

# REIGNING IN PURCHASED SERVICE SPEND WITH OWENS & MINOR



## BON SECOURS HEALTH SYSTEM ACHIEVES IMPRESSIVE SAVINGS AND NEW EFFICIENCIES

In organizations with more than 20,000 employees spread across multiple states, supply chain expenses can escalate quickly. Bon Secours Health System, a \$2.7 billion not-for-profit Catholic health system headquartered in Maryland, is no exception.

Around 2002, Bon Secours management made a commitment to prioritize cost savings across the 14 plus facility health system, particularly within the areas of supplies and purchased services which exceeded \$700 million in spend. Bon Secours initiated a detailed, ongoing review of its entire supply chain process to maximize savings and create new efficiencies.

To set the foundation for a more integrated supply chain, Bon Secours invested in a new enterprise resource planning (ERP) system

that afforded a highly refined purchase order process—enabling tighter controls around supply purchases. However, these changes could not effectively control Bon Secours' purchased services expenses, many of which were not acquired via purchase order.

These arrangements encompassed a universe of both clinical and non-clinical services, such as lithotripsy, perfusion, instrument repair, temporary staffing, financial services, laundry and copy services. "Purchased services transactions are ripe with savings opportunities—in any given year, hospitals can spend an equal or greater amount on purchased services than they do on supplies," says Angie Haggard, Vice President of OMSolutions. "And at Bon Secours, purchased services transactions were a known source of inefficiency."

National trends indicated that costs could be most easily reduced in areas such as IT outsourcing or instrument repair and maintenance, so Bon Secours set its sights on these mainstream areas as it expanded its search for savings. It quickly became clear that those efforts were not comprehensive enough to reach the desired savings targets.

According to David McCombs, the health system's Vice President of ERP & Supply Chain Operations, Bon Secours needed third-party help. "There was a lack of organized contracts, a lack of clear data around services and vendors, and we knew we did not have the scope of knowledge needed to identify and tackle the myriad of services."



**ANGIE HAGGARD** Vice President of OMSolutions

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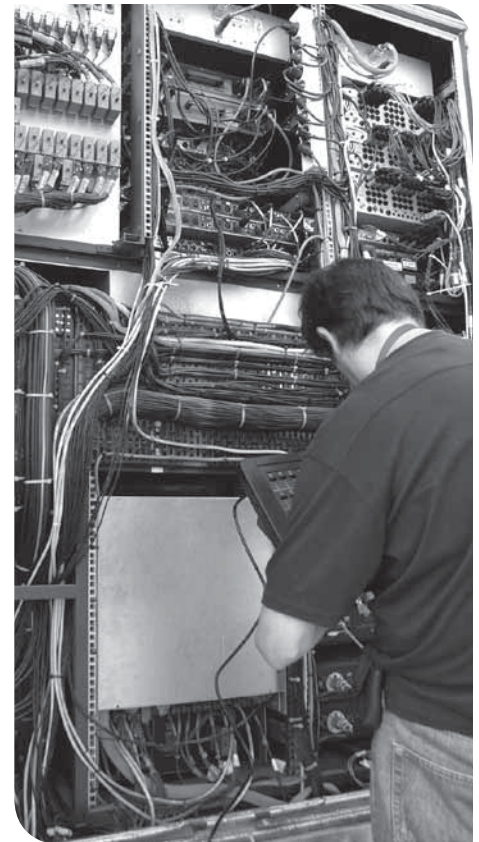
## AN UNEXPECTED PARTNERSHIP

A few years after its ERP implementation, Bon Secours issued a request for proposals with hopes of finding an expert to help coordinate a system-wide savings initiative. The most intriguing and unexpected proposal came from Owens & Minor, which Bon Secours had viewed solely as a distribution partner. The services arm of Owens & Minor—OMSolutions—put forth a holistic supply chain strategy with a major emphasis on purchased services savings.

“Initially, we had concerns as to whether Owens & Minor would have the spectrum of capabilities to address our portfolio of ser-

vices,” recalled McCombs. However, assured by the company’s track record and strong references, Bon Secours ultimately chose Owens & Minor as its partner.

“It quickly became clear that to succeed, an intimate knowledge of every possible service category would be secondary to a consistent technique, methodology and strong vendor interaction,” said McCombs. “Owens & Minor had an established reputation built upon these latter qualities.”



