

VALUE-BASED CONSTRUCTION

**How Healthcare Facilities Teams Can Use Data to Control Costs,
Finish More Projects and Impact Patient Care**



GORDIAN®

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Background: The Shift to Value-Based Care

The fee-for-service model has long been the norm in healthcare. If you've ever been to a doctor's office or visited an emergency room, you know how this model works: Medical professionals deliver services and charge fees to payers (both insurance companies and patients) for those services. The more services they deliver, the more fees they charge.

There's a simplicity to the fee-for-service model of healthcare billing, where the volume of services matches the volume of fees. However; this approach has one enormous flaw in that it is divorced from patient outcomes. The bills remain the same, whether the patient gets better or not.

The shift to value-based care turns the status quo on its head. According to the Cleveland Clinic¹, under a value-based care model, "doctors and hospitals get paid based on outcomes, not on numbers of procedures done, patients seen, or how much they are charged." The academic paper "Defining and Implementing Value-Based Health Care: A Strategic Framework"² by Tiesberg, Wallace and O'Hara defines value in healthcare as "the measured improvement in a person's health outcomes for the cost of achieving that improvement." The authors claim that "care provided in this way aligns delivery with how patients experience their health and reconnects clinicians to their purpose as healers."

According to the New England Journal of Medicine's (NEJM) "Catalyst"³, the benefits of value-based care are widespread. NEJM reports that under value-based models patients spend less money for better health, care providers operate more efficiently and achieve higher patient satisfaction, and payers control costs and reduce risk.

In sum, value-based care makes patients healthier, enables clinicians to lean into their expertise and focus on practicing medicine, enhances transparency among all who have a stake in a patient's treatment plan and helps control costs.

As value-based care grows in prominence, hospitals and care organizations are beginning to look for more ways to apply its tenets to their facilities operations. Currently, an opportunity exists to imprint the core principles of value-based construction on the methods by which construction services are purchased. Applying the principles of value-based care to the way healthcare systems contract and complete construction work can help healthcare systems control costs, maintain and improve facility performance, and deliver quality care through collaboration and data.

Value-Based Construction: Emphasis on Collaboration

One of the great strengths of value-based healthcare is its dependence on collaboration between professionals. With this model of care, the old siloes come down and are replaced by a team of practitioners all following a common course for treatment. Often as part of an Accountable Care Organization (ACO), this network of professionals shares information and coordinates patient care. It is important to note that not everyone in this network is necessarily a doctor – the team may include physical therapists, dieticians and other specialists.

The same collaborative atmosphere, where specialists share information and responsibilities, can apply to construction projects. The older models of construction project delivery – Design-Bid, Design-Bid-Build, CM At Risk, and the like – create, at best, a transactional relationship between contractors and project owners. These, too, are fee-for-service models: The more work a contractor does, the more he can charge.

Historically, the transactional nature of the owner/contractor relationship has bred suspicion between parties. Owners think contractors are taking advantage of them. Contractors think they are getting stiffed. Neither looks at the other as a trusted business partner. But if they applied value-based healthcare's collaborative model then they can change that dynamic.

By creating incentives for good work and substituting one transaction for a pipeline of jobs, the entire contractor/owner relationship can be transformed. Hospital facilities staff can form long-term relationships with contractors who specialize in doing construction work in a healthcare setting. Contractors can help healthcare centers make the most of their budget by offering value engineering options. Adversaries can become collaborators. More importantly, care facilities can better serve their patients.



Value-Based Construction: Reliance on Data



The Centers for Medicare and Medicaid Services' (CMS) operates the Hospital Value-Based Purchasing (VBP) Program⁴ that "rewards acute care hospitals with incentive payments for the quality of care provided in the inpatient hospital setting." As part of the program, CMS encourages hospitals to adopt evidence-based standards of care to achieve the best outcomes for patients. This focus on data and evidence is common to value-based care programs and should be a part of construction project delivery practices as well.

As it stands, healthcare project owners depend on contractors to produce construction estimates with current and accurate costs. Even if a facility uses a construction cost database such as [Gordian's RSMeans data](#) to create their own independent estimates, when the rubber meets the road and work needs to be contracted, there may be discrepancies between the in-house estimate and the contractor's bid because both parties aren't always working from the same set of facts. That reality creates inconsistent cost standards from one project to the next.

