

Optimizing Performance in the Face of Reform: Strategies for 2012

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Objective Health, a McKinsey Solution for Healthcare Providers

Webinar

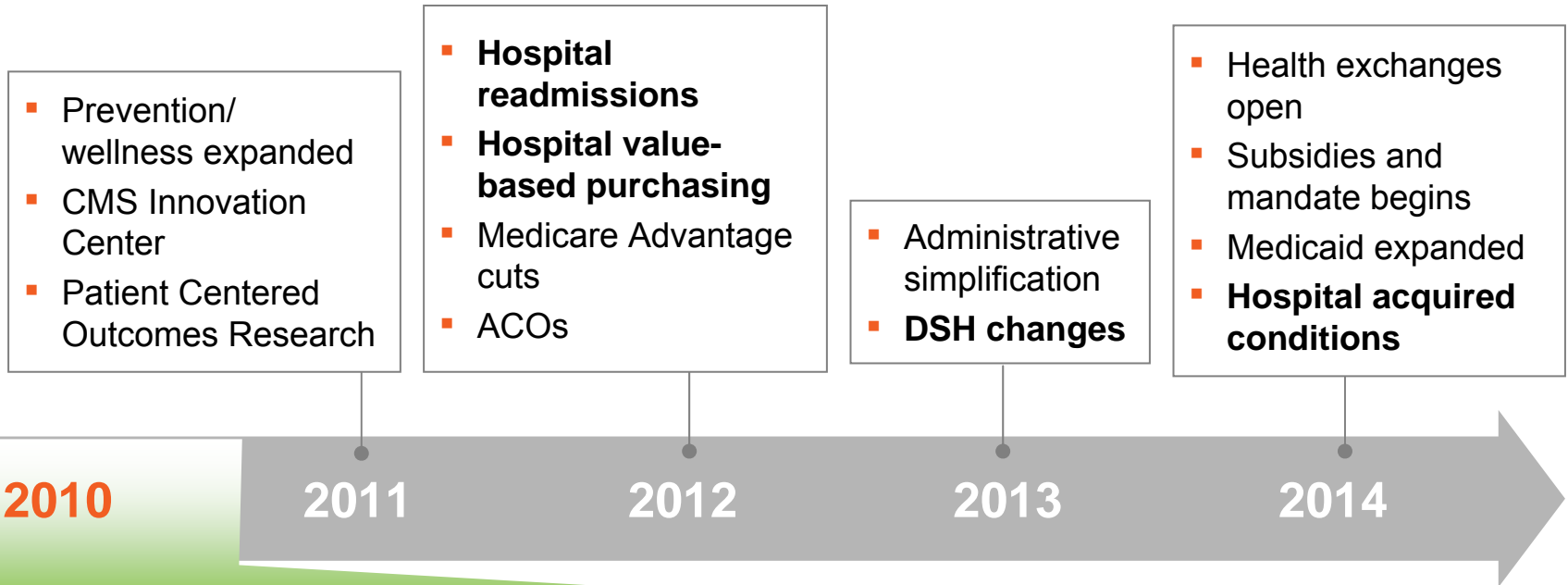
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Health reform is gradually being implemented, with some of the biggest impacts still to come

NOT EXHAUSTIVE



- Dependent coverage extended to age 26
- \$250 "doughnut hole" rebate for seniors
- Protections against not covering people because of pre-existing conditions and/or dropping them when they become sick
- Minimum medical loss ratio requirement
- Reductions in Medicare FFS payments**
- Ban on lifetime / annual limits
- Increased free preventative coverage
- Options for people that are "high-risk" to obtain coverage
- Tax credits to small business
- Establishing many commissions (e.g., workforce, women's' health)

What is the expected impact if the Supreme Court strikes down the individual mandate but allows the rest of the ACA to stand?

Out of the 30 million people expected to gain coverage under current law:

- A. **8 million** fewer people would gain coverage if the mandate is struck down
- B. **16 million** fewer people
- C. **20 million** fewer people
- D. **24 million** fewer people

The landscape in 2012

Context

- Supreme Court decision on constitutionality
- Presidential election
- Federal government busy at work on implementation
 - Exchanges, Stage 2 Meaningful Use, DSH, Next Generation VBP, Wage index reform, National Bundled Payment pilot
- Some states setting up their exchanges; several others waiting to see based on Supreme Court decision

Provider agenda

- **Providers continuing to prepare themselves for the coming post-reform era**, characterized by:
 - More patients, but fewer dollars per patient
 - Greater integration
 - Horizontally among hospitals; and
 - Vertically between hospitals, payors / employers and physicians
- **In 2012, providers will be focused on:**
 - Execution of “no regrets” moves to hold down costs and capture growth opportunities
 - Execution of IT transformation to achieve Meaningful Use and lay foundation for potential clinical integration
 - Development of long-term strategy to thrive

Which of the following areas presents the largest opportunity for margin improvement at your hospital in 2012?

- A. Supply expenses
- B. Labor productivity & operations
- C. Physician resource utilization
- D. Revenue cycle
- E. Service line growth

In this webinar, we will take a look at how one hospital did an exhaustive review of its “no regrets” opportunities and moved aggressively to capture them

