanna work on? All of that is put together prior to engaging the vendors.

So that's a big piece of this as well. And then obviously getting this in place, negotiating a good contract, a lot of people end, end there. But really, this last step is really important, is a new contract, is making sure that the invoices are correct, that they're charging the correct, because I can't tell you how much... And you've seen it as well, where you look back in six months, and they're not charging their [inaudible 00:11:57]. There's a lot of spend off-contract. There's a lot of things that are not doing what they're supposed to be doing. So I think there's a lot of cost savings that's lost, because, you know, that contract, while executed is not matching what the invoices are.

Lisa Miller (12:09):

So the next area I wanna talk about are some modern strategies for CFOs to consider right now. And I'm, I'm gonna start this off, I know that you've got an answer to this, but it's a modern strategies. You know, we talk about strategic sourcing, which is great, so important. But the modern strategy is strategic monitoring and measuring of purchase services agreements, while we source, and we get great deals, you put the agreement in our contract management system, and we wait for the renewals, or maybe there's some quarterly business reviews or, you know, things that happen in between. There isn't this strategic measuring the monitoring process, and that's a modern strategy. You would want to monitor things that are your highest cost items, because those are the keys to either a greater margin, or lesser margin. Right?

So those things that cost you the most by line item detail, not by the month or the annual spend. But there are things that are embedded in the service agreements that need to be monitored, because if over-utilized, or there's another issue, you wanna capture them before they become, you know, a detriment to your margin. So a modern strategy number one is strategic measuring, monitoring, management. I like monitoring and measuring better, because it's very specific to looking at key areas of spend, key metrics. And that's the number one modern strategy a CFO needs to consider.

The second one is the fact that CFOs need to know that the invoice line item details on their purchase services spend does not get into the ERP system. All that goes into the ERP system is the total invoice amount of some header data. So the only way for the organization or anyone at the department, or supply chain, or ops to understand truly what's going on is that they have to pull those invoices manually. You just can't pull the contract, because the contract more than likely doesn't have everything that's actually being utilized, and there's other things that could be going on the invoices.

So CFOs and modern strategy is asking your organization people who oversee purchase services spend, how do they get access to line item details. We have so many conversations with people throughout different hospitals and departments

that say, "I, I don't get the invoices, or I get a summary of it, and I have to approve the summary or if it's plus or to minus 10% I approve it." And so, you know, modern strategy for a CFO is, "How am I getting my leaders, those in charge of the spend, and P&L, and budgets. How am I getting them the line item details?" And so, for us we extract those details from the invoices and we give those details to our clients, those leaders, department leaders. And you know, that's a, that's a number two modern strategy, you know, that I think are one and two. Rich, I know you've got a few of your own.

Rich Dormer (15:10):

I'll just... I'll add one more. And you mentioned that physician agreements. So outsource physician groups, you know, one way to really get the transparency is have a list, right? And the workaround on this with a couple of our larger health systems where they've asked for, "What is the vendor? Where's the services that are being provided via anesthesiology or emergency medicine, or hospitalist? And let me know what is the subsidy that I'm paying?" And the reason for the subsidy is, uh, many, many times it's the... you know, when you're looking at the net patient revenue is the core reason why they're asking for a subsidy, "We don't get enough money and pay for our staff."

So understanding that subsidy just alone will give you an idea from pathology services to CRNAs. You will know throughout your whole entire organization, what are you paying for these subsidies. And then you can continuously look at this every year. Every year, it needs to be looked at. Every year, there needs to be a review of that net patient revenue. It needs to be looked at the, what is the professional services from a, you know, competitive salary standpoint? And every year that needs to be looked at, because there are these shifts at the... annually within the physician payment, within the physician that revenues, that will influence that subsidy. And a lot of times people put a subsidy in place, years go on, they look at it in five or six years, and they're paying 20% above the market.

Lisa Miller (16:29):

That's a really great modern strategy. It's every single one of your physician authorization agreements, that needs to be in one document. It could be a spreadsheet, and how those payment structures are put together. When the agreement was last signed, when it's come due, when was the last review act. In actuality, even for compliance, now, those agreements have to be reviewed annually, and benchmarked, and reviewed. So from a compliance aspect, it's a modern strategy, but also a compliance strategy to go through that. And we're seeing more hospitals pay attention to that. So that's a great addition. As we wrap up, Rich, what are the two top areas of focus related to purchase services that every healthcare executive needs to be mindful of as we go into 2022?

