Saving The Best For Last: Categorizing Purchased Services

UPMC LIFE CHANGING MEDICINE

2014 PURCHASED **SERVICES** SUMMIT

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UPMC Health System Environment: At-A-Glance

21 Hospitals with 5000+ beds

9 UPMC Urgent Care locations and 3 Children's Express Care centers

UPMC Centers for Rehab Services with 51 outpatient sites

UPMC Home Care 483,000 visits

5,000+ Credentialed MDs

UPMC Senior Communities 18 facilities with 2,400+ beds/units

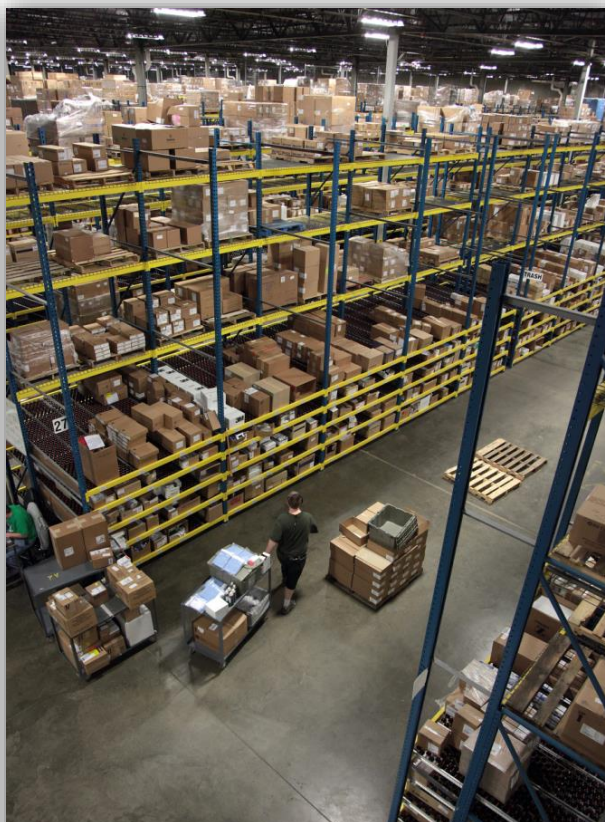**10,300 STAT MedEvac transports**

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UPMC Supply Chain Environment: At-A-Glance

Materials Management
750+ PAR Carts

UPMC Biotronics
165,000+ devices

UPMC Consolidated Service Center
~4,000 SKUs & $300M Turnover
~7,600 Delivery Locations

UPMC eMarketplace
~6,000 requestors + ~3,000 approvers

Employee Transit
5,800 employees / day

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Gartner Supply Chain Top 25
Supply Chain Excellence in Action

AHRMM
Association for Healthcare Resource & Materials Management of the American Hospital Association
Advancing the Healthcare Supply Chain
The Award for Healthcare Supply Chain Innovation
2012

BEST HOSPITALS
U.S.News & WORLD REPORT
HONOR ROLL 2011-12

STAR PERFORMERS 2011 SUPPLY CHAIN MANAGEMENT DEPT. OF THE YEAR

HEALTHCARE PURCHASING NEWS
2012 SCM Dept of Year

24x7 MAGAZINE • 24x7 MAGAZINE
BEST BIOMEDICAL DEPARTMENT
2013

IDN Summit 2011
National Award Winner(s)
for Efficiency & Innovation

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UPMC Supply Chain Environment: Services

Name	Service
BioTronics Inc.	Clinical Engineering
Prodigo Solutions	SCM Technology
Affiliation Program	Support of Non-UPMC Entities
HC Pharmacy	Pharmacy SCM Services
CPAK	Pharmacy Packaging Services
Pharmacy Operations	Robotic Packaging
Clinical Equipment	Specialty Bed & Equipment Distribution
Employee Transit	Transportation Services
Moving & Storage	Asset Optimization

Name	Service
Materials Management	Onsite Supply Optimization
Distribution	Warehouse Services
Sourcing & Contracting	Cost & Risk Management
Buying	Product & Service Acquisition
Consulting	Project Management
Systems Support	PeopleSoft Support
Accounts Payable	Funds Disbursement
Supplier Relations	Diversity & Local Growth
Value Analysis	Evaluate Clinical Efficacy w/ Costs

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"Goods can be returned when they fail to perform, purchased services cannot."

