Beyond Price: Building Supplier Partnerships for Sustainable Margin Improvement

HFMA Arkansas | January 22, 2026

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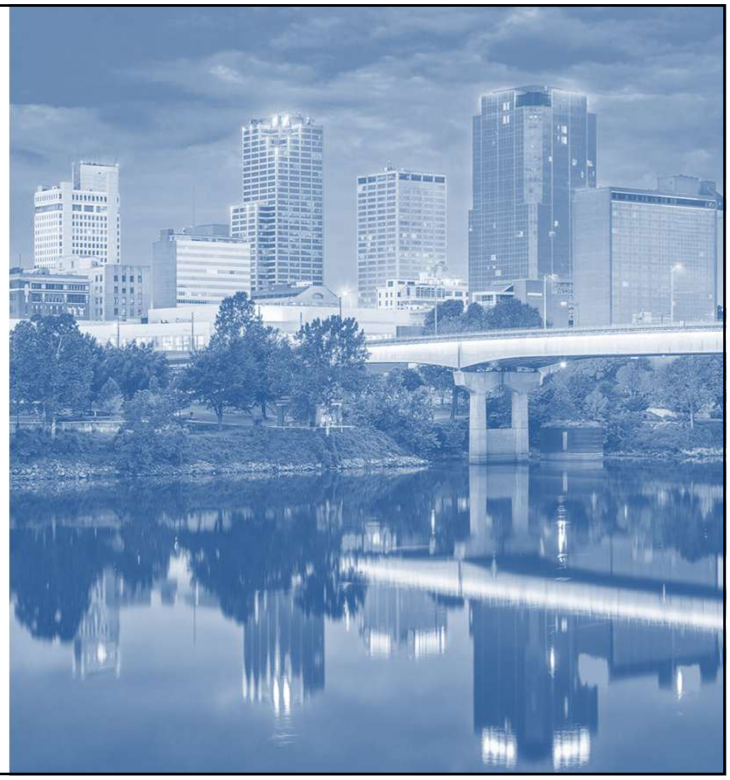

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Introduction

Professional

- 16 years of experience working in healthcare and healthcare consulting
- Significant focus on non-labor spend optimization, specifically within purchased services including revenue cycle
- Passionate about building relationships with client partners and finding practical and implementable solutions
- Firm believer in utilizing data to tell a story

Personal

- Currently living in Peoria, IL with wife and 2 children
- Taxi driver and coach
- Loves to be outside, especially golfing
- Over user of idioms

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PATHSTONE PARTNERS

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Session Objectives

- Evaluate the limitations of benchmarking and price-focused negotiations
- Differentiate transactional contracting from strategic partnerships
- Apply partnership principles to vendor negotiations
- Identify and avoid common negotiation pitfalls
- Engage suppliers collaboratively to drive sustainable results

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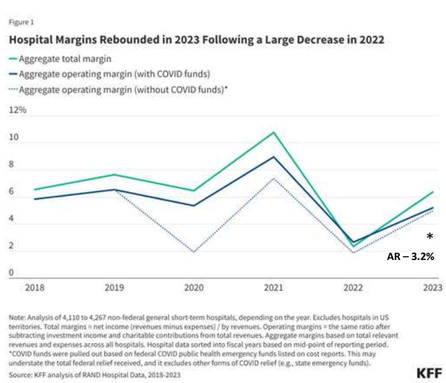
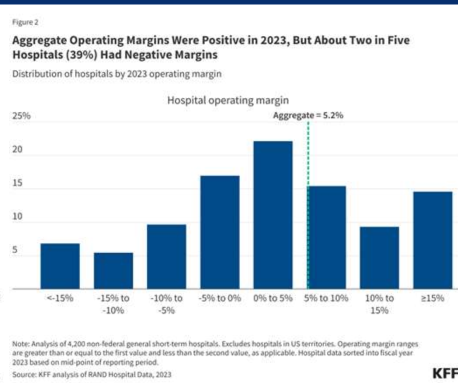
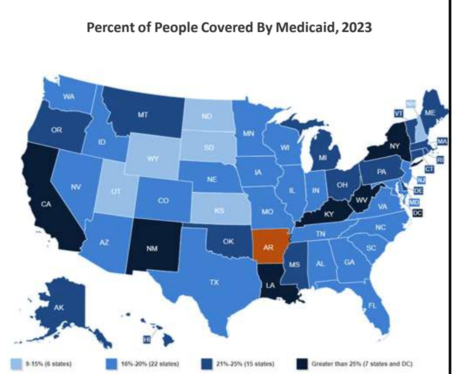
Why This Topic Matters Now

- **Sustained margin pressure across health systems**
- Vendor costs continuing to rise
- Service quality and continuity cannot be compromised

Hospital Margins Rebounded in 2023, But Rural Hospitals and Those With High Medicaid Shares Were Struggling More Than Others[1]







[1] Source: https://www.kff.org/health-costs/hospital-margins-rebounded-in-2023-but-rural-hospitals-and-those-with-high-medicaid-shares-were-struggling-more-than-others

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Why This Topic Matters Now

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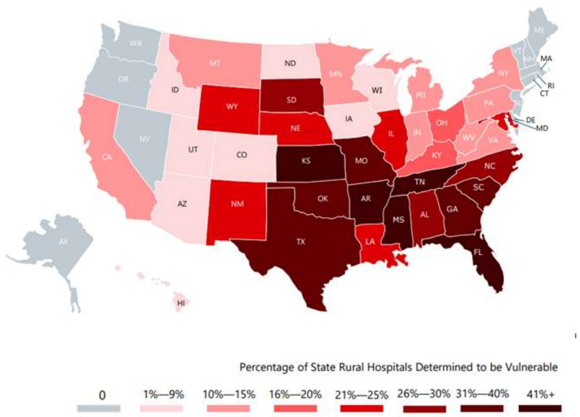
With rural and safety net hospitals operating on thin margins, many are at risk of closure



