NON LABOR COST REDUCTION OPPORTUNITIES
OUTSIDE OF MED/SURG SUPPLIES

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THE MARKET WILL DEMAND 20% TO 40% IMPROVEMENT

Compelling need to develop a multi-pronged approach

Performance Improvement
- 8% to 12% total improvement

Scale and Integration
- 4% to 8% total improvement

Clinical Transformation
- 6% to 14% total improvement

Market Drivers
- Payment Reform
- Improving Care Quality
- Cost Pressures

Asset Optimization
- 3% to 6% total improvement

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Low Hanging Fruit
What’s Left?

- Utilization
- Clinician Preference
- Purchased Services

Low Hanging Fruit GONE!
BROADER APPROACHES ARE NEEDED BEYOND TRADITIONAL BOUNDARIES OF SUPPLY CHAIN MANAGEMENT

New approaches focus on how and **why** things are done – not just **what** is done:

- Evidence-based, metric-driven process and quality improvement
- Optimized **resource utilization** — staff, facilities and supplies
- Higher quality, more efficient/**coordinated** and more **cost-effective care**
- Culture of **accountability** and **transparency**
- **Physician engagement**, alignment and leadership
- Patient satisfaction and experience improvement
- Population health management perspective
- Requires **new tools** to monitor and manage
KEY ELEMENTS OF SUPPLY CHAIN MANAGEMENT

Eight Dimensions of Supply Chain Management

Direction Setting
- Strategy
- Organization
- Culture

Management Processes
- Performance Management

Work Processes
- Strategic Sourcing
- Logistics Management
- Supplier Development
- Transactional Procurement
NON-LABOR CATEGORIES

- **Commodities**: Products that are interchangeable with similar products with no measureable decrease in value – *paper, patient care plastics etc…*

- **Clinical Preference**: Products that are interchangeable but warrant evaluation due to clinical impact – *needles & syringes, wound care, ostomy supplies etc..*

- **Purchased Services**: Non-supply contracts that have varying impact on patient care and operations - *office, print, records, IT, physician contracts etc..*

- **Physician preference items**: Highly specialized products selected as a result of physician preference – *CRM, orthopedic implants, spinal implants etc..*
PURCHASED SERVICES

- Purchased Services is still very fragmented
  - Supplies seen as Supply Chain/Purchasing responsibility
  - Purchased Services seen as departmental responsibility
  - Many contracts
  - Many authors
  - No coordination
  - Little visibility
  - Little scrutiny
PURCHASED SERVICES

- Purchased Services is still very fragmented
- Departmental contracts full of issues
  - Higher than necessary costs
    - Haven’t tested the market
    - Believe the sales representative
    - Services they don’t need or use
    - Haven’t pursued alternatives
    - Less than optimal negotiation
PURCHASED SERVICES

KEY CATEGORIES AND DEGREE OF DIFFICULTY

Professional Services
Clinical Services
Ancillary Services
Management Support Services
Information Technology
Health Information Management
Facilities
Administrative Services
General Services

Example Categories
Physician Contracts
Perfusion
Lithotripsy
Drug Compounding
Rehab Care
Nutrition
Environmental
Equipment Maintenance
Software License/Maintenance
Telecom
Transcription
Property
Energy
Coding
Insurance
Marketing
Print
Office Products
PURCHASED SERVICES APPROACH

- Develop a business plan
  - Create a compelling business case for the need
  - Realistically estimate *additional* savings
  - Support – FTEs and/or consultants
  - Calculate ROI

- Share the plan informally and get allies

- Present to administrative team

- Consider a phased in approach
  - Not as dramatic
  - Pay for next phase with demonstrated savings
IF A COMPREHENSIVE PURCHASED SERVICES STRATEGY IS TOO MUCH, START SMALLER

1. Know where you spend money
2. Understand total cost
3. Bid where you can
4. Implement strategic sourcing where you can
5. Focus on T’s and C’s AND pricing
6. Take time to manage the biggest suppliers

BUT

Practice Supply Chain Management
MINIMUM REQUIREMENTS

- Agreement has been obtained to investigate the opportunity
- Appropriate representation is included on the team
- Research has been conducted
- Impact on the total cost of ownership is understood
- Current relationships/existing standards have been evaluated
- Non-price opportunities for savings have been fully explored
- A competitive bid/RFP process has been used
- Pricing provided in a manner that promotes transparency
- Thorough, well-prepared negotiations have been conducted that included all non-price issues
- Contract language has been reviewed
IT IS NOT JUST ABOUT PRICE!

