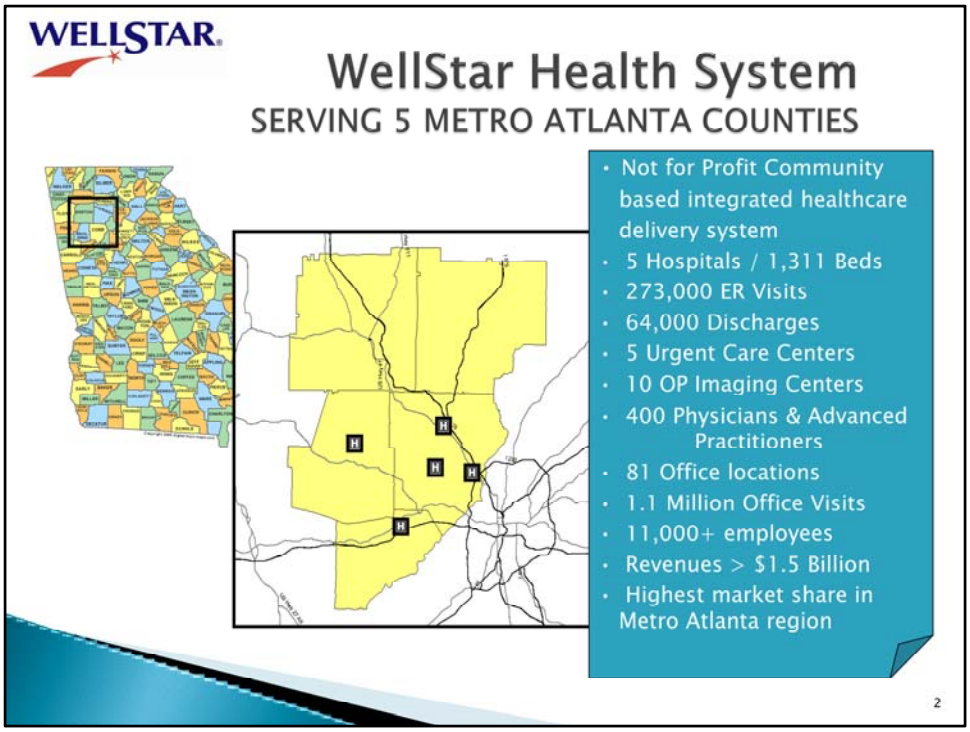
Sustaining Financial Performance Through a Large Scale System-Wide Improvement Initiative

WELLSTAR HEALTH SYSTEM
Lynn Alters, Director of Workforce Management
Feb 17, 2011



Five counties we serve have a population of approximatey 1.2 million. Five year total population growth in these counties is expected to exceed 12%.

These are fairly affluent counties with a total medium household income exceeding $65,000.

Our two largest hospitals are Kennestone Hospital and Cobb Hospital.

KH
•633 beds
•Laproscopic surgery developed there
•Full-service general acute care

CH
•382 beds

Both hospitals have been recognized as Top 100 hospitals and have received recognitions such as:

Douglas and Paulding Hospitals (small acute care hospitals)

Replacement for Paulding

Windy Hill is LTAC

WellStar Health System has aggressively pursued becoming the Employer of Choice in the greater Atlanta metropolitan market.

The process of becoming an employer of choice involves a concerted effort system-wide at increasing employee engagement. Why is that important?

INTEGRATED HEALTH SYSTEM DEFINED

An Integrated Health System is Defined As:

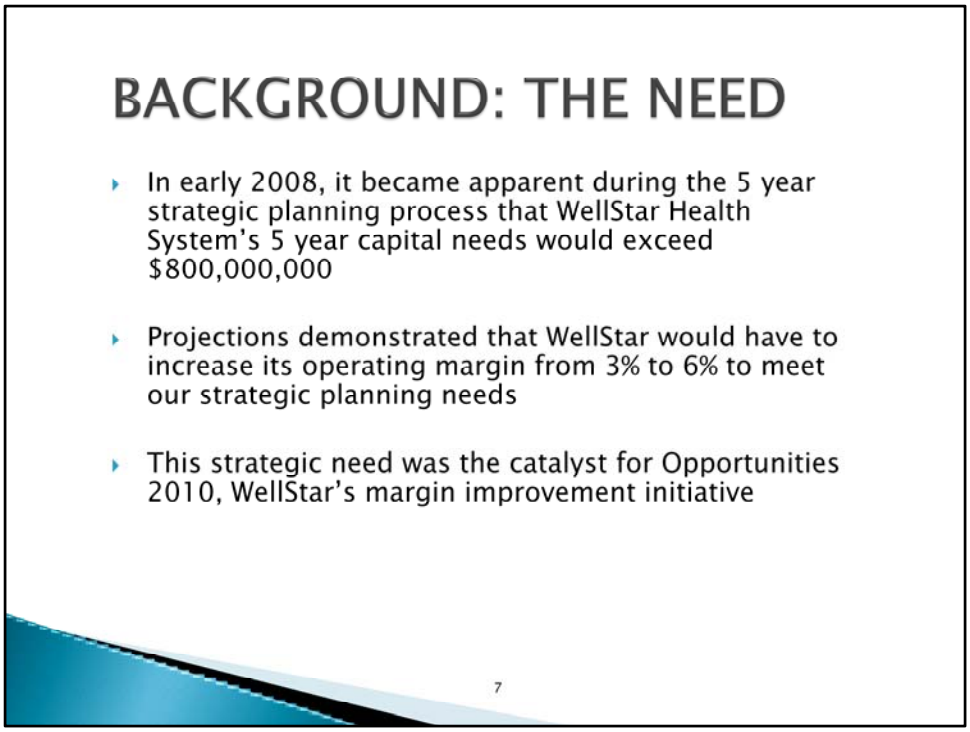
> *"An organization that provides a coordinated continuum of services to a defined population and is willing to be held clinically and fiscally accountable for the outcomes and health status of the population it serves."*

Stephen Shortell, Ph.d.; Dean-School of Public Health, University of California-Berkley

Advantages of Integration:

- Common purpose
- Mutual commitment
- Shared leadership
- Enhanced capabilities
- Single infrastructure
- Total flexibility