Key Takeaways

- **188** rural hospitals have closed or converted to non inpatient care delivery since 2010
- **432** rural hospitals are at risk of closure
- **Across 15 states, 25%+** of rural hospitals are at risk of closure
- **Arkansas 41%** of hospitals considered 'Vulnerable'

[1] Source: https://www.chartis.com/sites/default/files/documents/Chartis_Rural%20State%20of%20the%20State_Heat%20Map%20Compendium%20FINAL%2002.10.25.pdf

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Why This Topic Matters Now

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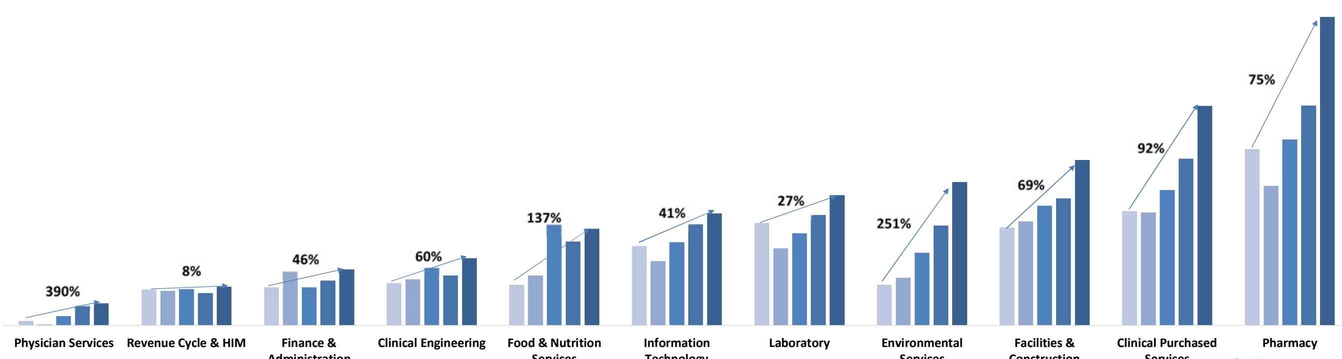
Indirect / Purchased Services spend across the nation is increasing 5-11% and more significantly local to Arkansas[1,2]



[1] Source: Pathstone Partners spend categorization data for Arkansas
[2] Source: Beckers Hospital Review: https://www.beckershospitalreview.com/finance/hospital-indirect-expenses-mount-20-statistics-by-department/

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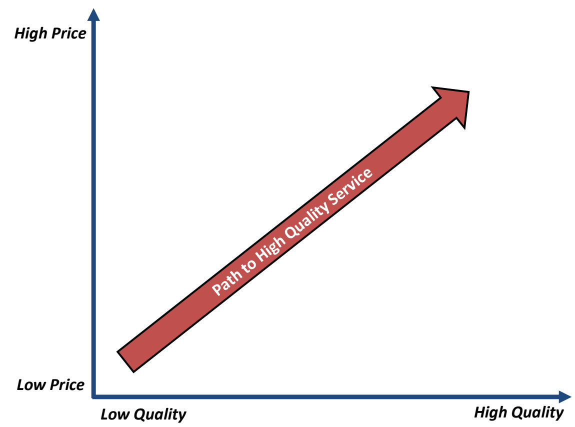
Historical Thinking: High Cost = High Quality; Low Cost = Low Quality



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Why This Topic Matters Now

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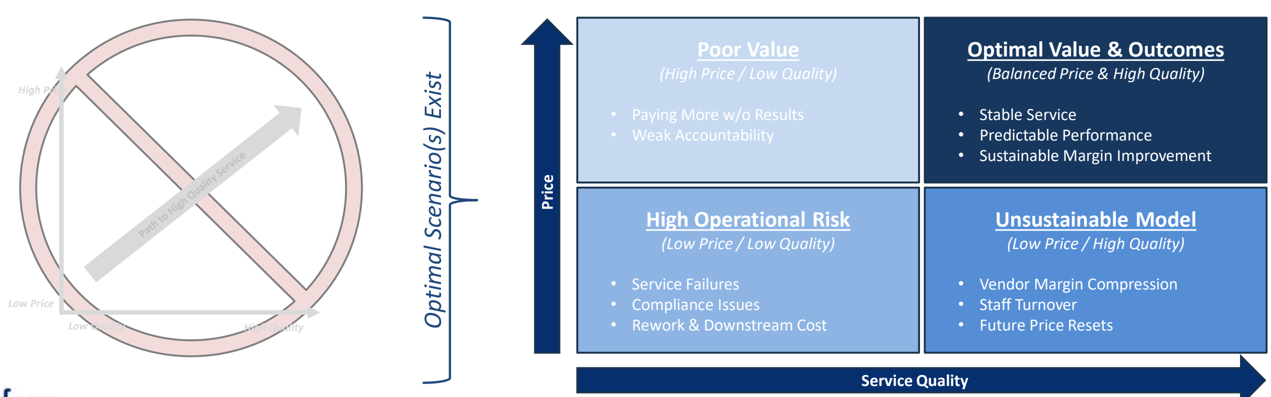
Challenging Historical Thinking – Finding the Correct Balance of Price & Quality



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Representative Examples & Categories