Background

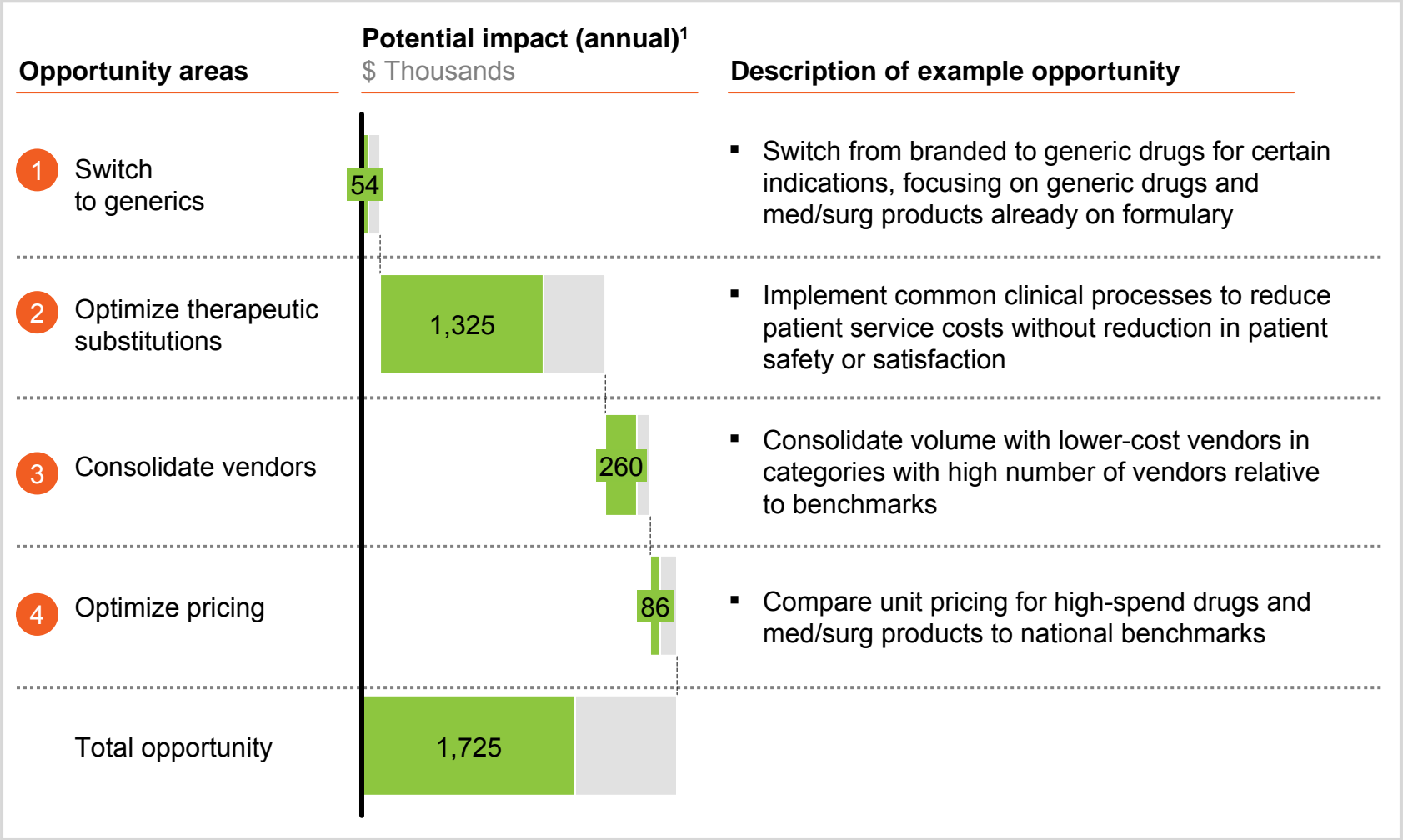
- 300+ bed independent not for profit tertiary hospital
- Full complement of services, including bariatrics
- Heavy Medicare population
- \$200M net operating revenue

Approach

- **Step 1:** Use granular data to uncover performance improvement opportunities
- **Step 2:** Ensure opportunities are captured through sophisticated project management

Supply expenses: The hospital found opportunities equal to ~5% of spend through granular analysis

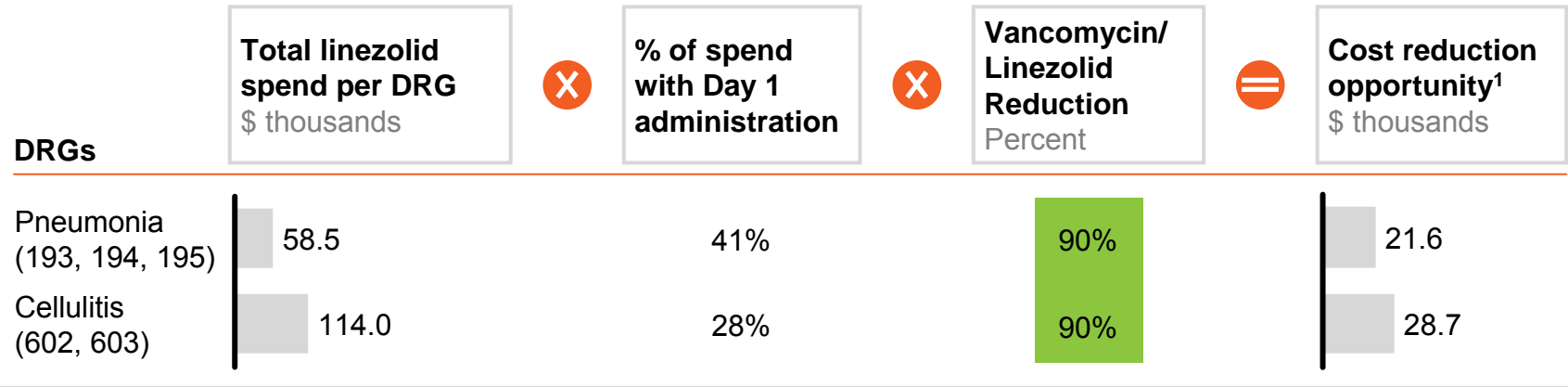
■ Savings from current analysis
■ Additional potential savings



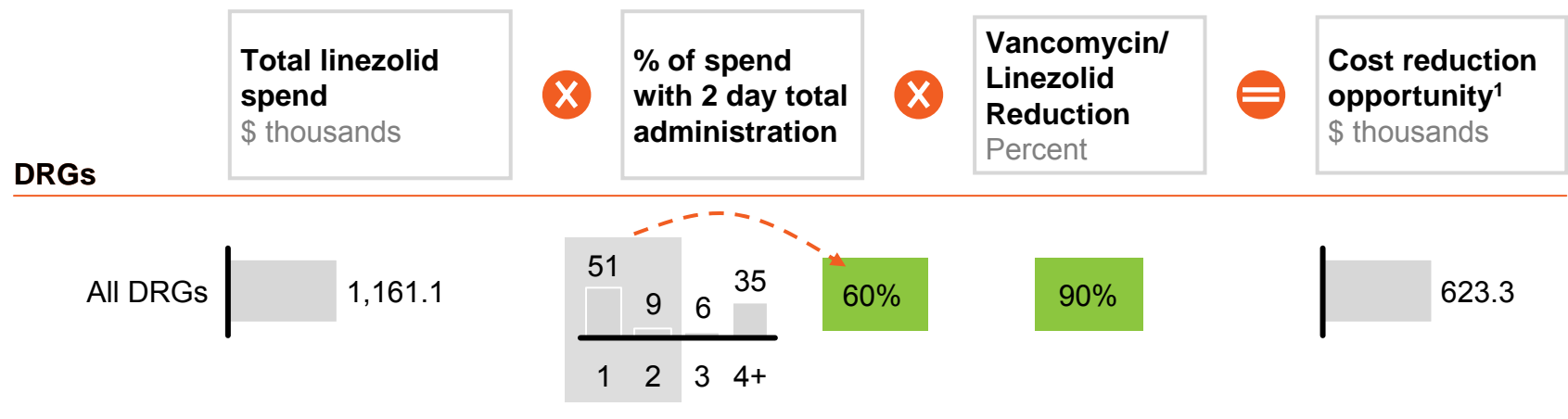
NOTE: All recommendations will require review by and approval from physician and/or P&T committees
SOURCE: Blinded OH analysis

