



# MANAGING ALL THOSE VENDORS

Increase Cost Savings | Reduce Risk | Add Value –  
There Is No Leeway for Failure

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GORMAN **2015 FORUM**  
HEALTH GROUP



# WHO IS GORMAN HEALTH GROUP?

**Gorman Health Group** is the leading solutions and consulting firm for government-sponsored health programs.

## Government Programs

Leading enterprise of national consulting services and software solutions for payers and vendors.

## Our Mission

Our mission, as the industry's most active professional services consultancy and vendor of technology-based solutions, is to empower health plans and vendors to deliver higher quality care to beneficiaries at lower costs, while serving as valued, trusted partners to government health agencies.

## Washington, DC

Headquartered in Washington, DC with more than 200 staff and contractors nationwide with over 2,000 combined years of Government Programs experience.

## Leadership

Deep payer and vendor knowledge coupled with Centers for Medicare & Medicaid Services (CMS) regulatory expertise.

## Privately Owned

Founded in 1996

# BROAD SERVICES

Our clients have **one-stop access to expert advice, guidance, and support**, in every strategic and operational area for government-sponsored programs, across seven verticals.



## CLINICAL

Changing how you approach Medical Management, Quality and Stars



## PHARMACY

Leading experts in Part D, PBM, formulary and pharmacy programs



## HEALTHCARE ANALYTICS & RISK ADJUSTMENT SOLUTIONS

implementing cross-functional risk adjustment programs for medical trend management and quality improvement



## PROVIDER INNOVATIONS

Supporting network design and medical cost control implementation



## COMPLIANCE

Offering guidance and support in every strategic and operational area to ensure alignment with CMS



## OPERATIONS

Bringing excellence to every aspect of your implementation from enrollment to claims payment



## STRATEGY & GROWTH

Leading experts in Marketing, Sales and Strategy development that create short and long-term profitable growth

# MEDICAID SERVICES

Dedicated to assisting Medicaid Managed Care Organizations achieve **strategic, operational and quality** goals across five verticals.



## CLINICAL

Blending medical and pharmacy to improve care coordination, outreach and utilization management to meet the complex needs of your membership.



## FINANCIAL ALIGNMENT

Providing health economic solutions for the needs of the Medicaid population including long-term care, behavioral health, and chronic condition management.



## STRATEGIC POSITIONING

Analyzing and evaluating organizational adaptability, and readiness for change in new policy and population management environments.



## QUALITY PROGRAM OVERSIGHT

Guidance and support to achieve the results your members and regulators expect while attaining compliance with State and Federal rules.



## OPERATIONS

Creative solutions to maximize cost effectiveness, and deliver lasting results from eligibility to provider contract management, and claims.

# HOW VENDOR OVERSIGHT REALLY WORKS



How the customer explained it



How the project leader understood it



How the engineer designed it



How the programmer wrote it



How the sales executive described it



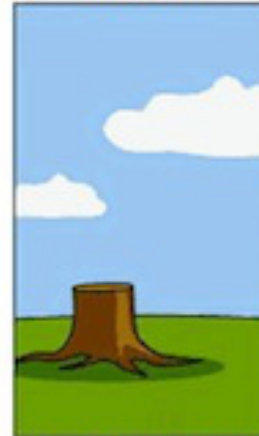
How the project was documented



What operations installed



How the customer was billed



How the helpdesk supported it



What the customer really needed

# THE STATE OF THE UNION

- To maintain robust and competitive products in this environment, health plans are in a never-ending search for the most innovative and effective vendors in the market.
- At the same time, with the significant increase in prospective vendors, all touting their capabilities, health plans are dealing with an unprecedented level of vendor fatigue, skepticism, and confusion as they sort through the multitude of new vendors in each category.



# BACKGROUND

- Most health plans and healthcare vendors rely on vendors to deliver necessary services to their clients.
- While health plans give vendors the authority to act on their behalf, the health plans remain ultimately accountable.
- Oftentimes, challenges are not coming from within the walls of the health plan organization but are coming from the vendor relationships.
- Regulatory agencies, such as CMS, are holding organizations more accountable than ever for the actions of its vendors.

