THE HEALTHCARE LEADERSHIP EXPERIENCE with LISA MILLER

EPISODE 38

# Purchased Services and PPIs Cost Savings with Rich Dormer

**See the show notes at:** THEHEALTHCARELEADERSHIPEXPERIENCE.COM

Voiceover (00:02):

Welcome to The Healthcare Leadership Experience Radio Show with your host, Lisa Miller. Lisa is an entrepreneur, inventor, advisor and founder of VIE Healthcare Consulting, the leading healthcare advisory and analytics firm helping hospitals accelerate their margin improvement goals. Lisa loves to think differently, and collaborates with leaders and their teams to solve challenges and to create new innovative approaches that impact the clinical and business side of healthcare.

Our show will bring you leaders and innovators within healthcare and across multiple industries. Be a part of the discussion that will give you a unique perspective, deep insights, and roadmaps to successfully help you navigate the clinical, financial, and operations of healthcare. Your show starts now.

Lisa (00:49):

Hello. You're listening to The Healthcare Leadership Experience Radio Show on Healthcare NOW Radio, and I'm your host Lisa Miller. Welcome to the show. Today's guest is Rich Dormer from VIE Healthcare. He is a very seasoned experienced healthcare performance improvement consultant and COO of VIE Healthcare. Welcome to the show, Rich.

Rich (01:12):

Thank you, Lisa. I appreciate you having me on, I'm excited to have this discussion today.

Lisa (01:16):

Yeah. It's a really interesting discussion because we've been working in this space for really over 20 years and have seen a lot of the evolution. You've been working in the space for 15 years, really from the start. We've seen a lot of what we'll call the good, the bad, and the average. So today's discussion really, you're going to go through a lot of great content.

Lisa (01:43):

Is purchase services benchmarking? The good, the bad, the average. And a lot of hospitals are very challenged getting to the invoice line-item details and really they're needing to be helped or supported with creating this spend map and really understanding what they're spending in utilization.

Lisa (02:02):

So my question to you and our discussion really is, what can a good approach, a complete benchmarking analysis look like? But before we get there, how do you think price benchmarking is happening? And what more most organizations say. What's really going on? And then we can talk about what can be done in the future. So let you start off the conversation, Rich.

Rich (02:26):

Great question and great topic. I had some time to think about it and really when I'm thinking about it looks like we want to look a little historical first, right? So when we look at best benchmarking about organizations in the past, for purchased services, specifically, the best route was an RFP.

Rich (02:41):

It allowed our organizations to confirm if their rates were competitive or if there was room for improvement. You know, it wasn't the most accurate. Many vendors in the space they could have different cost structures or perform the services differently. And then a lot of times it was very time consuming, but this was the best the industry had. Right?

Rich (02:59):

So example of something where it was a little bit different, and it's still today with food and nutrition services, some contracts could be cost per patient day versus another one passed through cost plus a management fee. So it was a challenge then, there's a challenge now, to compare those. But that RFP

process, there's a lot of gaps and a lot of things that are missed and are a challenge, and they still are today.

Lisa (03:21):

Can I ask you a question about that?

Rich (03:23):

Yes.

Lisa (03:24):

So the RFPs is kind of like this staple, staple for healthcare, outside of healthcare. Everyone says, okay, we're going to go out to RFP, and there's a level of comfort. And don't get me wrong, like we use RFPs quite a bit. And we have a different approach. We have this rapid and precise RFP that we work with our hospitals on.

Lisa (03:44):

But there is this false sense of security if you do an RFP and you have three or four vendors and they're putting pricing together, there's a little bit of, if you've got a winner, that winner could be price and value and service, and there's many components to it. But you and I had an example where we were working with a health system, and they had put an RFP for our inventory system in place. And so we did not do the RFP, we were working with a different department.

Lisa (04:12):

It came to us later stage. They had done this very extensive four-month RFP. They used a different firm, and they awarded the company. And then we got the final review. And there was this whole section of services that was missed, the professional services, the service and maintenance, the way the service and maintenance agreements were charged.

Lisa (04:40):

It was completely missed. And this was a company who specializes in RFPs and they went through this process, and they missed a million dollars in savings. That was astonishing. But something we see quite often that, and even the organization couldn't believe it, but we took that final review. We took out another million dollars after the RFP.

Rich (05:00):

And that's a great example. And we have multiple examples where, even when we give a template to the vendors to input all their pricing in for an RFP, regardless of what it is, there's always differences too. There's always things that they're inputting incorrectly or they're not inputting in or they're just providing something that doesn't fit what we've asked for.