6

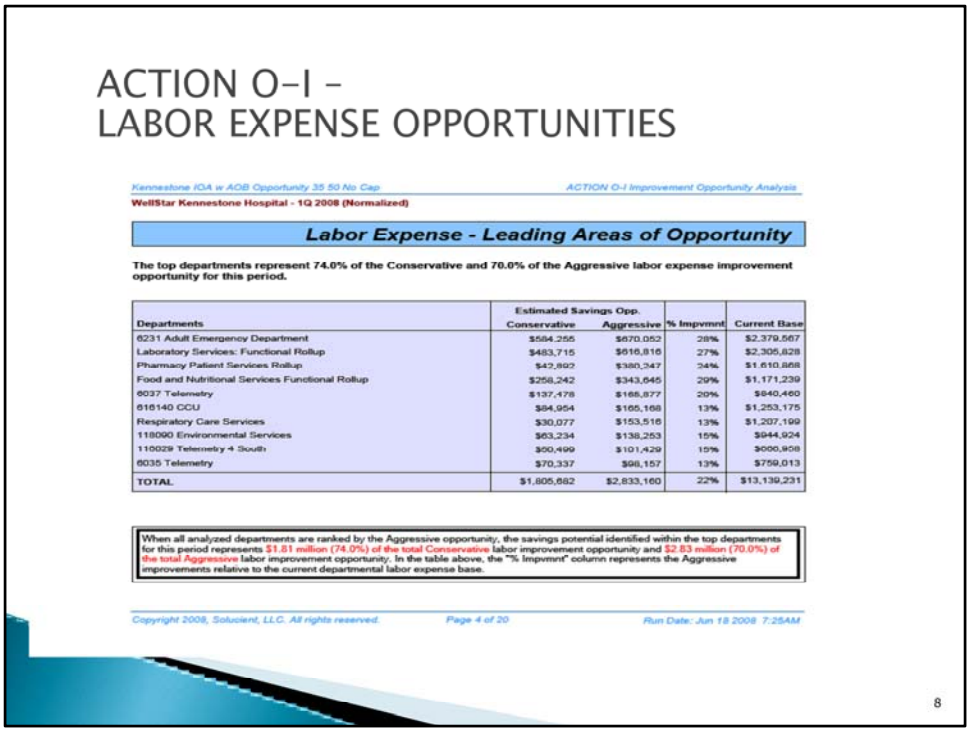


Let's put this in perspective a moment. WellStar had just completed a grueling process of completing its 5 year strategic plan. We did not have the margin to fund that plan. The date was early 2008. You may recall that

- DOW was 14,066 in Oct 2007
- DOW was 12,888 in March 2008
- DOW achieved 6,627 in March 2009

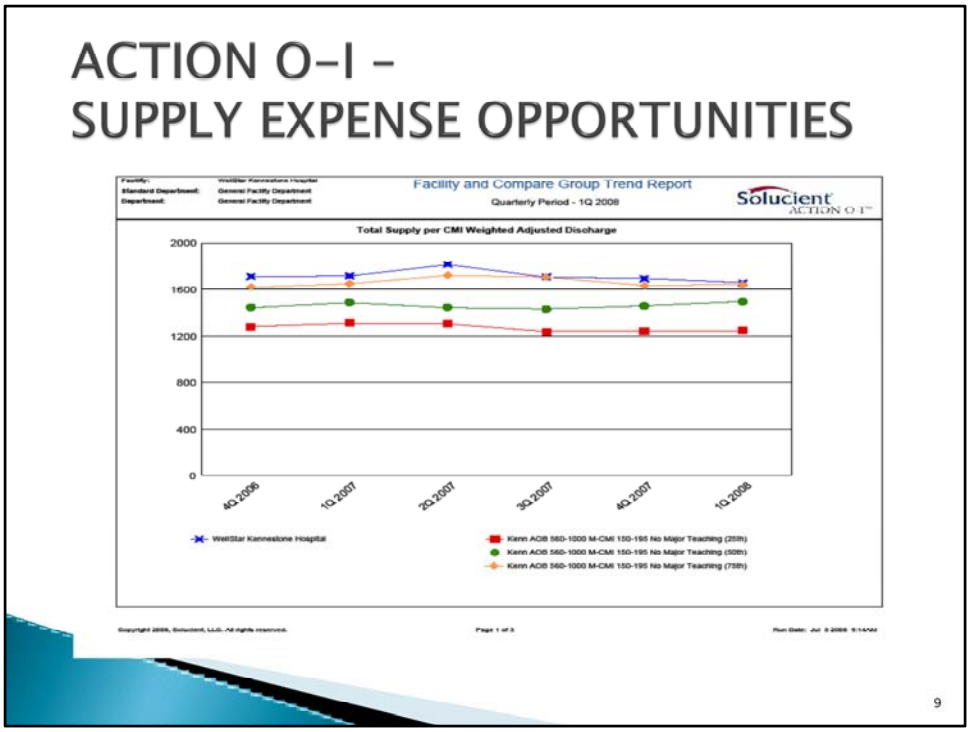
New CEO (since June 2007)
Between CFO's
COO was to leave soon.