# SPONSOR ACCOUNTABILITY FOR AND OVERSIGHT OF FDRs

- Sponsors may enter into contracts with FDRs to provide administrative or healthcare services for enrollees on behalf of the sponsor...
  - The sponsor maintains the ultimate responsibility for fulfilling the terms and conditions of its contract with CMS and for meeting the Medicare program requirements. Therefore, CMS may hold the sponsor accountable for the failure of its FDRs to comply with Medicare program requirements...
  - The sponsor's Compliance Officer, working with the sponsor's Compliance Committee, must develop procedures to promote and ensure that all FDRs are in compliance with all applicable laws, rules, and regulations with respect to Medicare Parts C and D delegated responsibilities. The sponsor must have a system in place to monitor FDRs. Sponsors are free to choose the method for monitoring their FDRs' compliance with Medicare program requirements. Sponsors must be able to demonstrate that their method of monitoring is effective. It is a best practice to use metrics to assist in observing compliance performance and operational trends.
    - 42 C.F.R. §§ 422.503(b)(4)(vi), 422.504(i), 423.504(b)(4)(vi), 423.505(i)



# KNOW THIS



- The vendor market is experiencing a radical change from the first generation lift-and-shift paradigm to today's business process solution model.
- Today, it's no longer just about cost – Plans expect and require value from more complex transactions.
- In fact, vendors need to scale up to the next level, which is knowledge and business process management to demonstrate value-adds to their customers.

# VENDOR MANAGEMENT EFFORTS CONTINUE TO FALTER

Here are the top 10 reasons why:

# 1. THE OBJECTIVES OF VENDOR MANAGEMENT ARE NOT CLEAR

- Are you outsourcing to reduce costs? Or are you outsourcing to ensure you have access to specialized skills, best practices to improve the quality of service, or increase functional flexibility or compliance?
- Is your vendor management effort aimed at meeting unpredictable demands and building variable capacity? Is it your way of meeting market needs faster? Is market representing beneficiary? Provider? Both?
- Cost savings should be an outcome of outsourcing, not the key reason. This is because cost savings as the prime objective leads you to the cheapest solution vendor in the market without giving adequate attention to other needs that drive outsourcing.
- It must be emphasized that vendor management works best when it is led by strategic reasons and is accompanied by a change in organizational culture or workplace structures.

## 2. THERE IS NO CONCURRENT CHANGE IN WORKPLACE CULTURE

- Vendor management must be tightly linked with a change in workplace culture.
- Very often, Plans outsource tasks, functions, and responsibilities that were previously done in-house.
- Clearly, if vendor management is going to affect existing jobs, there will be anxiety in the company that jobs are going to be lost. This will manifest itself as resistance to vendor management. The anxiety is a result of managers often thinking that, “If we get rid of X number of people due to vendor management, we make a savings of Y.” This is classic—but faulty—thinking.
- There needs to be a coordinated effort to affect this change – **together.**
- AND it needs to be across departments (aka, “Silos of Excellence”)

# 3. EXPECTATIONS ARE NOT SET CORRECTLY

- When expectations from both partners are not clear, there are cost escalations, delays, and the quality of work delivered is poor.
- Defining tasks, setting benchmarks, and insisting on processes, tools, and talent are critical to setting correct expectations.
- A major part of expectations can be set correctly by deciding and agreeing on the right measurement metrics, tied to the right set of criteria.
- While these are important to set expectations, Plans are often to be blamed for a crucial lapse – they don't help the vendor understand their business adequately.
- Equipping the vendor with a clear understanding of your business drivers in addition to sharing workflows and roadmaps is the very foundation of a successful vendor management partnership.

## 4. THERE IS A LACK OF COMMUNICATION

- It isn't what you say but what is understood that is important.
- Communicating frequently and clearly and stopping each time to ensure that you have been clearly understood are vital. Keep your vendor management partner on regular talking terms with you. This can easily—and quickly—get replaced with a reporting relationship.
- This means your vendor begins to provide daily, weekly, or monthly performance reviews, and, as long as the metrics look right, no one bothers to talk to each other. This can be risky.
- When direct and regular communications become perfunctory, expect failure. This is because there are hidden aspects such as work norms, ethics, and standards between a task that is done as per SLAs and a report being delivered to show the task was completed.
- These are facets of business that cannot be managed without regular communications.

