MARKET INSIGHTS

The hospital leader's guide to 5 types of vendors and partners

As hospitals look to outsource or partner, the broad array of vendors and partners in the market can be difficult to navigate. Based on research with a variety of hospitals and health systems, we overview five guiding insights that will help your organization determine what kind of relationship best fits your needs. Then, this document explains five non-clinical partner and vendor archetypes, as well as use cases for each archetype.

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Read time – 10 minutes

Audience

- Hospitals and health systems

Advisory Board

Introduction

Industry pressures, including slim margins and workforce shortages, are causing hospitals and health systems to re-evaluate which core functions they retain in-house and which to outsource.

Once hospitals and health systems decide to look for an external vendor or partner, they face a broad array of choices. Some options are short-term or limited scope transactional deals. Others are long-term partnerships that include shared risk, strategic alignment, and a high degree of integration. Each option has use cases it is well suited for. But, knowing which vendor or partner type will work best for your hospital or health systems needs can be challenging.

To understand how hospitals and health systems should engage with non-clinical external partners and vendors, we conducted research with a variety of hospitals and health systems. This report provides the results of that research:

- We start by covering five guiding insights health systems must consider when making decisions about working with an external partner or vendor.
- Following, you'll find descriptions and use cases for five non-clinical external vendor or partner archetypes: consultant, partial-function outsourcing, full-function outsourcing, strategic partner, and hospital affiliation.

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5 guiding insights for working with vendors and partners



Autonomy

If giving up independence is a concern in pursing an external partnership, consider the risks of not partnering. In some situations, this could mean being acquired or not surviving long-term . Though partnering may mean giving up some business control, it can offer access to talent, technology, and negotiating leverage that is critical to maintaining long-term strategic control.

Question to consider:

- *Will we be able to maintain long-term independence without partnering?*



Cost

Cost savings is often the initial driver for a hospital or health system to look to outsource or partner, but cost cannot be reduced to a simple price tag. If an outsourcing arrangement or partnership doesn't immediately realize cost savings, consider the downstream effects. Look for not only financial benefits, but also growth opportunities or new strategic advantages.

Question to consider:

- *Which strategic advantages would be worth paying a premium for?*



Innovation

For long-term partnerships, you're making a bet on a partner for the future. In addition to evaluating current performance, health systems must believe in the partner's growth and innovation plan. Success a decade down the road may depend on a technology that hasn't yet been invented yet – so having confidence that the partner or long-term vendor will be on the leading edge of innovation is critical.

Question to consider:

- *What skills and support does our organization need to thrive in the changing healthcare landscape?*

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Management

One motivation to pursue outsourcing or external partnerships is to free up capacity. But managing an external party – and the accompanying internal changes – often takes more time and effort than hospitals or health systems expect.

Ratan Milevoj, Vice President of Innovation, Marketing, Communications, and Assistant Chief Strategy Officer at Valley Children's Healthcare shared that planning to work with a partner or vendor goes far beyond just hiring. She explained, "I think through not just my onboarding plan, but also a plan for how we are going to make sure the partner is successful in this endeavor."

Internal change management is also a critical element, especially when outsourcing or partnering may lead to layoffs or other major workforce changes. Some external partnerships may offer rebadging, which can avoid layoffs but is nonetheless a significant change that should be intentionally managed.

Question to consider:

- *Do we have the capacity and knowledge to manage an external partnership?*



Measuring success

It can be challenging to truly assess the success of a vendor when many external and internal teams work towards the same outcomes. As one hospital executive at a regional non-profit health system explained it, "we can understand what the topline revenue is, what the bottom-line profit is. We can look at the unit cost of each department that ultimately roll up into those two numbers, but it's harder to say, 'I'm going to outsource a piece of a function and evaluate how much of that value creation is provided by the partner.'"

Financial models and industry benchmarks can help create metrics -- but make sure you stay focused on the big picture. Hugh Jones, Senior Vice President and Chief Strategy Officer at Northern Light Health told us, "where it moves money around between partners, I care. But more broadly, I'm just about winning at the enterprise level. Let's not get wrapped around the axle trying to debate who did it."

Question to consider:

- *How will we measure the relationship's value? Which strategic priorities will be harder to measure?*

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5 external vendor and partner archetypes