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# SURPRISING FINDINGS, VALUABLE LESSONS

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Early analysis from Owens & Minor revealed some startling findings. More than 40 percent of Bon Secours' services did not have any semblance of a contract with terms and conditions. System-wide, more than 140 people were managing purchased services.

The ownership of these arrangements was decentralized by department—a problem compounded by the presence of multiple facilities across different regions. Moreover, the health system had no formal infrastructure in place to manage its purchased services in any category, resulting in even more unreasonably high expenditures. Many services were being contracted with no clear ownership of the agreement.

Based on its deep knowledge of national and regional benchmarks, the OMSolutions team quickly identified areas of savings for Bon Secours. Consultants revealed a potential purchased services savings opportunity of 3 percent to 5 percent (or between \$4 million and \$7 million) of the total purchased services expenses—excluding physicians and insurance—within the first three months.

Identifying these opportunities is just one part of the big picture. At Owens & Minor, implementation can be the most important part of the exercise.

“In this process, it is possible to launch but never land,” said David McCombs. “We structured this engagement with Owens & Minor so the company not only identified the various savings opportunities, but confirmed they were implemented.”



**DAVID MCCOMBS** Bon Secours, Vice President of ERP & Supply Chain Operations

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## INCREASED SAVINGS AND EFFICIENCY

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A key to succeeding in this engagement was negotiating positive, mutually satisfying and respectful relationships with vendors and suppliers. It also required looking at arrangements through a different lens. For instance, most Bon Secours facilities had a standard fleet of company-owned vehicles used for numerous purposes. However, an increasing number of employees were using personal vehicles for work-related travel—for which Bon Secours paid mileage, on top of fleet maintenance and rising fuel expenses.

OMSolutions carefully analyzed the travel patterns of all relevant employees and determined where it was more cost-effective to pay mileage or to assign a company vehicle. OMSolutions also negotiated a fleet

maintenance and repair program with service vendors and a volume fuel discount. The result: more than \$200,000 in savings against a \$1 million spend.

Other purchased services achieved quick results as well. Imaging and image acquisition service contracts were restructured to yield more than \$800,000 in savings. Laundry, linen and elevator services saw dramatic cost reductions. Hundreds more contracts were modified to help generate even more savings.

The collaboration was remarkably successful. OMSolutions exceeded the original savings estimate of 3 percent to 5 percent of contracted services and to date has implemented \$9.9 million in total purchased services savings.

# SATISFIED VENDORS, POSITIVE OUTCOMES

Bon Secours administrators were also struck by the unexpected response of their vendors—who potentially stood to lose the most. “More than 90 percent of the vendors involved reacted positively,” said McCombs. “I was surprised with how receptive they were to getting contracts in place where none previously existed. They seemed to realize that doing so could secure business for them going forward.”

The partnership between Owens & Minor and Bon Secours has generated positive outcomes across the board. Bon Secours has saved millions by reducing inefficiencies in everything from clinical to laundry services. They now use a contract database created using Owens & Minor’s innovative WISDOM Gold technology tools—which ensures better management of purchased services into the future.” Together, the teams continue to work on more initiatives to maximize savings and create even more valuable efficiencies.

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## O&M/BON SECOURS PARTNERSHIP AT-A-GLANCE

With guidance from Owens & Minor, Bon Secours Health System achieved impressive savings and new efficiencies in its purchased services. To date, Owens & Minor has implemented \$9.9 million in total purchased services savings. Highlights include:

- Exceeded original savings target by more than \$2 million
- Achieved more than \$200,000 in savings for fleet management against a \$1 million spend
- Restructured imaging and image acquisition service contracts to yield more than \$800,000 in savings
- Achieved dramatic cost reductions in laundry, linen and elevator services



Owens & Minor is a healthcare supply chain management company and the nation’s leading distributor of national, name-brand medical-surgical supplies. We are dedicated to serving integrated healthcare systems and their affiliated sites, freestanding hospitals and surgery centers, group purchasing organizations, the federal government and consumers. Headquartered in Richmond, Virginia, where it was founded in 1882, this Fortune 500 company provides clinical inventory management, advanced logistics, leading-edge technology and supply chain consulting and outsourcing services.

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