# 5. TRANSITION PROCESSES NEED IMPROVEMENT

- Ensuring that you have the right plan for transition of processes or migrating processes to outsourced locations is important to success.
- Simple processes, say support for HIPAA filtering and message quarantine devices in enterprise email systems, can quickly impact the entire business from Day 1 if not managed correctly. The impact can be so widespread that it can create a company-wide resistance to vendor management.
- Transition processes are important for a variety of other reasons. Poor transition can result in cost escalations, delays in outsourcing implementations, and poor customer satisfaction. Poor transition can be the root cause of vendor management failure.
- Ensure that your transition management is run with the same discipline, planning, and resource allocation as the rest of your production.

# 6. INADEQUATE RISK ANALYSIS

- There are several risks associated with vendor management. Your vendor may not have any one or a combination of the following:
  - Qualified resources in adequate supply,
  - Appropriate infrastructure to meet your specific needs,
  - Industry expertise/specialized capabilities,
  - Dedicated technology,
  - Financial fitness,
  - Quality practices that prevent degradation of services,
  - Inability to train resources to meet churn,
  - Poor security policies, and
  - Inadequate governance/compliance practices.
- A thorough vendor risk analysis before engagement must be done. In order to do this, your business must have set criteria to evaluate vendors and a process to conduct the evaluation at a regular frequency. Potential vendors must be ranked in order of risk.



# 7. UNFORESEEN COSTS OR RISING COSTS

- Many businesses assume that once an agreement for delegation has been signed, costs will remain static. This is only partially true. Costs may continue to rise depending on the location where you outsource.
- It is important to estimate the person-to-person contact required by your vendor management program (it could be to oversee projects or bring compliance to government standards) before you proceed with the contract.
- There are other reasons that costs may go up. Keep a watchful eye on inflation and unemployment rates in the geography you outsource. These could lead to cost escalations if your contract does not prevent the vendor from loading growing costs to your bills.

# 8. OVER-MANAGEMENT/ MICRO-MANAGEMENT

- Oversight is at the core of all vendor management projects.
- There are businesses that are anxious that the vendor may not follow practices that are widespread within their own environments.
- This can lead to potentially damaging over-management or micro-management.
- The reasons for over-management have their roots in:
  - Poor transition practices,
  - Inadequate communication, and
  - Lack of understanding of local work conditions and cultures, or
  - Choosing vendors that do not have adequate industry exposure.
- Over-management can wear both partners down, and you can be sure that the relationship will quickly head for flash point.

# 9. CHANGING PLAN NEEDS

- Today's business environment is changing rapidly. These changes cannot be foreseen and, therefore, cannot be captured in vendor management agreements and SLAs.
- Plans want their vendors to change based on their needs. This is unlikely to happen unless the vendor is flexible and nimble.
- The first—**flexibility**—can be ensured by agreeing to the right contractual terms. The second—**being nimble**—is more difficult to guarantee.
- It is, therefore, important to ensure you deal with your vendor as a partner and share business developments and their impact regularly. This gives your vendor a chance to see changing demands and prepare for them.
- Above all, when doing a risk analysis on your potential vendors, be sure to assess the willingness of the vendor to adapt to change.

# 10. PLAN BEHAVIOR TOWARDS VENDOR

- This is an embarrassing topic and often not discussed in vendor management discussions. Plans tend to deal with their vendors in an unstructured manner.
- For the vendor to succeed, especially at tough times, it's imperative that the Plan sees the vendor as a partner—an extended arm of the organization. They need to be in sync with the organization's long-term vision and strategy so that when the business demands stretch the vendor, they are already geared up to meet the demand. It is not always possible to address all 10 issues above adequately.
- Most businesses, therefore, ensure that their exit strategy is painless. This is a good way to de-risk your business. On the other hand, if the vendor perceives your exit strategy as being one-sided, you can add the 11th reason for vendor management failure: an exit strategy that does not work for both partners!

# HOW WILL YOUR ORGANIZATION MANAGE TO AVOID VENDOR MANAGEMENT FAILURES?



# THE MOVE AWAY FROM TRANSACTIONAL-BASED CONTRACTS

- Plans now no longer just want to move a part of their back offices. Plans are no longer happy with service based purely on transactions. Instead, they desire a more complex functional or enterprise change. The move away from scope has made the vendor management proposition more sophisticated and multi-layered.
- The current pressure for effective, compliant business operations means Plans are increasingly looking at vendors to not just save on the operational costs but also to drive business excellence through transformation.
- Vendor Management 2.0 requires a higher level of change management because it's more intrusive. There are no easy answers when the change requires a new way of thinking of how to run your business. The pain of change is only worth it if the change has a material impact on the business.