Category	Subcategory	Representative Initiatives
Indirect & Purchased Services	Finance & Administration	• Managed Print Services, Treasury Services, Merchant Account Services, Card/Payables Program, Office Supplies
	Revenue Cycle & HIM	• Coding, Chart Auditing, Billing & Collections, Claims Management, Transcription, Release of Information
	IT Applications	• Revenue Cycle, Imaging, Pharmacy, Business/Clinical Software, ERP, EMR, Finance/Decision Support
	IT Infrastructure	• VARs, Data Centers, Storage, Servers, PC Hardware, Microsoft
	IT Support	• Helpdesk, Contract Labor, Subscriptions, Support Services
	IT Connectivity	• Voice, Data, Wireless, Cellphones, PBX, Telecom Support
	Human Resources	• Contract Labor, Benefits, Recruiting, Background Check, Payroll Services, Training & Education
	Professional Services	• Legal Services, Business Consulting Services, Tax/Audit Services
	Construction & Real Estate	• General Contractors, Architects, Property Management, Real Estate, Project Management
	Facilities Services	• Security Services, Bulk Oxygen & Cylinder Gases,, Elevator Services, HVAC, Electrical, Utilities
	Food & Nutrition	• Food & Nutrition Services, Food Supplies, Retail, Floor Stock, Catering
	Environmental Services	• Environmental Services, Linen & Laundry Services, EVS Supplies, Waste Management, Uniforms
	Clinical Engineering & Biomed	• Imaging, Lab, Clinical, and Non-Clinical Equipment (Service & Maintenance
	Transportation	• Ground & Air Ambulance Services, Fleet Management, Valet & Parking Services, Courier Services
	Laboratory & Pathology	• Reference Lab, Pathology Services, Blood & Blood Products, Laboratory Equipment & Supplies, Courier Services
	Academic & Research	• Library & Subscriptions, Research Administration Software, Animal Care Supplies, Animal Acquisition
	Clinical Purchased Services	• Dialysis Services, Bed Rentals, Perfusion Services, IONM Services, Inhaled Nitric Oxide, Radiology Services, Wound Care
Pharmacy	Pricing & Revenue	• Drug Pricing, Billing/Coding, Charge Capture, Employee Prescriptions, Specialty Pharmacy
	Wholesaler & Drugs	• Distribution Model, Negotiations, IV, Biologics, Pharmaceuticals, Formularies
	340B	• 340B Enhancements, Contract Pharmacy
Clinical	Medical & Surgical	• Patient Care, Anesthesia, Gloves, Needles & Syringes, Wound Care, Urology
	OR & Perioperative	• Cardiac Rhythm Management, Interventional Cardiology, OR & Spinal Implants

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Representative Areas: Revenue Cycle

"Front End" Revenue Cycle	"Middle" Revenue Cycle	"Back End" Revenue Cycle
• Scheduling & pre-registration • Financial clearance • Financial counseling • Arrival & registration • Eligibility & enrollment	• Release of Information • Forms Management • Coding & Chart Auditing • Transcription Services • Records Management	• Billing & Collections • Denial Management • Claims Management • Payment Processing

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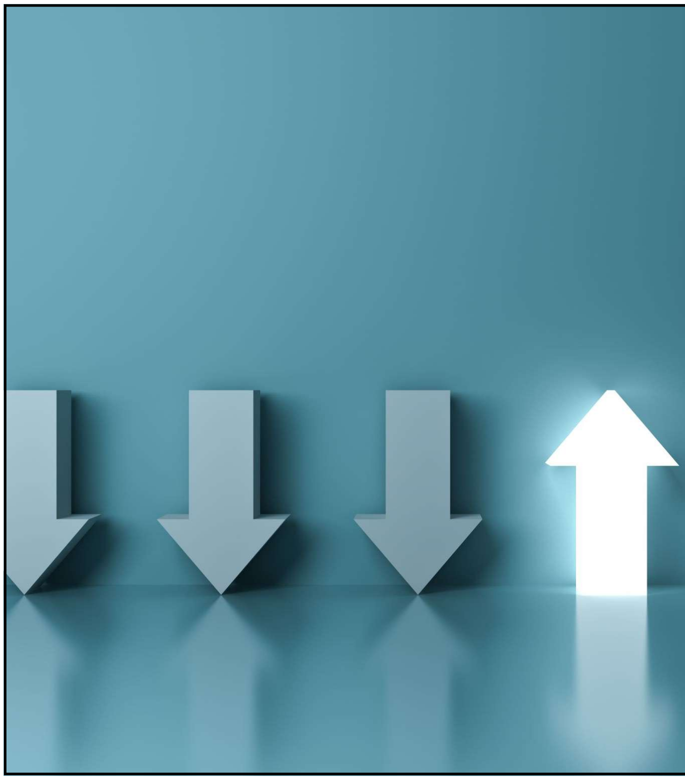

Revenue Cycle Reality

- Vendor performance directly impacts cash flow
- Operational workflows depend on suppliers
- Disruptions often cost more than savings
- Revenue Cycle has a hand in many (non-RevCycle) areas (i.e. Laboratory, Pharmacy, Finance, etc.)

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Do not edit
How to change the design

In the last 6 months, how many vendor contracts have you had a role in negotiating?

The Slido app must be installed on every computer you're presenting from

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Opening Poll

<u>Question</u>: In the last 6 months, how many vendor contracts have you had a role in negotiating?

A. None

B. 1–2

C. 3–5

D. 5+

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Traditional Negotiation Mindset

- Focus on Price (Reliance on Benchmarks)
- Short Term Benefit Orientation
- Lack of Proactiveness
- Lack of Vendor Accountability (SLAs)
- Lack of Data (Availability & Review)

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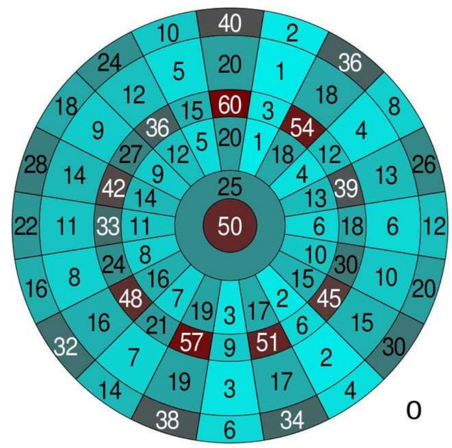
Why Benchmarking Alone Falls Short



[1] Source: https://www.reddit.com/r/coolguides/comments/wk0pj8/i_always_assumed_the_bullseye_was_best/?rdt=44910

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Unlocking Value Beyond Price

By pursuing multi-value lever approach beyond price, organizations can ensure maximum benefit is considered.

