

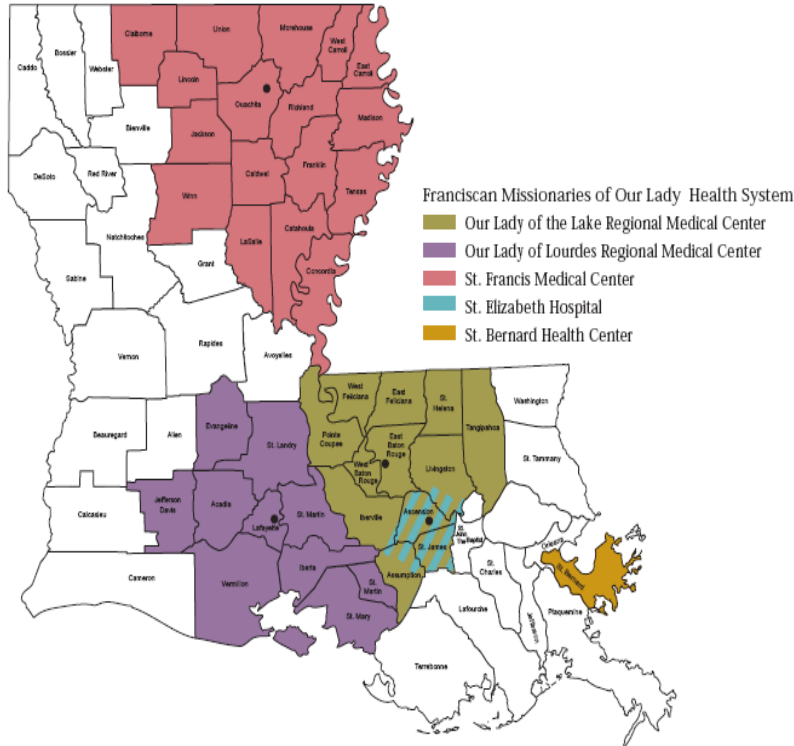
Identifying Key Areas of Purchased Services Cost Reduction

**Bill Mosser, CMRP
Vice President Supply Chain
Franciscan Missionaries of Our Lady Health System**

Agenda

- Who is FMOLHS?
- Issues at Hand
- Gain Guidance and Support moving forward
- Defining 'purchased services'
- Categories of Spend
- Starting Point & Journey
- Critical Success Factors
- Next Steps: Reminder
- Q&A

Profile: *Franciscan Missionaries of Our Lady Health System*



St. Elizabeth Hospital

- Member Facilities**
- Our Lady of the Lake RMC
 - St. Francis Medical Center
 - Our Lady of Lourdes RMC
 - St. Elizabeth Hospital
 - Joint Ventures/Mgmt Services

Assets	\$2.2 Billion
Total Operating Revenue	\$1.4 Billion
Net Patient Revenue	\$1.3 Billion
Co-workers	8,887
Medical Staff	1,667
Inpatient Discharges	Acute: 68,112
Outpatient Visits	1,297,771
Emergency Room Visits	210,673
Surgeries	33,803
Uncompensated Care	\$102 million
Beds	1,667 licensed beds
Annual Spend	\$245 million in supplies \$240 million in services \$216 million construction & capital

2011 FMOLHS Aspiring Vision for 2016

By 2016, Franciscan Missionaries of Our Lady Health System (FMOLHS), a Catholic Healthcare Ministry, will provide clinically integrated, market based health systems which effectively & efficiently manage the health of targeted populations especially those most in need.

FMOLHS, through its Team Members, will provide distinctive value for patients and payors while generating the sustainable financials returns required to ensure the long term viability of sponsored organizations and FMOLHS.

What Keeps Our C-Suite 'Up at Night'?