Therapeutic substitutions example: Managing antibiotic use

a Cases where linezolid is administered on Day 1 of treatment



b Cases where linezolid is administered for 2 days or less

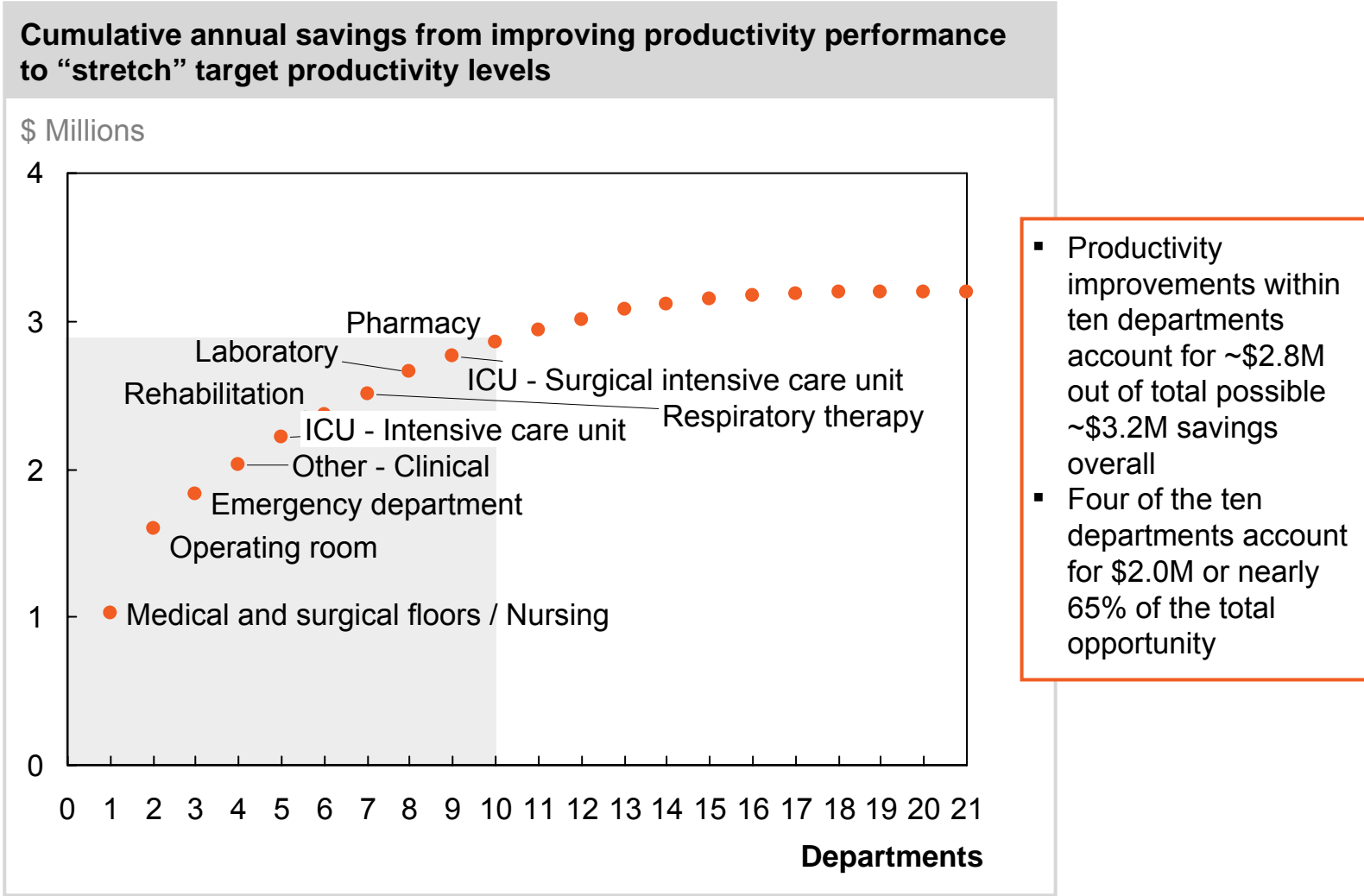


Note: All recommendations will require review by and approval from physician and/or P&T committees