Value Lever	Leverage	Definition	Representative Examples	Share of Total Impact
Price	Supplier	Reducing the cost per unit of a product or service *(5-20% Savings)*	• Reducing Bad Debt Collection Agency Fees	45%
Utilization	**Internal**	Reducing consumption of products and services *(10-30% Savings)*	• Review of current transcription volumes vs. contract	**15%**
Standardization	**Internal**	Standardizing suppliers, products/services or prices *(10-25% Savings)*	• Standardization of collection yields and/or collection providers	**15%**
Make vs. Buy	**Internal**	Achieving value by moving to insourced, outsourced or hybrid support model *(15-35% Savings)*	• Reviewing current coder mix and explore insourcing / outsourcing opportunities	**10%**
Revenue	**Internal**	Increasing revenue or margins related to purchased products or service *(5-15% Savings)*	• Enhance guaranteed collection yield SLAs and revenues	**10%**
Strategic Alliance	**Mutual**	Establish long-term strategic relationship with shared risk and rewards *(20-35% Savings)*	• Consider enhanced partnership opportunities with Release of Information provider	**5%**

Service Level Agreements (SLAs and Key Performance Indicators, KPIs)

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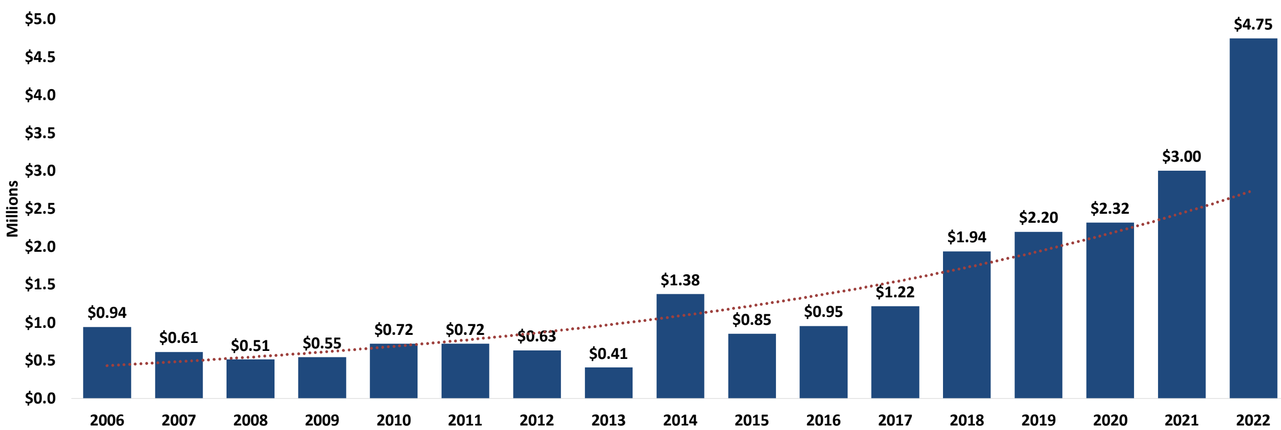
Coding Software Services

Path to Unlocking New Value Levers…Story Telling w/ Data

Spend with <u>long-term</u> coding vendor increased 400% since inception; total spend during period was $16M



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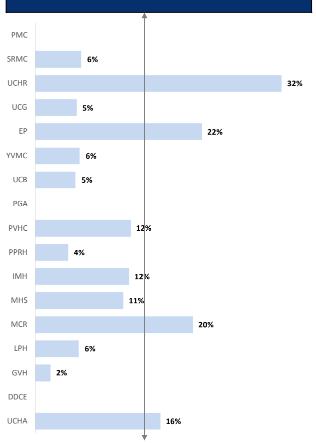
Coding Software Services

Path to Unlocking New Value Levers…Story Telling w/ Data

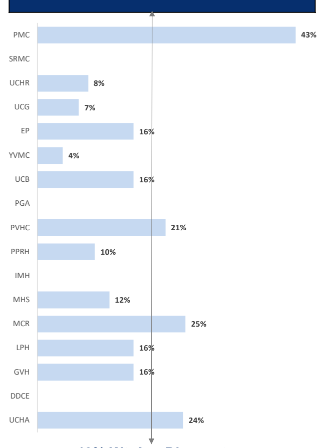
Review of top SKUs indicated a variation in discounts across all system facilities