- Healthcare Reform
- Quality of Care
- Patient Satisfaction
- Developing Sustainable Physician Relations
- Aligning Goals and Incentives without Conflicts of Interest
- Achieving Employee Satisfaction
- Creating a High Performing Team and Talent Base
- Addressing Decreasing Margins
- Medicare Margins

What Keeps Us 'Up at Night'?

- 'Back Door' Purchasing
- Contracts are Missing
- Procurement Controls are Lacking
- Too many decision makers
- Minimal metrics to monitor performance
- Risk adverse culture
- Data rich, information poor
- Operations focus vs. focus on customer needs
- Expensive, labor intensive activities
- What's the organizational awareness of Purchased Service expense?

Purchased Services Issues

- No Clear Definition
- Decision Making Decentralized
- No KPIs or Performance Measurement
- Focus on Expense, not Total Cost, Quality or Service Levels
- Supplier Base Expanding
- Internal Capability unclear
- No Vision for the Future
- Staff, Customers & Suppliers Dissatisfied
- Few Understand the overall impact
- Executive Level Support for Change is Lacking

How do we Resolve?

- Understand the C-Suite and Organizational Priorities
- Identify alternatives to address key focus areas
- Research and validate the total cost and margin
- Verify the Value Proposition for each focus area
- Align goals and incentives amongst the players
- Pilot solution implementation
- Monitor
- Communicate

Is this challenge different than that of Supplies?

Supply Chain Optimization of Purchased Service Expenses



Who and What Are We Dealing With?

Understanding the Environment and Data Collection

Match Organization Mission & Culture

Cost Driven Model

- Limited choice
- Fewer Suppliers
- Single or Dual Source Agreements
- Committed Volumes
- Mandated Compliance
- Standardization
- Total Supply Cost
- First year impact

CFO is Key Sponsor

Quality Driven Model

- Evidence Based Decisions
- Requirements driven supplier selection
- Open Marketplace
- Business Unit Accountability
- Clinical Utilization focus
- Total Cost of Care
- 3-5 year process

CEO or COO is Key Sponsor

Identify Your Sponsor!

Who Needs What?



- Challenges & Opportunities
 - Voice of the Customer?
 - Who has the pain?
 - Successful experiences?
 - Unsuccessful Experiences?
 - Redundant work process?
 - Lacking Controls?
 - Services Improvement?
 - Quality of care impact?
 - Stop Doing: Non value added work?
 - Change Management capability?
 - Leadership Capability?
 - Resource availability?

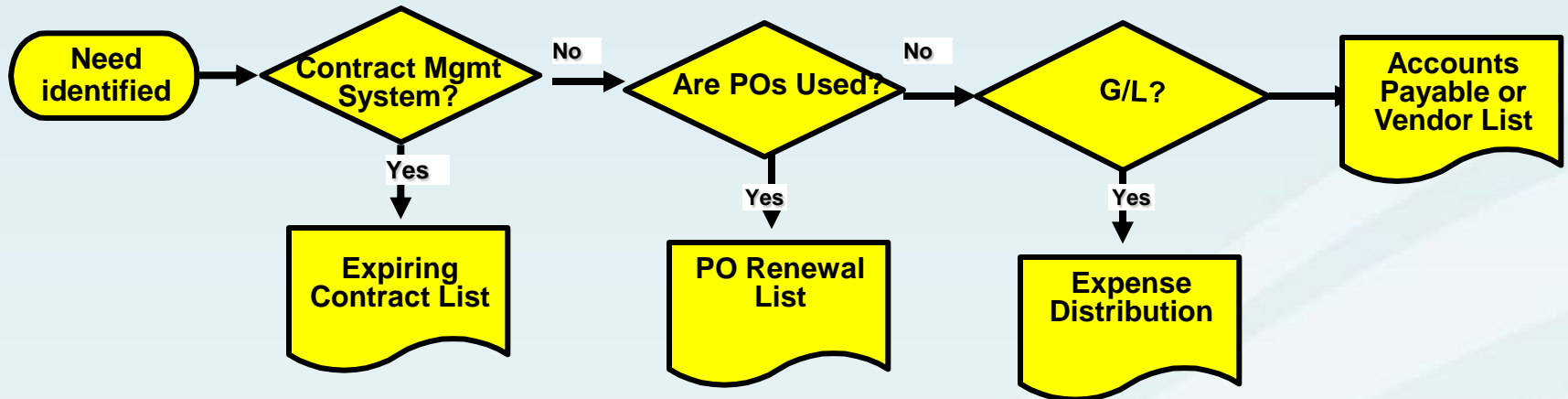
Identify Your Stakeholders!