Rich (05:19):

So you just need to understand and how to match that up effectively. Right? So the example you were talking about, there's key points to an RFP and sometimes people get so focused on those key points that they missed some of the ancillary fees, but those ancillary fees in some cases could be a million dollars.

Lisa (05:36):

Yeah. A million dollars in savings.

Rich (05:39):

Yeah. Exactly. No, a good point.

Lisa (05:39):

It's not even in spend.

Rich (05:41):

That's a good point.

Lisa (05:42):

So you've got a list of seven and we've just started on the first. So I want you to continue with your list of how organizations are benchmarking now in purchased services.

Rich (05:53):

Right. Absolutely. And just a step before that, is the reason why we're here today and obviously from a benchmarking standpoint, is that over the last several years there's been more and more price transparency. Right? So data files and line items. So organizations are now able to provide feeds to these benchmarking services. There's multiple, and you can get it through your GPO.

Rich (06:13):

You can get it through a host of other areas. But it's really focused not med-surg PPIs, now there's others for capital equipment, but it's great for organizations to see where they line up. But obviously the vendors know about these as well, but that's a whole other story. But now organizations immediately have their line items for more than half of the non-labor spend. Right?

Rich (06:32):

But the problem is, and the reason why we're talking today about this is the other half, which is purchased services, the expectation is that they have the same transparency but that's false. Right? The biggest reasons why, first, many of the costs are embedded in the terms and conditions.

Rich (06:46):

So there is no line items, examples like fuel charges, monthly minimums, cancellation charges. These are not in the traditional line items that they could be looked at and would be through an invoice. You would have to actually map them back and forth. And then the most important one is that, the invoice line-item details.

When we're looking at purchase services, majority of organizations, there's a few that have a few exceptions maybe like freight or repairs or some others. And some organizations have certain vendors that they do input line items for purchased services into it or systems.

Rich (07:18):

But the majority of the organizations are not able to run a report on specific purchased services to get to the line-item details because they're not getting that information off the invoices. It's all one price or one cost on the bottom line and not the details on the invoices.

Lisa (07:36):

Right. It's the total invoice.

Rich (07:38):

Correct. Yeah. Right. So the total invoice price is the only thing that you can run a report on. So there's categorization to tell what you're spending in, what area and what category. But to tell you what the costs are for that specific

vendor, if you want to say, all right, give me all of my late charges or give me all my minimum stop fees for regular medical waste. You couldn't do it.

Rich (07:59):

So because you can't run reports and because those reports can't be sent to a traditional benchmarking location, and then coming back and let you know opportunity, there's different ways the industry is working on the standards within the industry. I don't want to say standards, but the way that the industry is benchmarking.

And this comes into what we were talking about, the good, the bad, and the average, right? So one of the ones that we see a lot is as a consolidation opportunity, right? This one is pretty common where let's say you have 10 vendors in a space and they say, "Oh, if you get to three, it's probably about a 10% opportunity."

Rich (08:30):

Or if there's 10 in that space and you get to one, it's 15%. Which to us it's, when we look at that, where are you coming up with this opportunity? It's just an arbitrary number and then on the flip side of that, if you only have one in the category, there is no opportunity. So it doesn't make any sense.

Rich (08:45):

And then some systems need multiple one in category, like we were working with a few of our clients over the past year on language services, which is a very important piece of the patient experience of hospitals. Some organizations, they want multiple because they feel like one service is on-site, representatives are far superior to other, but the other ones over the phone is better.

Rich (09:07):

The other one has better VRI, the video, and then the other one are American sign language. So they want and they need for, so how can you consolidate if the services are not wanting it, the end users. The leadership over those positions are going to say, "No, no, we need four." But what we talked about before the RFP.

Rich (09:24):

So this there's the technology now, obviously in every aspect of our lives is far superior than it was 20 years ago. So now the RFP have the technology

platform which are great, so it speeds it along. But still some of the issues that have always been there are still present. Right? Are the services the same? You still have that issue when you're trying to marry up costs.

Rich (09:46):

Making sure that the costs on one vendor to the cost on the other, what is ultimately the bottom line? Is it going to save money or be more expensive? And then really establishing that cost baseline. And I think that a lot is missed because be it an RFP or just a cost analysis or a benchmarking analysis, establishing the cost baseline is critical.

Rich (10:07):

Because how are you going to figure out if you're going to save money or, again, or is it going to increase money? What fees are currently there? Are they going to remain there? Are they not going to be removed? Or are you going to have new fees there? Right. And you can't do that without establishing the baseline. Right? And again, how do you establish a baseline if you can't run a report?