SKU #1



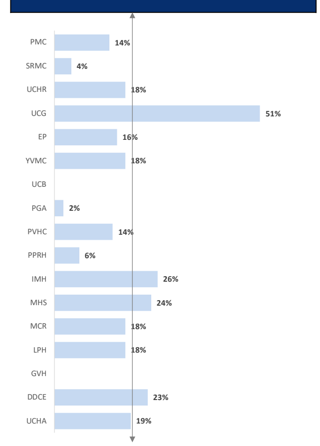
14% Wt. Avg Discount

SKU #2



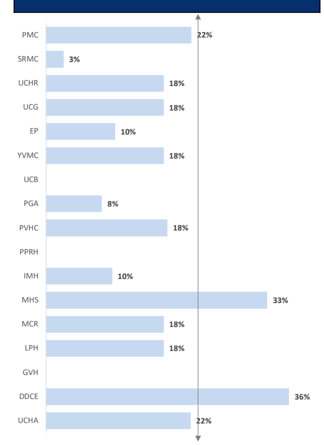
19% Wt. Avg Discount

SKU #3



19% Wt. Avg Discount

SKU #4



22% Wt. Avg Discount

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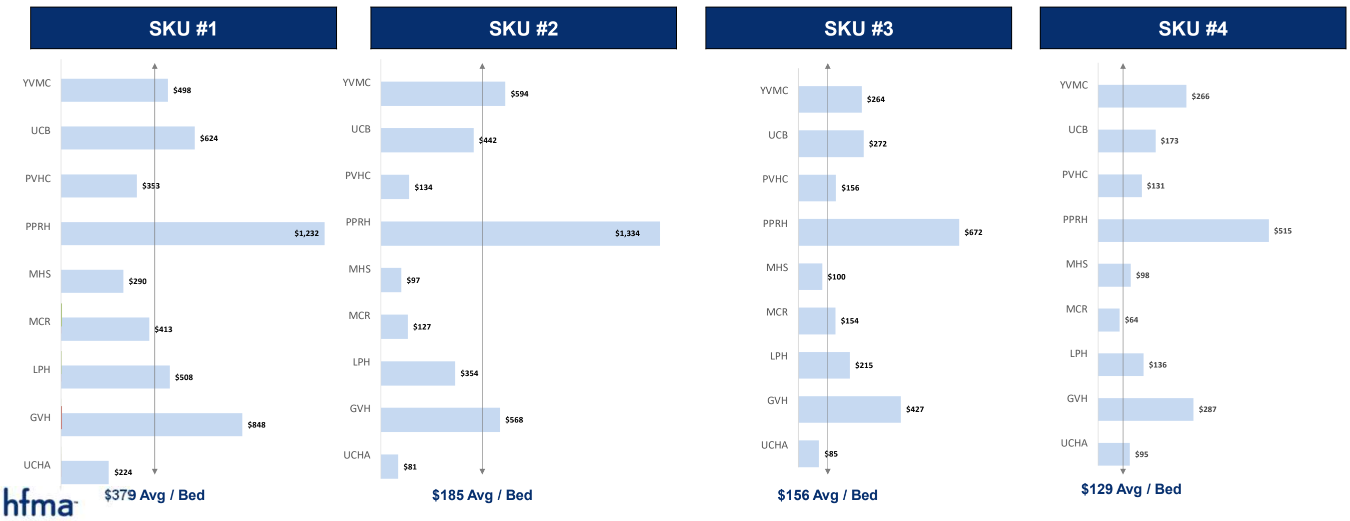
Coding Software Services

Path to Unlocking New Value Levers…Story Telling w/ Data

Review of unit price compared to facility bed size indicated a significant pricing discrepancy across SKUs



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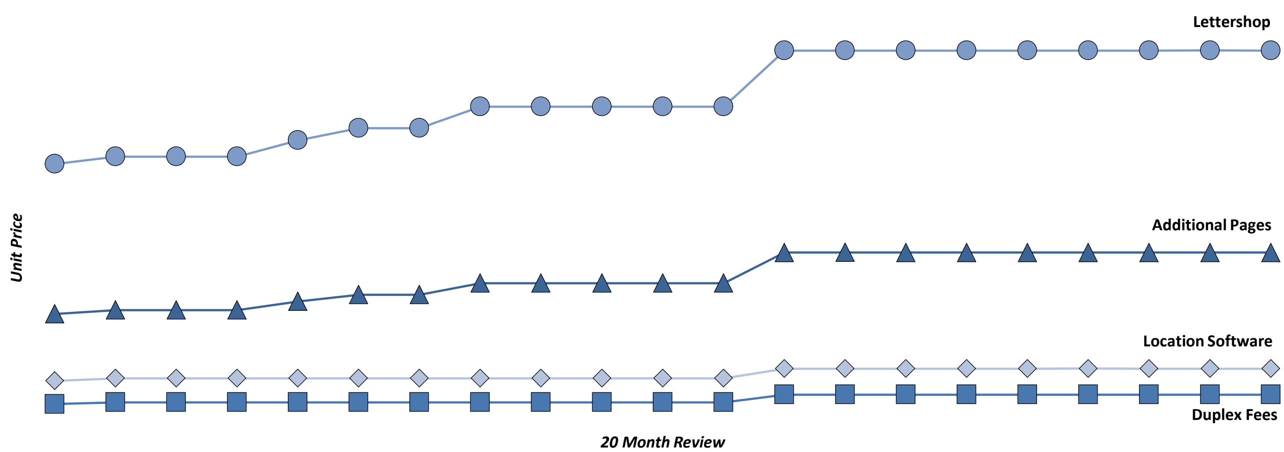
Patient Statements

Path to Unlocking New Value Levers…Story Telling w/ Data

Over a 20-month period, vendor had increased price on five (5) different occasions



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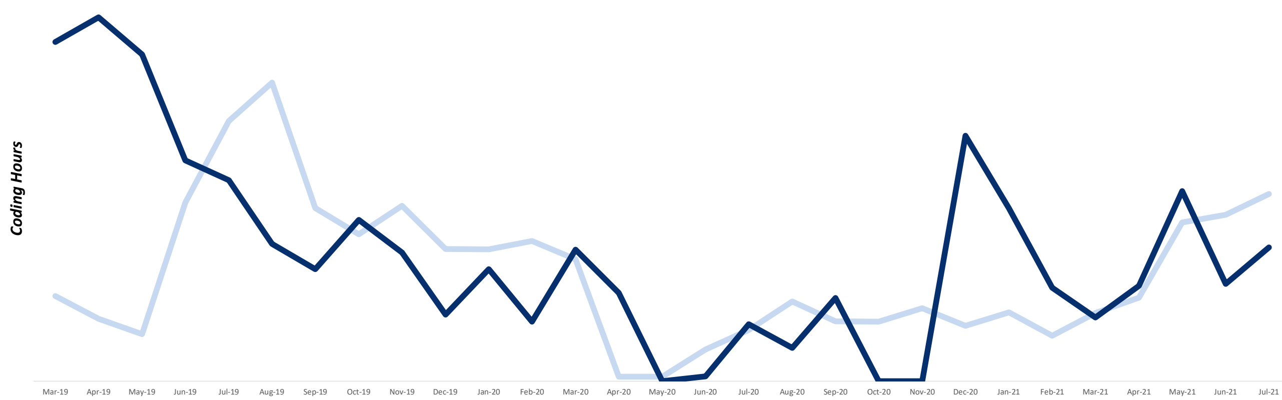
Coding Services