1 Further analysis is needed to filter out patients who have previously failed vancomycin therapy

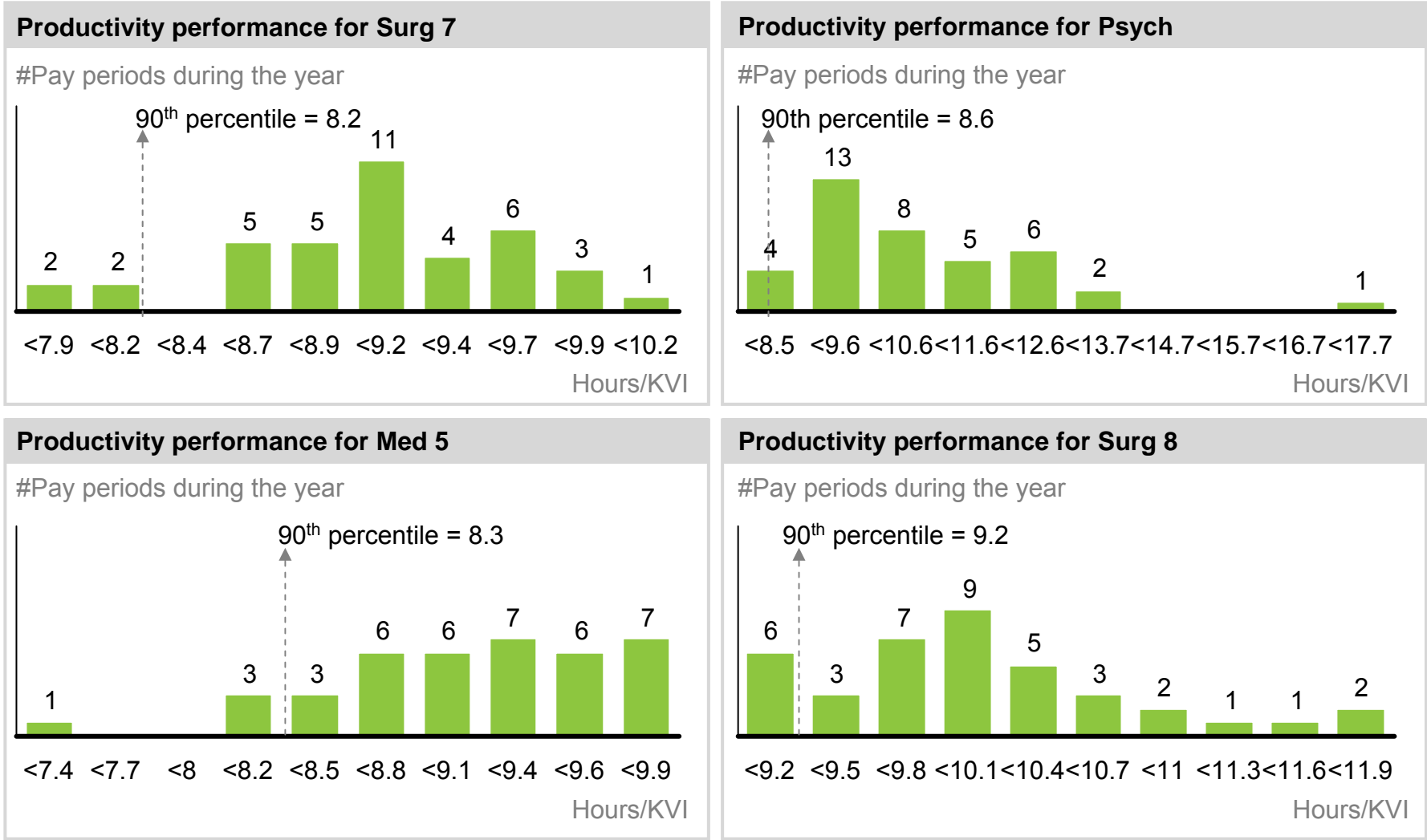
SOURCE: Blinded OH analysis

Labor productivity: Improving productivity to consistently high levels of performance had the potential to save the hospital ~10% of labor spend



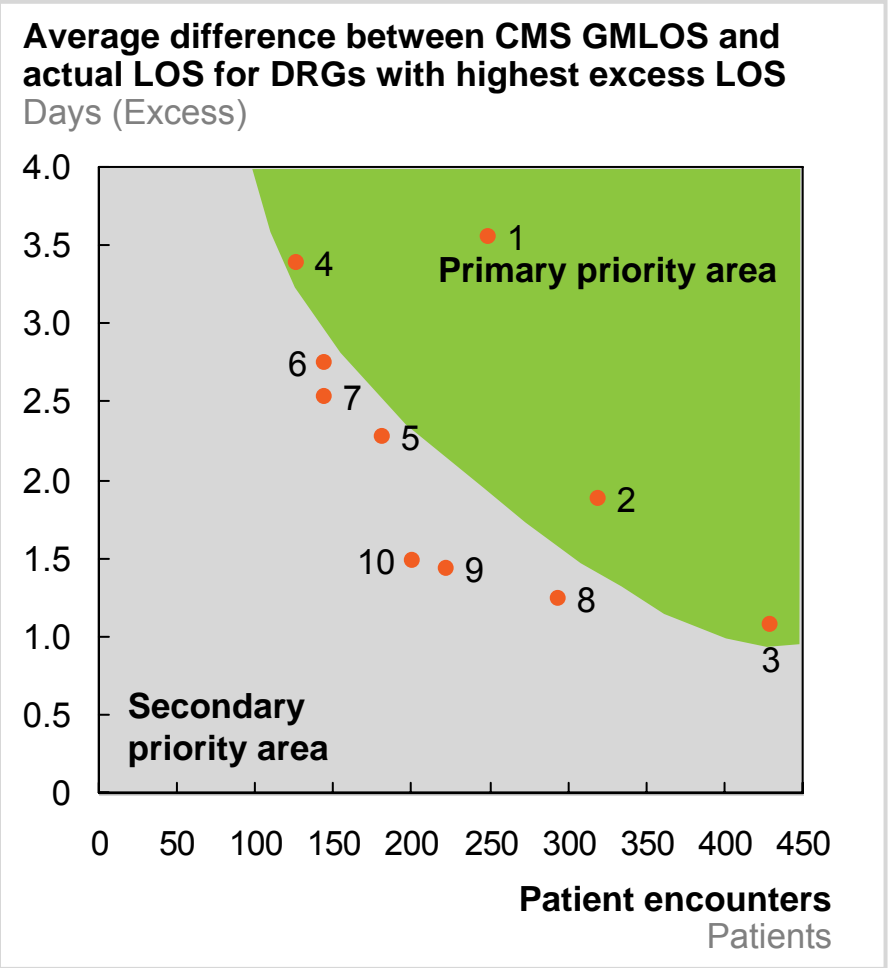
SOURCE: Blinded OH analysis

Labor productivity: The hospital assessed opportunity by examining each cost center’s variability in productivity performance over time



SOURCE: Blinded OH analysis

Operations: The hospital assessed excess LOS at the DRG level to help target throughput improvement initiatives