First Crossroad



What are We Looking for & Where's the Data?

Data Sources



Build Lists of Opportunities and Establish the Ground Rules for Moving Forward

What Do You Find?

Physician Contracts
Lithotripsy Services
Perfusion
Psychiatric Services
Acute Rehab
Medical Transcription
BioMedical Engineering
DME Management
Ambulance Services
Blood Collection Services
Instrument Repair
SUD Reprocessing
Reference Lab
Information Services
TV Services
Translation Services
Medical Records Coding
Electricity
Water
Gas & Oil

Multi-Functional Device Management
Sales Tax Overpayment Recovery
Payment Recovery Audits
Fleet Management
Document Management
Laundry & Linen
Billing & Collection
Temporary Staffing
Environmental Services
Food & Nutrition Services
Marketing & Advertising
Architectural Services
Asset Management
HR Benefits
Equipment Planning
Landscaping & Grounds
Facilities Management
Waste Management
Water Treatment
Elevator Maintenance
Revenue Cycle Services

And More!

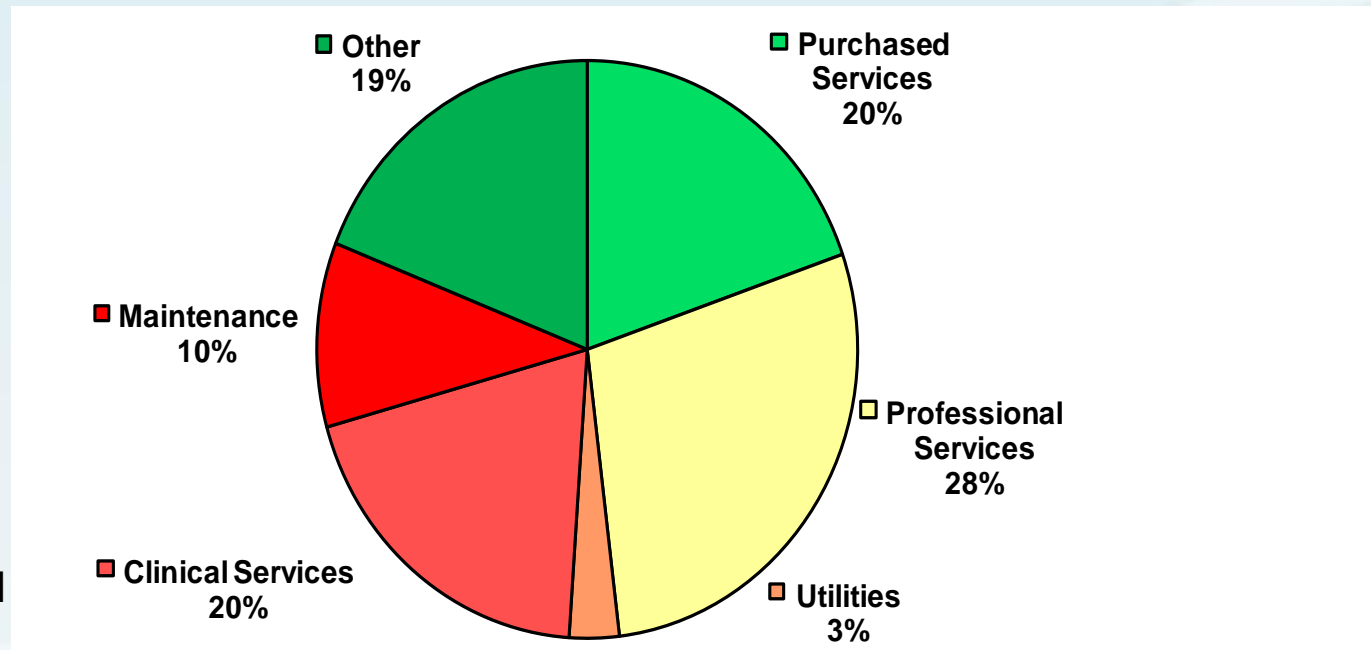
What's Next?