# PLANS WANT MORE TRANSPARENCY INSIDE THE VENDOR MANAGEMENT PROCESS

- Today, Plans are more sophisticated in what vendor management should look like.
- Plans can no longer take it on trust that their vendor is able to deliver the process. Plans themselves introduced industry standards for operations management which they expect and require their service vendors to use.
- Plans require operational transparency. They want to know how the vendor is matching the headcount to the workload. With visibility, the responsibility for productivity is shared by the Plan and the service vendor.
- Plans want a vendor who either has an outcome-based pricing model or one that can offer a solution offering visibility over capacity and costs under a headcount model.

# PRODUCTIVITY MATTERS

- There's a lot of pressure on productivity. Plans can improve costs by improving productivity through process efficiencies and effectiveness or automation.
- The productivity of the original vendor team matters. You don't want to keep adding people to "make it work" because it affects Plan margins.
- For the first time, Plans are asking their service vendors about **how** they assure productivity. For example, Plans are now asking for details about the team leader and management qualifications in operations management and capacity planning and compliance.
- Plans locked into long-term contracts with a supplier are requiring a retrofit to achieve this standardization.
- Use the established operational and regulatory standards to get much greater leverage when specifying and managing ongoing performance.



# THE RISE OF THE SPECIALIST

- Today, companies don't want to hire a vendor that does everything. Instead, they prefer a specialist.
- This trend toward specialization does not auger well for second-tier service vendors; they will either be acquired or pushed out because of these market forces. Plans need to monitor this situation closely because they will have decisions to make if someone else acquires their service vendor.
- Plans need to be sure the service vendors they hire are indeed specialists in the process they claim to be.
- Service vendors have to have a deep domain knowledge of their customers' business at both the horizontal and process level.

# UNDERSTANDING THAT REGULATORY PRESSURE WILL CONTINUE TO INCREASE

- CMS has promised to continue to increase their scrutiny of vendor management and oversight. Plans that outsource processes cannot fail at vendor management and stay in business.
- There are evolving regulations on the horizon – network adequacy among them. These will drive changes in the way many Plans do business and necessitate their vendor management partners to follow suit. In addition, these may require additional investments to comply.
- Increased regulatory pressures will change the dynamics of the vendor oversight.

# BUSINESS PROCESS AS A SERVICE IS CATCHING ON

- Plans can pay as they go, but they are beginning to also buy the services behind it. It's like buying salesforce.com and the sales people – Plans like having the supplier put the different components together.
- Managing the customer experience and responding to customer concerns have created a plethora of opportunities for managing vendors as well as increasing compliance effectiveness.
- Plans are getting more savvy – many new trends are emerging
- For example, service vendors are beginning to address the entire process of CDAG and ODAG as an outsourced service, not just a system to capture information but also the processing of the cases. This streamlines and makes the process more consistent and, therefore, more compliant.

# **TOP REASONS TO IMPLEMENT AN INTEGRATED VENDOR MANAGEMENT SYSTEM FOR YOUR ORGANIZATION**

# TOP REASONS

- **Cost savings**

- Eliminate rogue buying of labor and maverick spend. You can gain hard-dollar savings by consolidating supplier and benchmarking rates to gain negotiated savings or volume/early-pay discounts, as well as soft-dollar savings through process improvements like consolidated invoicing, reduced timecard and invoice errors, and compliance tracking.

- **Visibility**

- Cost savings are driven by the analytics and reporting which help reveal where and how you are spending money on contract and project-based labor.

# TOP REASONS

- **Compliance**

- Transparent analysis of all stages of the procurement lifecycle provides greater control and ability to enforce procurement strategy and policies. By implementing a vendor management system and gaining full visibility into your staffing spend and activity, you can mitigate concerns and potential exposure to co-employment and tenure litigation.

- **Quality**

- Measure and monitor the performance of your suppliers and non-employee workforce to ensure there is an efficient process in place for suppliers and a strong onboarding program for contractors.

