

Deloitte.

Healthcare Provider Supply Chain

Outsourcing in the Provider
Environment

August 2011



Deloitte.

Provider Outsourcing

Outsourcing services are a growing trend for providers – the success of your outsourced programs are dependant on your ability to maintain a hands-on approach of managing these services

Today's Objective

- Outline the economic environment impacting Providers
- Discuss the drivers leading to an increase in the need for these services
- Describe the types of services that are being outsourced
- Review Pros and Cons related to outsourcing
- Provide key lessons learned for outsourcing

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Deloitte. **Market Forces Impacting Providers**

Unprecedented market forces are simultaneously exerting significant pressure on non-labor expenses...

Providers are responding by radically reducing operational costs

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Deloitte. **Non-Labor Expense Trends**

Recent Client Example
Total Expenses per Adjusted Admission


Non-labor expenses are beginning to eclipse labor expenses and are becoming a key driver of provider expense reduction efforts

Non-labor expenses include Supplies, Pharmaceuticals, Purchased Services, & Employee Benefits

Recent Client Example
Non-Labor GL Expense

Market factors are driving the increased spend in healthcare for purchased services, a majority of that increase is in the outsourcing of services

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Deloitte.	Market Factors
<p>Changes to the healthcare landscape are driving the increase spend in purchase services</p>	
	<ul style="list-style-type: none"> • Expansion of outsourcing activities in clinical, ancillary, and support functions • Rising cost and corresponding recognition of employee health benefits as a purchased service • Historical reluctance to outsource – commitment to community • Introduction of new medical device and pharmaceutical technologies and therapies • General inflation of physician preference items & specialty drugs
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Deloitte.	Outsourcing Examples																																				
<p>Healthcare providers are turning to outsourcing solutions in areas that go far beyond traditional Support Services</p>																																					
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Deloitte. **Pros and Cons of Outsourcing**


There are several critical success factors to managing an outsourcing solution

PROs	CONS
Provides structure for rapid improvement	Loss of direct control of the enterprise
Enhanced management capabilities	Usually cannot hire management staff from outsourcer
Access to technology for managing operations	Transitioning back to "in house" can be difficult due to non-ownership of technology and data
Reduces the impact of local talent shortages	May not be able to hire outsourcer staff if relationship is severed
Ability to adjust for volume fluctuations in some agreements	May eliminate part time positions that are needed
May allow for movement from union to non-union environment	May result in negative employee morale

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Deloitte. **Lessons Learned**

There are several critical "Lessons Learned" that can guide you in your future efforts related to outsourcing



- You can outsource the function – you CANNOT outsource accountability for the future
- The outsourcer's "feet on the ground" will make or break you
- Outsourcer contract paper is ALWAYS written in their favor
- Perform due-diligence on the market and competitors
- Utilize resources to negotiate – Peer network, clinical experts, independent consultants
- Perform old-fashioned detective work
- Involve procurement in contracting discussions

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- **What Happened**

- Demanded and got the outsourcer's P&L for operations (over budget, price increases leading to customer migration, higher revenue)
- Reviewed the Outsourcer's Annual Reports for profitability (healthcare major growth industry, extremely profitable in this sector)

- **Background**

- At the end of Year 1 of 5 year Outsource contract
- Claim that hospital volumes impacted agreement
- Outsourcer demands \$500K in compensation as a result of volume
- Cafeteria revenues driven from employees vs. community

- **The Results**

- Did not pay a dime!!!!

- **Lesson Learned**

- Do not abdicate accountability
- Know your market/vendor