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Outsourcing : A Company Perspective

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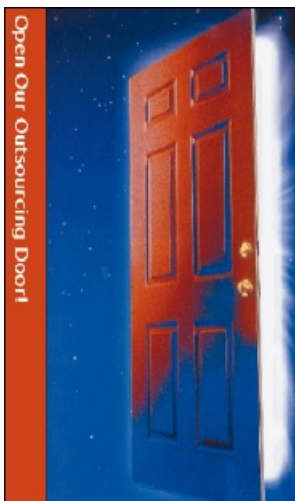
Three pilot projects by Olympus offer insight to the challenges, issues and benefits of outsourcing endoscopy departments. The agreements vary from management of supplies to completely managed endoscopy departments and illustrate the possibilities for cooperation between supplier and customer that can offer benefits to both partners.

From a medical device manufacturer point of view, "outsourcing support" represents a significant strategic challenge. There are excellent success stories of suppliers taking over part of the value-added chain of their customer such as the automobile industry.

Vertical integration (a strategy for growth, in which a company develops by seeking ownership of, or some measure of control over, its distribution systems) between a supplier and its customer can lead to substantial benefits for both partners.

Of course in the more fragmented market places of health care and medical device business, both parties face a number of rather critical issues. How do we avoid competing with our own customers? How do we manage potential conflicts of interest? How do we avoid being completely dependent?

There are innumerable considerations that a company must address to meet the increasing demand for outsourcing partnerships. We will focus on a brief review of three concrete pilot projects in Germany, Hungary and Poland where Olympus has entered into outsourcing partnerships in gastrointestinal endoscopy. Each of the three outsourcing pilot projects features a different level of vertical integration, and consequently, different levels of benefits for the hospitals.



In Germany, Olympus offers "Managed Supply Services" for endoscopy departments. In setting up such services, the company first commissions an independent, complete analysis of the processes in the hospital's endoscopy department – case mix, work flow, material consumption etc. The results are carefully discussed with all relevant stakeholders in the hospital, also taking into account strategic developments that the hospital or the department will undergo in the near or mid-term future. The company then finally works out a Managed Supply Services package which includes the necessary number of endoscopic equipment systems, the appropriate number of endoscopic reprocessing systems, a projected quantity mix of accessories and consumables, and, if applicable, software for workflow automation, data handling and interfacing with the HIS (Hospital Information System). Depending on the hospital's specific need, the package may include provision of personnel to manage the bundled supply process, or even provide first-level maintenance of the investment goods.

Based on the projected case mix, the cost for these Managed Supply Services are then broken down and charged by the company per
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endoscopy procedure. Usually, the company and the hospital also agree on an annual review of the case-mix and the associated costs per procedure. The benefits for the hospital are obvious:

- Immediate, one-step upgrade to state-of-the-art equipment,
- No capital outlay or cash-flow impact (resolving budget issues),
- Based on an independent process analysis (which show the optimisation potential)
- Provides the hospital-controlling department with cost-per-procedure data (important for DRG-type cost management purposes).

Of course, the hospital will have to consider other trade-offs associated with such a partnership, which inherently will be rather long-term (three to five years). For example, are the risks of having only one major supplier for the Endoscopy Department balanced against the advantages of reducing the number of suppliers to be handled by the Purchasing Department? In Germany, since its inception about two years ago, the Olympus Managed Supply Services offer has already convinced more than ten hospitals to enter into such partnerships with Olympus, and we expect to contract with a further 20 in the next one or two years.



In Hungary, Olympus has been operating, for about one year, a pilot project in "Subcontracted Hospital Management Services" for gastrointestinal endoscopy. Here the company is running, through a specially set up local subsidiary, a complete endoscopy department – from patient scheduling, through outpatient procedures, up to discharge and follow-up. The company's contract partner is the hospital and/or its owner (usually the city or county). While the medical doctors are providing their services on a consultancy basis, nurses are "body-leased" from the hospital. Also, space and facilities are leased or purchased from the host hospital under the contract. Finally, in case of emergencies or if the patient needs to be hospitalised due to the endoscopic findings, the patient is

obviously transferred to the host hospital.

Olympus charges the hospital on a per-procedure basis, using the structure of the official reimbursement system. The benefits for the hospital and its owner are obvious, especially taking into account the low-budget Hungarian health care environment:

- Immediate, one-step upgrade to state-of-the-art equipment,
- No capital outlay or cash-flow impact,
- Attracts patient flow to the hospital, part of which will lead to additional in-patient reimbursements.

In addition to the pilot project mentioned, two more contracts are presently under discussion with local governments.

In Poland, Olympus has been running, for more than two years, a pilot project providing "Specialised Medical Services" in gastrointestinal endoscopy.

Similar to the Hungarian project structure, the medical doctors work on a consultancy basis, and space and facilities are leased from the host hospital.

In stark contrast to the Hungarian case, the contract partner of our designated Polish medical care subsidiary is not the host hospital, but we contract directly with sickness funds and/or insurance companies, or even with privately paying patients. Nurse personnel are employed by the Olympus medical care subsidiary, while emergency backups are subcontracted out to the host hospital or other hospitals nearby. Reimbursement is renegotiated annually with the major sickness funds (other contract partners follow this lead), including case-mix projections, point-value settings and payment terms.

Although the contracts cover all gastrointestinal endoscopy procedures in principle, it is understood and agreed, that the company operations will focus on specialised procedures. These are procedures that require additional, very expensive investment equipment (like X-Ray) or very special medical skills.

This allows negotiation of an attractive reimbursement mix with the sickness fund while avoiding competition of the Olympus Specialised Medical Services unit with other Olympus endoscopy customers in Poland.

In the Polish pilot project construction, the benefits are not only with the (host) hospital, but also with the payer organisation(s), and even with the local health care system at large, especially in view of its limited-budget environment.

These benefits include:

- Ability to provide, on the host hospital grounds and regional level, highly specialised endoscopy services (which were in scarce supply in Poland before),
- Use of specially skilled, highly motivated, and adequately compensated personnel,
- Use of state-of-the-art equipment,
- No capital outlay or cash-flow impact,
- Support to health care budget constraints by rapid migration to more cost-effective, high-tech outpatient treatment modalities.

In addition to the pilot operations outlined here, two more Specialised Medical Services arrangements are presently under consideration in Poland.

In the Olympus European headquarters, these local Medical Services activities are co-ordinated and further supported. Support examples include audits of medical practice or workflow efficiency. The knowledge gained is reinvested into research and development to provide better health services to society.

All of these concepts are based on a win-win situation for the hospital as well as Olympus. Both the hospital and the doctors are able to focus on their core competency of providing excellent healthcare services, Olympus is focussed on its core competence of professionally managing endoscopy.

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