HEALTHCARE COST CONTAINMENT

A Growing Health System Contains Costs Through Outsourcing

An interview with Pamela Stoyanoff, Methodist Health System, by Laura Ramos Hegwer

Although facility directors initially were concerned about whether they would face employment loss, they were retained and experienced an improved reporting structure.

In this interview, Pamela Stoyanoff, executive vice president and COO, Methodist Health System, discusses her organization’s decision to outsource some facilities management services.

On her health system’s recent growth. Methodist Health System is a 10-hospital system — with an eleventh currently under construction — serving Texas’ Dallas-Fort Worth area. During the past decade, the health system has also expanded its reach to include more than 25 Family Health Centers, Urgent Care centers, telehealth services, and concierge services, with almost $2 billion in annual net revenue.

In October, Methodist Health System plans to break ground on a new 46-bed facility in the southern part of their market. The system also has purchased a hospital out of bankruptcy and opened several urgent care centers across the area.

This continued expansion is helping the organization remain competitive in a market dominated by even larger players. “We’ll never be the biggest, but we have
to keep growing to be relevant, visible, and accessible in our marketplace,” Stoyanoff says.

On the decision to partner with a vendor. Methodist Health System includes new as well as older facilities like their flagship hospital. For years, many of these older campuses struggled to stay on top of facilities issues, such as new equipment technologies and automation. And because facilities were managed at the local level, leaders were unable to leverage economies of scale and standardize across the system. “We had too many vendors, extremely limited automation, and different levels of expertise among facilities management leaders,” Stoyanoff says. This created opportunities for cost savings in real estate and facilities, which represents a material percent of the health system’s operating revenue.

Rather than creating a corporate function to oversee potential cost containment and operational improvement initiatives, leaders at Methodist Health System decided to partner with a facilities management vendor on five of their campuses.

On the beginning of the partnership. Eighteen months ago, the vendor placed a temporary director at the health system’s flagship hospital, where leaders had been struggling to fill an open facilities management director position. The temporary director helped uncover several major problems that had not been addressed under former leadership, including issues related to equipment maintenance, reporting, and labor management. “We learned from that experience that facilities management is not our area of expertise, and we didn’t know what we didn’t know,” Stoyanoff says.

After a few months of working with the temporary director—who ultimately became the leader of the program across the five campuses—leaders at Methodist Health System expanded their outsourcing agreement to include three more facilities.

Methodist Health System Projected Facility Management Savings

<table>
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<tr>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
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<tr>
<td>Targeted percentage over baseline savings by year</td>
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<tr>
<td>1%</td>
<td>6%</td>
<td>10%</td>
<td>13%</td>
<td>15%</td>
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Savings by the end of year 1 should be 1% as measured against the initial baseline.

Because the savings for years 1 and 2 accumulate, the total percentage savings by the end of year 2 should be 6% as measured against the initial baseline.

Because the savings for years 1 and 2 accumulate, the total percentage savings by the end of year 3 should be 10% as measured against the initial baseline.

Because the savings for years 1, 2, and 3 accumulate, the total percentage savings by the end of year 4 should be 13% as measured against the initial baseline.

Because the savings for years 1, 2, 3, and 4 accumulate, the total percentage savings by the end of year 5 should be 15% as measured against the initial baseline.

Source: JLL and Methodist Health System. Used with permission.
convinced that they were already doing a great job and did not see additional value from an outsourced model, Stoyanoff says.

In fact, the health system retained its existing facilities directors and staff but added several corporate-level positions as part of the management services agreement. Today, the local facilities directors report to the lead facility director at the flagship hospital as well as to their own facility president. So far, this matrix reporting structure has promoted greater sharing of best practices among staff, Stoyanoff says.

On early wins through contracting. Leaders at Methodist Health System have been working with their outsourcing partner on better contracting strategies to take advantage of national pricing on services and supplies, and to standardize when appropriate. For example, leaders have signed the health system’s first contract with a single vendor for basic maintenance products, such as light bulbs. Leaders also are working with their vendor to explore savings opportunities for landscape maintenance, elevator maintenance, and other services.

In the first several months of the vendor partnership, Methodist Health System saved $250,000 from better contracting practices. Since then, the organization and its vendor also have built the foundation for future initiatives, which Stoyanoff expects to generate $10 million in savings by the end of the five-year contract.

In addition, Methodist Health System’s outsourcing partner has introduced automated technology tools to issue work orders and handle facility maintenance issues more proactively and efficiently.

On advice for partnering with a vendor. Stoyanoff urges other hospital and health system leaders who are considering outsourcing facilities management or any other function to be transparent with staff from the outset.

She also suggests using a contract structure that puts the vendor at risk for its management fee if the company fails to meet specific metrics. “The contract needs to have enough teeth to bring to bear all of their high-level forces on your account,” she says.

Staying future-focused also is critical. “You have to have a long-term view,” Stoyanoff says. “Most of the savings aren’t going to come in the first year, but rather later. You have to have the patience to wait for that and make sure you are laying out the tools to achieve future savings.”

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