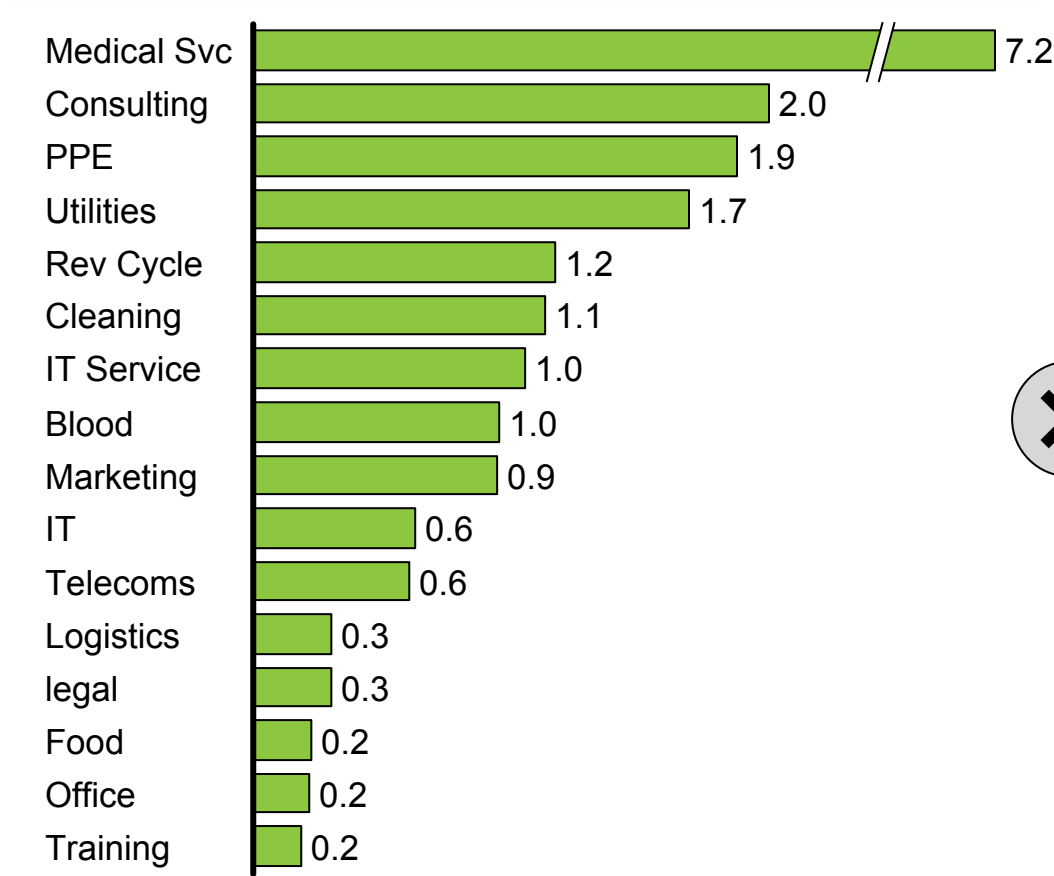
Summary of ELOS analysis

- Overall **average ELOS** was 1.78
- Hospital could **save potentially ~\$15M in variable costs** by capturing the ELOS opportunity
- By reducing ELOS, hospital could **increase flexibility²** by **freeing up 17%** of bed capacity
- The **average ELOS of the top ten DRGs** is 2.16 days
- These **ten DRGs account for ~22%** of overall ELOS

SOURCE: Blinded OH analysis

Purchased Services: Applying best practice savings range to each category of spend resulted in a 5-14% opportunity

Annual spend by category
\$ Millions

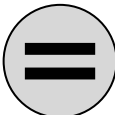
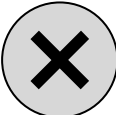


Typical observed savings range percent

3 - 7
5 - 25
15 - 25
0 - 10
10 - 20
0 - 18
3 - 4
0 - 0
0 - 20
30 - 40
9 - 27
7 - 20
0 - 5
0 - 5
0 - 5
15 - 35

Minimum saving potential \$ Thousands

215 - 503
100 - 498
280 - 468
0 - 168
116 - 233
0 - 203
31 - 42
0 - 0
0 - 188
188 - 251
54 - 162
21 - 60
0 - 15
0 - 11
0 - 11
28 - 64



5 - 14

1,035 – 2,879

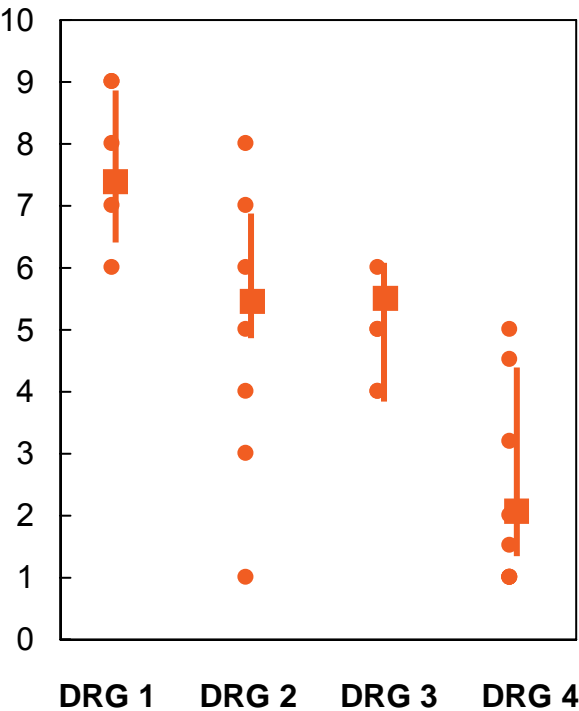
1 McKinsey purchasing and supplier database

Physician variation: The hospital looked at case-level economics to help target physician resource utilization improvement initiatives

ILLUSTRATIVE

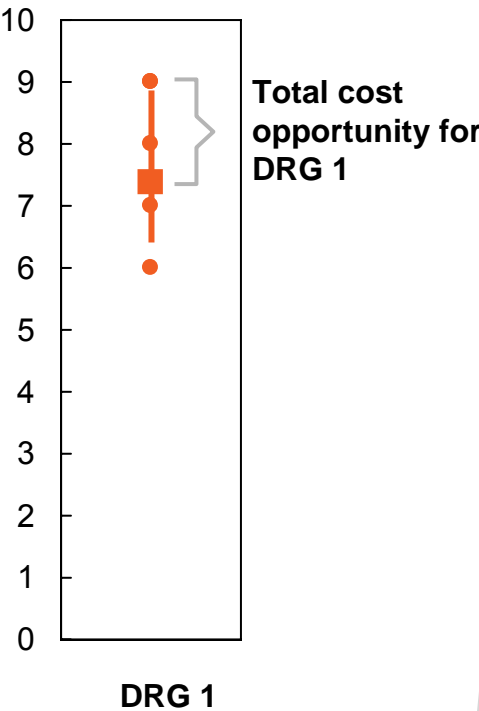
For each DRG, variability exists in cost per case by physician ...

Cost per case
\$ thousands



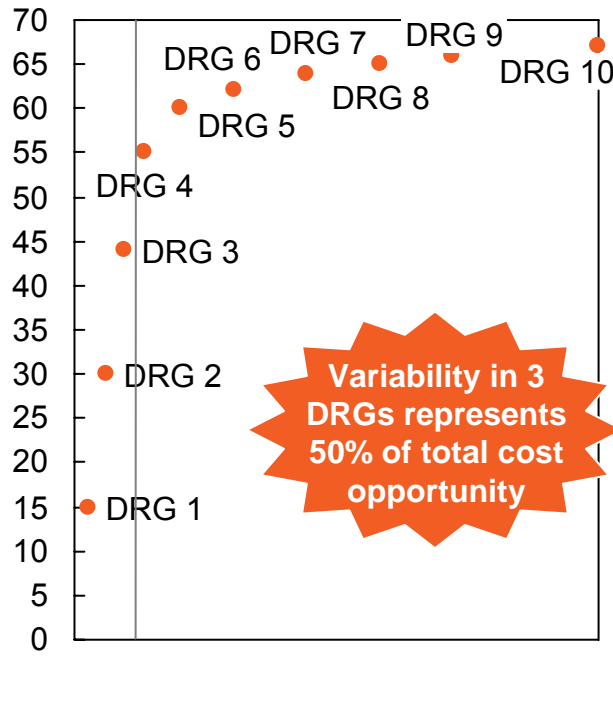
... which can be translated into a cost opportunity calculation ...

