

The easiest way to save more in less time!

5 Key Requirements You Must Have In All Of Your Purchase Service Contracts

Too often, we consider our purchased service contract's boilerplate (or terms and conditions) to be routine, inconsequential, and legalese. On the contrary, this contract terminology is the backbone of your contracts, without which it would be difficult to resolve disputes, clarify your positions, and eliminate misunderstandings. Although there are many terms and conditions that are unique to your contracts, there are five key standard clauses that should be a constant in all of your purchased service contracts as follows:

1. Clearly Define Confidential Information: Be sure to detail exactly what comprises confidential information. Don't leave it to chance! For example, list exact company financial information covered, competitors' or your pricing, trade secrets, specialized purchasing processes, etc., in your contract terms and conditions as confidential. Also limit access to any confidential information by outlining the steps your supplier must take to prevent staff or third parties from accessing your confidential information.

2. Detail Your Materials and Quality Requirements: We all expect the highest quality products, services, and technologies from our contractors. However, unless you specify type, color, shape, size, weight, etc., you will not be able to hold your contractor accountable for their materials or minimum standard for quality. Further, we are frequently seeing manufacturers upgrading their products at a higher off-contract price when there are quality issues with their commodities. To remedy this situation, make sure you require that your manufacturers are not permitted to upgrade their products at a higher price without written permission from your contract department.

3. Include Conditions to Promote Contract Performance: To promote contract performance, include the following clauses in your contracts:

- ✓ Performance guarantees
- ✓ Financial penalties for delays
- ✓ Termination clauses for non-performance
- ✓ Suspension or termination clauses for delayed performance
- ✓ Escrow arrangement
- ✓ Performance bonds
- ✓ Rights that allow another supplier to "step in" where the current supplier has failed to deliver.

4. Plan for The End of Your Contract: Outline the circumstances under which parties can terminate a contract, and what happens once that termination occurs. For example, does the leased equipment need to be returned or can it be purchased for a dramatically discounted buy-out? Can the contractor's employees be hired by the hospital after the contract has been terminated? And if so, is there a fee to hire the contractor's employees?

5. Detail Who Owns Any Intellectually Property Developed: Your contractor may develop intellectual property for you (software, systems, procedures) while working on your project. Your contract needs to assign all rights of these work products to your company. Otherwise, your contractor could own this intellectual property.

Clearly defined contract terms and conditions are one of the most important responsibilities of a contract manager. If contract clauses are left to chance, your healthcare organization could be financially injured by the results. So, envision any problem that could occur with a new contract and make sure that it is remedied by specific terms and conditions. This way, there is little or no wiggle room if an issue arises with your contractor's services or performance.

P.S. If you would like more ideas like these to improve your purchased services contract management, e-mail me at bobpres@svahsolutions.com to receive my FREE e-book, "How to Rein In Your Multi-Million Dollar Purchased Services Before They Damage Your Bottom Line."





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A Value Analysis Policy Statement Is Mission Critical



One of the most powerful instruments to gain organization-wide acceptance for your Value Analysis Program is a "Value Analysis Policy Statement" (VAPS) issued from your Office of The President. Such a statement provides visible senior management support for your Value Analysis Program. It also signifies senior management's acceptance, endorsement and encouragement of your VA Program and defines its relationship with other departments, units, or subsidiaries. It will likewise contain your VA's goals, objectives, and guidelines for your Value Analysis Program. In essence, it is your road map for success. With this said, I have provided below an outline of the critical elements of what a typical VAPS should contain.

Value Analysis Policy Statement

It is the aim of XYZ Healthcare's Value Analysis Program to ensure that every current, future, and ongoing non-salary expense is functionally analyzed thereby reducing the cost of our products, services, and technologies to the lowest possible consistent with XYZ's Healthcare's quality and safety parameters. In doing so, the XYZ's Value Analysis Steering Committee and its operational VA Teams have the absolute authority to investigate all non-salary expense cost driver's organization wide. There will be no waivers from this policy for any department, unit, or subsidiary on its products, services our technologies purchases.

Value Analysis Steering Committee

The President of XYZ Healthcare has established the Value Analysis Steering Committee (VASC) to monitor, manage and oversee our organization-wide Value Analysis Program. The VASC will be a permanent committee chaired by XYZ's Chief Financial Officer. The core membership of the VASC will be: Value Analysis Team Administrative Representatives (or Champions), Value Analysis Team Leaders, Director of Quality Improvement, Director of Supply Chain Management, Vice President of Nursing, Vice President of Operations, Vice President of Medical Affairs, and Value Analysis Manager. Other VASC members will be appointed by the VASC's Chairperson as deemed necessary. The VASC will meet monthly to guide XYZ's Value Analysis Teams in their non-salary cost management efforts.

