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## time to raise the standards for FANS

The quality of food and nutrition services should be a priority for hospital leaders, given the tremendous positive impact a high-quality food services program can have on patients' satisfaction with a hospital.

### AT A GLANCE

To obtain the best results from their organizations' food service programs, hospital leaders should conduct in-depth assessments of the programs with the guidance of individuals who possess expertise in the broader food service industry. Such an assessment should comprise three broad steps:

- > A contractual best-practice evaluation
- > A financial analysis
- > An operational assessment

In today's challenging economic climate, it has never been more important for healthcare organizations to implement programs that improve quality care, reduce costs, and actively promote a healthy lifestyle for their patients. The transition from volume-based to value-based care demands such efforts in all aspects of a provider's operations—and food and nutrition services (FANS) is no exception. Yet hospital leaders often do not regard FANS as a priority, tending to defer decisions regarding FANS strategy to those charged with managing food services rather than openly questioning whether the organization is pursuing an effective FANS approach.

What many hospital leaders do not realize is that their hospitals' FANS programs may present numerous opportunities for both cost reductions and service improvements, with significant implications for the bottom line. Moreover, just as with other service areas, opportunities within FANS to improve quality and reduce costs are not mutually exclusive, so efforts to seize these opportunities should be coordinated. Combined quality improvement and cost reduction efforts are more likely to be successful, however, if the FANS program is managed from the operational perspective of the food service industry—that is, drawing on insight of those with strong expertise in retail restaurant operations. The role for senior leaders is to ensure that their organizations have adopted this approach.

### The Traditional State of FANS

A food-industry approach to hospital FANS is a departure from how such programs traditionally have been managed in health care. All too often, hospitals have devoted far less attention to ensuring their food service offerings and operations meet the standards of quality that are required for, say, a restaurant chain to succeed in the highly competitive food service industry, and the lackluster results have tended to undermine patient satisfaction and hospitals' overall brand image.

The current state of FANS among many hospitals and health systems is predominantly a reflection of the various limitations of organizational leadership and those charged with operating the programs. It is rare, for example, to find a health-care administrator who has expertise in FANS: How many administrators can size up their organization's kitchen and know how many employees are needed to operate the food program at a high standard? Healthcare administrators typically feel they have little choice but to trust that their FANS directors are meeting their organizations' mission and financial and quality expectations. Yet for various reasons, FANS operators, whether in-house or outsourced, may be falling short of these expectations.

Consider, for example, that in an outsourced setting involving a contractor, the contractual structure all too often places all of the financial risk on the hospital. Contractors feel little pressure to operate as efficiently as a retail operator, because the hospital is solely responsible for their income. Moreover, financial reporting in such arrangements is often lacking and nontransparent.

Meanwhile, in an in-house setting, cost and quality typically depend on the competency of the food service director, who may not possess the experience and expertise that his or her counterparts in a retail setting require to be successful. Often, hospital food service directors are left on their own to build a successful program, while being hampered by a lack of access to the programs and standards available to outsourced providers (such as standard recipes designed to ensure diets are correct and to avoid food allergy issues, as well as forecasting and production tools).

In larger hospital systems, food service directors often communicate among themselves to share best practices. Even so, uniform programs are rarely found in in-sourced systems. Quality and cost of service can vary not only from one facility to another within the same system, but also from one segment of food service to another (e.g., retail cafeteria versus patient care).

## Evolution of FANS

Negative stereotypes regarding hospital food have been widespread in American culture. Based on the prevalence of such perceptions, it seems that the general public may have been more willing to tolerate lower quality in hospital food services in the past than they are today.

Indeed, there also has been a significant cultural shift in the way we view food from how we did only a decade ago. As a culture, we have become much more discerning in what we eat, as evidenced by the broadening of menus in traditional fast-food restaurants to include more healthy options and the proliferation of new fast-food restaurants that have achieved market success by promoting higher quality and freshness. Recent reports in the media indicate that our perceptions of hospital food are changing as well.<sup>a</sup>

Initiatives to raise the quality of a hospital's FANS program recognize the direct impact an organization's food service offerings can have on the perception of the organization by virtually everyone who comes through the doors, including patients, employees, visitors, and vendors. The problem remains, however, that the quality of the food provided in hospitals still often falls short of the standards of food purchased in the retail world.