Total Cost of Ownership

<table>
<thead>
<tr>
<th>Price</th>
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<tbody>
<tr>
<td>Service</td>
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<tr>
<td>Returns</td>
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<td>Transportation</td>
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<td>Insurance</td>
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<td>Interest</td>
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<td>Storage</td>
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<td>Cash Flow</td>
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<td>Yield</td>
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<td>Process Cost</td>
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<td>Prep Time</td>
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<td>R&amp;D</td>
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<tr>
<td>Supplier Mgmt</td>
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<tr>
<td>Maintenance</td>
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<td>Administration</td>
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<td>Inspecting</td>
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<td>Holding</td>
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<td>Handling</td>
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<td>Warranty</td>
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<td>Failure Mgmt</td>
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<td>Disposition</td>
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<td>Compliance</td>
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<td>IT</td>
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<tr>
<td>Recalls</td>
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</table>

IT IS NOT JUST ABOUT PRICE!
STRATEGIC SOURCING PROCESS

Step 1: Opportunity Assessment
Step 2: Category Analysis
Step 3: Market Analysis
Step 4: Strategy Development
Step 5: Supplier Selection
Step 6: Implementation
APPROACH

- Don’t forget utilization
  - Not always what you pay but what you use
  - Look at objectively and question

- Consider in-source versus outsource
  - Where is there more expertise?
  - Are there economies of scale?
  - Is there enough local talent?
### OPPORTUNITY: Imaging

### CURRENT SITUATION: Single hospital with a sole source contract for Radiology equipment (CT and MRI) and support staff. One contract for IP and one for Op were started at different times. OP 10 year duration with revisit at 5 years.

<table>
<thead>
<tr>
<th>Structure</th>
<th>Data</th>
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</thead>
<tbody>
<tr>
<td>• Fees based on number of procedures</td>
<td>• Cost per procedure appeared reasonable</td>
</tr>
<tr>
<td>• Different volumes and rates for inpatient and outpatient</td>
<td>• CT minimum was 540 – average was 152</td>
</tr>
<tr>
<td>• Inpatient staff (labor) billed separately</td>
<td>• MRI minimum was 231 – average was 100</td>
</tr>
<tr>
<td>• Minimum procedure volume and fees for all equipment</td>
<td>• Cost for minimums was $1.1M</td>
</tr>
<tr>
<td>• For outpatient, minimum volumes were not being met</td>
<td>• Cost for inpatient labor seemed high</td>
</tr>
<tr>
<td></td>
<td>• Suppliers deserves a reasonable ROI on equipment</td>
</tr>
<tr>
<td></td>
<td>• There have been service issues</td>
</tr>
<tr>
<td></td>
<td>• Annual escalators with very little variable costs</td>
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</table>

**Big question – how much estimated profit is the supplier currently realizing?**

### Analysis
- Estimated cost for equipment that was provided and added in build-out costs that company covered
- Projected monthly cost based on 10 year lease at reasonable interest rate
- Added in estimated cost for outpatient staff (and compared to current role compensation)
- Current ROI over 140%

### Result
- Reduced minimums
- Labor at closer to pass through rates
- $750,000 in annual savings
OPPORTUNITY: Medical Transcription

CURRENT SITUATION: Four hospital system that uses 3 different suppliers and contracts. Process radiology in-house. No automation. Strong desire to maintain more than one vendor, even within each entity, so that the organization would not be overly dependent on a single source. Currently no off-shoring.

Pricing

- Re-negotiated current contracts to market competitive rate
- Potential cost reduction of $200K to $250K

Utilization

- Conduct RFP focused on cost per VBC
- Reduce to 2 vendors with some off-shoring
- Potential cost reduction of $400K to $500K

- Conduct RFP on cost per VBC and go to 2 vendors
- Negotiate pricing for voice and type files
- Implement internal voice recognition software with limited self-edit
- Potential cost reduction of $1.25M

- Implement voice recognition software with self-edited transcription software across the organization, eliminating transcription services use
- Potential cost reduction $2.5M
**OPPORTUNITY:** Mobile Phones

**CURRENT SITUATION:** 3 Hospital System that uses two mobile phone carriers and reimburses some employees directly. Total mobile phone expense is about $3.2M. Pricing is competitive.

<table>
<thead>
<tr>
<th>Pricing</th>
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<tbody>
<tr>
<td>• Re-negotiate current contracts</td>
<td>• Potential cost reduction of $10K</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Utilization</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>• Consolidate to one or two carriers</td>
<td>• Review plan structure, change plan to remove non-essentials - eliminate text picture message capability</td>
</tr>
<tr>
<td>• Eliminate direct reimbursement</td>
<td>• Potential cost reduction of $50K</td>
</tr>
<tr>
<td>• Evaluate phone assignment and approval process – restrict availability</td>
<td>• Review plan usage – rationalize plan by individual usage</td>
</tr>
<tr>
<td>• Potential cost reduction of $150K</td>
<td>• Move to employee stipend</td>
</tr>
<tr>
<td>• Alternately make cell phones an individual responsibility without stipend</td>
<td>• Potential cost reduction of $1M</td>
</tr>
</tbody>
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