A value-based approach to healthcare construction would embrace cost data engineered for contracting construction services. In much the same way that value-based care relies on an evidence-based approach to the care of an individual patient, value-based construction would use preset, independently-verified material, labor and equipment costs specific to the needs of an individual facility.

Possessing such unit line items and sharing them with contractors would create common ground and ensure that project owners are paying a fair price for the work they need. Further, certainty regarding the costs of construction would allow healthcare facilities to budget more accurately and find more avenues to bolster the patient experience.

Your Ally in Innovation



TRUSTED CONSTRUCTION PROJECT DELIVERY

There are over 300 active
Gordian JOC programs in the U.S.

Forward-thinking organizations that desire to apply the principles of value-based care to their construction procurement operations should seek the assistance of an experienced industry partner. With over 30 years of experience, Gordian is the unquestioned industry leader in Job Order Contracting (JOC), a data-driven, value-based construction procurement process.

The following pages describe Gordian's JOC process and explain the benefits our clients have realized as they use JOC to complete \$2.6 billion in construction work every year.



Gordian's Value-Based Construction: Program Setup

When implemented properly, value-based construction methods like [Gordian's Job Order Contracting \(JOC\)](#) maximize the quality of the project outcome by engaging vetted contractors, creating consistency, incorporating diversity and inclusion goals, and bringing cost-effectiveness to construction project delivery.

Under the value-based construction model, the project owner works with Gordian to bid out a pre-priced customized Construction Task Catalog that represents unit pricing for construction materials and labor based on the market in their geographical region. Data precision is crucial differentiator. It might help to think of it like this: The cost data used in traditional project delivery will get you to the football stadium; the cost data used in Gordian's value-based construction will get you to the seat on your ticket.

After pricing is determined, the owner stipulates contractor team requirements such as certifications, training and utilization. The big difference between Gordian JOC programs and other providers of Job Order Contracting is this: Gordian does all the legwork. We will reach out to area contractors and teach them how to bid on an owner's Gordian JOC program. We'll even train them to follow JOC-specific best practices, so projects run smoothly. Once the general contractors are awarded, Gordian will conduct additional outreach to sub-contractors to help ensure your program meets your inclusion goals. In the end, owners have an indefinite delivery indefinite quantity (IDIQ) contracting process that engages a pool of qualified healthcare contractors that can be issued task orders over the period of the contract.

Because value-based construction is developed directly through a partnership with institutional policy and procurement guidelines, diversity/inclusion goals can be included and tracked in the award. Further, the use of existing Group Purchasing Organization (GPO) or co-op Job Order Contracts assure transparency and auditability, which are already embedded in the procurement process. This assures the owner's project requirements are met and financial performance requirements are achieved.



EQUITABLE COMMUNITIES ARE HEALTHY COMMUNITIES

35% of contractors involved in a Gordian JOC program hold a minority business certification.

Gordian's Value-Based Construction: Project Execution

Once the contract is in place, all Gordian Job Order Contracting (JOC) programs follow the same proven process to maximize value and transparency for the project owner.

Joint Scope Meeting

Gordian schedules a meeting at the site for those involved to discuss project and design details.



Detailed Scope of Work

Gordian helps prepare a Detailed Scope of Work that describes the work the contractor will perform.



Price Proposal

The contractor prepares a Price Proposal by selecting the appropriate tasks from Gordian's Construction Task Catalog® (CTC).



Price Proposal Review

Gordian reviews the Price Proposal to ensure the contractor has selected the appropriate tasks and quantities.



Job Order Issued

Once the Price Proposal is approved, you issue a Job Order for the contractor to proceed.

Benefits of Gordian's Value-Based Construction: Speed

Traditional procurement cycles typically take months to complete and require a significant amount of administrative and technical resources. Job Order Contracting reduces this time significantly. In fact, [a study by Arizona State University](#) in 2015 found that JOC project owners report a 65% reduction in overall service delivery compared with traditional project delivery methods. [A 2021 report](#) sponsored by Gordian and NIGP: The Institute for Public Procurement support ASU's findings, as researchers discovered that JOC contracts require a lower procurement process duration and are comparable to traditional project delivery methods in terms of transaction costs.

