One Size Does Not Fit All

Tailoring Laundry Contracts to Your Needs

BY DERI ROSS Pryor

In the current economy, the top priority for upper level administration of any business or industry is to maximize dollars without impeding on quality of services. For the laundry industry, this can sometimes make getting the job done correctly difficult. However, it doesn’t have to be that way. A better understanding of the pros and cons of the options available allows for more informed decision making.

Often those in administration make decisions based on cold facts and figures instead of practical information and input from those most affected by their decisions. A lack of awareness of just what is needed for the laundry facility – whether on or off premise – to produce quality work efficiently can inevitably create higher costs in the long run. The Affordable Care Act (ACA) has created pressure in terms of reimbursement. Reimbursement hinging on patient satisfaction data (HCAHPS) means constant adjustments to processes and expenditures within healthcare. As often happens, those at the bottom of the care ladder are the ones who feel the effects the most and the earliest. Despite being an indispensable facet in patient care, laundry services are among those at the bottom, for one simple reason.

“Laundry does not drive revenue,” says Bill Smith RLLD, CHESP. “Unless we take into account patient satisfaction as determined by HCAHPS scores as a factor in reimbursement and hospital linens being a factor in that satisfaction… laundry is a service that does not directly affect a healthcare facility’s top line performance.” As such, it is easily dismissed and often moved out of house since revenue generating space is the most desirable space. When an on-premise laundry (OPL) does exist, some expense line items are not correctly attributed. Utilities, equipment depreciation, and employee benefits are good examples of costs not identified in many
laundry operating statements. This often times skew the perception that keeping it in-house would be more economical. A better understanding of how a laundry must operate and all the different options available is important for those in administration to make truly informed decisions.

In-house laundries require a high initial start-up cost and the capital dollars must compete with such things as a MRI machines and other clinical equipment that generate revenue. In-house laundry is a tough sell in today’s healthcare environment. Because of this fact, the recent trend is toward off-site commercial and cooperative laundries. While trends shift over time, and they may again, OPLs do not presently dominate the market as they have in the past.
Co-ops vs. Commercial

Co-ops have become a popular option with many hospitals. When facilities share in the capital expenditures, their cost and risk is spread amongst the partners. Also, because several hospitals are investing their capital into a single enterprise, a co-op can process linen more efficiently and with better equipment than a single hospital might be able to afford on their own. Co-ops especially offer these economies of scale when buying linen products, energy, chemicals, etc. However, since they are not driven by profit, but by producing the best quality at the lowest costs, the participating hospitals must be ready to reinvest when it is time to replace or upgrade equipment. This means anticipating and setting aside money in order to keep the co-op running at high efficiency on a consistent basis. This becomes critical especially if the cost of money (interest) increases significantly.

In contrast to co-ops, commercial laundries are for profit. The pressure is on them to meet co-op pricing while making enough to upkeep their facilities and equipment. The reality of this is that smaller hospitals will usually pay higher prices. The advantage of using a commercial laundry is that they meet the demands for high efficiency and quality outcomes is their own responsibility, and only important to the hospital in terms of pricing and quality. It is up to them to procure the best equipment, chemicals, and textiles (for rental contracts), as well as learn and follow best practices for quality outcomes. The healthcare facilities are only responsible for minimizing linen loss, and monitoring that incoming linen meets quantity and quality standards. The downside of this is that the healthcare facility has little control if the quality begins to slip. Missed deliveries, stained or torn linens, and so on, are all symptoms of a laundry facility that is experiencing difficulties. Difficulties the hospital cannot address directly. The only leverage the hospital would have in that case is to renegotiate contract prices or taking business elsewhere, both of which will take time to resolve the issue.

COG vs. Rental

While the cycle will always exist between OPL, co-op and commercial laundries, yet another cycle exists in the laundry space: Customer owned goods processing vs. a rental program. Customer owned goods (COGs) give hospitals the advantage of owning their general quality outcomes through their choice of linen products. However, when renting the burden of quality in the specifications lies with the commercial company since they must always work to ensure positive return on their investment.

