Traditional outsourcing vs. strategic smartsourcing
A new relational model for a new era in healthcare

Nick Howell, Senior Vice President, Optum Transformational Partnerships, provides his unique perspective on health system partnerships that can help accelerate growth and performance as an alternative to traditional outsourcing.

What is the difference between a traditional vendor outsourcing model and a strategic smartsourcing partnership?

**NH:** Traditional outsourcing focuses on cost-cutting, can have one-sided or commodity-oriented contracting models, and take a one-size-fits-all approach that tends to replicate the status quo. Strategic smartsourcing is focused on creating a far broader impact by allowing providers to not only cut administrative and vendor costs, but also increase innovation, deliver long-term transformation across multiple system functions and collaborate on market growth strategies under an aligned agreement. Both partners have incentives to invest in growing together and engaging broadly and creatively, developing opportunities over time.

What are some of the factors driving health systems to consider more transformational partnerships?

**NH:** Over the past several years, and now more than ever as health systems struggle with the challenges of COVID-19, chronically weak operating margins are leaving organizations financially vulnerable. In addition, non-strategic administrative and IT functions have required ongoing and escalating capital investments, crowding out more strategic and growth-oriented investments. Internal transformation approaches have proven to be costly and to have limited effect, and mergers and acquisitions activity has been shown to not result in cost/performance improvement.

Given these factors, many health systems are looking for ways to remain independent while tapping the capabilities and innovation of a partner to create virtual scale, preserve capital and accelerate their performance agendas.

How do organizations implement a mutually beneficial agreement?

**NH:** Typically, vendor partnerships have been transactional in nature, often with both parties entering negotiations with adversarial mindsets, looking to gain an advantage. These legacy approaches need to be replaced with a mindset of creating mutual results based on strategic partnership principles. Co-created partnership missions need to be formed for aligned objectives, and joint problem-solving mindsets should drive contract terms to future-proof the relationship and include expansion joints to grow together on a solid foundation. Without both stakeholders being held accountable to the strategic intent of the relationship, the partnership will never reach its full potential.

Outsourcing is often associated with, or can result in, reductions in staff. Is that true for all approaches?

**NH:** Staff reduction and moving jobs offshore are some of the traditional outsourcing results based on commoditized service models. In a strategic smartsourcing partnership model, those traditional outsourcing levers might be less than a quarter of the total value creation opportunity of the partnership. Top-line growth and meaningful improvement in the cost of care delivery drive the great majority of the business cases. In addition, a smartsourcing partnership can actually support the talent agenda by providing career growth opportunity for higher performers who become part of a partner organization that is focused on providing support, technology and analytics services in a company growth model.

What should health systems look for in a strategic partner?

**NH:** Organizations should look for approaches that go beyond commodity outsourcing for partnerships that can bring capital investment, guaranteed and outcome-based fee models, and a commitment to ongoing innovation. Both organizations should engage in a deep analysis of their companies’ respective missions, values and cultures.

Beyond a cultural and values-based fit, health systems should look for partners with a strategic commitment and ongoing investment to drive performance and cost improvement in the healthcare system. Industry focus and strategic commitment are critical to the long-term strategic impact of a partnership.

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