With JOC, there is no need to prepare, copy, advertise and distribute bid packages for each project. This time-consuming front-end process is completed one time, rather than repeated for each project, and the procurement process takes weeks instead of months. The Gordian/NIGP study surveyed 260 procurement professionals. Over 90% of survey respondents said project delivery with JOC takes fewer than 12 weeks, while more than 50% said project delivery using traditional methods takes more than 12 weeks.

This speed to construction is a serious asset in a time when medical facility requirements are changing as a result of the COVID-19 pandemic. Currently, regulatory bodies across the country are reviewing their design and construction requirements to build in the flexibility required to respond to future outbreaks. These teams, working with design and construction professionals, are developing standards to assure the healthcare built environment has the flexibility to optimize care routinely and can quickly adapt to pandemic circumstances.



As design decisions are codified and prioritized, institutions should look to expand their routine construction delivery models to assure the most cost-effective solution for the various project types. Value-based construction methods like JOC are a cost-effective way to resolve multiple simple capital projects in the shortest amount of time and address the projects on the post-pandemic project list.

Of course, speed to construction provides the auxiliary benefit of speed to revenue. The faster hospitals and health systems can renovate care units, the sooner those spaces can be put to use and produce a financial return for the organization. In this way, value-based construction project delivery models can create a virtuous cycle. Projects begin and end quickly, allowing care facilities to treat patients sooner and realize a profit in less time. These profits can then be invested back into the facility using value-based construction project delivery, and the cycle begins anew.



Benefits of Gordian's Value-Based Construction: Cost Transparency

Value-based construction is a great tool for when project owners want to use data to exercise some budgetary control. All construction costs are firm and published in Gordian's Construction Task Catalog® (CTC), a Unit Price Book of more than 275,000 construction Tasks. Each Task includes a detailed description, unit of measurement, unit price and, where applicable, demolition cost. The Unit Prices contain locally developed direct costs for material and labor. There are a set of technical specifications for each of the construction Tasks and general conditions that contain the specific language concerning the execution of the contract.

Effectively, a CTC enables owners to take the cost of construction to the market instead of the market bringing the cost of construction to them. The awarded contractor has competitively bid a coefficient or adjustment factor, effectively a market adjustment, to the pre-established Unit Prices in the CTC, so the owner is assured a transparent, competitive price for each element of a project's Scope of Work.



AN EFFICIENT CONSTRUCTION PROCUREMENT SOLUTION

**Gordian's clients use Job Order Contracting to complete \$2.6 billion
in construction work every year.**

Additionally, once the price proposal is submitted by the awarded contractor, Gordian will conduct a line-by-line review to confirm every relevant task necessary to complete your project is included. This ensures owners get the project they want, at the right price, with an auditable electronic paper trail. From initial contractor proposal to job order, Gordian's proposal review process is proven to save owners an average of 6% in construction costs.

This combination of objective, preset costs and Gordian's oversight create an atmosphere of transparency and collaboration where all parties are aware of the costs of construction work. Institutions will possess specific, current cost data to ensure they budget properly to meet the needs outlined in their assessments. This certainty keeps long-term plans on schedule.

Benefits of Gordian's Value-Based Construction: Change Order Management

Change orders are going to happen. That's the reality of construction. When they do, a value-based construction program like Gordian's Job Order Contracting eliminates price negotiations and unnecessary delays. Here's how.

Let's say a hospital wants to renovate half of an outdated department floor. The owner, awarded contractor and the Gordian rep follow all the steps of JOC process, the owner issues a Job Order and the contractor immediately gets to work.

But in the middle of the project, the owner comes to the contractor and asks that they go ahead and renovate the entire floor, instead of just half. The contractor agrees, but then realizes that doing so will require rerouting a gas line. Neither of these conditions were included in the original Detailed Scope of Work.

Under a Gordian JOC program, the project team walks the site, just as they did when the project began. They agree on the work to be done, the contractor delivers the facility owner another price proposal and the owner issues another Job Order. Work continues without delay.

The supplemental work is priced out of the Construction Task Catalog (CTC), just as the first price proposal was. That means the cost to demo the gas line remains the same whether the contractor finds it in the middle of construction or during the initial job walk. If the CTC says it costs \$1.05 a linear foot to demo the gas line, that's what the contractor is paid. The same is true for the additional square footage. The price agreed to at the start of the project still stands.