Rich Dormer (17:17):

No, it's great question. You mentioned earlier, the costs increasing and just inflation. You know, coupled on last year, with all the PPE costs, and all of the elective procedures being delayed or suspended, it was a tight margins, and a lot of people were in the red last year. But like you said, with the inflation and all these costs happening, and one of the ones you didn't mention, that, you know, we've talked about a bunch of times, is, is outsourced staffing, right? Just getting nurses in their travel. So, uh, and just to give you an example, and I wrote this down, was a med-surg nurse two years ago, hourly rate would be $65 an hour. They're right now at $142 an hour. So just give you an idea of what has happened over the last couple of years from, do you... obviously, with COVID, but the staffing levels, the need for it, right? And now, we're even getting it, you know, depending on the state, the state mandates for getting vaccines, that it's, uh... you know, impact more on the staffing level as well. So that's a huge piece.

So I think when we look at the cost, we have to look at, what can be shifted on the other. And again, you know, we talked about physician agreements, but there are other sacred cows that really in the organization need to look at. And one other piece too, which we've seen a lot of, is that when we think technology, we think IT. We think of, you know, Citrix and, uh, you know, emails, and making sure they're secure. But a lot of the purchase services, the technology we're seeing, are really falling out the... outside of that traditional IT. So clinical purchase services, you know, facilities and support services, especially within finance. So it's important to really understand and bring in the IT team, or representatives, or consultant that really knows how these are impacting the bottom line, because one area that we see a tremendous growth in is professional services on the IT side.

So then, you know, someone might negotiate a good deal with the hardware. And when the, the contract's implemented. They're wondering why there are 20, 30% over budget. It's because professional services were never looked at. So the hourly rate of the people that are helping implement and then support, and that's a big piece that I think a lot of people miss. We've seen that missed. This is not just COVID-related. This is not just the last couple years, but because the accelerated growth of technology within all aspects of the healthcare system. This is becoming more and more of an issue.

So I think that's a real big piece that people need to take an eye on. And every contract that comes through, we need to understand, what's the technology? What's the impact? How do we look at this? How do we safeguard against it? Because not only from a professional service, but we also see that traditionally IT, they over spec, right? They say, "Here's your... This is your current state, this is what you're expected to grow to. So we're gonna put this proposal on this contract based on what you're expected to grow to," you know?

And a traditional core IT folks would look at that, and they've... You know, some really sharp skilled are negotiating that. But when you start to look at other areas of the organization that's not used to deal with it. You know, some clinical purchase service,

the CNO is dealing with a company that's feeling on this on the technology side. They don't know the nuances of this, and they don't see it ha- im- im- impacting the bottom line. So that's really a big area that we're seeing that needs to be focused on as well.

Lisa Miller (20:25):

The financial clauses section of a purchase service agreement is probably one of the least known, least talked about, and least analyzed part of purchase services agreements, invoice data, line item detail is key. But these financial clauses really become a massive problem for hospitals. So we've seen all kinds of financial clauses, even clauses that say, "We won't sell to your competitors, but to do that, we're gonna charge you several hundred thousand dollars a year not to sell to your competitors." And that's really price prohibitive. But what happens is it gets embedded in the contract. And if you don't send in or notice that it automatically activates, and that's really a problem.

You know, interesting about the, uh, med-surg nurse, we were having a conversation, and if you remember, uh, with Brian, and he was saying that AMN stock, because their staffing company has like skyrocketed. I think their stock is like double. They're paying dividends. Now, they're, you know, staffing company, and he had mentioned how that change before COVID. And then now, through COVID, and now, and the stock has soared, you know, that's an indicator of what you said is a $65 med-surg nurse going to $142 an hour, but there's still things that hospitals can do. They just don't have to accept that. There's strategies to deploy. So Rich, thank you, you know, I have started to wrap up our book on the topic. Now, we're tackling this from a different couple of different angles. I have my own purchase services book, and we're also bringing in a few people from VIE to have a, a supplemental edition.

But the reason why I decided to write a book on purchase services is there's, there's a lot of information out there, that's really not getting to the CFOs. Like for instance, the invoice line item details. Like for instance, you know, because we have a dashboard, we bought a dashboard. Companies who say they can do this work and who've been brought on to do this work, but yet, they only can do partial of the work. And they can't do a lot more, the real complex areas, or, just frankly, the bad advice that's been given. And we've seen a lot of bad advice, ratio benchmarking is bad advice. Taking your purchase services spend for a given category divided by the number of beds, or outpatient visits, and comparing to another hospital, its bed size to that purchase service spend is bad advice.