Path to Unlocking New Value Levers…Story Telling w/ Data

Volume trends should be monitored, leveraged and discussed with vendors



2.5 Year Utilization Review

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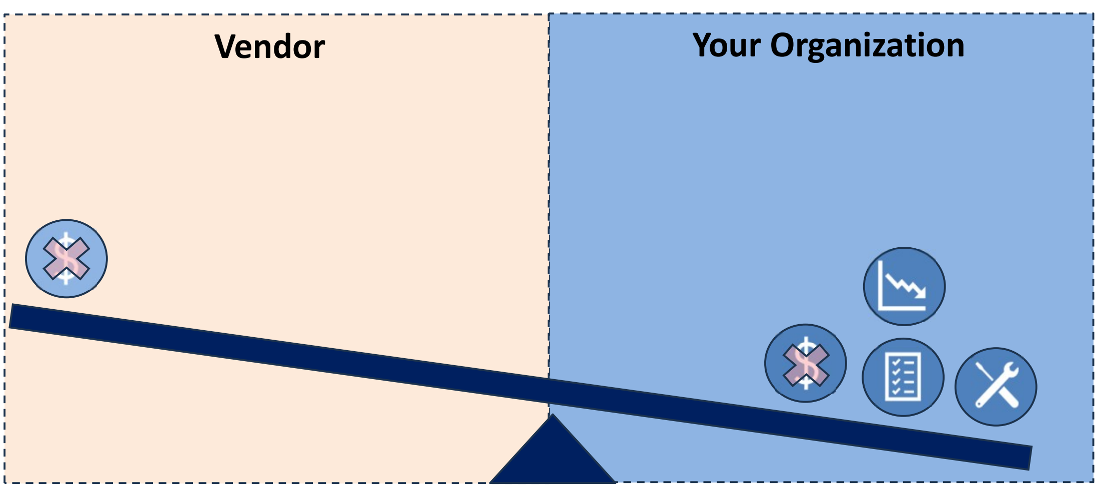
Shifting the scale…

Leveraging data allows your organization to define a better story that can be the genesis of true partnership discussions



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Transactional vs. Strategic Partnerships

There are two (2) fundamentally different approaches to vendor management

Transactional Contracting		Strategic Partnership
Focused on **lowest price**	→	Focused on **total value**
Short-term agreements, re-bid every few years	→	**Long-term collaboration** with shared goals
Adversarial negotiation	→	**Open, trust-based** communication
Limited transparency	→	**Full visibility** into cost, process, and data
Fixed fees, **rigid terms**	→	Flexible models with **shared risk/reward**
Minimal innovation	→	**Joint innovation** and **continuous improvement**
Service monitored **reactively**	→	SLAs tied to **accountability and quality**

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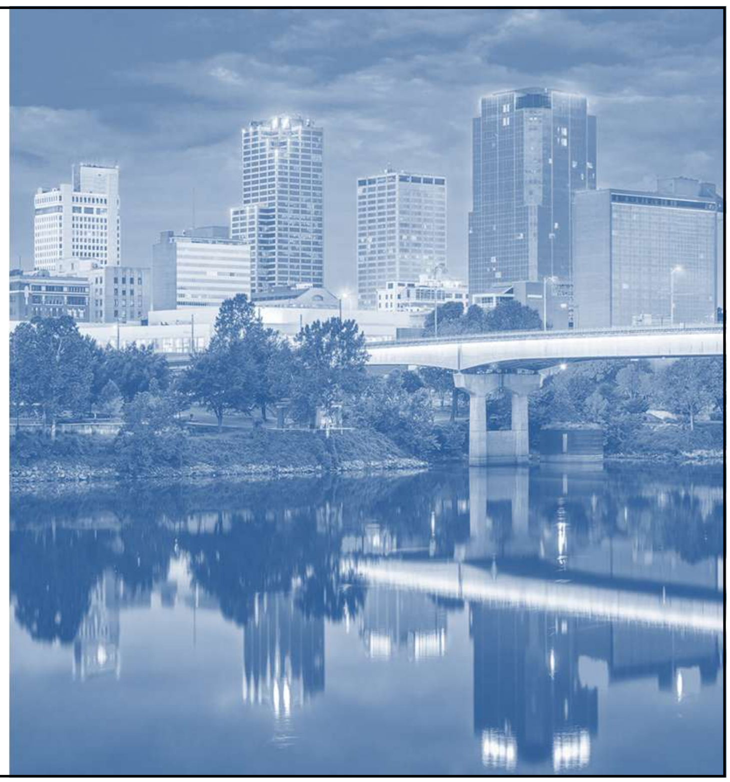
Creating Partnerships

Case Study Examples



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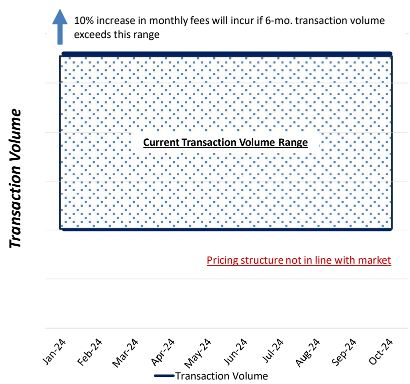
Price | Utilization | Standardization | Revenue | Make vs. Buy | Strategic Alliance