- Somebody Smart

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Managing Purchased Services requires mature SCM dept. because *they are more COMPLEX than supply agreements*

More COMPLEX because….?

- Because services spend usually lacks specifications
- Because the purchasing occurs outside of purchasing
- Because services spend is smaller and more fragmented
- Because services spend doesn't the attention or support of senior leadership…Political / cultural challenges
- Because the work the suppliers do is undocumented, unknown, unrecorded…a mystery
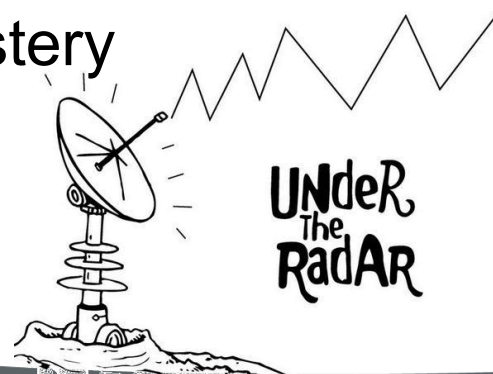
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Managing Purchased Services requires mature SCM dept. because *they are HARDER TO MANAGE* than supply agmts

HARDER TO MANAGE because….?

- Have to define the intangibles.

- Have to find/qualify new suppliers

- Have to measure "acceptable performance"

- Have to write a comprehensive statement of work against unfamiliar technical data / unfamiliar with work performed

- Have to navigate through Suppliers "moral hazard"
  - desire to withhold information to protect / increase profit
  - desire to withhold information to protect competitive advantage

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Employment Numbers Since 1939
Service Industries versus Manufacturing

dshort.com
September 2011

Services Don't Come w/Part Numbers - Importance of SOW

- Outsourcing arrangements driving services growth & outsourcing requires detailed descriptions of supplier activities

- Where details aren't known (machine maintenance) hourly rates are established and also categories or tiers of spend (high, med, low or imaging vs biomed)

- Each of the elements of a SOW represents a cost element to the contractor - What does it mean to "mop the floor"?

- **Buyers will tend to over-specify** and thus drive up costs unknowingly.

- **Suppliers will prefer to under-specify** and thus give them flexibility…ability to improve margins.

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Purchased Services Comparison – Product vs Services

Typical PRODUCT Procurement	Typical SERVICES Procurement
Sourcing can be complex, but drawings and specifications are available for suppliers to determine client need	Sourcing of services is extremely complex since services contain multiple and highly variable attributes. No specs or drawings are given suppliers to assist in determining pricing or client-need
Evaluation of products is facilitated by drawings & detailed specifications. Samples can be collected to ensure quality and specifications are met	Successful evaluation requires evaluating complex service and pricing configuration as well as cross-functional and cross-enterprise collaboration
Visibility of spend through ERP systems allows spend to be more easily tracked. Items have part numbers	Many companies do not have visibility of the item-level detail for their spend. No part numbers exist to simplify tracking.

