

CODA

*Rationalizing Agency Purchasing*

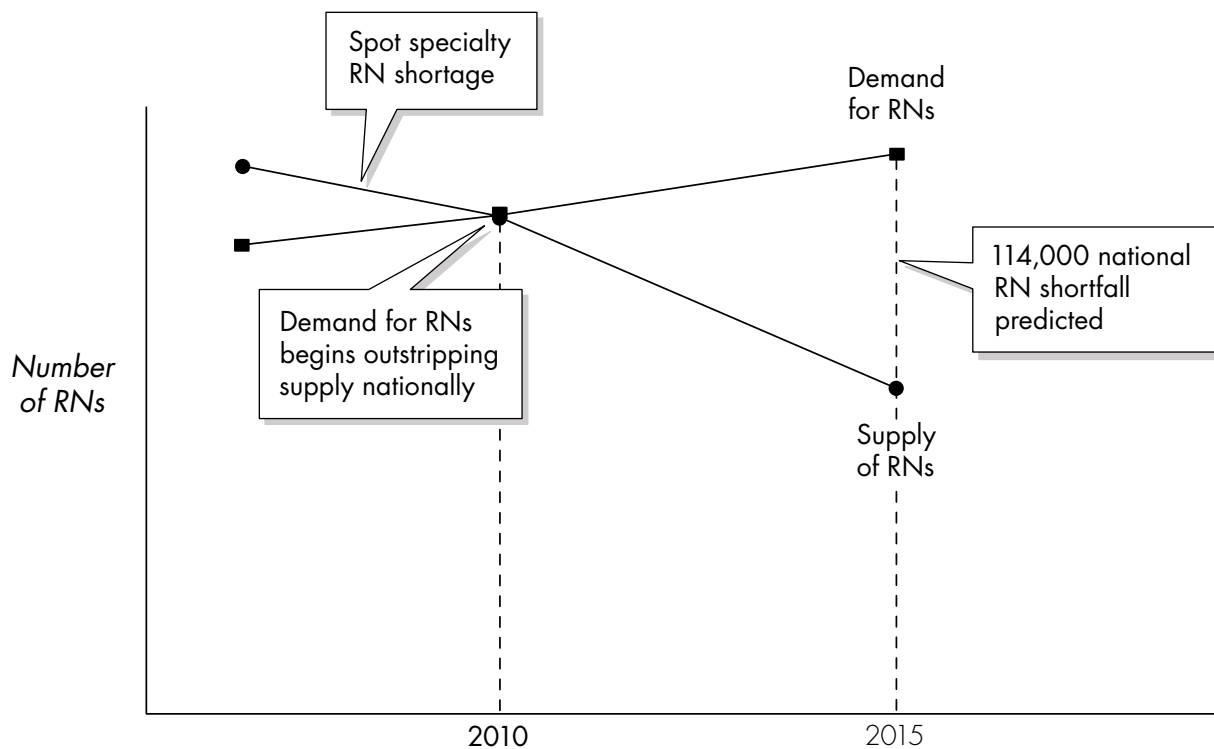
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### Even with better matching of staffing and demand, most hospitals will likely need to rely somewhat on agency nurses

Given the reality of the current and—for core nursing staff—growing nurse shortage, hospitals will likely face high vacancy rates and therefore the ongoing need for significant levels of supplemental labor. Even the best efforts to build larger, better float pools and utilize nurse time more efficiently are unlikely to prevent all use of agency nurses. Members will be well served to improve purchasing and contracting practices with agencies to achieve any available savings.

