Is outsourcing the right strategy to support organizational scale?

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Outsourcing decisions must be well-informed and align with broader strategic goals, as well current market considerations

Many industries have achieved economies of scale through consolidation, integration and innovation. Healthcare, however, struggles to match those gains amid rampant provider system expansion. Variation in resource use, episode costs and outcomes persist in systems of all sizes.

Urgency to find additional or alternate avenues to overcome such shortfalls is palpable given the extreme workforce and margin pressure with which healthcare provider systems are currently grappling. KaufmanHall's June *National Hospital Flash Report* paints a challenging picture, with margins midway through the year "cumulatively negative" and operating margins specifically down more than 45% versus 2021.[1]

The *Flash Report* also shows the toll of ongoing labor churn, citing a labor cost spike of almost 14% year to date despite fewer hours worked.[1] It is this challenging environment that is leading system leaders to reevaluate the efficiency and value of expanding or engaging in outsourcing. Recognition of outsourcing's potential is evident even among provider system leaders long resistant to the concept.

"We're seeing a steady uptick among systems that never would have considered outsourcing previously. Labor shortages are one driver, but there's a new undercurrent that teams are beginning to accept there are functions within their organization for which they do not have sufficient internal expertise."

Don Stutsman
Senior Vice President Contract and Program Services
Vizient

Potential savings – and risk – vary across service categories

Incremental cost savings typically drive initial interest in outsourcing. The range varies across the half dozen categories of services that lend themselves to the approach — estimated at upwards of 10% for many services.[1] Savings guarantees are becoming more prevalent, and hefty in some areas like biomed where 15% is not uncommon, as observed by our experts among member healthcare providers that leverage group purchasing organization (GPO) agreements. See Table 1.

Table 1. Estimated savings for outsourced services achieved through GPO services agreements

Category	Examples	Potential savings (%)
Support services	Dietary, laundry, maintenance, healthcare technology management, housekeeping	8-22
Financial/administrative	Accounts payable, accreditation, benefits administration, billing/coding, collection agency	5-25
Plant and utilities	Alarm systems, generator/power, HVAC/chiller maintenance, telecommunications, utilities (gas, water, sewer, electricity)	7-19
Repair and maintenance	Clinical and biomedical equipment, surgical instrument repair	5-15
Ancillary services	Ambulance, blood products, translation, mobile imaging	5-15
Clinical services	Dialysis, durable medical equipment, hospitalists, pathology, perfusion, reference lab	10-20

Source: Vizient analysis of member spend data, 2020.

Coupled with that cost-cutting, though, is a degree of risk that must be weighed as part of due diligence. Ceding management of functions to a third party in a highly regulated environment poses inherent liabilities. Moreover, perceptions of patients, employees and community stakeholders can be adversely impacted by outsourcing decisions. And the chance of service disruption during crises (e.g., natural disasters, supply shortages) may be heightened without in-house control. These are important considerations as decisions to outsource versus manage internally can both be successful options. Vizient® has a multitude of resources that can assist in helping organizations land on the appropriate strategy.

A construct for assessing risk

A recent article in *Mayo Clinic Proceedings* offered a construct for assessing and discussing outsourcing by grouping services into the following four risk-weighted categories[2]:

Level 1 - Low Risk: nonclinical services such as laundry, foodservice, revenue cycle and coding review, patient transport, procurement, security and groundskeeping.

Level 2 - Medium Risk: support services such as IT, data analytics, facilities management, training and education, and laboratory.

Level 3 - Medium-High Risk: select support and clinical services such as environmental services, cybersecurity, surgery equipment sterilization, neuromonitoring, pharmacy, pathology, diagnostic imaging and dialysis.

Level 4 - High Risk: patient-facing clinical services such as physiotherapy and rehabilitation, emergency medicine, anesthesia, hospitalists and critical care services, and mental health services.

Traditional areas revisit outsourcing – with a close eye

Persistent workforce challenges and an accelerating shift to ambulatory settings have created headwinds not only for clinical operations but also for systems' back office and support functions.

This already is playing out in revenue cycle management (RCM), a well-established outsourcing target. High staff turnover and revenue pressure have left many organizations with inexperienced or temporary staff to address the most complex RCM functions across increasingly diverse care sites: denials and appeals management, prior authorization and payer relations. That reality is projected to fuel RCM outsourcing at a compound annual growth rate of 11.9% through 2023, rising from $11.7 billion in 2017 to $23 billion by the end of the period, according to *The Market Reports*.[3]

Apply a close eye: Organizations considering outsourcing RCM should thoroughly vet prospective partners to ensure reliability and service quality. There should also be measures in place to monitor service performance and ensure that RCM protocols adhere to requirements while maximizing reimbursement under new regulations, such as the No Surprises Act.