Nonetheless, healthcare FANS programs continue to evolve. One of the most significant changes has been the shift from approaching FANS as an independent department to applying systemwide standards to the program, focusing on improved food quality, increased patient satisfaction, heightened emphasis on healthy eating, and a strategy to leverage retail revenues to offset costs.

## Contemporary FANS Leadership Requirements

For hospital leaders, the critical concern for FANS is to ensure that FANS managers have the expertise

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a. See, for example, Carlson, W., "Defying a Stereotype with Gourmet Dishes," *The New York Times*, N.Y./Region, July 29, 2011, and Bauer, K., "Putting Aside Perceptions of Hospital Food: Elmhurst Memorial Healthcare Freshens Up Offerings at Hospital Café," *TribLocal*, Sept. 17, 2009.

required to achieve food-service-industry standards of quality and efficiency, particularly if food service is managed in-house. Simply put, the goal should be for the hospital's food quality and service to be on par with the offerings found in a retail setting. FANS operations also should be run with the same level of efficiency needed for a retail business to be profitable.

It can be difficult to achieve such standards relying only on the food service management expertise of group purchasing organizations or healthcare consultants who do not specialize in food services. Even an outsourced healthcare food service company may lack the insight and expertise needed to achieve exemplary performance in FANS. Whatever approach is used, hospitals can benefit from reaching out to operational experts from the food service industry to guide their efforts.

In the meantime, hospital leaders also should demand more not only from their in-house department heads, but also from outsourced FANS vendor partners. In an outsourced arrangement, a hospital requires a true partnership where both risks and rewards are shared. Without this type of relationship, efficiencies, cost reductions, process improvements, and high-quality products will remain elusive.

Whether a hospital outsources its food service operations or manages them in-house, healthcare administrators should be fully informed as to exactly what they are paying for in their food service program. With outsourced partners, they should expect transparency, shared financial risk, cost guarantees, stabilized bills, and minimal waste.

### FANS Assessment

Performing a FANS assessment is an important step in determining the current state of an organization's FANS program and in identifying potential savings and improved efficiencies in food-service operations. All too often, however, these assessments are approached from a benchmarking perspective, which frequently leads to cuts in service or quality to achieve financial

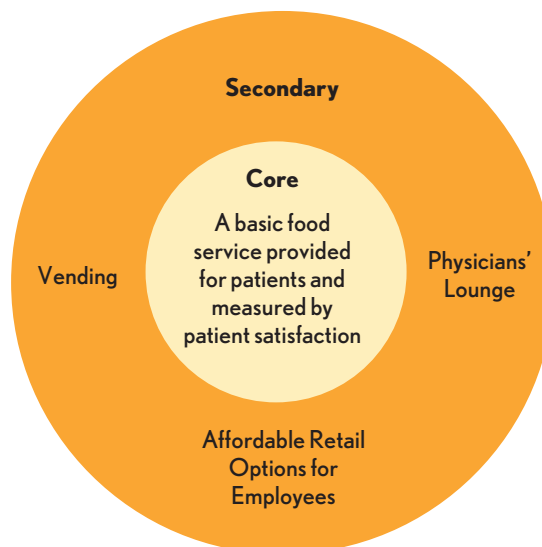
savings. For instance, many who perform a benchmark assessment will compare the number of FTEs in the FANS department with the average benchmark for similar facilities; if the FTEs exceed the average, a decision to reduce FTEs is made. Cutting FTEs but not changing processes almost always leads to a decline in quality.

Food service industry experts tend to be more qualified to perform FANS assessments because they are more likely to possess the insight needed to identify the structural changes required to achieve the best results.

In some circumstances, an effective FANS assessment—followed by development of a hospital-specific implementation strategy—can produce savings of up to 40 percent, but on average a 25 percent reduction is achieved. To achieve such results, a program typically needs to undergo a significant evolution, with improvements such as changing the model for patient delivery, implementing advanced production techniques, renovating retail sites to generate revenue opportunities, and revamping job duties to use staff for the right tasks at the right times.