CEO was worried about the "how" - the "what" was obvious
Started to see signs that investment income was, at best, tenuous
Turnover of senior leadership

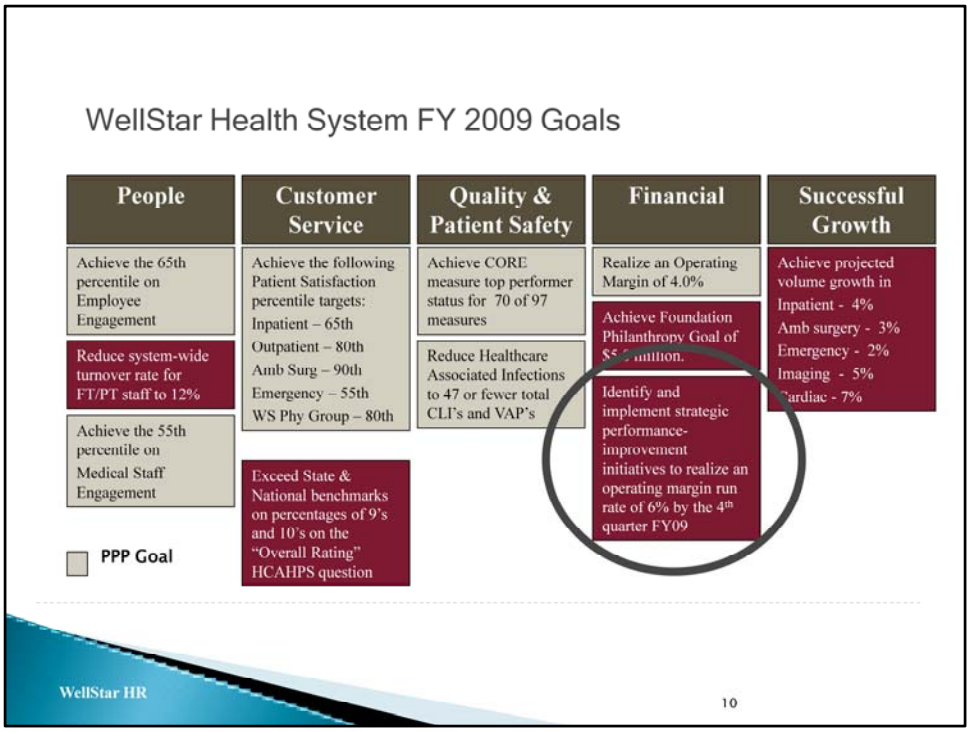


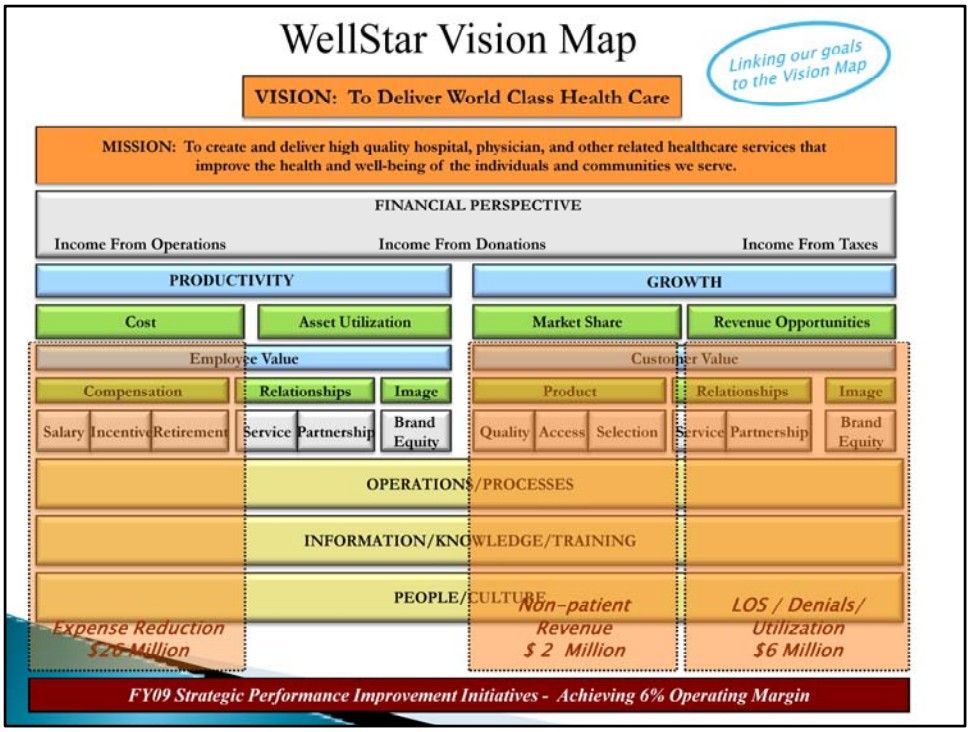
The Action O-I Opportunity Reports indicated a significant opportunity for improvement of in labor expense throughout the system.