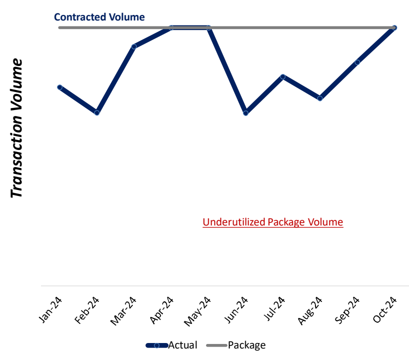
Eligibility & Enrollment

Identifying utilization opportunities based on fixed package sizes, resulting in over $100K opportunity

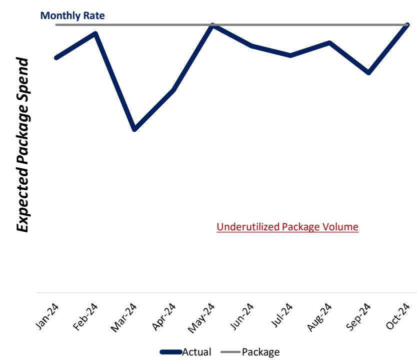
1 Eligibility Verification Transaction Package



2 Claim Source Transaction Package



3 Enhanced Claim Status Transaction



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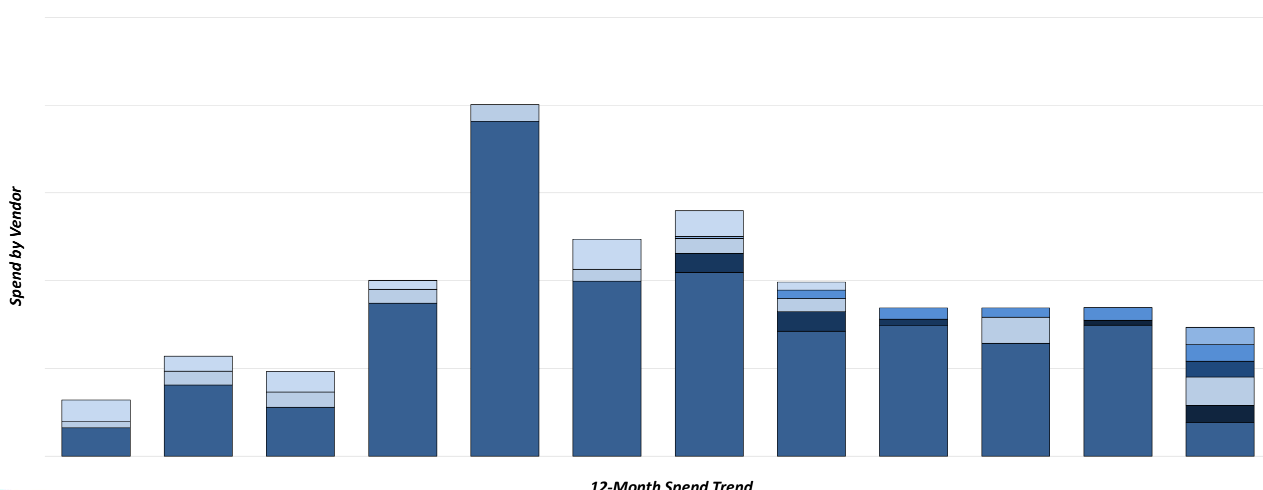
Price | Utilization | Standardization | Revenue | Make vs. Buy | Strategic Alliance

Outsourced Coding Services

Review of outsourced coding spend identified increased utilization of vendors month-to-month



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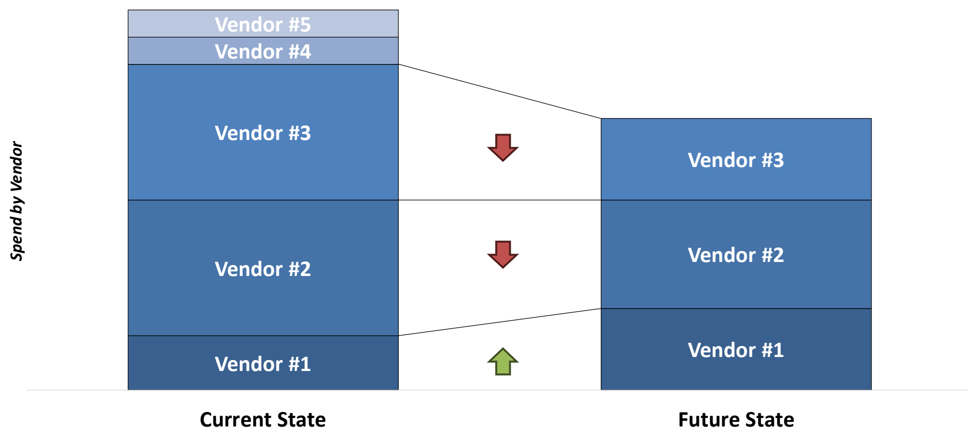
Price | Utilization | Standardization | Revenue | Make vs. Buy | Strategic Alliance

Outsourced Coding Services

Post competitive RFP, spend was reduced over $400K and SLAs created to sustain benefit long-term



