



## Applying Competitive Sourcing to Allina's Nutrition and Linen Services

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Allina Hospitals & Clinics in Minneapolis, MN, a system with 11 hospitals and 85 clinics, is strategically moving to a proactive approach for patient care encompassing prevention, wellness, chronic care management, and end of life care. Allina emphasizes the philosophical priorities of providing care while focusing on cost effectiveness and system efficiency.

### Challenge

In order to optimize hospital services with Allina's business strategies, hospital leadership identified Contract Services as a center of excellence with room for improvement, particularly in Nutrition and Linen Services. Primary considerations, which drove a number of significant decisions during the Competitive Sourcing initiative, included:

- Patient needs and quality of patient care
  - Staff needs and union requirements
  - Service levels and operational effectiveness
  - Best practices and centers of excellence
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## How Tefen Helped

Tefen worked side-by-side with Allina to improve their contract services using a Competitive Sourcing approach. This process served as the framework for the seven-month project.

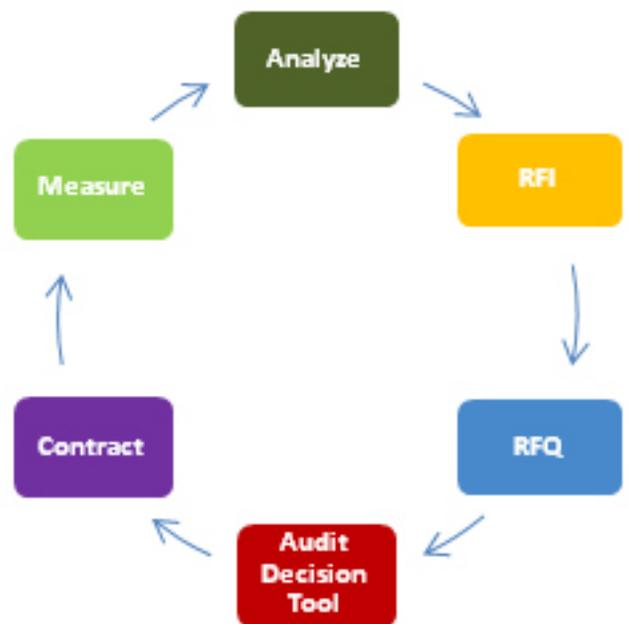
A scoping assessment to estimate benefits and establish performance baselines was carried out, allowing further insight into Allina's operations and challenges. This assessment included preliminary data analysis, observations, and interviews with key personnel to gain an initial understanding of the systems' historical performance. Major operational constraints tied to the de-centralized operating structure of the hospital system, lack of standardization, and limiting contract services prevented Allina from achieving ultimate goal of driving efficiency.

After the scoping, a 5 step process (Figure 1) was used to improve contract services.

*Analyze:* The analyze step was vital in developing and implementing a prioritized and integrated improvement roadmap to transform and standardize Allina's Contract Services. This roadmap detailed activities to be performed across several work streams, and started with the in-depth analysis phase for the highest priority work streams as determined using the 80/20 rule:

**Nutrition** – Service Contracts, Floor Stock Levels, and Internal Catering Levels

**Linen** – Product Selection, Product Utilization, and Inventory Levels



**Figure 1**

After the Analysis phase, the Tefen/Allina team worked with various service providers to make standardization improvements in the remaining major (non-Competitive Sourcing) work streams:

**Nutrition** – Floor Stock Reduction and Internal Catering Levels

**Linen** – Product Replacement, Product Utilization Levels, and Inventory Tracking

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Contrasting operational models emerged: Nutrition was completely outsourced with two providers servicing Allina's metro hospitals, and Linen was a quasi-in-house operation in the form of a Co-op servicing a number of hospital systems.

When planning for the implementation it became apparent that working with the Linen Co-op (a single source provider) would be more productive than coordinating and attempting to standardize two Nutrition service providers. Inconsistent contract terms and costs between the multiple providers stood out and became the most important differentiator between the operating models.

The difficulty of coordination, in conjunction with the desire to exercise more control and drive standardization in the Nutrition service area prompted Allina to examine the potential for a more effective operating model.

#### *Request for Proposal (RFP)*

An RFP for Nutrition services would shed light on the questions surrounding a leaner operating model for the department, as well as uncover and document deficiencies or developmental needs required to convert to an in-house operating model. The small number of players and the high degree of familiarity with their capabilities did in fact allow for skipping the RFI process.