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Saving The Best for Last: Managing Purchased Services
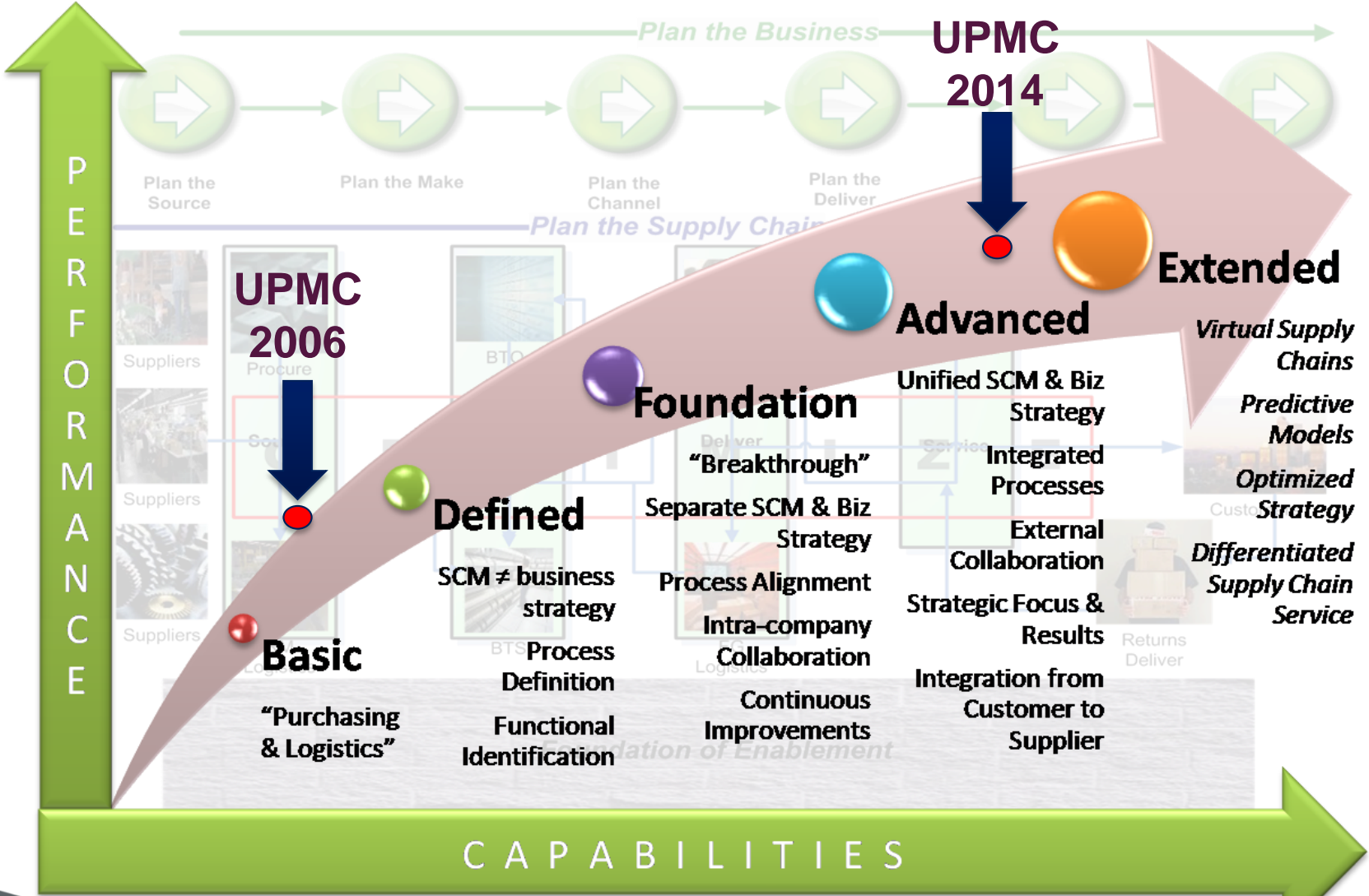
Image source: thesupplychaincenter.com