Rich (10:22):

So a lot of the benchmarking services or the RFP platform services ask for a sample of invoices. Now, sample of invoices, there's some challenges there. So obviously it's better than having no invoices, but you miss some trends, you miss some fees. There's things that really can tell a picture if you look at it from 6 months to 12 months to even longer than that. Right?

Rich (10:43):

And we had a client that used one of these services, one of these RFP platform services for laundry and linen services. And then about 3 weeks after the contract was executed, he was spending two days a week folding sheets because they missed a whole section in the agreement. So there's definitely some challenges and pitfalls with these RFP platforms.

Lisa (11:03):

And what was interesting about that example is that we had been working with that client for quite some time and they were very, very happy. We had done quite a bit of work on the PPI side and the purchased services side, but their GPO kept on pushing and pushing and offered this as a free trial. And

then lo and behold, they do the free trial, and it seems cool. And the technology's cool and work through that process.

Lisa (11:33):

But like you said, they missed the complete section and this supply chain executive really relied on a service and then he was left folding sheets for quite a bit of time until the contract was fixed. So I think this whole topic of technology, which is great, like you said, we've come such a long way, but there's this overutilization. Or expecting the technology to do everything is, it's not possible, particularly in purchased services.

Lisa (12:03):

So Rich, I'm looking forward to hearing, you've got a lot more to share. If you're just tuning in, you're listening to The Healthcare Leadership Experience Radio Show on Healthcare NOW Radio. I'm your host Lisa Miller. Today I'm joined with Rich Dormer. He is an expert in hospital cost savings. He's a performance improvement consultant and COO of VIE Healthcare.

Lisa (12:27):

We're having a great conversation about purchased services. The good, the bad, the average. And the show is sponsored by VIE Healthcare Consulting, the leading advisory and analytics firm helping hospitals accelerate their cost savings and margin improvement goals. You can learn more about VIE Healthcare at V-I-E-healthcare.com. Rich, you've got a lot more to share so let's continue the discussion.

Rich (12:52):

Great. And you mentioned of the GPOs, and number three on our list here is the GPO purchased services contracts. We hear it all the time, the GPOs are covering it, we have it under GPO. But really when we dive into it and I feel a lot of leaders in the industry understand this as well, is that it's a little bit of a false sense of security with the GPO agreements.

Rich (13:11):

Because a lot of them are, when you look at the real difficult purchased services that are under a GPO agreement. A lot of times it's really the liability, the payment terms and the admin fees are really reflected on the GPO terms. But if there is no pricing, it's a snapshot in time.

Rich (13:28):

When that contract is put in place, then whatever that GPO relationship pricing would be is then put into contract and then it's done over, let's say five or seven years, and then there's a price increases over the course of that time. Now, if two years later the GPO negotiated a better deal, you don't get that better deal. That deal has already been done.

Rich (13:49):

So you got that deal snapshot in time, unless you now renegotiate at that point and then extend the agreement. So we have an example with one hospital that had the same vendor, multiple locations. And they had, I believe it was four different price schedules over the course of, actually it was more than seven years in this one category.

Rich (14:09):

The reason why was because each time they did agreement, they got that specific price and then it's CPI increases. Even though their pricing, once we got to renegotiate, it was about a 25% reduction across the board for the organization, aggregate 25 reduction because we were able to consolidate all the structures, put it more competitively, get it off the GPO paper and put a competitive agreement in place.

Rich (14:33):

This allowed them to now reset. But when we're walking into it, leader in the supply chain was saying, "Well, these are all under GPO. We should be good." But again, once we consolidated everything, and when I'm saying consolidate, we're not even talking about different vendors, we're talking about the same vendor, we're just consolidating the contracts.

Rich (14:50):

It was about a 25% reduction. So that's one that we hear a lot. One of the other areas, number four, we put on our list is benchmarking by contract alone. And I think this is one of the ones that is getting more and more common just because of the challenges getting invoices, the challenges of getting line-item details, and data reports. So people are just saying, "Now just send me your contract on benchmarking," which is a major red flag if anyone's doing this for you.

Lisa (15:14):

It's actually horrifying. Because there's so much that's not on the contract. And we hear it often, "Just send the contract and we'll benchmark," and we're completely perplexed when we hear this is done. And you'll give specific details, again, it's the shortcut. Right?