Action O-I Benchmark data played a key role in identifying opportunities specific to labor utilization and operational efficiency. WellStar utilizes a wide variety of reports available within Action O-I for benchmarking ourselves as a system and as individual facilities and departments.

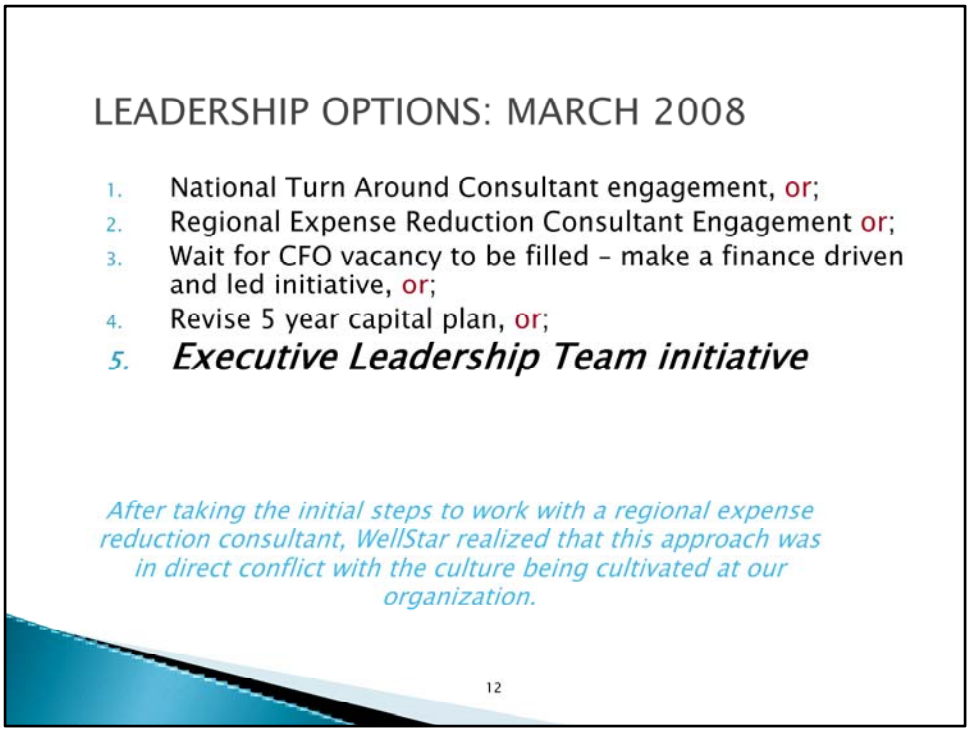


Action O-I also provided a basis for understanding our potential opportunities related to supply expense. Consistent trending in the upper quartiles validated our knowledge that supply expense management must be a key strategy for WellStar.