Cost per case
\$ thousands

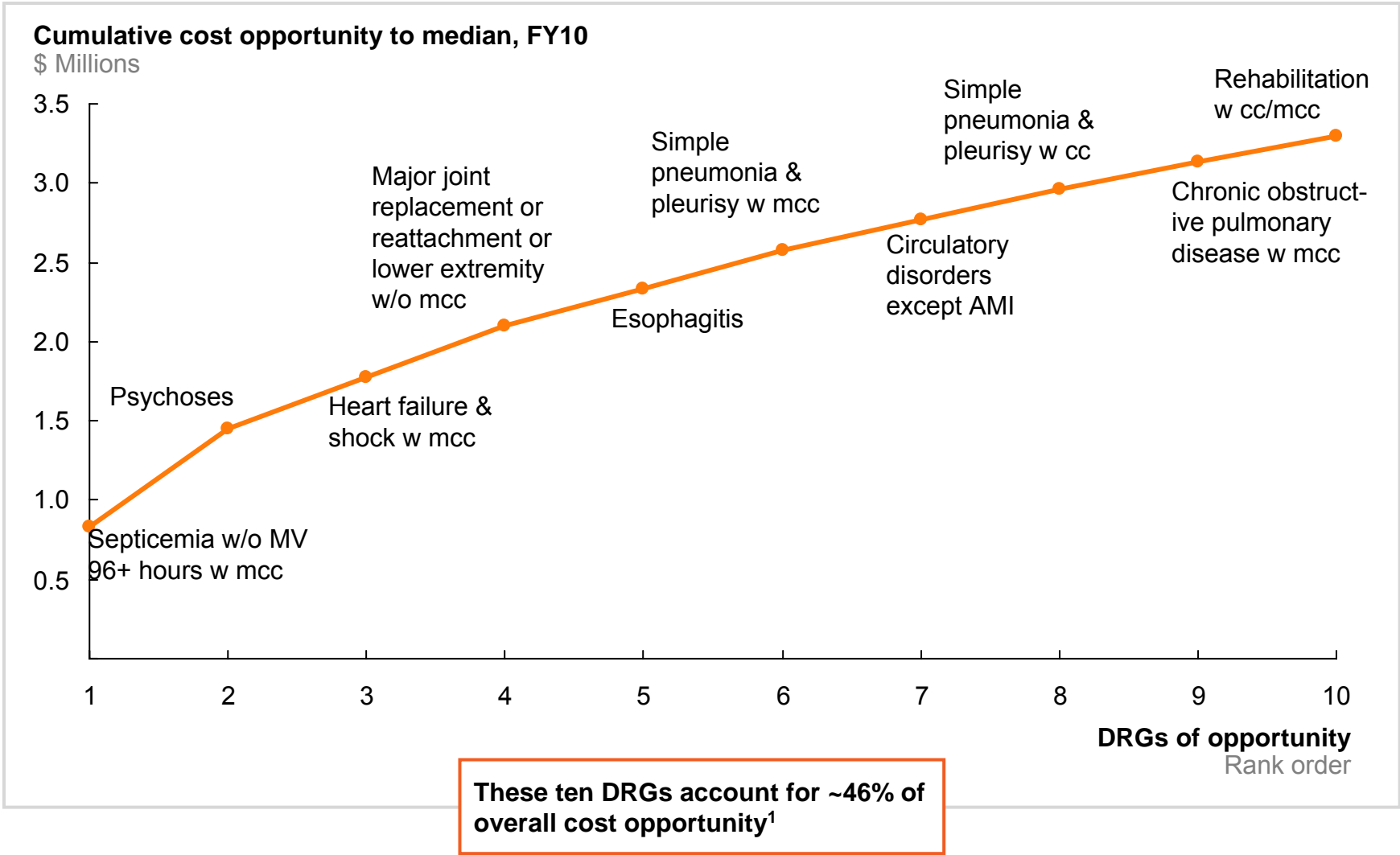


... and compared across DRGs to determine which conditions drive the majority of costs