	Archetype 1 **Consultant**	Archetype 2 **Partial-function outsourcing**	Archetype 3 **Full-function outsourcing**	Archetype 4 **Strategic partner**	Archetype 5 **Hospital affiliation**
DEFINITION	Strategy, insight, or industry knowledge to assist with a business goal.	Contracting specific processes or tasks to a third party.	Transferring an entire function or department to external partner.	Operational and strategic support, usually with multiple functions.	Clinical orgs sharing aspects of operations, services or resources.
SERVICE *Operational task or function(s)*		✓	✓	✓	✓ *
SCALE *Growth without proportional costs*			✓	✓	✓
STRATEGY *Knowledge and guidance*	✓			✓	✓
POTENTIAL BENEFITS	• Access to an external perspective • Ability to quickly increase capacity for short-term projects • Access to best practices for improving process or efficiency	• Option to select best-in-class partner for a specific task • Lower risk and quicker implementation • Organization retains internal control over rest of function	• Elimination of in-house operational and staffing expenses • Partner centrally manages multiple tasks, eliminating the need for coordination between them	• “Do it all” partner • Access to industry knowledge and network • Reputation association with industry leader • New capabilities via access to capital or technology	• Thought partnership • Reputation association with another hospital or health system • Clinical benefits • Improved patient access
CAUTIONS	• Potential for misalignment between the consultant’s approach and organizational context	• Administrative burden of overseeing multiple small partners • Maintaining connectivity within a function	• Potential staffing impacts (layoffs, rebadge) • Loss of internal expertise for a specific function • Maintaining organizational integration	• Potential staffing impacts (layoffs, rebadge) • Disruptions to existing workflows	• Anti-trust regulatory enforcement

** Hospital affiliations can include service, but sometimes are focused more exclusively on strategy and scale.*

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01 Consultant

ARCHETYPE IN BRIEF

When a partner sells a strategy, insight, or industry knowledge

Functional area addressed



Strategy

Consultants provide third-party strategic support and access to strategic expertise, but usually don't run an ongoing task/function on your behalf. An organization would use this archetype when expertise is needed for planning, strategy, innovation, or analysis.

How does this typically look?

Consultants are involved in tasks such as strategic planning, project management, process improvement, change management, training, and implementation support. When hiring a consulting firm, it's important to consider whether you will have the capacity to implement their suggestions.

Before hiring a consulting firm, it is important for a health system to find the right fit between the firm's areas of expertise and their own unique organizational context.

Consultants can be used in conjunction with other types of vendors – advising on or directing the implementation of the work of another type of vendor. While this can be effective, it may require additional management to ensure smooth interaction between both parties, since they are accountable to you and not each other.

Sample use cases

- An organization wants tactical and strategic support for implementation of a new EHR.
- An organization wants analysis and recommendations to improve the efficiency and cost of their facilities management.

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02 Partial-function outsourcing

ARCHETYPE IN BRIEF

Contracting specific processes or tasks to a third party

Functional area addressed



Service

Partial-function outsourcing is commonly used when specialized resources, technology, or talent needed makes one part of a function difficult or unattractive to perform in-house.

How does this typically look?

Compared to full-function outsourcing, strategic partnerships, and hospital affiliations, outsourcing only one part of a function generally means lower cost, less risk, and more flexibility. Given the vendor's ability to specialize in a specific task, there will likely be faster implementation time, nearer-term realization of ROI, and more internal control. However, too many disjointed tasks can result in poor communication and collaboration across the function. It can also create management challenges when dealing with multiple small contracts or vendors.

Sample use cases

- Outsourcing recruitment of specific roles if a challenging labor market is making some roles hard to fill. The rest of the HR function is performing well so continues to remain in-house.

CASE IN BRIEF

Dayton Children's Hospital wanted to improve their revenue cycle analytics. Greg Dillard, the Executive Director of Finance, Revenue Cycle, and Managed Care, explained, "We wanted to get to the next level, and to do better, we had to have to have better information." Initially, Dayton Children's decided to create an internal team to run revenue cycle analytics - but building this team was more difficult than anticipated. While they had the leadership expertise to run an analytics function, they needed staff who understood SQL, could work within the EPIC infrastructure, and understood revenue cycle. When they did find candidates who fit the unique required skill sets, they found that candidates were going elsewhere due to the high demand by other employers. Instead of building in house, Dayton Children's hired a specialized vendor, Visiquate, to run revenue cycle analytics in partnership with them.

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03 Full-function outsourcing

ARCHETYPE IN BRIEF

Transferring an entire end-to-end function or department to external vendor

Functional area addressed



Service



Scale

In this archetype, an entire function is run by a third party. This archetype is a good fit when the opportunity for improvement is across an entire function, not a specific task.

How does this typically look?

In this archetype, a vendor manages an entire function, like revenue cycle or IT. The vendor often brings their own technologies, processes, and workforce to complete the work. Here, the vendor is responsible for coordinating all tasks within the function, which can reduce the management effort needed in-house. However, it's still critical to think about how the outsourced function will integrate with the rest of the organization.

It's important to closely monitor the vendor over time to ensure the arrangement is meeting your goals. It can be labor and cost intensive to rebuild a function after outsourcing, so identifying and troubleshooting challenges early can save long-term effort.

Sample use cases

- An organization knows their revenue cycle function is underperforming industry benchmarks, so decides to outsource the entire function to a partner.
- An organization is having trouble hiring IT staff with the skills needed to support their long-term growth plan, so decides to bring in a partner to run the IT function.