#### Projected Future RN Shortfall

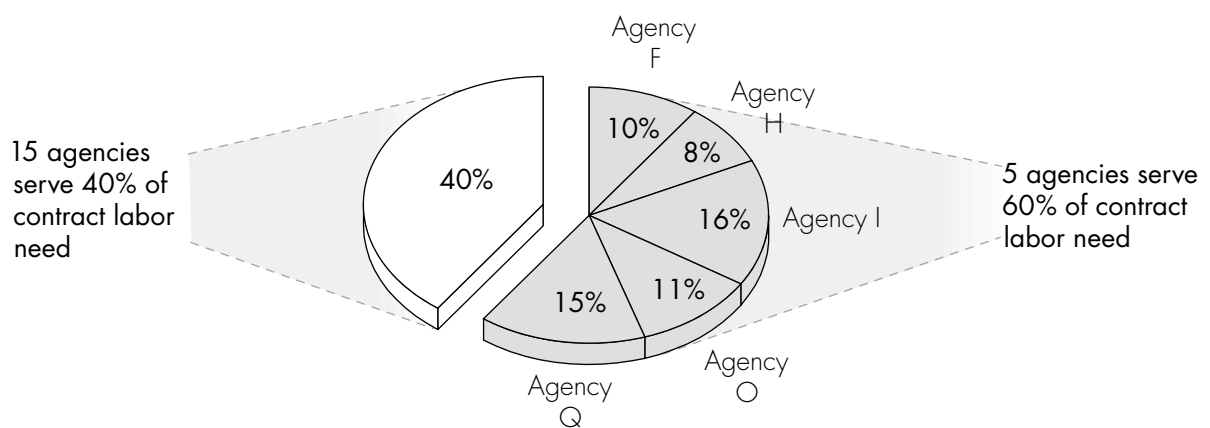


## Hospitals should develop coherent purchasing strategies to negotiate better rates with nurse agencies

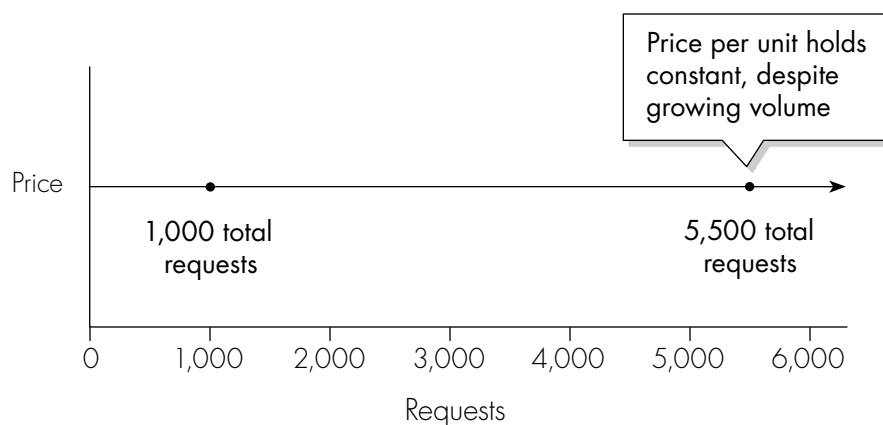
Despite significant agency labor purchases, most hospitals employ a fragmented agency purchasing strategy, forgoing the opportunity either to purchase agency services in advance or to channel volume to select agencies in return for standardized pricing and discounts. For example, administrators at Dixon Health System (an 11-hospital, 2,500-bed system) found that not only were they purchasing a consistent amount of agency labor, but they were unintentionally channeling it as well. Nonetheless, because they were not using this information to leverage discounts—either by guaranteeing a minimum threshold or by purchasing in advance—they continued to pay a high per-unit price.

### “Ad Hoc” Agency Purchases

Percentage of Requests by Agency



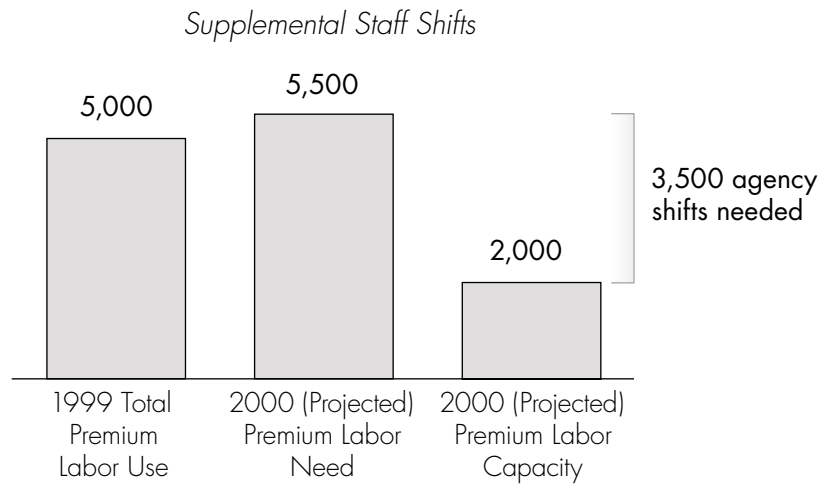
Price per Unit



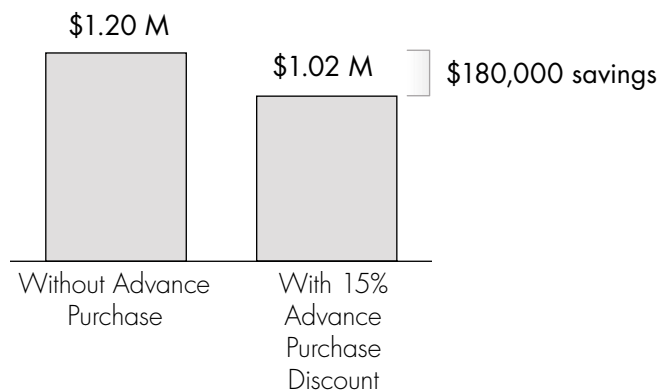
### Predicting need for agency labor allows hospitals to purchase in advance at a favorable rate

Some hospitals evaluate and quantify need for agency nurses in advance, then use this information to procure discount rates from nurse agencies. Rodanthe Medical Center (a 400-bed facility) projects its need for supplemental labor during the annual budget process, then compares this projection to the total capacity of float pool and overtime labor. The gap between projected need and float pool plus overtime capacity indicates the minimum need for agency staff, and the amount the hospital can safely purchase in advance. By committing in advance, Rodanthe earns a discount of 10 to 15 percent off regular rates from agencies, as well as the ability to choose familiar, favored agency nurses.