Lisa (15:34):

It's because it takes so much work to roll up your sleeves, get a 12 to 18-month line-item spend map. And it's a matter of just doing something — but leaving a whole host of opportunities left unreviewed. But go ahead, Rich.

Rich (15:49):

And this is not a scientific no number, but I would say about 90, 95% of the contracts, the agreements that we get for our clients are incomplete. So they're missing amendments, there's fees on the invoices that under the contract. Or there's services that are being performed, they are not on or vice versa. They're services on the contract that are not on the invoices. They're not even being performed by the organization. It's always a few steps to get the contracts.

Rich (16:14):

And like you said, when we look at it, and we'll go through it again. Just kind of later, we'll go through the best standard, how to really do it. But you mentioned, getting the invoices. Obviously, invoices will tell you very clearly what contracts you need. Because we have contracts and then we say, "All right, this is..." And then we look at the invoices and it's completely different. Right?

Rich (16:30):

"Wait, hold on. There's something off here." So benchmarking by contract alone, again, we had one client that gave us the contract. We're waiting on the invoices. So we, again, we looked at the contract right away and we're looking at it, we're like, "Oh, this might probably not going to be an opportunity." It's maybe may be a $10,000 opportunity.

Rich (16:47):

It's about a $250,000 spend we saw on the AP spend report and we're like, "Oh, it's about a 10, maybe $15,000 opportunity." We see the invoices. Ends up being about $190,000 cost reduction. What happened was in the biggest... I

mean, there's multiple issues with it, but the biggest one was the CPI increases. Contract had a CPI cap. Right. But the vendor was charging significantly higher than that each year.

Rich (17:10):

So if we didn't get the invoices, we would've been put this on, okay. Well, it's a smaller opportunity. As soon as we got it. As soon as we saw the invoice and matched it up with the contract, we're like, "Oh, wow." I mean, when we brought it to the supply chain leader, he really didn't believe us. He's like, "How could it be $190,000 opportunity on a $250,000 spend?"

Lisa (17:30):

He thought he picked the wrong company to help him with purchased services.

Rich (17:33):

Exactly. So yeah, I know, that was a great one, but it actually was. It ended up being right. Yeah. I mean, I think we got just under 200,000. So again, just things that you want to keep an eye on is benchmarking, and now this one is, I would say even worse, the benchmarking by contract alone. Right. So if you had to choose between benchmarking by contract alone and benchmarking by metrics, I would definitely go with the contract alone.

Lisa (17:59):

Absolutely.

Rich (18:00):

So we call it actually benchmarking by bad metrics. Right? Let's just call what it is. Right? So bed size, net patient revenues, there's a whole handful of, oh, you have three hospitals in health system, therefore this. Or you have this many... It's without seeing the contract and the invoices, if anyone's telling you what the opportunity is, then you should probably just walk away.

Lisa (18:22):

Yeah. And what I find most alarming is we get questions. Well, how are you benchmarking by ratios or how are you benchmarking in comparison? So I always take a step back. I'm like, "Do you mean how do we benchmark purchased services by a category by bed size or net patient revenues?"

Lisa (18:41):

And they're like, "Well, yeah, how are you doing that? We don't do that at all." You wouldn't do that for your orthopedic or for any PPIs. And you're going to talk in a minute, Rich, the specificity, why you would never do that. But we have now hospitals coming to us that promises were made by these benchmarking by metrics or ratios.

Lisa (19:03):

And they were told this to their CFO and the CFO is saying, "Wait a minute, what's going on here? We have opportunity and you're not getting it." And it's just such a terrible way, the thinking is completely false. I feel so bad that now the industry's been sold on ratio benchmarking. And you're going to give some examples which are fantastic.

Rich (19:25):

Yeah. Exactly. And sometimes it gives a false sense of security, but also it just misleads, right? And we know a lot of supply chain leaderships that, they handed an opportunity report and they just can't believe that there's someone would put those numbers down, right?

Rich (19:36):

So like regular medical waste, an example, you're comparing organizations by these metrics. But one organization, it gets picked up at the loading dock. The other one, the actual vendor goes to the floors to pick it up. Which one's going to be more expensive? I mean, it just makes sense. Right. But you can't see that from a spend.

Rich (19:52):

You can't see that from a bed size, right? You would need to actually get into the weeds to understand what the difference is. And it's a big cost difference between someone just having go to the doctor to pick it up as opposed to now I have to go to every floor to pick it up, right? People in dialysis is another one, right?