- **Operational efficiency**

- Automate many steps in the business cycle, reducing the time to meet objectives.

# HERE ARE 8 THINGS TO REMEMBER ABOUT VENDOR MANAGEMENT

## 1. Share Information and Priorities

- The most important success factor of vendor management is to share information and priorities with your vendors.
- Monitor performance and communicate constantly.

## 2. Balance Commitment and Competition

- One of the goals in vendor management is to gain the commitment of your vendors to assist and support the operations of your business.
- On-the-other-hand, the vendor is expecting a certain level of commitment from you.
- Always get competitive bids.

## 3. Allow Key Vendors to Help You Strategize

- If a vendor supplies a key part or service to your operation, invite that vendor to strategic meetings that involve the product with which they work.

# HERE ARE 8 THINGS TO REMEMBER ABOUT VENDOR MANAGEMENT

## 4. Build Partnerships for the Long Term

- Vendor management seeks long-term relationships over short-term gains and marginal cost savings.

## 5. Seek to Understand Your Vendor's Business, Too

- Part of vendor management is to contribute knowledge or resources that may help the vendor better serve you.
- Asking questions of your vendors will help you understand their side of the business and build a better relationship between the two of you.

## 6. Negotiate to a Win-Win Agreement

- Good vendor management dictates that negotiations are completed in good faith.
- Look for negotiation points that can help both sides accomplish their goals.



# HERE ARE 8 THINGS TO REMEMBER ABOUT VENDOR MANAGEMENT

## 7. Come Together on Value

- Vendor management is more than getting the lowest price. Most often the lowest price also brings the lowest quality.
- Vendor management will focus quality for the money that is paid. In other words: **value!**
- If the vendor is serious about the quality they deliver, they won't have a problem specifying the quality details in the contract.

## 8. Compliance

- Any vendor you're considering should be certified to ensure they have undergone the most rigorous assessments and compliance testing.

# TYPES OF SERVICE AGREEMENTS

- Here are the types of agreements that cement the understanding between service vendors and clients:
  - **Service Level Agreement (SLA).** A written agreement documenting required levels of service. The SLA is agreed upon by the service vendor and the consumer or by the service vendor and a partner vendor. SLAs should list the metrics and measures that define success for both the service vendor and the consumer.
  - **Operating Level Agreement (OLA).** An agreement between one or more internal teams that supports the requirements set forth in the SLAs.

# ELEMENTS OF SERVICE AGREEMENTS

Section	Goal	Key Questions
Purpose	Intent of the service	<ul style="list-style-type: none"> <li>To what service does this service agreement refer?</li> <li>What is the organization trying to accomplish with this service?</li> <li>What is this document meant to communicate or guarantee?</li> </ul>
Authorization	Ownership and responsibility for the service	<ul style="list-style-type: none"> <li>Who are the groups or representatives that share ownership of the service?</li> <li>How is this updated as personnel changes?</li> </ul>
Service	Shared expectations	<ul style="list-style-type: none"> <li>What exactly does the service do?</li> <li>What is its user community?</li> </ul>
Business organization and scale	Users of the service	<ul style="list-style-type: none"> <li>What are the characteristics of the user community (including, but not limited to: number of users, physical location, computer platform, operating system, and number and type of desktops)?</li> <li>How is this expected to change?</li> <li>What is the process for communicating changes?</li> </ul>
Reviews	Regularly scheduled meetings	<ul style="list-style-type: none"> <li>How and when will service targets be reviewed?</li> </ul>

# ELEMENTS OF SERVICE AGREEMENTS

Section	Goal	Key Questions
Time conventions	Common definitions	<ul style="list-style-type: none"> <li>• What hour/minute format will be used?</li> <li>• What time zone is reflected?</li> <li>• What are the conventions for business hours and business days (Monday through Friday or 24/7)?</li> </ul>
Service availability	Availability requirements and usage patterns	<ul style="list-style-type: none"> <li>• When is the service normally available?</li> </ul>
Job scheduling	Outage constraints	<ul style="list-style-type: none"> <li>• What are the nature and duration of any scheduled outages?</li> </ul>
Changes to the service	Modification process	<ul style="list-style-type: none"> <li>• What is the process for enhancing or changing the service?</li> <li>• How will proposed changes be handled? What are the triggers, decision-makers, process?</li> </ul>
Monitoring and reporting	Evaluating the service	<ul style="list-style-type: none"> <li>• What form does monitoring and reporting of the service take?</li> <li>• What is the frequency/timeline of any reports?</li> </ul>