Allina decided to issue an RFP for Nutrition Services and formed a Contract Committee to oversee and direct the process. Five companies expressed interest in responding to the RFP for Nutrition services.

For the RFP, specific steps were as follows:

- Prepared a standard Nutrition Services RFP explaining all desired services and qualities
- Issued bid request to existing and alternate service providers and communicated timeline
- Held a bidder conference call, and allowed time for clarification
- Standardized format allowed for equalizing responses to facilitate side-by-side comparison (emphasis upon financial considerations)

At this point, the feasibility of moving forward with the RFP was assessed. If the proposals received increased costs, the RFP would be canceled and focus would shift to converting operations to an in-house model.

That not being the case, the process continued as follows:

- Met with all qualified bidders, reviewed bids, and narrowed down the field to two finalists (based mostly on the financial metrics)
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- Negotiated with the finalists using equalized responses to further define and standardize the contract scope, and assessed finalists on qualitative measures (service and customer satisfaction levels)
- Advised the Executive Leadership Team in selection of a best-match provider (using both the qualitative and financial considerations)

Issuing the Nutrition Services RFP in a competitive bid environment resulted in proposals that promised to lower operating costs while increasing customer satisfaction; thus the option to convert to an in-house operation was abandoned. In keeping with Allina’s philosophical priorities, the vendor selected was not the lowest cost alternative. Instead, the Executive Leadership Team decided to trade efficiency for higher patient and staff satisfaction. This decision was based on the qualitative recommendation from the Contract Committee.

After applying the process we were able to draw parallels between competitive sourcing and in-house operations. Competitive sourcing allowed for increased efficiencies as they were negotiated, especially when economies of scale factor into the scenario. Accordingly, it is beneficial to standardize and simplify offerings to increase the scope of services. An in-house provider allows for more direct control, which may result in more immediate utilization and standardization improvements. In any case, moving to a single source provider and standardizing specifications, processes, and procedures affords the highest level of efficiency.

## Performance Excellence Delivered

Overall, Allina was able to see the following results:

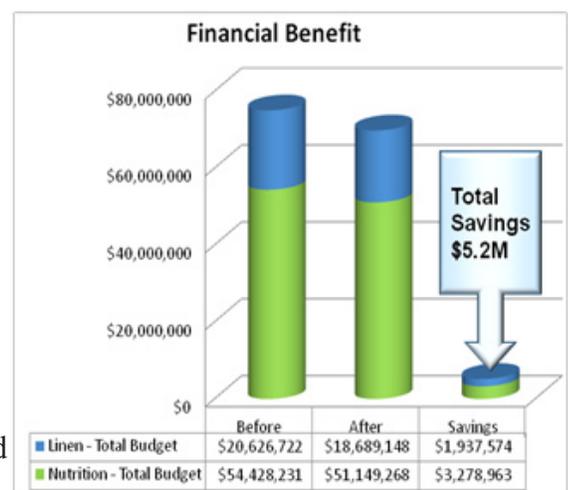
Non-Financial Benefits (applies to both in- and outsourced scenarios):

- Stronger relationship between the hospital system and contract service providers resulting in improved understanding of operational requirements
- Standardization of contract services policies across the four metro hospitals
- Model for sharing contract services best practices within the hospital system
- Improvement with policy compliance and interdepartmental cooperation by implementing sustainable solutions via best practice teams
- Increase of internal and external customer satisfaction levels

### Financial Benefits:

Cost reductions for Linen services were derived from standardization efforts (product replacement) and utilization improvements; indicative of the higher level of control the hospital system is able to exert on a partially owned provider they have a significant stake in.

87% of cost reductions for Nutrition services were derived from competitively sourcing the service, and negotiating the contract terms and level of service. 13% of the savings were derived from standardization efforts and utilization improvements, indicative of the reduced level of control the hospital system has over outsourced providers.



## About Tefen

Tefen is an international management consulting firm, committed to improving overall operational effectiveness for Fortune 500 companies around the world. The firm's main areas of focus include operations excellence, manufacturing, quality, customer service, research and development and supply chain management. With its "hands-on" approach philosophy, the company has achieved tremendous success in delivering quantifiable and value-driven results for its clients in a variety of industries, including healthcare, life sciences, general manufacturing, high-tech and financial services. All of Tefen's support programs are ISO 9001 certified. Tefen currently employs over 300 professionals worldwide.

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