Both the facility owner and JOC contractor are protected by the firm prices in the CTC. Since every change order is priced the same as the original price proposal, contractors can't use change orders to increase profit margins later in the project, and owners can't hold the contractor's feet to the fire down the road if the contractor encounters unforeseen circumstances.

When to Use Value Based Construction

No project delivery method is a silver bullet – they each have types of work they are best suited for. Value-based construction methods are best suited for simpler, routine projects including renovations, maintenance, repairs and straightforward new construction. It is ideally deployed for small-capital construction and as a supplement to, not a replacement of, more traditional construction procurement methods.

Value-based construction is best suited for these types of projects.



Time-sensitive projects and emergency construction:

Contractors are ready to respond immediately and will be paid the preset competitive prices. No negotiating high emergency rates.



Small or medium-sized projects :

These projects can be scoped, priced and completed quickly.



Punch list work :

Complete the outstanding portions of work for a traditionally-bid project.



Fuzzy scope projects :

The contractor can help facility owners define the Scope of Work.



Advance work for large projects :

Perform preliminary work such as demolition, hazardous material abatement and site work.

When to Use Value Based Construction cont.



Maintenance, repairs and operations (MRO):

Specifically address MRO work, quickly eliminating your backlog of pending work and keeping up with current requests.



Projects with a fixed budget:

Whether using a federal or state grant or another fixed budget, using transparent, preset prices can prepare a price proposal to maximize the work for the allotted budget.



Replacement-in-kind projects:

Using value-based construction saves the time and cost of preparing full plans and specifications and conducting a formal bid process.



Planning for limited scheduling windows:

Projects can be scoped and priced well in advance of limited scheduling windows for completing the work.



End of the year funding:

Finish your to-do list before the fiscal year runs out.

Gordian's Value-Based Construction in Action: Grady Memorial Hospital

Grady Memorial Hospital, in partnership with the Atlanta Community Food Bank and Open Hand Atlanta, sought to overhaul an empty space into a healthy food hub that would serve the community in a variety of ways. Transforming a parking garage space into a retail market, a working kitchen and private nutrition consultation offices would prove to be a tall order.

The Grady Facilities Development team contracted Centennial Contractors Enterprises to do the construction work using a [Vizient Job Order Contracting program](#) from Gordian. Jonathan Brown, Centennial Program General Manager with 17 years of construction experience, oversaw the project at Grady Memorial Hospital.

"When you're a JOC contractor, you're an extension of the owner's staff. You get to know what kind of ceiling tile they like, what type of carpet they like. You get ingrained in their operations. You get to work with the customer, not against the customer — it's non-adversarial. You get to focus on solving problems and work with the subcontractors and the owners to accomplish a scope of work."

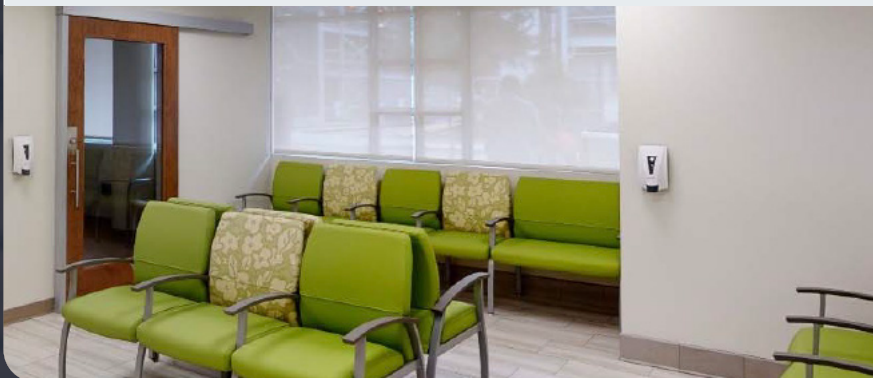
Before the project began, representatives from Grady, Centennial and Gordian walked the 3,800 square-foot space at a site visit so all parties could get on the same page regarding the project scope. This visit, called a Joint Scope Meeting, allowed Gordian and Centennial to find value engineering opportunities to make the most of the project's budget. Moving the exhaust for the stovetop hood, for instance, resulted in a cost savings of nearly \$9,000.