- Five (5) categories of purchased services
  1. **Personal Services** (technical editing, translation, appraisals)
  2. **Professional Services** (consultants, engineers, legal services, medical research)
  3. **Support Services** (janitorial, landscaping, security)
  4. **Personnel (HR) Services** (temporary labor, employee counseling, etc.)
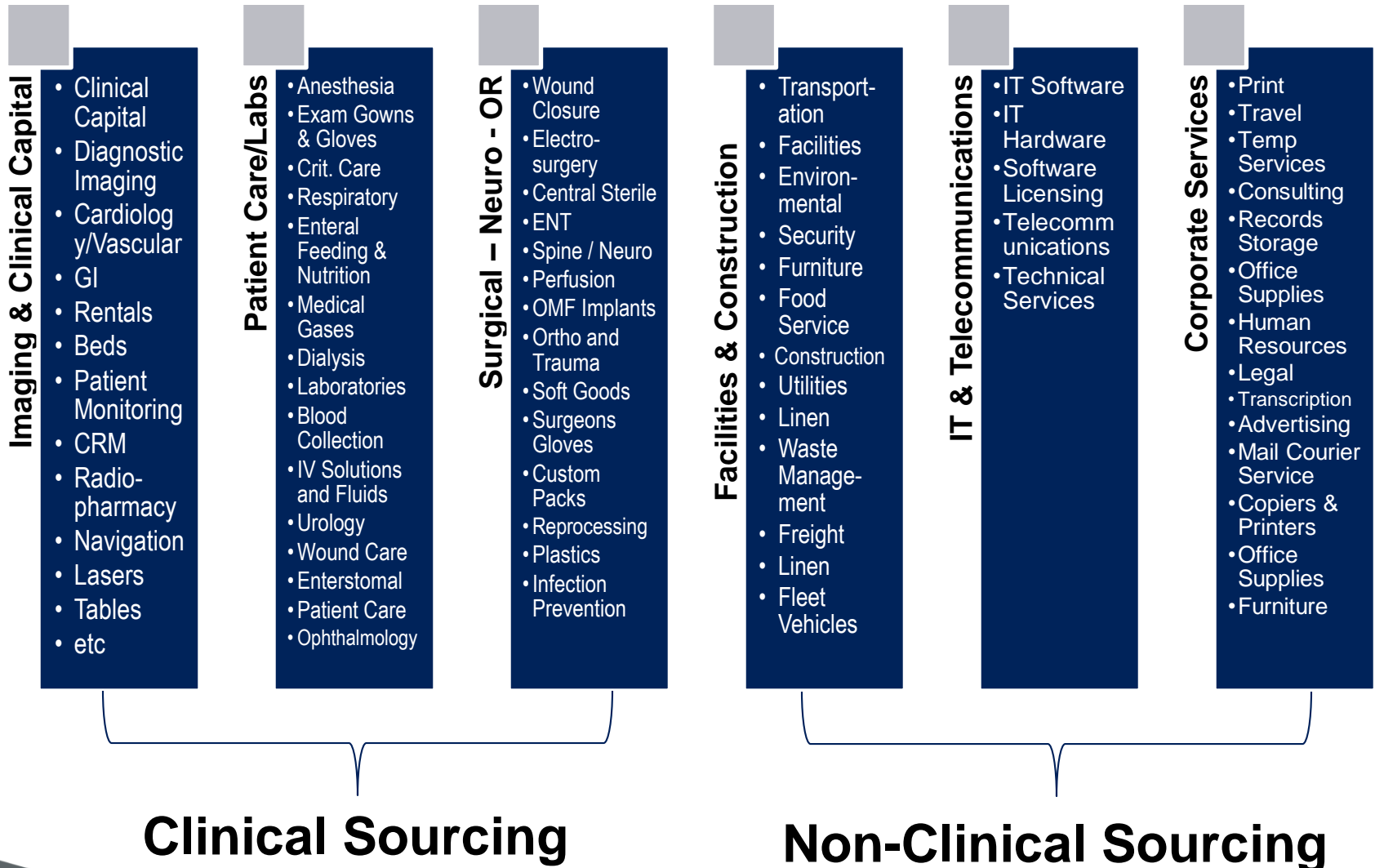 5. **Construction Services** (architects, painters, electricians)

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UPMC's Purchased Services Categorization