WellStar Health System FY 2009 Goals
People
Customer Service
Quality & Patient Safety
Financial
Successful Growth
Achieve the 65th percentile on Employee Engagement
Reduce system-wide turnover rate for FT/PT staff to 12%
Achieve the 55th percentile on Medical Staff Engagement
PPP Goal
Achieve the following Patient Satisfaction percentile targets:
Inpatient – 65th
Outpatient – 80th
Amb Surg – 90th
Emergency – 55th
WS Phy Group – 80th
Exceed State & National benchmarks on percentages of 9's and 10's on the "Overall Rating" HCAHPS question
Achieve CORE measure top performer status for 70 of 97 measures
Reduce Healthcare Associated Infections to 47 or fewer total CLI's and VAP's
Realize an Operating Margin of 4.0%
Achieve Foundation Philanthropy Goal of
Identify and implement strategic performance-improvement initiatives to realize an operating margin run rate of 6% by the 4th quarter FY09
Achieve projected volume growth in
Inpatient - 4%
Amb surgery - 3%
Emergency - 2%
Imaging - 5%
Cardiac - 7%
WellStar HR
10



Linking the goals to the Vision Map

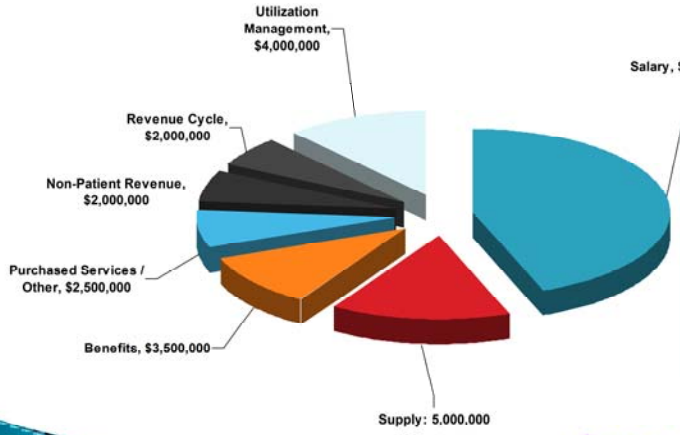


- CEO contracted with an “expense reduction consultant” (turnaround firm)
- Introduced him to our executive leadership group in 1st quarter 2008
- Obvious that his methodologies would change our culture - arrogant
- We convinced the CEO that we could meet or exceed the operating margin targets necessary to fund our 5 year capital plan with the external consultant

- Initial executive attrition
- Team Effort - several here today (Keith Beck, Lynn Alters, David Lawson)

OPPORTUNITIES 2010: GOALS BY TEAM

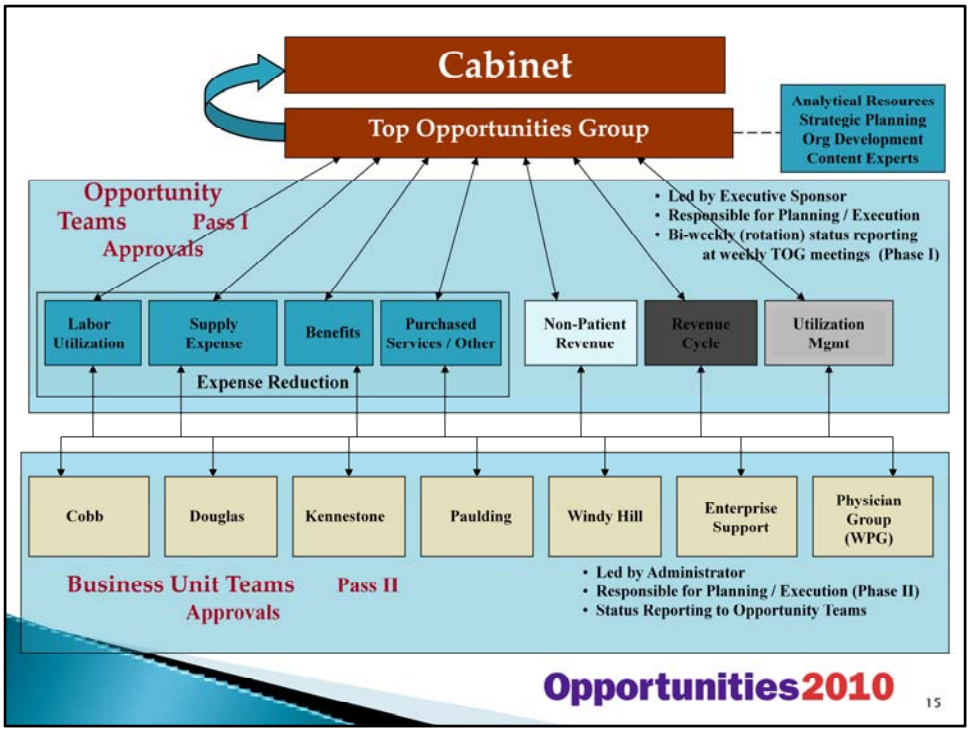
Additional Operating Income to meet 6% for FY 2009 = **$34,047,094**