After the Joint Scope Meeting concluded and all Requests for Information (RFIs) were answered, Centennial began building its line-item price proposal in a secure, cloud-based software platform provided by Gordian. Line items in the proposal are priced using a Gordian Construction Task Catalog® (CTC). Once Centennial completed their price proposal, they sent it to Gordian for review to ensure that the scope/drawings match the line-item price proposal and that the quantities entered are correct. This review was useful to Grady because they had an experienced third party to confirm the accuracy of the pricing and the price proposal contained the necessary tasks to complete the project. Once this step was complete, Gordian packaged the proposal documentation and delivered it to Grady and the architect/engineer for review. Once approved by all parties, Grady issued a Purchase Order to Centennial to begin work.

As tends to happen during construction, the scope of the project changed while work was underway. Fireproofing on the roof of the parking structure needed to be tested and patched. Locks were added to storage cabinets. Conduit was installed. Ceiling tiles were swapped out. These changes were easily made thanks to the Gordian JOC process. The team scoped the work and selected the appropriate construction tasks from the CTC, almost as if each change order was its own mini project. Transparent, preset pricing let the Grady team know exactly how much the work would cost and the project continued without any delays due to price negotiations.



There were other unexpected challenges and delays. Brown's Centennial team had to work with the city to find a workable water line to tap into, a process that required considerable communication between project stakeholders. Work slowed significantly in late winter/early spring of 2020, in the early days of the coronavirus pandemic. Through all the challenges and delays, Grady, Centennial and Gordian worked together to bring the project to completion.

Grady Memorial Hospital, with the help of Centennial Contractors and Gordian, transformed a worn parking garage space into a \$2.5 million state-of-the-art facility. Patients have an immersive hub for learning how to cook healthy meals and how to shop for groceries, and the local community has access to nutritious food in a warm, welcoming space. The Food As Medicine program is an investment in preventative measures that will have Atlanta living healthier for years to come. But this is not the only community benefit to come of this project.

Grady Memorial Hospital was able to offer financial opportunities to historically disadvantaged businesses and exceed their participation/inclusion goals. Using Gordian's Job Order Contracting as a vehicle, the Centennial team sought out qualified, minority-owned subcontractors to complete over 30% of the work.

Centennial's Jonathan Brown summed up the project nicely. "Everyone benefited from this project in so many ways. Grady staff and patients have healthy food options. Downtown Atlanta is now more food secure. It was a cool project to be a part of."



Accessing Gordian's Value-Based Construction

Gordian's value-based construction solutions are flexible and can be configured to provide a variety of service levels. Owners can implement their own program, or they can access competitively-awarded Job Order Contracts through [Vizient](#) or via other shared contracts. The advantage to using an existing program, like one through a GPO, is owners can begin work immediately because contracts have already been specified. No matter which option they choose, all Gordian JOC contracts are publicly advertised for competitive bidding and awarded in accordance with the local procurement laws.

There are no upfront costs to setting up a Gordian JOC program. Gordian will design your program, help prepare your bid documents, assist with contractor outreach, configure the software and customize your CTC. Once the contract is awarded, Gordian Account Manager(s) will also help prepare your Detailed Scopes of Work and review price proposals to make sure the contractor has included the right tasks and quantities to deliver accurate project pricing. Gordian will also train your staff and the awarded contractors to follow JOC best practices, in addition to providing ongoing technical and administrative support.

When, and only when, you execute a project under your Gordian JOC program, Gordian will receive a percentage of the total cost of that project. Gordian is not paid until a Job Order is issued. Total Gordian JOC program costs is dependent on construction volume.





Citations

1. ["Value-Based Care."](#)
2. ["Defining and Implementing Value-Based Health Care: A Strategic Framework."](#)
3. ["What is Value-Based Healthcare?"](#)
4. ["The Hospital Value-Based Purchasing \(VBP\) Program."](#)

About Gordian

Gordian is the leading provider of facility and construction cost data, software and services for all phases of the building lifecycle. From planning to design, procurement, construction and operations, Gordian delivers groundbreaking solutions to contractors, architects, engineers, business and financial officers and facility owners in local, state and federal governments, education, healthcare and other industries. A pioneer of Job Order Contracting (JOC), Gordian's offerings also include our proprietary RSMeans data and Facility Intelligence solutions. We develop and maintain the largest collection of labor, material and equipment data and associated costs for all areas of construction. Gordian's solutions are accessed through our innovative software platforms and supported by a team of industry experts proven to help clients maximize efficiency, optimize cost savings and increase building quality.

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