Prediction of Need for Agency Nurses at Rodanthe<sup>1</sup>



*Total Agency Expenditures, 2000*



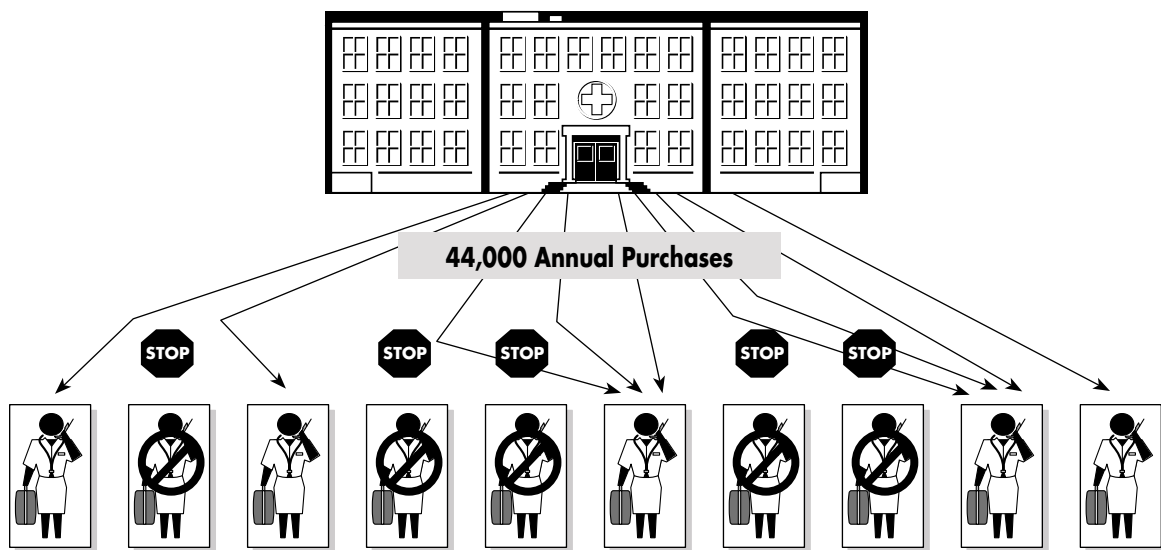
<sup>1</sup> Hypothetical example.

Source: Health Care Advisory Board interviews and analysis.

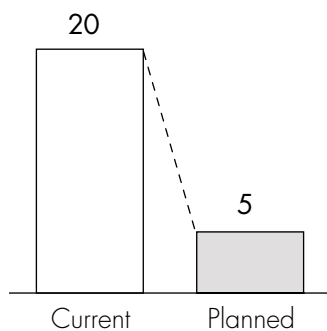
**Channeling high-volume purchases to select vendors allows hospitals to command a preferred rate**

Some systems are approaching agencies in a way that echoes the collective purchasing tactics of a group purchasing organization, aggregating agency purchasing volume to negotiate favorable pricing or simplify vendor relationships. Dixon Health System approached the five agencies to which it had channeled 60 percent of its requests and proposed directing 100 percent of agency requests to these vendors. In return for guaranteeing greater volume, Dixon will pay a standardized rate to all five agencies and receive a 15 percent discount. Dixon estimates a savings of \$3.3 million over the previous year's total agency expenditures.

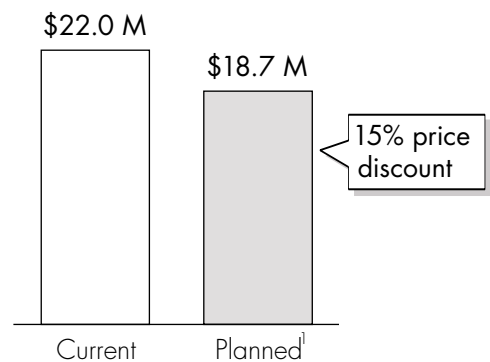
**Consolidation of Agency Purchases at Dixon**



*Number of Agencies Used*



*Total Agency Expenditures*



<sup>1</sup> Assumes constant volume.

Source: Health Care Advisory Board interviews and analysis.