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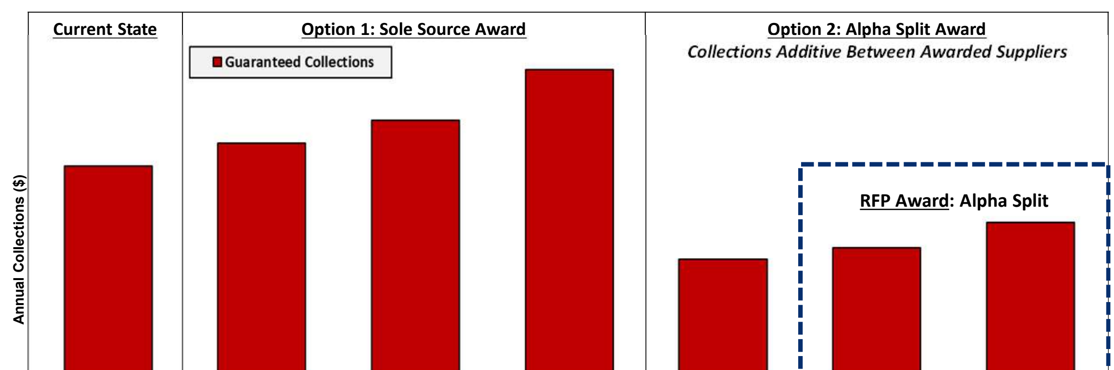
Price | Utilization | Standardization | Revenue | Make vs. Buy | Strategic Alliance

Collection Services

Competitive review of collection services, created increased revenue opportunities though yield guarantees



	Current State	Incumbent	Vendor #1	Vendor #2	Incumbent	Vendor #1	Vendor #2
Benefit Over Baseline *(Revenue – Fees)*		$0.9M	$1.5M	$3.2M	$0.4M	$0.7M	$1.5M

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Release of Information

Typically seen as an expense, ROI creates an opportunity for vendor partnership and revenue creation

		Financials				Service Delivery	
Vendor	Scenario	Expense	Estimated Revenue	Guaranteed Revenue	Estimated Benefit	SLAs	EHR Integration
Incumbent Vendor	Current State[1]	$395K	None	None	-	Tracked	
Incumbent Vendor	Proposal[2]	None	$15K (Fixed)	$15K (Annually)	**$410K**	Tracked w/ Penalties[4]	EPIC Only
New Vendor	Integration Proposal[2]	None	$168K (18%)	$200K (Year One)	**$574K**	Tracked w/ Penalties	Cerner and Epic

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Service Level Agreement Example

SLA's create an opportunity to enhance partnerships, create 2-way accountability and open communication channels

SLA Example: Incentive & Penalties			
% Target Achievement	**Performance Target**	**Net Fees**	**Incentive / Penalty**
>110%	$22M	$2.2M + $0.2M Incentive = $2.4M	Incentive: 10% of Fees
105%	$21M	$2.1M + $0.1M Incentive = $2.2M	Incentive: 5% of Fees
100% (Current)	$20M	$2M	-
95%	$19M	$1.9M - $0.1M Penalty = $1.8M	5% of Fees (Penalty)
<90%	$18M	$1.8M - $0.2M Penalty = $1.6M	10% of Fees (Penalty)

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- One-sided agreements
- Rigid contracts
- Lack of governance
- Partnership in name only

Avoid Common Pitfalls

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What is your Action Plan?

My Challenge to You:

- **Conduct an assessment of your current vendor landscape**
  - Understand how your spend has been trending over the last 3 fiscal years
  - What is driving the spend trends?
  - What does your vendor roadmap look like?
- **Challenge your *~~vendors~~* partners:**
  - Hold them accountable to Quarterly Business Reviews
  - Request regular Service Level Agreement (SLA) reports
  - Obtain utilization data on a recurring basis (and review it)

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Key Takeaways

Four Pillars of High-Impact Supplier Partnerships

I

Open Communication & Trust

Regular touchpoints, candid discussions, shared dashboards

II

Transparency

Visibility into cost drivers, operations, and performance data

III

Mutually Beneficial Contracts & Incentives

Hybrid pricing, gainshare models, adaptable terms

IV

Service Level Agreements with Accountability

Clear performance metrics, corrective action plans, balanced penalties/rewards

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Q&A and Discussion

What challenges & successes have you faced negotiating vendor agreements & creating true vendor partnerships?

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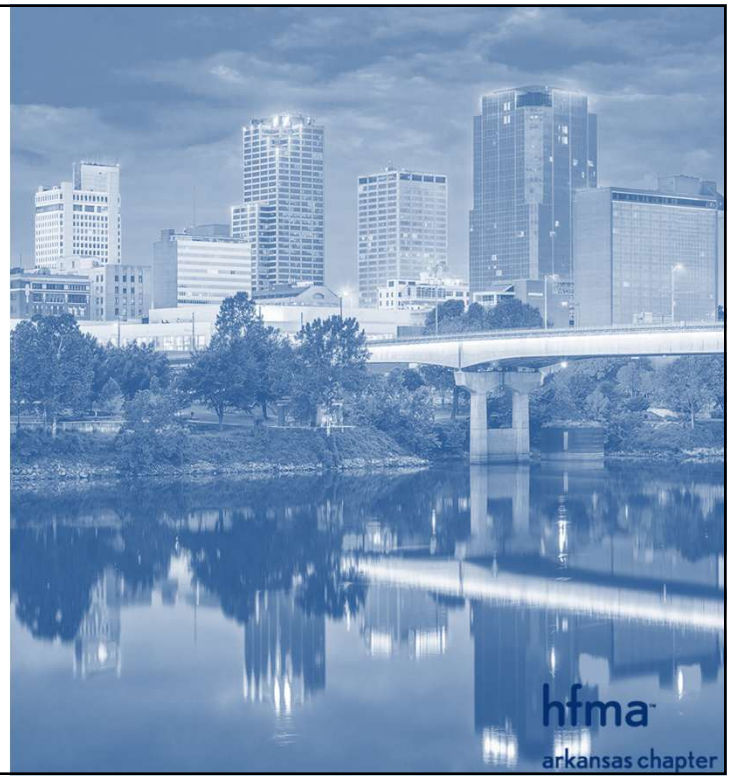
Thank You!

Andy Poorman
Senior Director
35 W Wacker Drive,
Chicago, IL 60601
apoorman@pathstonepartners.com
217-822-4488

LinkedIn



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