Practical strategies for financial strength

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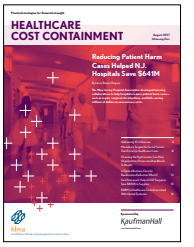

+ performance improvement +

Benchmarking Helps OSF HealthCare Save $160M Annually

By David Stenerson and Linda Albery

OSF HealthCare went from a loss in 2013 to achieving a 3 percent operating margin in 2014 and a 4.5 percent operating margin in 2015.

Leaders at OSF HealthCare, Peoria, Ill., embarked on an enterprisewide performance improvement initiative after the organization experienced a 2013 dip in operating income, following a long stretch of profitability and growth. Because of the organization's efforts, the 11-hospital healthcare system has saved $160 million annually without sacrificing quality.

Key to the health system's success is leaders' commitment to operational benchmarking to identify and prioritize opportunities for cost savings. Operational benchmarking is essential to improving financial performance because it allows leaders to understand their cost position compared with high-performing peer organizations. Without benchmarking, finance teams often set across-the-board improvement targets, or they apply year-over-year incremental targets. In both cases, leaders do not benefit from comparative data that helps inform their improvement targets.

Choosing the Right Focus Areas

When launching this effort in 2013, OSF HealthCare established an internal program called Accelerated Clinical and Cost Transformation (OSF ACT). The choice of the word "accelerated" was deliberate—leaders wanted action

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to happen quickly. They also wanted to emphasize the importance of clinical effectiveness, not just cost.

The goal of the initiative was to help leaders leverage performance improvement tools like benchmarking to make quality improvement and cost reduction efforts sustainable over time. At the start of the program, OSF HealthCare formed a multidisciplinary steering team with financial, analytical, clinical, and operational members to monitor performance across the health system. Each hospital created a similar team to manage the effort at their facility.

Web Extra

View OSF HealthCare's informational document on its Accelerated Clinical and Cost Transformation program at hfma.org/hcc/OSFHealthCareACT.

Initially, OSF HealthCare used an external consultant to help prioritize its opportunities. But because the organization's goal was to become self-reliant, the consultant trained OSF leaders to make benchmarking an integral part of their performance improvement efforts. As part of their education, leaders learned a structured approach for brainstorming and risk-rating each improvement idea. Risk rating gives organizations a method to gauge how easy or hard it will be to achieve particular initiatives.

For example, a retiring manager presents a low-risk opportunity for leaders to absorb the job responsibilities into existing roles. A higher-risk opportunity might involve closing a program that is not generating revenue, but is important to the organization's mission. In general, no savings opportunity was too small, particularly if it was low risk.

Achieving Team-Driven Improvements

Once ideas were identified, leaders formed implementation teams to create action plans. Some teams, like supply chain, were organizational. Others were department-specific, such as the ICU team. The teams were responsible for developing detailed action plans that included timelines and targets. They also were required to provide stoplight status reports on their action plans with red, yellow, and green labels to indicate their progress.

Labor costs. Through benchmarking, the teams identified significant opportunities to improve labor productivity by examining premium pay and skill mix. Each facility also established an FTE committee to review replacement positions, relying on benchmarking data to determine if position requests were valid from a financial perspective.

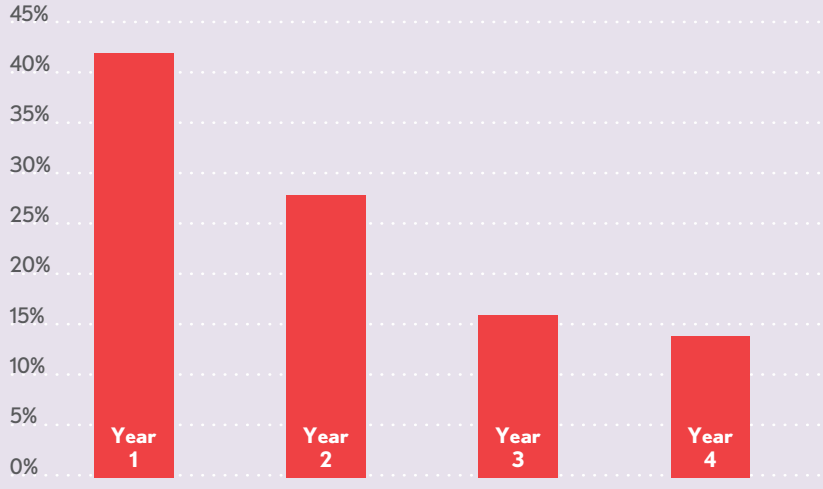
They also identified departments that were operating as high-cost areas. One area was the neonatal intensive care unit at OSF HealthCare Children's Hospital of Illinois. Leaders formed a multi-disciplinary team to look at the factors driving the excessive costs. One area identified was the excess length of stay (LOS) in critical care. The team assessed the overall LOS and created clinical evaluation protocols to determine the levels of care required by patients throughout the stay. This revealed an opportunity to transfer neonates to intermediate care, a step-down type of unit that requires fewer staff than intensive care. As a result, the hospital saved $1.5 million in labor while maintaining a high quality of care.

Supply savings. Leaders switched group purchasing organizations and standardized supplies across the organization. They chose new vendors for hundreds of commodity items like surgical gloves and compression stockings but allowed clinical leaders to review the new products to make sure there were no losses in quality. They also pursued bulk buys of up to 90 days of products (instead of two to four weeks of supply), for which discounts typically justified extra inventory. This resulted in annual savings of approximately $825,000 across eight different vendors.