It is possible to have a contract with the laundry facility that allows for both rental and COG items. For example, all core items, such as bed linens, patient gowns, and bath towels, may be rented, while specialty items such as curtains or scrubs may be COG. This may be a bit more costly for the hospital as some laundries may want to steer away from these blended contracts. COG items absolutely lead to extra labor focus so they are not lost in the laundry’s system. If there is a mix-up on delivery, their reputation is on the line.

With rental, the burden lies on the laundry to make sure par levels are met, and that comes with strong encouragement to the customer to avoid overstocking user areas. In these scenarios the laundry will inject new product to meet demand of ordering. While that may reduce anxiety of linen users, it is expensive to the hospital that allows ordering without controls. It will significantly help the relationship with the laundry when the customer requires each user area to set par levels in their storage locations where they keep linen supplies. This should be true from the user area storage cart to the small cart or cabinet in locations like the Emergency Department or Radiology.

A pooled system is linen that is not assigned to any one hospital. These systems are found in co-ops and commercial laundries. Stated simply, the linen that is in one hospital today may be in a hospital the next state over in a couple of days. In these cases the laundry operator is responsible for putting in new linen to meet ALL their customers ordering and quality needs. Byers should recognize that this will be the most economical system.

A major difference between rental and COG: with renting, the laundry generally delivers what the customer requests. With COG, the hospital only gets back what it sends to the laundry. This is an important difference to bear in mind when...
considering par levels and losses as the customer is then directly responsible for maintaining the proper number of pars in the system.

For COG customers it is critical that regular inventories be taken. This is the only way to assure good flow through your system. Good laundry providers will support that process by counting the dirty laundry going out and clean delivery for inventory day.

Failure to maintain proper par by forcing the laundry to turn linen quicker will only deplete your system quicker and eventually lead to lower quality. If a hospital is using COG and is experiencing high loss due to items walking out the door with patients, EMS, or staff, the items left in the system will be quickly destroyed due to oversuse and processing. The hospital should be continually paying to inject new product into the system to meet par level ordering demands.

**Price per Pound vs. Price per Piece**

Generally speaking, there is only pricing by piece in rental systems and this option is only as good as the people counting pieces. In the laundry, most items are machine counted and will be fairly accurate. Some customers, usually high volume, prefer pound pricing as confirming pieces become more laborious. Piece pricing may only be advantageous if nursing staff has been well educated on linen loss. On the laundry side, if they are paid by the piece, their only incentive for quality control is customer perception and continued satisfaction. They will get paid for each piece regardless of quality.

With “per pound” pricing, the quality of the items directly impacts cost. As items are washed repeatedly, they become threadbare as they lose cotton. This lowers the weight and thereby the billable pricing. Thus the laundry will keep an eye on using correct processes and chemicals to maximize the life of the linen. If the linens are rentals, they will be sure to inject new product as needed to maintain the quality and weight of each item. On the COG side there is incentive to take good care of the linen to keep poundage up. Small facilities doing rental (less than 1 million pounds) are more likely to see piece pricing.

**Soiled Weight vs. Clean Weight**

Whether a rental or COG customer, Smith doesn’t recommend contracting a billable cost based on soiled weight. “There are too many trust pitfalls for the relationship,” Smith says. “The key thing here is that if you are doing a comparison to other providers, make sure of what the provider is offering. You don’t want to compare a clean weight seller to a soiled weight seller.” The only advantage for a hospital using the soiled weight option is that it should drive them to educate staff on making sure what goes in laundry bags is only linens and not other items such as trash or errant medical equipment. The better option is clean weight, since they only have to pay for clean, usable linens.

A COG customer will definitely want to track clean vs. soiled weight. The variance should be around 8% according to Smith. But, he also states that number is dependent on many variables. Acuity mixes, inpatient/Outpatient mixes, and time of year (incontinence higher in winter) and housekeeping mop and rag cleaning weights can skew data. Complete baseline testing with a new provider to determine the expectations. Whether on a rental or COG make sure there is agreement on the front end of the contract.

Smith also notes that the above all pertains to scale weights. When utilizing linen management software, be aware that item weights in those programs should be “average” weights. Those weights will always vary from actual scale weights.