Determine Your Spend!

G/L Categories:

- Clinical Service
- Professional Services
- Non-Clinical
- Purchased Services
- Maintenance
- Utilities
- Other
- Cross Organizational
- Specialty Solution customized to end user needs



Data Analysis & Benchmarking

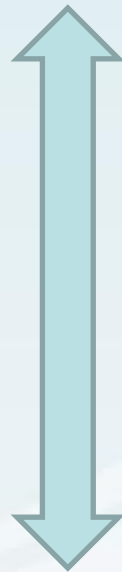
- Benchmark Productivity and Total Costs
- Include Service and Quality measures if appropriate
- Identify Peer and Best Practice Organizations
- Are there Industry Benchmarks available?
- Ask your Suppliers
- Ask your Stakeholders
- Look outside the healthcare Industry
- Establish the framework for ongoing measurement

Categorize and Assess the Opportunity

- **Clinical & Professional Services**

- DME Management
- TV Services
- Instrument Repair
- SUD Reprocessing
- BioMedical Engineering
- Translation Services
- Medical Transcription
- Lithotripsy Services
- Perfusion
- Ambulance Services
- Blood Collection Services
- Information Services
- Medical Records Coding
- Revenue Cycle Services
- Billing & Collection
- Reference Lab
- Psychiatric Services
- Acute Rehab
- Physician Contracts

Difficult to Implement



Easy to Implement

- **Non-Clinical Services**

- Multi-Functional Device Management
- Elevator Maintenance
- Sales Tax Overpayment Recovery
- Payment Recovery Audits
- Fleet Management
- Water Treatment
- Document Management
- Laundry & Linen
- Temporary Staffing
- Environmental Services
- Food & Nutrition Services
- Marketing & Advertising
- Architectural Services
- Asset Management
- Equipment Planning
- Landscaping & Grounds
- Facilities Management
- Waste Management
- Utilities
- HR Benefits

And What's the Savings Opportunity?

Grade the Importance

Payoff

1. Measures are Worse than Current Environment
2. Status Quo
3. Improvements, but Financial Goals Missed; Service Goals Missed
4. Financial Goals Achieved; Satisfaction of Care Givers Increases
5. Financial Goals Achieved; Service Goals Achieved
6. Financial Goals Exceeded; Service Goals Achieved
7. Financial Goals Exceeded; Service Goals Exceeded
8. Goals Exceeded; Satisfaction of Care Givers Increases Substantially
9. Goals Exceeded; Highest Quality Outcomes Achieved
10. We Change the Industry

Risk of Not Achieving

1. Transparency to Care Givers
2. Minor Changes Required for Care Givers
3. Major Change for Care Givers
4. Road Blocks delay implementation and/or increase costs
5. Status Quo
6. Total Cost increases as a result of Program Implementation
7. Care Givers Lose Trust in Services
8. Management Team must be Replaced
9. Cardinal must be Replaced with Other Solution
10. The organization must shut down

Project Management and Charter Development

- Define the scope, expectations, service levels, roles & responsibilities and timelines
- Establish milestones
- Empower Value Analysis and Purchased Services to reach beyond the traditional perspective
- Develop process redesign and project management toolkit to apply to Purchased Services programs
- Identify and implement low risk, high reward programs to build a culture of change
- Encourage risk taking and innovation
- Share the risk and success
- Educate and Implement discipline and accountability through Purchased Services programs
- Insure priorities meet organizational and clinical expectations
- Communicate to All

What's Next?