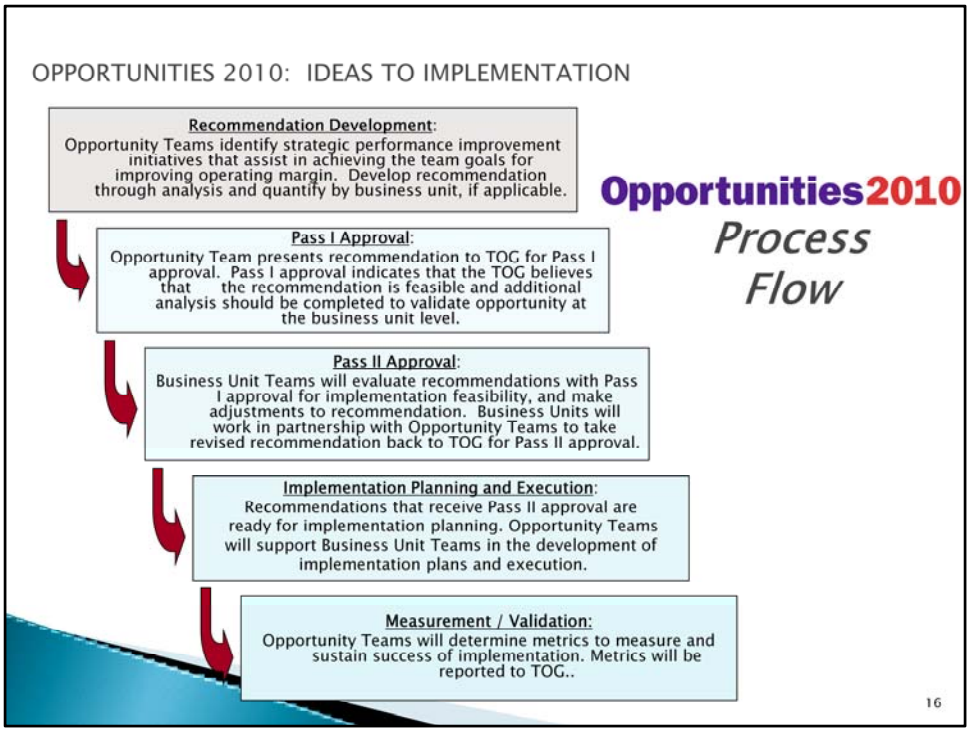


"There are No Silver Bullets"
Achieving sustainable results that meet our goals will be the result of dozens of small improvements across the business units.

Opportunities2010

14


Cabinet
Top Opportunities Group
Analytical Resources
Strategic Planning
Org Development
Content Experts
Opportunity Teams Pass I Approvals
• Led by Executive Sponsor
• Responsible for Planning / Execution
• Bi-weekly (rotation) status reporting at weekly TOG meetings (Phase I)
Labor Utilization
Supply Expense
Benefits
Purchased Services / Other
Expense Reduction
Non-Patient Revenue
Revenue Cycle
Utilization Mgmt
Cobb
Douglas
Kennestone
Paulding
Windy Hill
Enterprise Support
Physician Group (WPG)
Business Unit Teams Pass II Approvals
• Led by Administrator
• Responsible for Planning / Execution (Phase II)
• Status Reporting to Opportunity Teams
Opportunities2010
15