In addition, they realized more than $1.1 million in annual savings by reprocessing certain disposable items for re-use.

OSF HealthCare's Annual Cost Savings

The health system's enterprisewide performance improvement program resulted in $160 million in savings.



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Pharmacy costs. Moving to 340B discount pricing provided the greatest gain. Other pharmacy-related initiatives included switching from intravenous to oral medications, when appropriate, and reducing waste by stocking smaller vials of medications. Generic substitutions also created savings. For example, converting to generic bivalirudin saved more than $250,000 in one year.

Dietary services. The organization reduced its cost per meal as well as its dietary cost per adjusted patient day by making menus more cost-effective. It also trimmed costs from food items stocked on inpatient floors for patients who do not want to eat or were not able to eat during scheduled mealtimes.

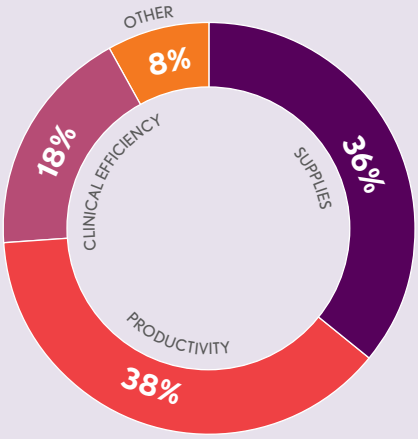
Clinical efficiency. The clinical teams focused on decreasing the average length of stay and discontinuing routine orders after three days to eliminate unnecessary lab and imaging tests. They also optimized scheduling. For example, the amount of time scheduled for an ultrasound visit was reduced to limit technician downtime. These changes improved patient throughput across the organization.

Other improvements. Leaders put some of their purchased services, like reference labs and laundry, out to bid. They also centralized human resources, finance, and legal services to support the entire organization, using benchmarking data to identify the cost excess in these shared-services areas.

Combined, these efforts helped OSF HealthCare move from a loss in 2013 to achieve a 3 percent operating margin in 2014 and a 4.5 percent operating margin in 2015. Recently, some of that margin has eroded as the state's aging population moves from commercial to government coverage. Still, the organization's commitment to benchmarking and performance improvement have helped the health system stave off a more serious impact to its bottom line.

OSF HealthCare Savings Achieved in Key Areas

The health system's performance improvement program resulted in significant savings in productivity and clinical efficiency.



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Learning from Experience

When benchmarking for performance improvement, finance teams should consider the following advice.

Create a burning platform that links the mission to strategic imperatives. At OSF HealthCare, senior leaders had an explicit, strategic imperative to rein in costs. As part of their program, they developed an infographic to share with employees to introduce the initiative. They also hosted regular employee meetings, which built trust as well as accountability for the initiative's success.

Make sure data are accurate. Performance improvement fails if stakeholders cannot trust data. Ideally, benchmarking vendors should map data centrally to avoid a multitude of interpretations or questions about the accuracy of the data. This helps hospitals stand behind the data and counteract arguments that data aren't valid or that "we are different." The vendor also should provide complete transparency into the data calculations, comparison groups, mapping, and methodologies.

Make sure data validation processes engage a variety of middle managers. Many hospitals make the mistake of limiting validation processes to finance or decision support staff. However, broad involvement in validation promotes engagement in processes as well as trust in data. This helps ensure that those who are driving change in organizations "own" the change.

Involve senior leadership to mitigate unintended consequences. OSF HealthCare developed a process for senior leaders to review opportunities rated as moderate or high risk. In one case, leaders at OSF HealthCare decided to maintain a pediatric weight loss program to fill a community need, even though the program had modest losses. Instead of closing the program, they made some programming changes to help reduce expenses.

Don't be afraid to share unblinded data with physicians. Leaders at one hospital gathered surgeons together and provided them with the cost of their most common constructs for hips or knees. Sharing the cost of all of the components sparked discussions among the surgeons, and at the end of the meeting, several decided they did not require all of the components for their standard procedures if they had the option to request additional components in more complicated cases. These efforts to be transparent and collaborative helped the hospital save more than $300,000 annually. Similar discussions are being rolled out at other hospitals in the system.

Recognize that it is more difficult to achieve cost reductions after the first year. Nearly half of OSF HealthCare's cost savings were achieved during the first year of the project. Health system leaders strive to have an ongoing pipeline of good ideas to improve costs, quality, and the patient experience. To ensure there is a strong pipeline of initiatives to pursue, leaders hold routine and structured brainstorming sessions. This

builds the pipeline, continues to engage the team, and leverages the expertise and input of all associates.

Benchmark frequently—but not too frequently. Leaders at OSF HealthCare review their performance against internal benchmarks each month and against external benchmarks every six months. This ensures leaders spend the majority of their time making improvements—not reacting to numerous data cycles. For most organizations, the numbers do not change enough quarter by quarter to justify the effort of gathering and distributing benchmarking data that frequently.

Broad involvement in data validation promotes engagement in processes as well as trust in data.

Sustaining Results

Four years ago, leaders at OSF HealthCare set a goal to be able to benchmark and prioritize opportunities themselves. Today, they have developed a level of competency in performance improvement that allows them to manage costs rationally moving forward. What's more, they have been able to do this without compromising quality. One hospital demonstrated a 10 percent improvement in its total cost per case from 2012 to 2016 while improving its quality scores.

With this performance improvement structure in place, OSF HealthCare is well positioned to sustain these efforts as pressure on margins continues to increase. +

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