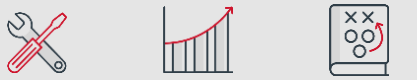
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04 Strategic partner

ARCHETYPE IN BRIEF

A combination of strategic and operational support, usually with multiple functions.

Functional area addressed



Service Scale Strategy

This archetype offers management of multiple functions, paired with strategic business support. An organization would use this model to advance a long-term growth plan, stabilize finances, access capital, optimize non-clinical functions, and/or avoid acquisition.

How does this typically look?

Strategic partnerships are long-term, high involvement, and high contract value. Companies who offer strategic partnerships typically have broad industry expertise and multidimensional capabilities. The strategic partner becomes embedded in the hospital or health system in both a functional and strategic capacity. This combination can enable innovation and growth.

An advantage of this model is that the partner is a "one stop shop" for many needs, minimizing inter-partner management required with the other archetypes. While the partner provides efficiencies by taking on multiple functions, there is no guarantee that every task will be “best of breed.”

Given the scope of their involvement, there is a high potential for rebadging, layoffs, or disruptions to existing workflows.

Sample use cases

- An organization has stable finances in the present but is not prepared to thrive in the future as the healthcare landscape changes.
- An organization with distressed finances is looking to create scale to achieve better margins.

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CASE IN BRIEF

The Challenge: Industry leading aspirations; rural hospital realities

Northern Light Health, a 10-hospital system covering the primarily rural state of Maine, is a system with the desire to be on the leading edge of innovation – but thin margins and staffing pressures made that difficult. In years prior, Northern Light had grown their system by acquiring small hospitals in the area. However, their system remained sub-scale to continue their traditional high levels of investment in technology and related talent. Without strategic investments in these areas, they knew that they would struggle to continue growing. So, they decided to partner externally.

Among the partnership archetypes they considered was affiliating with another health system. However, affiliating with other major systems in an already consolidated state likely would have created regulatory challenges from the FTC. Affiliating with systems out of state did not make sense from a mission perspective – since Northern Light is focused on delivering high-quality rural, community health, they wanted a partner who had a complementary focus.

Northern Light also recognized an option of hiring multiple vendors to provide access to technology and talent. While this would have allowed them to choose the best-of-breed vendor for each specific area, they were concerned about the difficulties of integrating multiple partners.

> “We were predisposed to preserving integration and alignment when working across functions. They're very permeable silos – they can't just be off ignoring each other.”
>
> **Hugh Jones**
> **Chief Strategy Officer**
> Northern Light Health

What they did: Strategic agreement with the Optum Market Performance Partnership

Northern Light decided that a strategic partner was the best option for their needs. They partnered with Optum[1] through the Optum Market Performance Partnership. Optum now performs Northern Light’s revenue cycle management, IT services, and select other administrative functions. As part of this agreement, Optum rebadged existing Northern Light employees in those functions to leverage local talent and system knowledge. Beyond just functional support, Optum has brought resources to strategic projects, supported creation of more efficient decision-making structures, and implemented rigorous portfolio management.

Optum and Northern Light share operational decision-making within each function. Importantly, Northern Light maintains control of their strategy and mission. Their Chief Strategy Officer, Hugh Jones emphasized, “All strategic direction level decisions remain Northern Light's, not Optum’s.”

Lessons learned: Invest in change

Hiring a partner to help your organization innovate and keep pace with the market can give access to the resources, expertise, and technology necessary. But don’t underestimate how hard change remains. Hugh Jones explains, “it's not magic… we partnered with someone to help us change, but at the end of the day, we still have to do the hard work of changing.”

1. Advisory Board is a subsidiary of Optum. All Advisory Board research, expert perspectives, and recommendations remain independent.

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05 Hospital affiliation

ARCHETYPE IN BRIEF

Clinical organizations sharing aspects of operations, services or resources

Functional area addressed


Service


Scale


Strategy

In this archetype, two or more hospitals or health systems partner with one another. Typically, the primary drivers to create an affiliation are clinical (expanding clinical services, improving patient access to specialized care) or reputational (enhancing the hospital's brand and market presence) in nature. However, they may also involve shared operational resources and expertise.

How does this typically look?

Most hospital affiliations are clinical partnerships, and they may be long-term or project-based (affiliating for a specific project such as implementing a joint clinical program or conducting research).

The combined size of two hospitals/health systems working together has many advantages, for example, access to larger patient populations, increased negotiating power as a combined entity, or the ability to make shared investments in technology or innovation.

However, depending on the structure of the agreement, they may face anti-trust regulatory challenges.

Sample use cases

- A physician group and a hospital affiliate share medical records to improve care coordination.
- An organization wants access to specialty service lines of best-in-class care that they do not have in-house, so they affiliate with another hospital.

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