

Healthcare Cost Containment



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Using Benchmarking to Control Supply Chain and Operations Costs

A three-year initiative to reduce costs resulted in \$2 million in savings for one New Jersey health system.

Located in New Jersey's poorest county, South Jersey Healthcare in Vineland, N.J., had a higher-than-average rate of charity care that significantly drained hospital finances. When the health system consolidated three hospitals to form its newest hospital, health system leaders recognized that the continued delivery of service and clinical excellence for which the system had become known depended on efficient operations and a continual focus on improvement during this transition. Accordingly, South Jersey Healthcare initiated "Call to Action," a three-year expense-reduction program that would affect every level of the health system.

Call to Action was led by South Jersey Healthcare's operations improvement department, and required the buy-in of every level of management, including the CEO of the system and the COOs at each of the system's two hospitals.

In department after department, the initiative proved that benchmarking drives expense reduction. Among the results of this cost savings initiative:

- > \$1.1 million saved through various nursing unit projects, including standardization across departments and facilities
- > \$700,000 saved through product standardization and a physician preference card project

- that reduced waste from opened but unused supplies
- > \$300,000 saved through an environmental services recycling program
- > \$100,000 saved by evaluating fuel usage and prepurchasing

Action Steps for Improvement

During the first year of Call to Action, South Jersey Healthcare developed department-specific cost-cutting goals by examining benchmarking data to determine potential areas for expense reduction. The health system also educated employees systemwide about the need to contain costs and built expense reduction directly into its budgeting process.

South Jersey Healthcare used a web-based benchmarking tool to reduce its operating costs by evaluating its costs against those of peers of similar size, payer mix, geography, or patient population. The tool helps health systems identify specific areas with the greatest potential cost savings; communicate findings and results with easy-to-read reports and graphics; review performance improvement opportunities across departments; and use the data to guide operational change across the organization. Prior to Call to Action, South Jersey Healthcare had used

the tool to generate reports that were not extensively linked to expense reduction or finance management.

South Jersey Healthcare expanded awareness of the capabilities of the benchmarking tool and how it could be used to help the system contain costs through posts on the health system's intranet, discussions with reporting departments, and employee surveys. Monthly meetings with reporting departments facilitated discussions of best practices. The Call-to-Action team encouraged departments to participate in an on-line user group and use data-sharing partners to reach out to better performers.

Establishing realistic goals kept the healthcare system focused on the target. South Jersey Healthcare implemented a two-phase approach to expense reduction, concentrating first on controlling existing expenses, then on plans and actions to eliminate waste, standardize practices, and manage utilization. During the third year of the initiative, the program launched systemwide, creating expense-reduction plans for all reporting departments and tracking financial outcomes. By this time, Call to Action had become part of the South Jersey Healthcare culture, with awareness bolstered by monthly messages and staff kick-off meetings. As the program continues, progress is monitored by an operations improvement steering committee.

Results

The initial goal was for Call to Action to reduce the health system's expenses by \$800,000.

South Jersey Healthcare accomplished this goal in the first year. Within two years, the organization reduced expenditures by more than \$2 million.

As individual departments reached their specific cost reduction goals, South Jersey Healthcare achieved significant savings. For example, by benchmarking the cost and effectiveness of endo-mechanical devices, the health system's surgical services department developed a cost-reduction initiative to reduce expenses by \$80,000 a year. Similarly, the nuclear medicine department's investigation of wasted radiopharmaceuticals resulted in an annual cost reduction of \$20,000.

"At South Jersey Healthcare, we have learned the importance of integrating benchmarking into the fiber of our culture," says David Johnson, director of operations consulting. "By setting ratio goals, the benchmarking tool has become a primary driver in the budgeting process. Everyone in our organization knows what the tool is, how it is used, and the added value it provides as an open forum for hospital inquiries and best practice discussions."

Two keys to the program's success were the active involvement of staff in Call to Action and the availability of timely, accurate information from which to set goals. "Real change can only come about through good leadership and the inclusion of staff in decisions regarding what to change and how to

do it," says Erich Florentine, chief people officer for South Jersey Healthcare. ☺

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