Rich (20:06):

If organizations have a dialysis suite, others don't. But if you have a dialysis suite, you could have multiple patients there doing two-one-ones. So you have one tech, two beds, right? As opposed to go on one-on-one bedside.

What's going to be more expensive? Obviously, the bedside. Language service. And I mentioned before, so organization has committed to VRI.

Rich (20:25):

So let's say, anywhere between 69% of their translation services are video, they want to have a iPad in each low location. Obviously, that's going to be more expensive than just over the phone interpretation in those locations. Right? And then another step on that, we know organizations that have certified staff that are there full-time just for translation.

So how do you compare one that has, let's say, 10 certified staff verse one that has none? You wouldn't know that by the data, you wouldn't know that by the bed size, you wouldn't know that by the total spend or the net patient revenues. We had another example, our client, they had over 100 beds that they had converted to office space.

Rich (20:59):

Now they left the 100 beds available from a CMS standpoint, right. Because obviously it's harder to get the beds back to reduce them. Because they felt at some point they might need them in the future to flex, but now you're comparing them to somebody else even though these 100 beds really don't exist. So those are ones that are really red flags.

Rich (21:19):

Now the other ones that kind of give you a little bit of, again, false sense security. Or a targeted benchmarking will not do is the sixth one which is benchmarking by a few key areas, which makes sense sometimes. It's that 20-80 rule, right? Example like food nutrition, the majority of them are based on the food rebates, management fee and the fringe rate.

But you're missing a whole area cost if you're not doing a full P&L, right? Those administrative buckets have a lot of cost in there. You got to look for it, including the GPO fees. Hemodialysis, we've mentioned before it's 201. But if you don't have those hours, there's other fees hours operation, right? There's a big difference between regular hours, Monday through Friday, 9:00 to 5:00 and regular hours, Monday through Saturday 9:00 to 6:00.

Rich (22:03):

And then the last one is the tricky one, which is there's a new vendor, new space, which automatically most time benchmarking, no opportunity. But

there's ways of breaking down a new agreement, a new service, by their cost to be able to see what is driving it to be able to provide opportunities to reduce those costs.

Rich (22:20):

So those are the ones that we look at. Those are the standards within the industry now and verse what we do which is, Lisa, you mentioned before, putting that baseline together that 12 to 18 months of invoices, right? Creating an invoice analysis and then comparing it and understanding the contract.

So it's not, like I said, not the line items, but there's all these other fees embedded into the terms and conditions. And how does that compare to really look at and first get and establish that baseline. Once the baseline's established, that it's putting your report together and then the questions and talking points to the frontline team. Right?

Rich (22:53):

This is not a one-time event. There's multiple steps within a complete benchmark analysis because again, there's so many things that you can be learned on the front lines that you need to and you have to have conversations with them to really understand what's going on.

And then once that's pulled in and that information, then you develop the whole strategy, not only from gaining internal leadership support, but also the engagement of the vendor. So this is a holistic type approach to a purchased services benchmark. And that is the best standard now in the industry.

Lisa (23:22):

Yes. Rich, it's like doing the work on the front end, which is a lot of work on the front end, but the rewards on the back end are 10X — versus trying to have some kind of very tech trying to fit this purchased services in a box and then doing it quickly and then not reaping the rewards on the end. It's actually a flipped approach. But Rich, we could talk about this probably for another hour.

Lisa (23:47):

What I'd be really interested in doing is you have this great thought leadership that you've put together, we're going to include this on the show notes.

Thank you for being on the show. If you want to learn more about VIEs work and Rich's work and purchased services and PPIs, please reach out to me or you can reach out to Rich on LinkedIn, Richard Dormer.

Lisa (24:07):

Thank you for listening to The Healthcare Leadership Experience Radio Show on Healthcare NOW Radio. I'm Lisa Miller, the host. Please join us every day at 5:00 AM, 1:00 PM and 9:00 PM.

Rich, it's been great having you on the show, you truly are an industry expert in purchased services. Thank you for being on the show.

Lisa (24:26):

And we look forward to having you. Again, we've got a couple more shows with you joining us. It's always content-heavy, very informative. So thank you.

And you can listen to other great radio shows on Healthcare Radio now like Virtual Shift and Payment Matters. And if you've got a topic you'd us to talk about, please reach out to me.

We look forward to having you on other shows. Thank you.

Voiceover (24:51):

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The Healthcare Leadership Experience Radio Show is the think differently communication for healthcare leaders, and we are honored to have you tune in.

Join us next week for another episode of The Healthcare Leadership Experience Radio Show.

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 RICHARD DORMER

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.