The findings of such an assessment also could create an opportunity to access capital from third parties for renovations and program changes,

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such as moving from a cook-chill method, where food is fully cooked and then quickly chilled for storage and service as much as five days later, to a room-service model, where patients select their meals from a menu with a large variety of options and place their orders at the time they are hungry. A room-service model guarantees that food is the appropriate temperature and that it is served fresh. This method also can reduce costs because patients select only the food that they will actually eat, thereby reducing waste. (For an example, see the sidebar on page 5.)

- > Cafeteria
- > Vending
- > Catering
- > Physician-lounge services
- > Delivery of patient meals
- > Fixed expense trays (e.g., emergency department and observation meals, guest trays)
- > Third-party providers

Broadly, the assessment should comprise three steps.

### Assessment Steps and Goals

A FANS diagnostic assessment should include a review of the contract (if applicable), historical financial data, patient satisfaction scores, and operational systems. The assessment should analyze the following services, as applicable to each institution:

**Contractual best-practice evaluation.** This step involves assessing existing contracts (if applicable) and determining the shortfalls in comparison with the new contractual best practices for the industry (e.g., regarding food and nutrition, vending, contract dining, and health care). If the food service program is outsourced, contracts should be written to allow for complete transparency

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of costs and revenues. Budgets should have been negotiated prior to execution of the agreements, and the contractor should be held responsible for operating within the budget (i.e., guarantee the budget). Contracts should include a performance incentive program based on actual patient and retail satisfaction scores.

**Financial analysis.** An important goal for the financial component of the FANS assessment, whether the hospital outsources its food service program or operates it in-house, is to identify the actual total cost for all services provided. To this end, the assessment should review historical cost data

in areas such as revenues, total costs (labor, product, direct, fees), rebates, and participation levels. Often, interdepartmental allocations can hide some of the costs of the food service operation. Indeed, a full financial review often will expose costs that hospital administrators had no idea existed. For example, many hospitals allocate catering costs to other departments or do not include taxes and benefits in the department statement. The leaders of such a hospital then can easily make the mistake of comparing costs with a benchmark that includes these items, causing them to assume incorrectly that their organization has a cost-efficient department. The actual costs

## Case Study: Benefits of a FANS Assessment

The experiences of one acute care hospital with an average daily census of 425 offer clear evidence of the potential benefits to be gained from assessing a hospital's food and nutrition services (FANS).

The hospital, which had an in-sourced food program, was experiencing low food and nutrition patient satisfaction scores, and its leaders believed the costs for the program were excessive. But they did not know the extent to which costs exceeded industry norms or how to implement process improvements to lower costs. These leaders engaged experts from the food service industry to conduct an assessment comprising a preliminary financial analysis and a subsequent weeklong on-site operational assessment.

**Financial analysis.** The hospital CFO believed the hospital was spending approximately \$8 million annually on FANS, but the analysis ascertained that the actual cost of FANS was about \$9 million when the allocations to other departments of the catering, floor stocks, requisitions, and taxes and benefit costs were included.

**Operational assessment.** The goal of the assessment was to understand current operations and identify potential process improvements. It was determined that the hospital had the potential to increase retail sales by \$500,000, or 21 percent, through more overt branding and a change in offerings, service styles, and cash register systems. The assessment also identified the potential to reduce operational costs by about \$1.2 million, or 10 percent, by addressing production system inefficiencies, overstaffing, and excessive waste and by

shifting from an ineffective traditional tray-line service to a room-service model. The room-service model changed the production system, thereby eliminating late trays and minimizing waste (traditional tray-line involves bulk production based on forecasting, typically resulting in high waste levels), while giving patients the food choices they want, when they want it.

Potential program changes identified as a result of the assessment were projected to achieve about \$2.2 million in savings annually. The hospital leaders determined that the fastest way to implement the changes was to find a partner through a request for proposal (RFP) process, based on the premise that a partner could not only bring standard systems and transition resources, but also invest in improvements such as facility renovations, new equipment, and IT systems. The hospital's contractual agreement mitigated risk for the organization, providing the partner with incentives based on performance excellence and guaranteed costs, and imposing penalties for the partner's failure to meet performance thresholds.