**The (Un)Holy Grail of Linen Contracting: Linen Loss**

Regardless of which options, or combination of options, a hospital chooses, one factor is a guarantee: linen loss.

“You can sit in any hospital lobby or emergency department and watch product walk out the door,” Smith says. Linens absolutely walk out of facilities, some in greater quantities than others. He warns that specialty items are especially susceptible to high losses, items such as kaumographed baby blankets or bariatric gowns. “My wife still has the baby blankets with a hospital’s name on it,” Smith admits. “A ‘souvenir’ commemorating our child’s birth if you will.” It is not always the patients that are to blame; nurses are not apt to strip away a blanket from an elderly person going home if they complain of being cold.

“Bottom line,” says Smith, “expect to pay for linen losses but educate your staff on how to limit those costs. Can better discharge planning head off the losses? A good laundry provider understands your business and patient care needs. Look for the one that can help by bringing solutions.”

The cost of covering linen losses may be built into the contract as a flat fee, based on revenue dollars or some other factor. This process makes the cost of linen loss more predictable for budgeting purposes. This would be important to the economic buyer of the service. Another option is to bill the hospital after a full inventory to determine missing product. This is the option that leads to big surprises for administrators. Which option is more advantageous for the hospital obviously depends on history of linen loss and staff’s attitudes/behaviors.

Inventory based billing can also be challenging and contentious on a rental program. If that loss bill is a large number then issues often arise between the laundry and customer. The laundry rental company has no control over what happens in a facility. For a COG customer, it becomes a direct cost on the operating statement. Often laundry providers are blamed for such losses, but more often than not, it is a lack of education with hospital staff that is the culprit. Department users know where linen leaves the building. Be prepared to have frank “no repercussions” discussions on the subject with staff. Close the gaps where it is most prudent.
Linen Personnel/Linen Management Software

Some providers offer a linen management solution which can really help manage costs. This can even go so far as to staffing linen rooms. Rental laundry providers often like this option as it gives them more control of inventory and can limit overstocks in turn for managing their investment in linen product. The opposite is of course true for COG accounts. They want control of “rag outs” which manages the quality a little better.

For COG accounts, linen management software is often offered by the textile vendor. “Managing distribution to control costs in critical to all consumers whether you are a rental or COG customer,” Smith says. “Make sure you have provided management tools to your distribution team and manager inside the facility. They need to be able to measure what they manage and the linen management software is key.” The providers of the software and most laundries will assist in making that part of the process successful. Most of the time, it is part of their customer service offerings.

In the end, all of the decision making process—choosing the best provider options, quality options/control, and loss prevention—comes down to open lines of communication and the efforts in educating everyone, from decision makers to end users of linen product. Administration must allow themselves to be educated on the very practical ways that linen and laundry services impact costs and potential patient outcomes. Nursing staff must be educated on correct linen usage and loss prevention. Laundry services must be willing to work with the customer in managing control of costs and usage, and in finding the best possible scenarios for each customer’s needs, since these will always vary. In short, no single option or scenario is necessarily better than the other. However, with careful consideration, education, and asking the right questions and actually listening to the answers, healthcare facilities can find the perfect fit.

THINGS TO CONSIDER WHEN CHOOSING A LAUNDRY

When contracting with a coop or commercial launderer, tour the laundry and learn how they operate. Look at the age of equipment and ask about their maintenance. Does there appear to be system redundancy? Ask about back up procedures should the laundry lose power or other utilities. You want reliability. Yes, visuals on tours can be meaningful and most professional launderers know that as fact. Watch their processes and ask questions if you see concerns. Look at the quality of linen going down their production line. Watch how they count and post packing slip numbers. What is the average age of their delivery fleet?

As far as service, do they have customer service representatives? You will want face to face meetings with the launderer. This person should also be equipped to educate your facilities primary contact and other customers within your facility. How often will they visit your facility? What can they do to help reduce linen loss in the system, other than a regular bill? Clearly understand how they operate their par level system for your linen room AND how the ordering process will work (on a rental program). Define the expected delivery times and confirm they can be met. How are linen carts and delivery trucks sanitized?

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