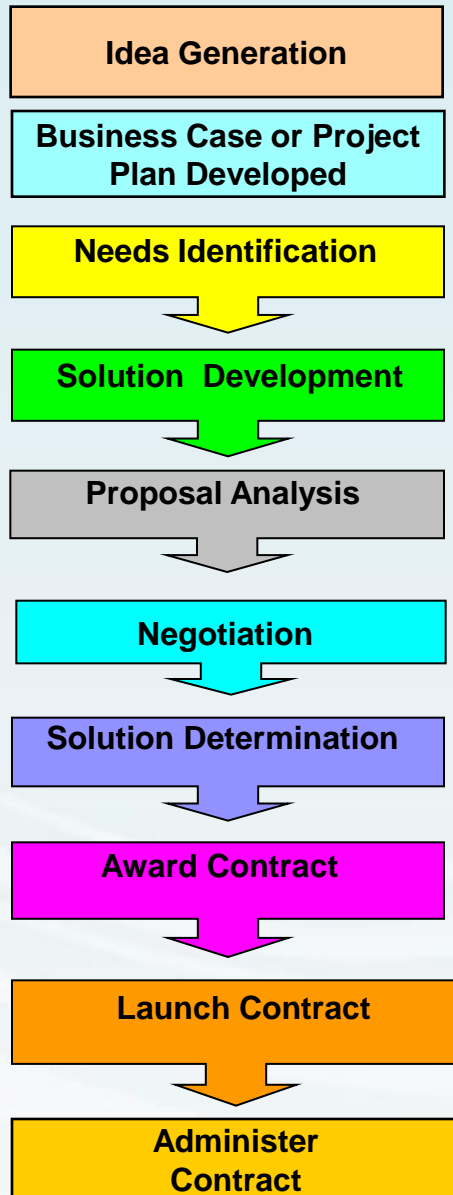


Achieve Best Practice with Resource Investment

Partner with Best Practice Organizations

Group Purchasing vs. Self Sourcing Or Hybrid?

Purchased Services Contracting Process



- Value Analysis, Project Team or eSuggestion generates Idea
- Pipeline Cost Analysis Completed
- Project Plan including Opportunity developed
- Approval & Prioritization
- Initiative Assessment/determine if clinical preference
- Market Assessment to validate business opportunity
- Market Research and VAT input on specifications
- Develop and finalize requirement/decision matrix
- Follow formal procedures of sourcing process
- Determine total delivered cost
- Compare responses
- Clarify terms & conditions to responses
- Focus on total delivered cost
- Consider needs, market assessment and research
- Involve team members and necessary stakeholders
- Determine best solution
- Develop implementation plan
- Begin contract approval process w notification to Legal, IT, Finance, and Supply Chain Leadership
- Prepare executive summary package including Control Plans