CODE	LONG DESCRIPTION
PUR00	Other Services
PUR01	Costs of developing an ad (photography and voice talent and video production etc.)
PUR02	Services related to the removal of Asbestos.
PUR04	Fees paid to a third party agency to recoup outstanding receivables
PUR05	Engagements for which ISD is purchasing expert advice on strategic, operational, or non
PUR06	Services to support financial related business and functional processes, including audit, accounting, investment, tax, risk, insurance, etc.
PUR07	Services to support specific expertise related business and functional processes, including change & talent management, strategic development, business design, best practices, etc. (Accenture, AD Little, McKinsey, Hackett, Booz Allen)
PUR09	Contracted external delivery and mail services. Includes OCE, Medspeed, Fedex, UPS etc
PUR10	Patient dialysis services outsourced to a third party.
PUR11	Third party services purchased to manage or staff a dietary department or cafeteria including management, cooks, cafeteria staff and
PUR12	Cost of recruiting personnel including advertising costs and loan forgiveness programs etc.
PUR13	Facility housekeeping services provided by an outside company / third party.
PUR14	Facility laundry services provided by an outside company/third party.
PUR16	Medical imaging services.
PUR17	Costs of photographic media used for medical purposes.
PUR18	Temporary Services
PUR19	All storage services, record retention & processes fees purchased from a third party. Inludes Iron Mountain, BRM, etc.
PUR20	Physical therapy services provided by an outside, third party vendor.
PUR21	Services provided by an outside company / third party to maintain or repair buildings/facilities & related building equipment. Examples include HVAC & Elevator maintenance & repairs, Landscaping, Snow removal and Window washing services.
PUR22	Cost of external Radiology services.
PUR23	Blood bank services including blood typing and cross matching and supplies and computer services etc.
PUR24	Nonpatient transportation services including shuttle services, chartered bus transportation, limousine services, Zip cars etc…
PUR25	Expenditures for Patient transportation including ambulances, taxi fees, bus fare etc.
PUR26	Fixed fee service agreement/contract to maintain facilities, plant and building related equipment.
PUR27	Information technology related services provided by an outside company / third party. Examples include Triad Solutions, LogixGuru, Flexible Business Systems, Medsys Group, Summa Technologies, AEC Group, Compucom, Advantage IQ and Movero Inc.
PUR28	Occupational therapy services provided by an outside, third party vendor.
PUR29	Respiratory therapy services provided by an outside, third party vendor.
PUR30	Speech therapy services provided by an outside, third party vendor
PUR31	Other Clinical services provided by an outside, third party vendor where no specific CAT code exists.
PUR32	Other NonClinical services provided by an outside, third party vendor where no specific CAT code exists

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- 10 Purchased Services Categories Represent 97% of Spend

- Despite Years of Work non-PO spend is still nearly as large as PO Spend

- Significant supplier fragmentation remains

Laundry, 2%
Clinical Services, Imaging, 1%
Transportation, Patient, 1%
Medical Imaging, 1%
Housekeeping / Cleaning, 6%
Consulting,Financial, 8%
Consulting, IT, 31%
Consulting, HR, 14%
Advertising, 14%
Facilities Maintenance, 21%