Human resources (HR) is another area seeing strong outsourcing growth amid high levels of labor market disruption and vacancy rates in both clinical and auxiliary staff. The need is particularly acute in an area such as environmental services and foodservices, especially in markets where hospitals struggle to compete on wages with companies such as Amazon. Much of the focus remains on specific functions, broken out in a recent survey of healthcare HR leaders.

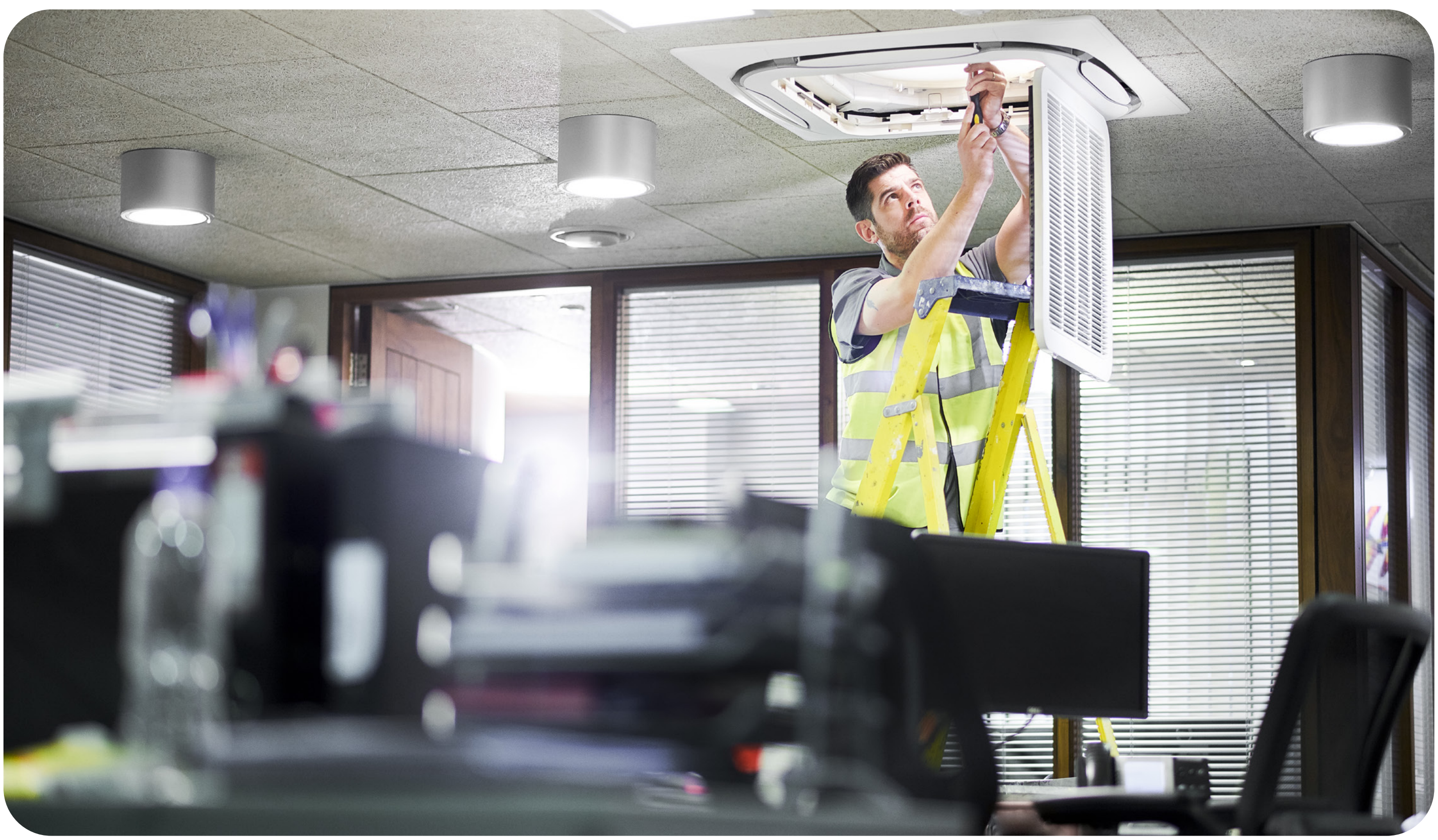
Of revenue cycle leaders who responded to a recent Healthcare Financial Management Association survey[4]:

22%

internally manage inpatient revenue cycle but outsource some outpatient or ancillary functions

Another 12%

plan to adopt this split in the future



HR outsourcing surges between 2017 and 2020 were most notably in these areas, according to a Black Book Research report[5]:

Decision factor: Such HR outsourcing carve-outs afford provider organizations the ability to scale without the same level of risk of comprehensive outsourcing arrangements.

74% database management and analytics

29% staff training and education

53% recruitment and placement services

26% payroll and benefits administration

> *"There's so much stress on the clinical side, a new approach to auxiliary workers must be a consideration. That's why we're seeing adoption of plug-and-play programs with unique tools to optimize the labor pool."*
>
> **Rob Hamilton**
> Associate Principal, Purchased Services, Vizient

Direct cost savings aren't always the end goal. Outsourcing models don't have to displace workers, but instead provide positive modifications for staff. Examples include:

- Environmental services offerings that deploy state-of-the-art auto-scrubbers, thus shifting labor costs from total head count to higher wages for a more efficient team
- Outsourced retail foodservices that stand up cashier-less markets and high-end vending walls to create appealing spaces for third-shift staff to recharge, improving staff satisfaction and retention
- Food insecurity programs that deploy registered dietitians in ambulatory sites and community settings to guide wellness and help curtail avoidable hospital admissions

Models expand to accommodate market changes

Yet, Vizient experts see growing acceptance of broader models. Those that enable full labor migration off the system payroll, for example, position vendors to bring unique recruiting expertise, innovation and overdue capital infusions. That helps redesign the work, upgrade the physical plant or enable more effective outreach across the care continuum.

Decision factors: is outsourcing the right strategy to support organizational scale?

Outsourcing decisions must be well-informed and aligned with the provider system's broader strategic goals. A systematic assessment must take into account operational capacity and key performance indicators at both the enterprise and unit level (e.g., RCM, HR, IT). Administrators should look beyond operating expenses of specific services; opportunity costs and downstream operational impact also must be considered.

Strategic considerations

Question: *Can the vendor partner provide expertise, systems or a talent pipeline the organization simply cannot?*

Considerations: When there are multiple potential partners, assess the degree to which each has a philosophy aligned with the organization on management style, performance management and other core staffing elements. Inquire if vendors will support efforts to purchase from local, minority-owned businesses.

Question: *What is the primary goal for outsourcing a particular function?*

Consideration: Cost reduction is not the sole measure of success. Consider more holistic metrics: staff and patient satisfaction, reduced vacancy rates, care continuity, expedited patient discharges, progress on health equity goals.

Question: *What would convey more benefit: wholesale outsourcing of a function or splintering off a subset?*

Consideration: Many potential partners can provide target solutions to support the organization; some operate strictly by running the full operation. Seek insights and guidance from peer organizations with similar characteristics to understand pros and cons of various outsourcing arrangements.

Question: *If the primary goal is cost savings, what expectation is realistic: incremental (5%-10%) or substantial (15%-20%)?*

Consideration: Consolidating multiple services and contracts under a single vendor may reduce the administrative burden of vendor management while yielding greater savings through scale.

Question: *What is the vendor partner's track record in specific services?*

Consideration: Clarify how performance will be measured, particularly for services with direct impact on operational or quality metrics (e.g., hospital acquired infections, O.R. turnaround time). Talk through the potential risks of outsourcing — delays, inconsistent quality, decreased employee or patient satisfaction — and mitigation strategies used by the vendor to prevent these. Assess the protocol for requesting increased staffing in response to changes in demand. Gauge the vendor's receptivity to assuming risks for contract performance.

Question: *Is the potential cost savings worth the risk based on organizational performance, goals and philosophy?*

Consideration: With a rough return on investment in hand, estimate potential cost and/or quality implications for the long haul. One key to long-term success is finding a cultural fit. Conduct scenario planning based on changes in demand, care model redesign, workforce shifts and other cases for change. Consider what it would take to bring the service back in-house if outsourcing doesn't work and how the organization might navigate that situation.

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