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Eliminating Hidden Waste Leads to Bigger, Sustainable Savings

By Alan Weintraub and Robert T. York

Value-based thinking employed through utilization management has resulted in more than \$3 million in savings for one medical center.

It's getting harder and harder for healthcare organizations to squeeze the last dollar out of their supply spend using price and standardization strategies and tactics alone. That's why, three years ago, the materials management department of Enloe Medical Center (EMC), a 391-bed hospital in Chico, Calif., decided to work toward reducing its utilization costs by finding ways to eliminate wasteful and inefficient consumption, misuse, misapplication, misappropriation, and value mismatches in its supply streams.

Leaders for EMC's materials management department believed it was clear that an intense focus on reducing supply utilization costs was where the organization's next biggest savings opportunity resided. Just as important, these leaders believed the hospital's materials management

department was the best prepared department to make these new savings happen. The department was well positioned to lead and facilitate change by bringing the right people together to ask the right questions to reveal utilization misalignments in the hospital.

By employing a value-based approach to review product, process, and technology utilization, the hospital accumulated savings of more than \$3 million in less than three years.

How They Did It

One of the organization's greatest challenges was determining how and where to uncover the best utilization savings opportunities that would offer the greatest ROI. To make such determinations, EMC began using a dashboard subscription

service. The utilization dashboard measured and identified utilization misalignments in tandem with reports from the materials management information system, new technology requests, and other benchmarking tools. It also provided the necessary specialized value analytics to pinpoint the best areas on which to focus. For example, the dashboard helped identify that EMC's wound care costs per adjusted patient day exceeded its peer group hospitals, which led EMC to target this commodity group for investigation. If EMC had not had this tool in place, it would have been nearly impossible to uncover this misalignment in utilization quickly.

EMC also established various workgroups to tackle the specific areas of opportunity uncovered by the analytics. A dedicated program coordinator was assigned the role of troubleshooter, helping workgroups overcome obstacles that were impeding progress.

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Almost immediately, an incredible spirit of collaboration began taking place as “value-based thinking” took root throughout the organization. This teamwork started with an alignment between materials management, quality management, infection control, physicians, clinicians, and executive management, and led to value-based decision making, problem-solving, and a learning process that still exists three years later.

The support of executive management was critical to the initiative's success. Dedicated program coordination from an individual fluent in the exercise of relational power helped to clear the way when obstacles, dead ends, or impediments stood in the way of work teams' success.

It also was important to add a number of “critical thinkers” to the hospital's workgroups. EMC found that it didn't need workgroup members to be subject matter experts for them to greatly contribute to the medical center's utilization management initiative. As a result, the organization gained greater objectivity from these unbiased participants than typical

process owners, who too often are focused on protecting their turf.

New Mindset

One of the keys to success at the outset of EMC's utilization management program was to create a “new mindset” for its materials management staff, physicians, clinicians, and department heads to spur them into action. EMC calls this mindset “value-based thinking”: taking a questioning, probing, and inquisitive approach as to why clinicians and staff do the things they do and focusing on outcomes, not activity. It was especially important for the program coordinator to realize that it was okay for her to challenge the organization's long-held assumptions regarding the value of any given commodity.

This mindset brought about immediate financial and qualitative results on one of the hospital's first utilization management projects: wound care. Instead of signing off on a new group purchasing organization (GPO) contract being offered, EMC decided to pursue a value-based approach by reviewing the organization's wound care program in total in an attempt to reduce EMC's pressure ulcer rate. During the course of the initiative, EMC reviewed its use of patient transfer devices, skin care and incontinent care products, ultra-absorbent pads, its bed-making process, and transport team training. In doing so, the organization uncovered inefficiencies (in the use of patient transfer devices, the efficacy of the skin care products, value mismatched with absorbent pads, and lack of a consis-

tent process in bed making). Once these inefficiencies were corrected, EMC reduced its ulcer rate by 10 percent while reducing its wound care supply spend by \$262,000 annually.

The Importance of Measurement and Observation

Another big challenge that EMC encountered was how and where to uncover utilization savings opportunities with the greatest ROI. Use of the utilization dashboard, in combination with materials management reports, new technology requests, and other benchmarking tools, enabled EMC to quickly measure and identify areas where wasteful and inefficient consumption, misuse, misapplication, misappropriation, and value mismatches in the organization's supply

EMC eliminated incidences of ventilator-associated pneumonia over a 10-month period. The prior year, the organization recorded 16 cases at an average cost of \$40,000 per incident.

streams existed. For example, EMC's materials management staff worked with the organization's quality workgroup to investigate utilization of ventilator-associated pneumonia (VAP) products. Initially, the workgroup established that EMC was using standard oral kits, Hi/Lo ET tubes, 72-hour closed suction kits, and tape as part of its ventilator care processes. After the workgroup observed how these products were being employed and evaluated their functionality, numerous changes and upgrades were made to its VAP product mix, which resulted in a \$45,000 annual supply increase. However, incidences of VAP were reduced to zero over the next 10 months, compared with 16 cases the prior

Annualized Supply Chain Savings Calculated over a 32-Month Period: EMC

Utilization Management	\$1,572,386
Price/Contract/Tier Management	\$1,324,000
Cost Avoidance: New Technology Denials	\$1,031,000
Less: New Technology Approvals	(\$882,160)
Total	\$3,045,226

year at an average cost per VAP incident of \$40,000. The workgroup estimated that \$640,000 (16 prior incidences per year × \$40,000) in cost avoidance was directly attributed to this project.

Integrate to Save

This same “value-based thinking” philosophy is integrated into the optimization of EMC’s GPO contracts, its strategic sourcing and contracting efforts, and its new technology assessment process, because EMC believes these functions all correlate in some way with its supply expense management responsibilities. For that reason, EMC employs the same program coordinator to manage its utilization management projects, uses the same project reporting system to track all of its savings, and employs the same utilization management methodology to

make all of its savings happen. The results have been significant: Over the past three years, EMC has saved more than \$3 million by amalgamating all of its supply chain savings initiatives under one roof, so to speak.

In retrospect, EMC’s decision to embrace the new discipline of utilization management was and is a great leap forward in EMC’s cost management/containment strategies and tactics. It has led the way for the hospital to look deeper and more broadly into its supply streams to identify and eliminate the wasteful and inefficient practices that have seeped into its supply chain over many years.

Just as important, EMC’s utilization management initiative has provided EMC with a new guiding philosophy, a proven

methodology, and various tenets to follow in its search for best-value products, services, and technologies. As commodity prices continue to rise, utilization management will be the equalizer that ensures that EMC’s supply chain savings continue to flow for many years to come. ☞

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