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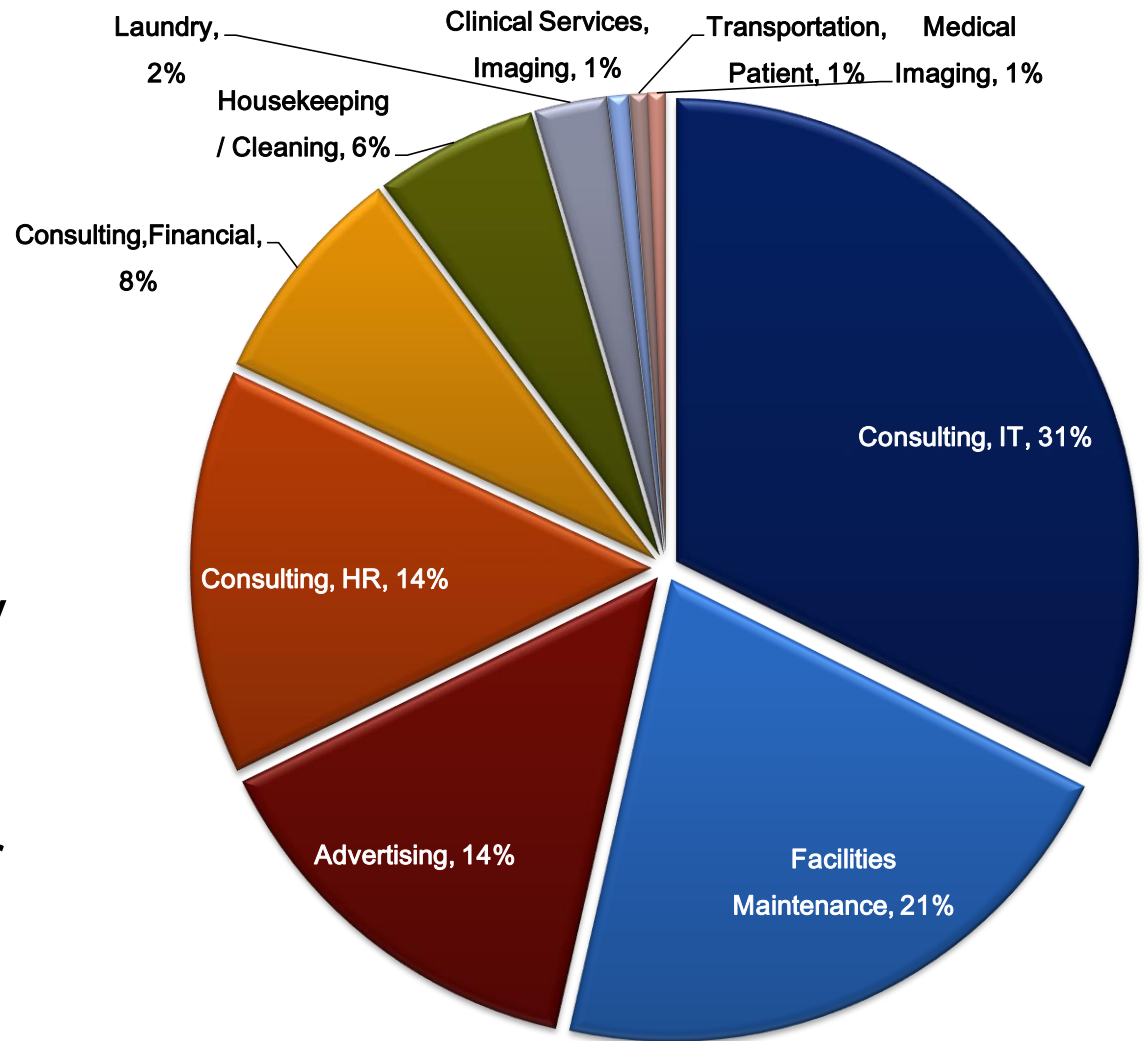
Strategic Sourcing – Integrated Category Teams

Imaging & Clinical Capital
- Clinical Capital
- Diagnostic Imaging
- Cardiology/Vascular
- GI
- Rentals
- Beds
- Patient Monitoring
- CRM
- Radio-pharmacy
- Navigation
- Lasers
- Tables
- etc

Patient Care/Labs
- Anesthesia
- Exam Gowns & Gloves
- Crit. Care
- Respiratory
- Enteral Feeding & Nutrition
- Medical Gases
- Dialysis
- Laboratories
- Blood Collection
- IV Solutions and Fluids
- Urology
- Wound Care
- Enterstomal
- Patient Care
- Ophthalmology

Surgical – Neuro - OR
- Wound Closure
- Electro-surgery
- Central Sterile
- ENT
- Spine / Neuro
- Perfusion
- OMF Implants
- Ortho and Trauma
- Soft Goods
- Surgeons Gloves
- Custom Packs
- Reprocessing
- Plastics
- Infection Prevention

Facilities & Construction
- Transport-ation
- Facilities
- Environ-mental
- Security
- Furniture
- Food Service
- Construction
- Utilities
- Linen
- Waste Manage-ment
- Freight
- Linen
- Fleet Vehicles

IT & Telecommunications
- IT Software
- IT Hardware
- Software Licensing
- Telecommunications
- Technical Services