As a result of the agreement, the hospital received \$1.25 million in nonreimbursable capital investment and a guaranteed savings of \$2.4 million annually. Moreover, the combination of the renovations and change to a room-service model had a major impact on patient, visitor, and employee satisfaction and on the hospital's overall image.

The entire process encompassed six months, including the transition time and contractual negotiation.

of the operation can be hundreds of thousands of dollars more than thought, and costs can be managed only if they are exposed.

Another important goal of the financial assessment is to ascertain the actual revenue potential from retail outlets. Quantifying the participation rates of employees and visitors—that is, by seeking to ascertain the extent to which employees and visitors are utilizing the retail outlets on a regular basis—can assist in determining the potential revenues, which can be significant in lowering the program's net cost. Once the potential is quantified, then the operational assessment is used to determine what retail program should be implemented to meet the demand.

All too often, complacency with the status quo and a lack of resources can cause a hospital to fall short of meeting its revenue potential. If, for example, a retail outlet lacks innovation and does not provide the quality and selection hospital employees and visitors expect of restaurants outside of the hospital setting, these potential customers will likely seek meal options elsewhere.

Once the financial picture is understood, the hospital can develop a strategy for accountability using metrics, contract structure (in an outsourced program), incentives, guarantees, and other methods to place the financial risk and responsibility firmly on the contractor or in-sourced department leaders.

**Operational assessment.** This step should include conducting management interviews and an on-site assessment of existing operations in all areas covered by the service. The goals should be to improve cost transparency by linking financial plans to operational plans and activities, to challenge existing financial plans to identify and release unsupported balances, and to centralize budget contingencies to better manage scope and wasteful spending. A thorough on-site assessment can expose operational inefficiencies, such as overstaffing and product costs that substantially exceed comparable costs found in other segments of the food industry. A retail-minded approach should be taken when

determining a plan for change. Through this approach, facility-level leaders assume accountability for reaching financial goals through high-level management and monitoring of operations. Results include right sizing the staff throughout the day, ordering appropriately, monitoring waste, and evaluating expense decisions regarding direct costs (e.g., purchase of paper goods, replacement of utensils and small equipment). In the retail restaurant environment, managerial financial accountability is standard, but it is historically lacking in the health-care FANS environment.

### Ways to Sustain Program Changes

After the assessment is complete and the process improvement strategy is implemented, the institution should continually monitor the program to ensure long-term success. In an outsourced setting, the administrative needs should be minimal if an appropriate contract has been negotiated.

Contractual requirements should include provisions holding the outsourced partner accountable for providing the necessary information in financial and operational performance in real-time, thereby allowing the hospital to know its food-program cost on a monthly and annual basis—with no surprise bills.

Meanwhile, the hospital should agree to assist the contractor in controlling the variable expenses (e.g., catering, floor stocks), using approval processes and communication channels to support cost control costs in these areas. The outsourced company should be held accountable for developing methods that inform the hospital of these costs and provide detail regarding how the charges are calculated.

In an in-sourced setting, the procedures should be the same, but with accountability placed on department leaders.

In summary, to sustain the cost benefits of redesigned FANS program, a hospital should:

- > Improve financial awareness and establish clear accountability and ownership of cost throughout FANS

- > Sustain identified savings by recommending a robust set of cost-management processes, tools, and capabilities (e.g., budgeting, reporting, plan delivery monitoring) and a new contractual arrangement (when appropriate)
- > Develop a hospital chain of command to monitor this process

### Hallmarks of FANS Excellence

The importance of FANS excellence in today's healthcare organizations is greater than ever. Hospitals can clearly benefit from efforts to control the increasing and variable cost of FANS, given the economic pressures the industry is facing. It may be even more critical, however, with the growing importance of patient satisfaction to provider success, to have in place a program that promotes health and reinforces the mission and brand of the institution. There are challenges to either food service option—outsourced or

in-house—but these challenges can be overcome with a strategy and operational approach that count quality and efficiency as hallmarks. ●

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