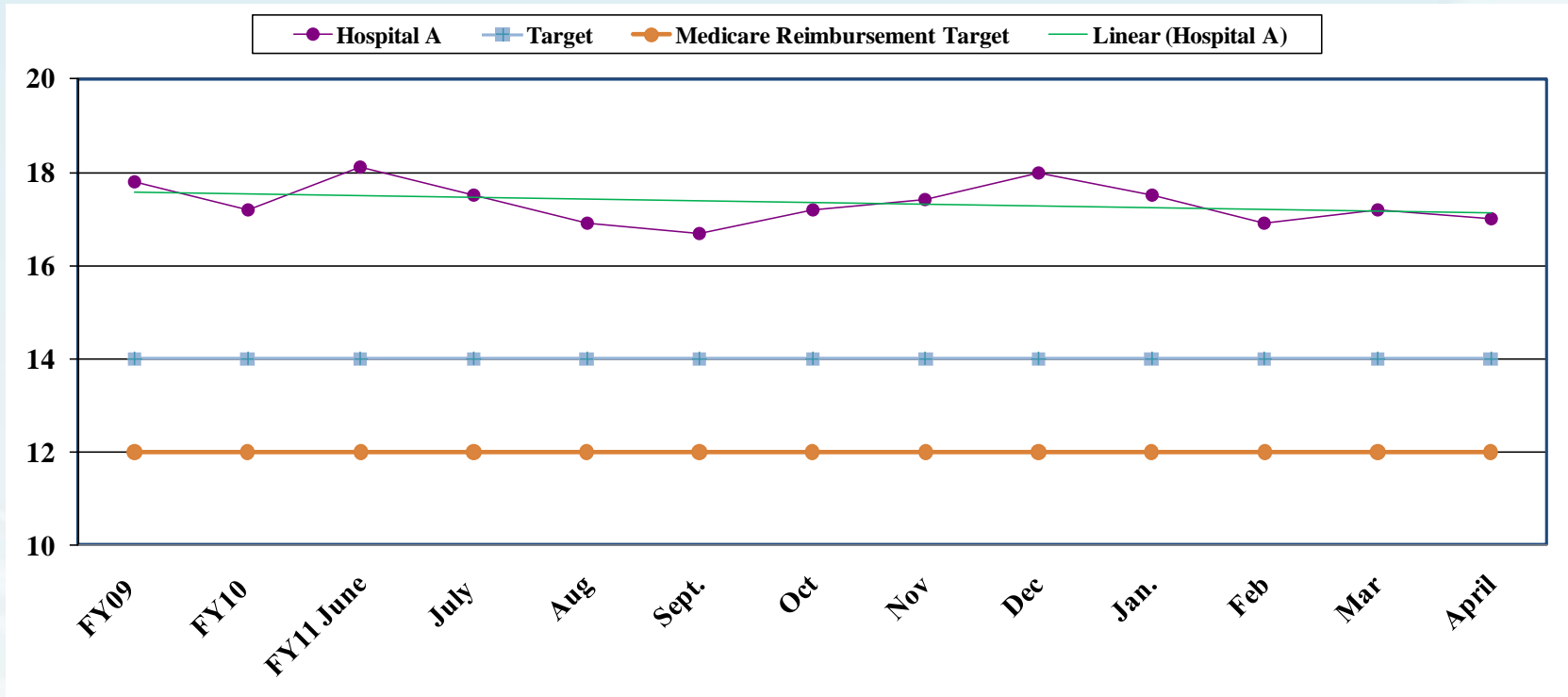
Food for Thought

- Risk/gain sharing model
- Quality, Service and Financial Performance targets
- Agreement language to insure cost benefit approved before commitment
- No programs start without preapproved metrics
- Common systems and processes
- Joint commitment to develop Cost per Unit of Service fee schedule
- Guaranteed Availability of Services
- Onsite Managers accountable for Performance Metrics
- Partners are Viewed as Employees!

And Finally!



Purchased Service Expense as % Net Patient Revenue



Summary

1. Understand Your Environment

- Align Purchased Services Strategy to Strategic Plan via Strategic Map
- Align SC Goals with Entity Goals via Service Level Agreements

2. Categorize and Assess Your Spend

- Assess Best Practice options
- Total Cost of Ownership

3. Establish Priorities and Project Management

- Build staff, team and leadership development programs
- Establish Change Management and Problem Management programs

4. Perform Strategic Sourcing

- Make-Buy decisions

5. Implement and Monitor Success

- Optimize Performance with Pilot programs
- Develop and execute comprehensive Control Plans

6. Communicate-Communicate-Communicate!

Questions & Answers