Corporate Services
- Print
- Travel
- Temp Services
- Consulting
- Records Storage
- Office Supplies
- Human Resources
- Legal
- Transcription
- Advertising
- Mail Courier Service
- Copiers & Printers
- Office Supplies
- Furniture

Clinical Sourcing

Non-Clinical Sourcing

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The Service

- Repair & PM of 500+ elevators

The Suppliers

- 2 nationally known suppliers

The Spend

- $2.5M annually

The Stakeholders

- Facilities Mgmt & Real Estate

The Solution

- Create 9 Zones & New Supplier

The Savings

- **35% Savings - $800k+**

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The Service

- Lithotripsy for kidney stones

The Suppliers

- 6 suppliers + internal service

The Spend

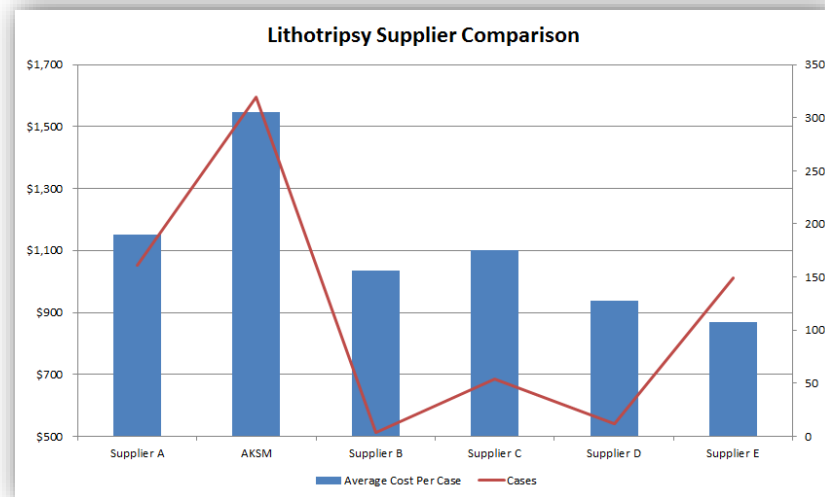- $1.1M of $2.3M category

The Stakeholders

- Urologists, OR staff, President

The Solution

- Consolidate 2 Regions/Suppliers

The Savings

- **27% Savings - $300k+**

Lithotripsy Supplier Comparison

Legend: Average Cost Per Case, Cases

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Typical characteristics of Purchased Services

- High reliance on 3rd party service providers

- Lack of industry subject matter expertise (high use of consultants)

- Limited ability to leverage spend

- Lack of Supply Chain Management capability

- Variation in Quality of execution

- Lack of consistency across large portfolios

- Limited use of technology to manage and track supplier performance

- Often completely under control of budget owners

- Budget owners don't "need" SCM help

- If SCM owners aren't SME, viewed as hurtful rather than helpful

- Buyers lack "legitimate power" via policy or signing authority

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- Reduce # of suppliers
- Bundle services procured corporation wide
- Compare prices internally (supplier vs supplier + make/buy analysis)
- Introduce target costing
- Restructure relationship
  - Establish preferred suppliers
  - Build partnerships/interdependencies/strategic alliances
- Optimize processes
  - Deploy technology / optimize interfaces
  - Integrate supply chain into activity
  - Standardize SLA, KPI and SOWs
- Improve Service Specifications
  - Develop performance standards
  - Reduce service variations
  - Analyze service value delivered

SOLUTIONS ☑

PROBLEMS ☐

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- Services are a more difficult/complex buy than supplies

- Top management often "values" direct purchasing more than indirect purchasing and thus put their most experienced sourcing people on direct items.

- Reputation and experience of the supplier is more important in purchased services

- Purchased services can often offer larger savings as a % of spend than direct materials

- Increased competition brings savings but understanding your SOW and adjusting the cost drivers can save more

- **Lack of knowledge, transparency, and *trust* between buyer and supplier leads to increased costs for BOTH!**

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THANK YOU

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