Cumulative cost opportunity
\$ thousands

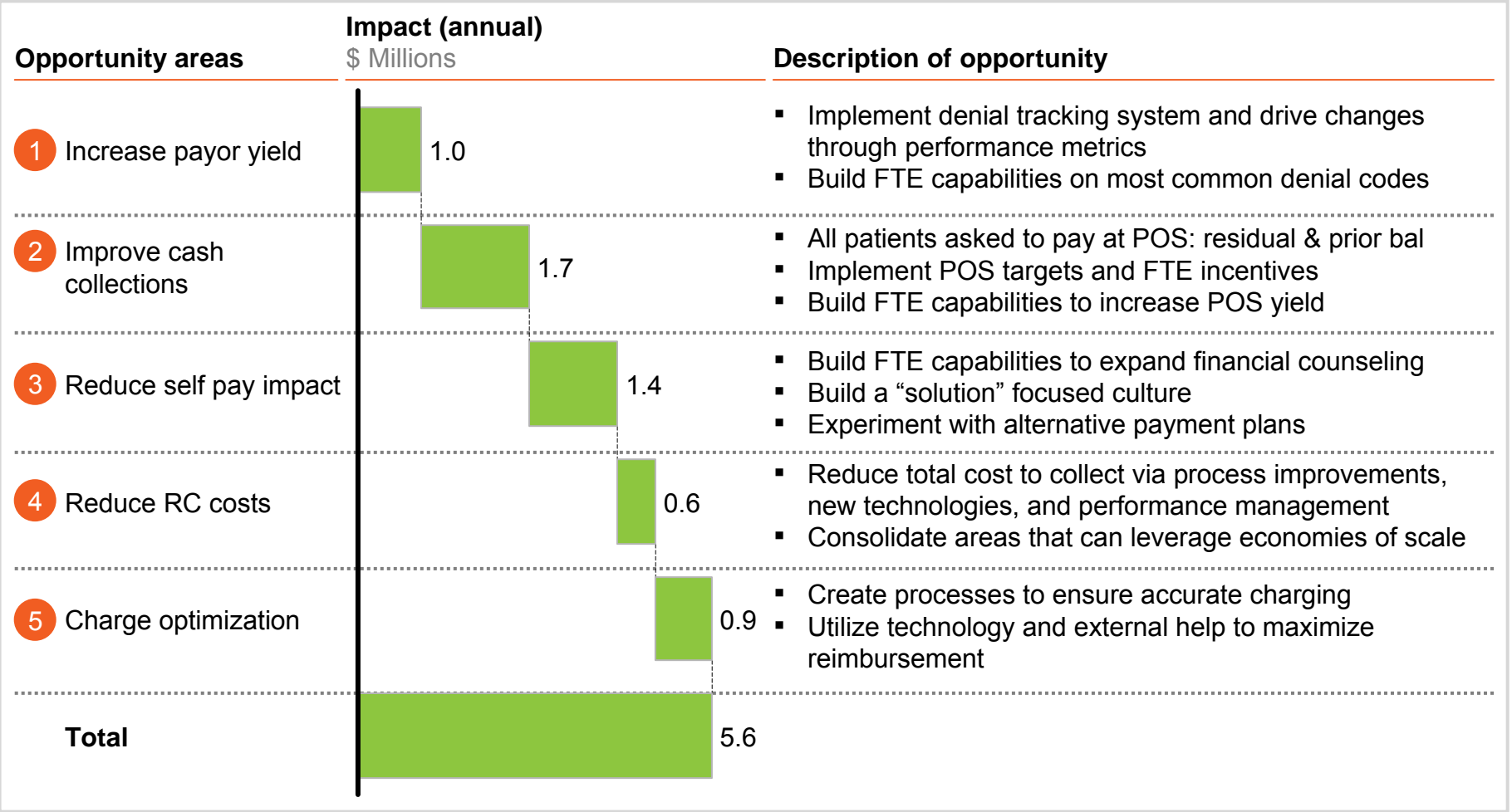


Physician variation: Just 10 DRGs represented a 2-3% cost reduction opportunity



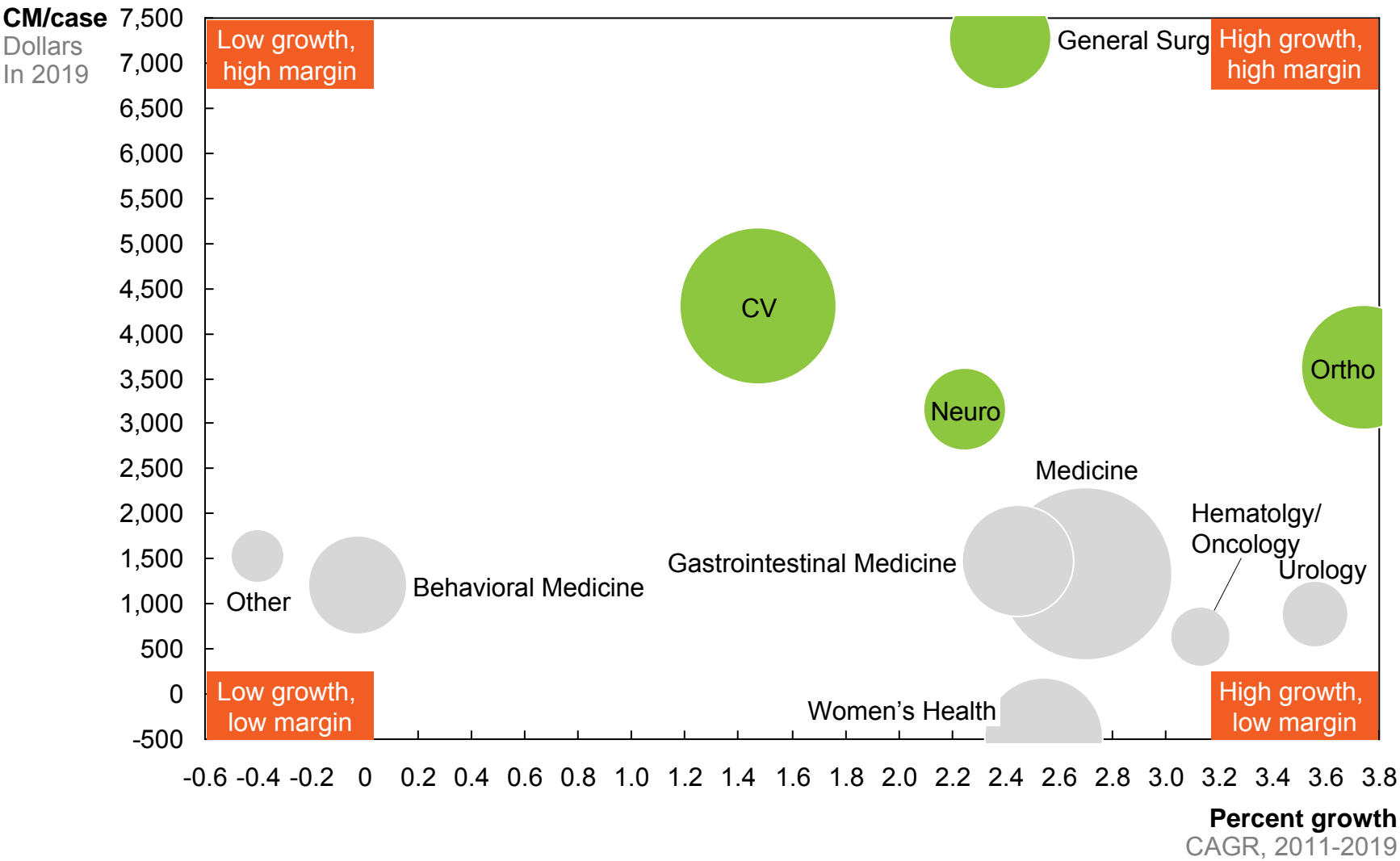
SOURCE: Blinded OH analysis

Revenue cycle: Focusing on 5 key levers identified a 2-3% potential improvement in revenue



SOURCE: Blinded OH analysis

Service line growth: The hospital prioritized service lines based on projected growth and changes in economics



SOURCE: Blinded OH analysis

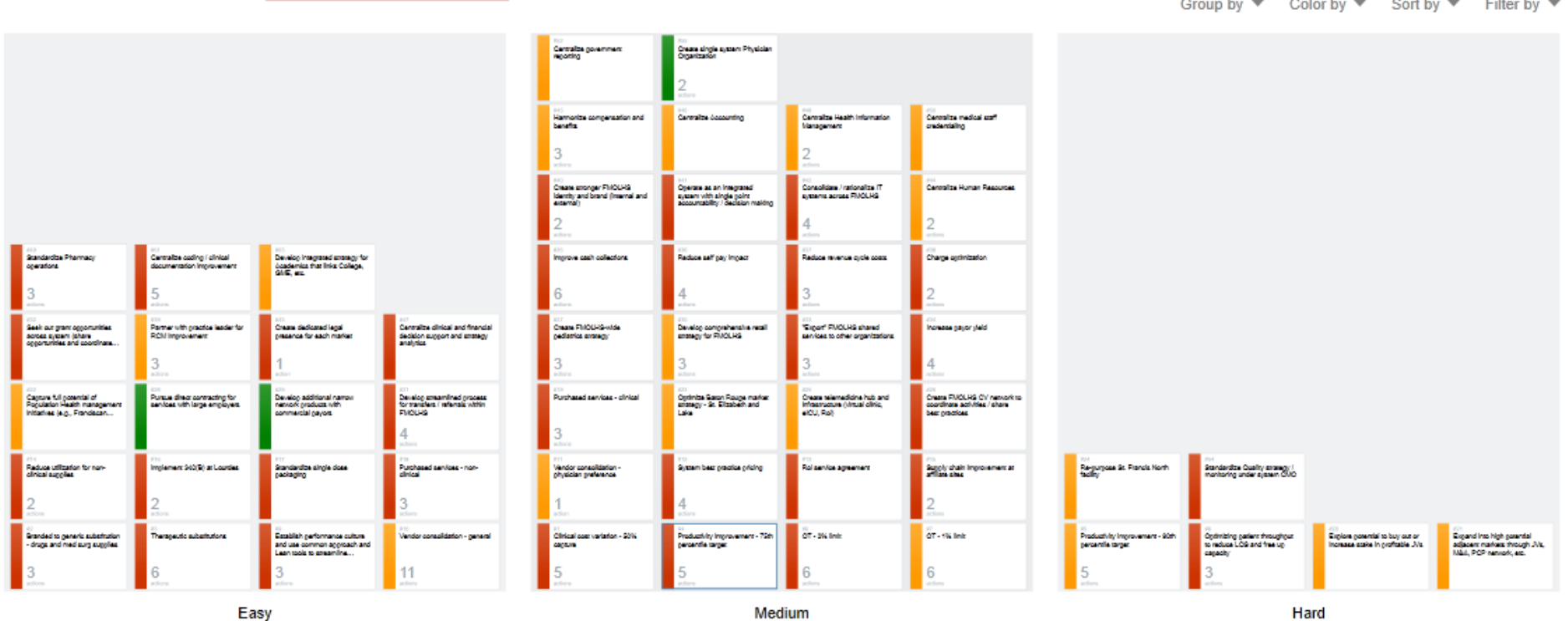
Service line growth: Within each service line, the hospital drilled down and identified where they were underperforming and could improve share