Value Analysis Program Manager

The Value Analysis Program Manager (VSPM) is responsible for the management of the day-to-day activities of XYZ's Value Analysis Program. The position fills the role of a coordinator, facilitator, communicator, evaluator, trainer, and resource to XYZ's Value Analysis Steering Committee and Value Analysis Teams. This position will report to the Vice President of Supply Chain Management and also have dotted line responsibility to the VASC Chairperson. The VSPM is responsible for coordinating all new purchases and group purchasing new or renewal contract evaluations with appropriate VA team.

Goals, Objectives and Purpose Of VAPS

The following goals, objectives, and purpose of your VAPS as directed by the Value Analysis Steering Committee Chairperson are as follows:

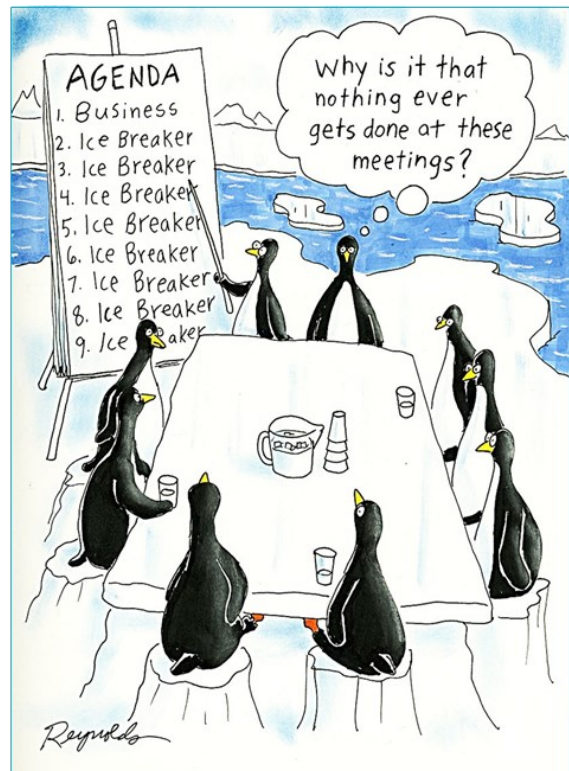
- ✓ To create a mechanism to functionally analyze all new, current, and recurring products, services, and technology purchases organization wide.
- ✓ To train XYZ's department heads and managers in the value analysis methodology.
- ✓ To motivate XYZ's department heads and managers to employ the VA methodology in their day-to-day operations.
- ✓ To assist supply chain management in the assessment of product failures, quality issues, product substitutions and the vetting of new products, services, or technology.
- ✓ To follow the direction of the Value Analysis Steering Committee Chairperson as he/she delegates new responsibilities to the Value Analysis Program Manager.

And to fulfill all other duties as decided by the Vice President of Supply Chain Management.

New Rules For All Products, Services and Technology Purchases

To institutionalize XYZ's healthcare organization's value analysis process, all new product, service, or technology purchase requests with an estimated \$25,000 annual spend are to be submitted to the Value Analysis Program Manager who will then triage the request to the appropriate XYZ's Value Analysis Team for evaluation. All new purchases under \$25,000 annual spend will be evaluated by the appropriate Supply Chain Category Contract Manager.

Time for a Break....



SVAH Solutions
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SAVINGS NOW NEWSLETTER

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Message from the Trenches

There Is More Supply Chain Savings Than Just GPO Price Savings



Naturally, you are going to take advantage of your GPO savings this year, but that might provide your healthcare organization with only a few percent points in savings and won't solve your underlying savings challenges. This is because your typical savings sources (price and standardization) have been diminishing over the years due to price maturity. We believe a better idea is to embrace a new savings strategy, supply utilization savings (SUM), as the third pillar of untapped supply chain savings for your healthcare organization. SUM isn't a quick fix or a slick marketing ploy, but a new category of supply expense savings that is real, sustainable, and underutilized. If you are truly interested in robust savings this year, we suggest you investigate SUM that can produce 7% to 15% supply expense savings for many years to come.



Robert W. Yokl and Robert T. Yokl
SVAH Senior Management Team

How To Improve Your GPO Savings Yields By A Factor of Ten



We here at SVAH have been predicting that your GPO savings will net out to about 1.9% in 2021. While this is a historic low point in GPO yields, it can be just the starting point for your healthcare

organization to grow your GPO savings yields by a factor of ten. The key here is to use your new and renewal GPO contracts as a catalyst to conduct comprehensive value analysis studies that include utilization management techniques. To give you an understanding of what I'm talking about, I'm going to share with you a synopsis of a Wound Care Value Analysis Study* one of our clients performed which employed a VA advanced strategy to save over \$3 million in supply chain savings in just 32 months.