And unfortunately, bad advice is going up to the C-suite, and it's harmful. What's happening is you... that, that they're not obtainable search cost savings opportunities, or they are cost savings opportunities, but are being missed, because somehow or another that ratio benchmarking has shown there's no opportunity. So I wrote this book, because I am so frustrated with all of the bad advice and approaches that are being given, and the hospitals think that they have reviewed these areas. And yet, we

come in and we see it completely differently. And we're, we're uncovering more opportunities in those areas that were previously looked at. And then all these areas that never were looked at, never thought to look at. You know, I'll give you one example is the patient information. Right? It's called Request for Information. And so [inaudible 00:23:41] that's a service that usually gets outsourced. So when either a patient requests information, or it could be a doctor, or a lawyer, there's a charge for that. But usually how it works is that there could be a revenue share. Maybe it doesn't show up high on AP spend.

But this Request for Information Service is a fantastic area to look at benchmark analyze, look at the profitability and the structure. And yet, you know, we're bringing this new opportunity to our hospitals and they're like, "Well, we, well, we never thought about that." And there's a lot of areas where, uh, hospitals may be thinking, "You know, they've never looked at this. This is probably a good area to look at." So that's why I wrote the book. Thank you, Rich, for being here. I encourage everyone to listen to our previous show about healthcare analytics and our next episode on healthcare supply chain. And that will be with Brian [inaudible 00:24:34] from our team.

So we've got other episodes on purchase services in the beginning of our podcast. I believe it's episode three or four. I welcome you to listen to those, and if you have any feedback suggestions or people who you'd like to have on the show, please let me know. Thank you, everyone. Look forward to our next discussion.

Leah (24:54):

Hi, this is Leah. You're listening to my mom's podcast, the Healthcare Leadership Experience.

Fernando (25:01):

Hi this is Fernando, if you would like to speak with my mother email her.

THE HEALTHCARE LEADERSHIP EXPERIENCE with LISA MILLER

MEET LISA MILLER

It's important for hospitals to have a clearly defined cost savings strategy with purchased services as a component to that strategy. We provide our clients with a focused roadmap to achieve those savings through our expertise since 1999

Lisa Miller launched VIE Healthcare Consulting in 1999 to provide leading-edge financial and operational consulting for hospitals, healthcare institutions, and all providers of patient care.

She has become a recognized leader in healthcare operational performance improvement, and with her team has generated more than $720 million in financial improvements for VIE Healthcare's clients.

Lisa is a trusted advisor to hospital leaders on operational strategies within margin improvement, process improvements, technology/ telehealth, the patient experience, and growth opportunities.

Her innovative projects include VIE Healthcare's EXCITE! Program, a performance improvement workshop that captures employee ideas and translates them into profit improvement initiatives, and Patient Journey Mapping®, an effective qualitative approach for visualizing patient experience to achieve clinical, operating, and financial improvements.

Lisa has developed patented technology for healthcare financial improvement within purchased services; in addition to a technology that increases patient satisfaction through front line insights.

Lisa received a BS degree in Business Administration from Eastern University in Pennsylvania and a Masters in Healthcare Administration from Seton Hall University in New Jersey.

She is a member of the National Honor Society for Healthcare Administration – Upsilon Phi Delta. Her book *The Entrepreneurial Hospital* is being published by Taylor Francis.

THE HEALTHCARE LEADERSHIP EXPERIENCE with LISA MILLER

MEET RICH DORMER

Healthcare Margin Improvement Expert, Chief Operating Officer.

Richard Dormer serves as VIE Healthcare's Chief Operating Officer and Healthcare Margin Improvement Expert. In this role for over 13 years at VIE Healthcare, Rich identifies and implements dramatic cost savings for VIE's clients. He has extensive expertise and knowledge of hospital expenses across the organization.

Rich's specialty is high costs implants in the Operating Room and hospital Purchased Services, where he has worked collaboratively with VIE's clients to save over $290 million during his tenure. Rich also specializes in hospital decision analytics and his ability to analyze big data sets to uncover true costs and cost savings opportunities is unparalleled in the industry.

Prior to joining VIE, Rich spent nine years with two equity sales firms on Wall Street. He applies the same analytical approach he learned on Wall Street to his work at VIE, and has become an expert in finance analytics for healthcare organizations.

Rich is also a skilled negotiator known for his ability to drive down contract costs without sacrificing services or quality. His sharp negotiating skills contribute to his expertise in the difficult areas of physician preference items and clinical preference services.