

# Apples-to-Apples

You can benchmark purchased services... with the right information.

By Ben Bailey

Supply chain professionals typically use the term “benchmarking” to refer to comparing prices for med/surg supplies, devices or equipment with those of similar institutions. But when it comes to purchased services, can they use the same approach to benchmark pricing? Are purchased services able to be benchmarked at all?

The answer is “Yes” and “No.” True, there is no one-size benchmarking formula that fits all categories in purchased services. There are no manufacturer item numbers for easy comparison. And the common denominator can be difficult to establish. But benchmarking purchased services can be done – with a good information source and the right set of questions to ask.

## Challenges

Purchased services present unique benchmarking challenges. Here are six areas to scrutinize when benchmarking a purchased services category.

**Terms and Conditions** – In the medical gas category, like many other categories with a large capital investment from the supplier, benchmarking relies heavily on terms and conditions, such as length of agreement and termination clauses. For example, “out” clauses can make a difference: The easier it is to walk away from an agreement (that is, no penalties), the higher the price. Conversely, if you commit to a 10-year agreement, you will have better prices.

**Finding the Net Price Per Unit** – Contracting executives know that pricing for many purchased services categories is anything but transparent. Hidden fees and additional charges can easily erode anticipated savings. Using medical gas again as an example, factors such as rental rates, surcharges, delivery fees, tank size, valves, and whether the agreement includes cylinders AND bulk all affect net price per unit. Hospitals and health systems will benefit by requesting line item pricing and fee structures during the negotiation period.

**Limited Similarities** – With biomedical services, for instance, factors such as frequency of equipment use, age of equipment, current condition, and geography all impact the price of maintenance. Comparisons can be difficult as there are no two hospitals that have the same level of wear and tear on the same machine with the same distance from the repair technician.

## SIX AREAS TO SCRUTINIZE WHEN BENCHMARKING A PURCHASED SERVICES CATEGORY:

- #1 Terms & Conditions
- #2 Net Price Per Unit
- #3 Limited Similarities
- #4 Service Level Agreements
- #5 Geography
- #6 Political Landscape

**Service Level Agreements** – The food service category, often more than others, can be largely influenced by patient and staff satisfaction, with quality warranting a higher price per patient day. In this case, service line agreements are paramount, sometimes even more so than financial impact consideration. For example, temperature, friendliness (or lack thereof) of staff, number of meals served, accuracy of orders, timeliness of meal delivery, and the tastiness (or lack thereof) as determined through third-party patient surveys all impact the price per unit.

**Geography** – Your hospital's location can often affect the price you pay for purchased services. In the case of solid waste, for example, the farther the hospital is from where the container is collected, the higher the delivery charges. In the case of outsourced security, the level of security services needed in one facility (i.e., armed, unarmed, tenure, etc., which are all factors that affect price) may be determined by the crime statistics of a particular area or response time for local law enforcement.

**Political Landscape** – Lithotripsy pricing can depend on whether your urologists are private practice or employed. This variable alone may be the determining factor on whether or not you can move away from your current vendor and bring it in house by making a capital investment into a lithotripter. Urologists commonly are investors in mobile lithotripters and may be unwilling to switch.

## **An information source**

The factors listed above are just a few of the areas that Valify takes into consideration when performing a benchmarking review on either a high-level (KPI) basis or for a deeper analysis into contact terms and financial impacts.

Valify has been categorizing purchased services data since 2014 and has seen more purchased services transactions than anyone else in the industry—over \$360 billion in total spend categorized. Our categorization algorithms have grown smarter and faster at classifying spend. After, our expert analysts (many of whom have been with Valify from the beginning) continuously look for new patterns in the data to increase auto-matching capabilities within the technology. All categorization takes place in a matter of days and is refreshed monthly so that customers always have reliable, dynamic intel at their fingertips. Upon request Valify reviews contracts, invoices, and any other pertinent information to provide meaningful feedback and benchmarking insights.

Given the complexity of purchased services pricing and contracts, accurate benchmarking and good decision-making can only be done with reliable, solid data. With visibility into each facet of the respective service and a peer dataset with breadth and depth, you can turn benchmarking purchased services into a straightforward apples-to-apples proposition.

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*Ben Bailey is a director of client success-sourcing at Valify. Ben leads the Valify PinPoint Benchmarking program, helping clients assess their vendor agreements and accelerating their RFP process. Prior to Valify, Ben worked for MedAssets, where he managed the Analytics team with a contract portfolio of more than \$20B.*

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Valify's PinPoint Benchmarking process.