Create a New Mindset for Value Analysis Studies

One of the keys to success at the outset of client hospital's Wound Care Value Analysis Study was to create a "new mindset" for its supply chain staff, physicians, clinicians, and department heads to spur them into action. The supply chain director calls this mindset "value-based thinking": taking a questioning, probing, and inquisitive approach as to why clinicians and staff do the things they do and focus on outcomes, not activity. It was especially important for the Value Analysis Program Manager to realize that it was okay for her to challenge the organization's long-held assumptions regarding the value of any given commodity.

This mindset brought about immediate financial and qualitative results on one of the hospital's first reinvented value analysis studies: wound care. Instead of signing off on a new wound care group purchasing contract offering, the hospital decided to pursue a value-based approach by reviewing the organization's wound care program in total in an attempt to reduce the organization's pressure ulcer rate. During the course of the initiative, the value analysis team reviewed its use of patient transfer devices, skin care and incontinent care products, ultra-absorbent pads, its bed-making process, and transport team training. In doing so, the organization uncovered inefficiencies (in the use of patient transfer devices, the efficacy of the skin care products, value mismatches with absorbent pads, and lack of a consistent process in bed making). Once these inefficiencies were corrected, the hospital

reduced its ulcer rate by 10 percent while reducing its wound care supply spend by \$262,000 annually.

The Importance of Measurement and Observation

Another big challenge that the hospital encountered was how and where to uncover supply utilization savings opportunities with the greatest ROI. Use of SVAH's Utilization Dashboard, in combination with supply chain reports, new technology requests, and other benchmark tools, enabled the hospital to quickly measure and identify areas where wasteful and inefficient consumption, misuse, misappropriation, and value mismatches in the healthcare organization's supply streams existed.

One example of this process is the hospital's supply chain staff working with the organization's quality workgroup to investigate utilization of ventilator-associated pneumonia (VAP) products. Initially, the workgroup established that the hospital was using standard oral kits, Hi/Lo ET tubes, 72-hour closed suction kits, and tape as part of its ventilator care processes. After the working group observed how these products were being employed and then evaluated their functionality, numerous changes and upgrades were made to its VAP product mix, which resulted in a \$45,000 annual supply increase. However, incidences of VAP were reduced to zero over the next 10 months, compared with 16 cases the prior year at an average cost per VAP incident of \$40,000. The work group estimated that \$640,000 (16 prior incidence per year x \$40,000) in cost avoidance was directly attributed to this value analysis study.

Integrate to Save

The same "value-based thinking" philosophy is integrated into the optimization of all of the hospital's group purchasing contracts, its strategic sourcing and contracting efforts, and its new technology assessment process, because the hospital believes these functions all correlate in some way with its supply expense management responsibilities. For this reason, the organization employs the same Value Analysis Program Manager for its utilization management projects, uses the same project reporting system to track all of its savings, and employs the same utilization management methodology to make all savings happen. The results have been significant. Over the past three years, the hospital has saved more than \$3 million by amalgamating all of its supply chain savings initiatives under one roof, so to speak.

(*) Source: Healthcare Cost Containment



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In this issue.....

5 Key Requirements You Must Have
In All Of Your Purchased Service
Contracts

Message from the Trenches
There Is More Supply Chain Savings
Than Just GPO Price Savings

A Value Analysis Policy Statement Is
Mission Critical

How To Improve Your GPO Savings
Yields By A Factor of Ten

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Service Cost With An
"Activity-Based Costing" System

Book Review
Humanocracy



Reduce All Of Your Purchased Service Cost With An "Activity-Based Costing" System

You could be leaving 11% to 18% or more in new non-labor savings on the table untouched. It's a little-known fact that most healthcare organizations either have overlooked their purchased savings opportunities or have only nibbled around the edges of these savings. What our "Activity-Based Costing" Purchased Service Advantage System can do for you is to ensure that every dollar that can be saved in this category of purchase will be saved beyond price and standardization alone. To learn more or schedule your demo visit www.SVAHSolutions.com.

Book Review

Creating Organizations As Amazing As The People Inside them

Unfortunately, most organizations, overburdened by bureaucracy, are sluggish and timid. In this age of upheaval, top-down power structures and rule-choked management systems are a liability. They crush creativity and stifle initiative. As leaders, employees, investors, and citizens, we deserve better. We need organizations that are bold, entrepreneurial, and as nimble as change itself. Hence this book.

In Humanocracy, Gary Hamel and Michele Zanini make a passionate, data-driven argument for excising bureaucracy and replacing it with something better. Drawing on more than a decade of research and packed with practical examples, Humanocracy lays out a detailed blueprint for creating organizations that are as inspired and ingenious as the human beings inside them. (Source: Amazon.com)