Service line	Potential target	Incremental cases	CM / case ¹ (\$)	Opportunity ¹ (\$000's)
▪ Joint surgery	▪ Improve share of joint surgery by 22% in PSA and 5% in SSA	20	\$3,700	79
▪ Cardiovascular care	▪ Improve SSA share of all CV volume by 3%	140	\$2,500	346
▪ Electrophysiology	▪ Improve PSA share of EP by 5%	8	\$5,300	43
▪ Oncology surgery	▪ Improve oncology surgery share by 15% in PSA	40	\$6,400	254
▪ Non-oncology general surgery	▪ Improve non-oncology general surgery share by 8% in PSA, 5% in SSA North and 3% in SSA West	110	\$8,000	913
▪ Neurosurgery	▪ Gain 12% share in neurosurgery in SSA West	11	\$5,800	61
Total				1,696

1 Measured in 2019 dollars
 SOURCE: Blinded OH analysis

The hospital organized the large number of ideas and initiatives coming out of the performance review into a prioritized portfolio that balanced impact, ease of capture, and time to capture ...

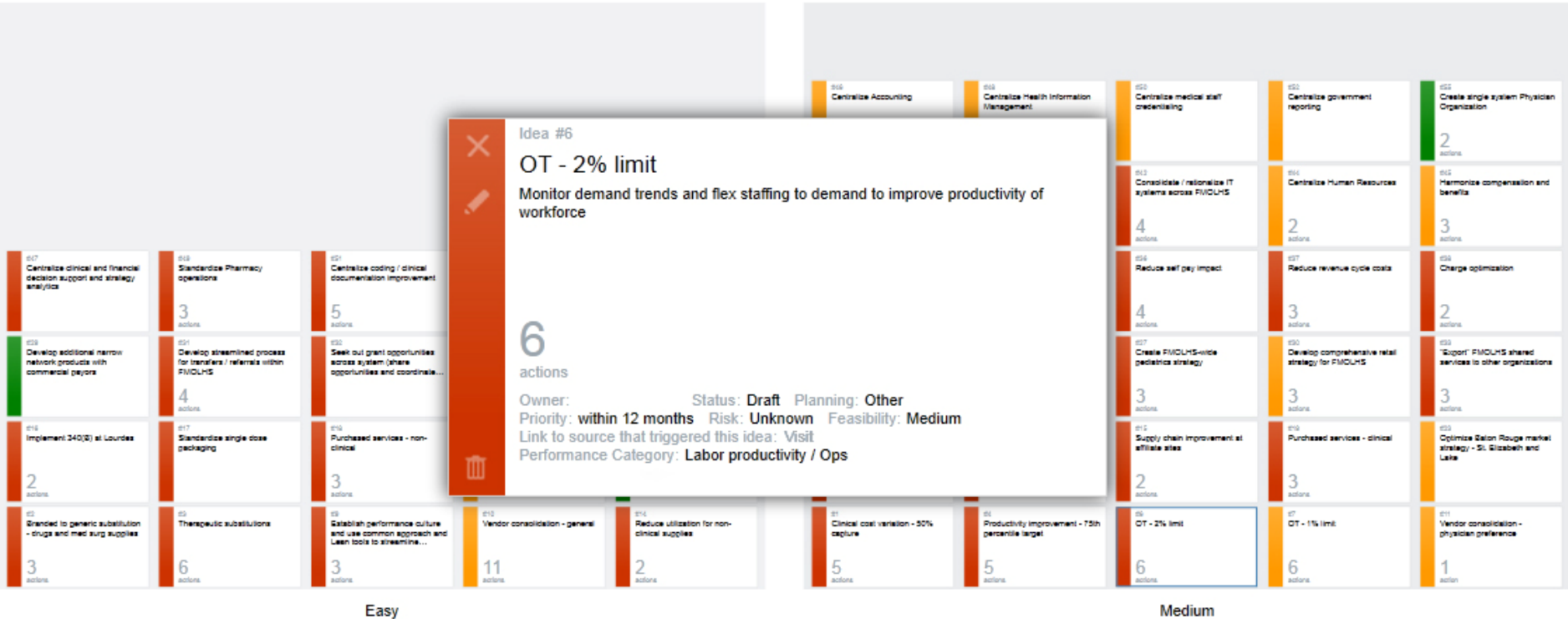
55 ideas, grouped by Feasibility (some selected values hidden), colored by Priority



... and ensured the initiatives were successfully implemented through sophisticated project management (1/2)

49 ideas, grouped by Feasibility (some selected values hidden), colored by Priority
Filtered by Feasibility [Unknown, Easy, Medium]

Group by ▼ Color by ▼ Sort by ▼ Filter by ▼



... and ensured the initiatives were successfully implemented through sophisticated project management (1/2)

OT - 2% limit

	#	Title
🗑	80	2% OT labor use; targets for fixed dpt. to manage productivity over time
🗑	81	Determine best staffing levels for departments like the ED/OR/Nursing floors; Do we need a scribe in the ED
🗑	82	Standardize policy around sending exempt FTE home due to low patient load
🗑	83	Establish a standard policy to handle PTO for hourly employees when there is sick time
🗑	84	Cross train staff to reduce overtime
🗑	85	Evaluate ways to share/best utilize pools of certain skill roles (pharmacists, OTs, PTs) to reduce overtime

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Q & A

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