# ELEMENTS OF SERVICE AGREEMENTS

Section	Goal	Key Questions
Metric definitions	Evaluating the service	<ul style="list-style-type: none"><li>• How are metrics measured (in terms of percentage of service availability, request response time, or incident resolution time)?</li></ul>
Service lifecycle	Beginning and ending the service partnership	<ul style="list-style-type: none"><li>• How will the service be set up for the customer, their data migrated over, and their systems switched?</li><li>• What is the exit plan at the end of the contract? How will the customer's data be returned or destroyed and in what time frame?</li></ul>
Ongoing system integration	Data transfer between systems (for example, Active Directory® Domain Services or identity management)	<ul style="list-style-type: none"><li>• How will that be initiated? Maintained? Problems solved?</li><li>• What systems need to be integrated?</li><li>• How will the integration be tested and accepted?</li></ul>

# ELEMENTS OF SERVICE AGREEMENTS

Section	Goal	Key Questions
Key contacts	Ongoing communication	<ul style="list-style-type: none"> <li>• What happens when personnel on either side changes?</li> <li>• Who is responsible for key services in both parties?</li> <li>• Who will they contact?</li> <li>• What is the expected response time?</li> </ul>
Confidentiality	Data protection	<ul style="list-style-type: none"> <li>• What are the requirements for confidentiality?</li> <li>• What data needs special protection?</li> <li>• How will data be stored and then deleted when necessary?</li> </ul>
Data integrity	Data protection	<ul style="list-style-type: none"> <li>• What back-ups will be done? What proof of restore capability will there be?</li> <li>• Does any of the data need special handling?</li> </ul>

# ELEMENTS OF SERVICE AGREEMENTS

Section	Goal	Key Questions
Follow-up	Incident management	<ul style="list-style-type: none"> <li>When a problem occurs, who will they contact? Names, numbers, email addresses, other ways to contact.</li> </ul>
End-user support	Incident management	<ul style="list-style-type: none"> <li>Who will end-users call with problems and questions?</li> <li>How can they be contacted?</li> <li>What are the hours of support?</li> <li>What is the expected response time?</li> </ul>
Provisioning and de-provisioning	Handling user changes	<ul style="list-style-type: none"> <li>How will normal provisioning and de-provisioning of new and departing users or systems be handled?</li> </ul>
Compliance	Meeting policy and regulatory requirements	<ul style="list-style-type: none"> <li>What are the management objectives and policies that must be met by the service?</li> <li>Who is responsible for design, test, and documentation of controls?</li> <li>What certifications are required from the vendor? How will these be verified?</li> </ul>

# CONCLUSION



- Managing vendors can be either a chaotic, ad hoc process or a well-defined, organized process.
- Given the complexity of most sourcing arrangements, it is in the best interest of both Plan and vendor to have:
  - Clearly defined vendor management processes,
  - Pre-defined agreements for managing and administering contract terms, and
  - Quantifiable measures for success.





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Gorman Health Group, LLC (GHG) is a leading consulting and software solutions firm specializing in government health programs, including Medicare managed care, Medicaid and Health Insurance Exchange opportunities. For nearly 20 years, our unparalleled teams of subject-matter experts, former health plan executives and seasoned health care regulators have been providing strategic, operational, financial, and clinical services to the industry, across a full spectrum of business needs. Further, our software solutions have continued to place efficient and compliant operations within our client's reach.

GHG offers software to solve problems not addressed by enterprise systems. Our Valencia™ software reconciles the capitation payment of more than six million Medicare beneficiaries and continues to support customers participating in the Health Insurance Exchanges. Nearly 3,000 compliance professionals use the Online Monitoring Tool™ (OMT), our complete Medicare Advantage and Part D compliance toolkit, while more than 45,000 brokers and sales agents are certified and credentialed using Sales Sentinel™. In addition, hundreds of health care professionals are trained each year using Gorman University™ training courses.

We are your partner in **government-sponsored health programs**