OPPORTUNITIES 2010: IDEAS TO IMPLEMENTATION
Recommendation Development:
Opportunity Teams identify strategic performance improvement initiatives that assist in achieving the team goals for improving operating margin. Develop recommendation through analysis and quantify by business unit, if applicable.
Pass I Approval:
Opportunity Team presents recommendation to TOG for Pass I approval. Pass I approval indicates that the TOG believes that the recommendation is feasible and additional analysis should be completed to validate opportunity at the business unit level.
Pass II Approval:
Business Unit Teams will evaluate recommendations with Pass I approval for implementation feasibility, and make adjustments to recommendation. Business Units will work in partnership with Opportunity Teams to take revised recommendation back to TOG for Pass II approval.
Implementation Planning and Execution:
Recommendations that receive Pass II approval are ready for implementation planning. Opportunity Teams will support Business Unit Teams in the development of implementation plans and execution.
Measurement / Validation:
Opportunity Teams will determine metrics to measure and sustain success of implementation. Metrics will be reported to TOG..
Opportunities2010
Process
Flow
16

Critical to the success of Opportunities 2010

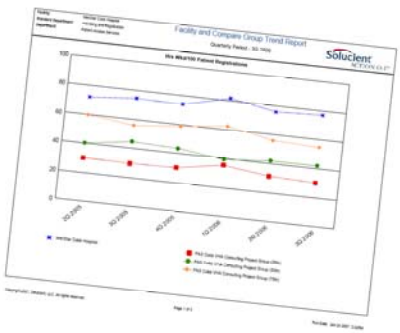
WHY?

- fear - paralyzing
- must resolve that first before you can move forward
- Own the message (Black Friday)
-

OPPORTUNITIES 2010: TIMELINE
July – August 2008:
Opportunity Teams development of Project Plans
Development of Standard Forms for Opportunity Review and Status Reports
Development of Tactics and presented to TOG
Communication Strategy Developed and presented to TOG
Business Unit Teams Developed (Kickoff meeting with TOG & Opp Teams)
July 2008 – November 2008:
Opportunity Team Project Planning & Execution
TOG reviewing recommendations weekly
Implementation of Cost Reduction recommendations passing Phase II
TOG Oversight and Direction
Ongoing Communication to Organization
18
Opportunities2010

LABOR EXPENSE REDUCTION:
Benchmarking Data Utilized

- Initial Savings utilizing ACTION O-I Benchmarking
- $15,000,000 savings identified by system team and facility targets established
- Only 44 positions were identified for elimination
- All 44 were offered reassignment with 1 being a promotion
- Only 3 chose to see opportunities elsewhere



19

Opportunities2010

SUPPLY TEAM: VALUE ANALYSIS

Value Analysis brings together users who have clinical product knowledge, financial analysts, & those with purchasing expertise in order to make best-valued product and service acquisition decisions.

Cooperation & teamwork with physicians like Dr. Reitman, Cardiology, created the framework for successfully savings millions & continuing to provide the highest quality care.

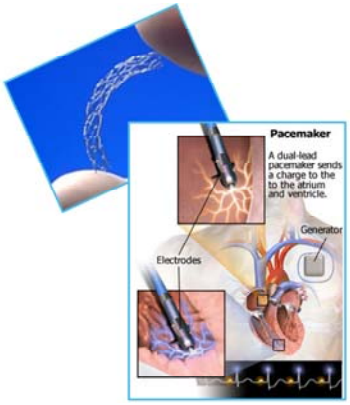
***WellStar's Value Analysis Program was spotlighted in the July 2010 SHS Webinar presentation. Michael O'Toole ,BIE – Ga Tech, leads WellStar's program*

20

Opportunities2010

VALUE ANALYSIS:
Pacemakers, ICDs, and Stents – Wave I

- Profitability analysis completed to understand current financials with these produce categories
- Collaborate with physicians on contracting strategy
- Thorough data gathering and price benchmark analysis are critical to success
- Total Savings of these from Wave I – $1,813,732



21

Opportunities2010

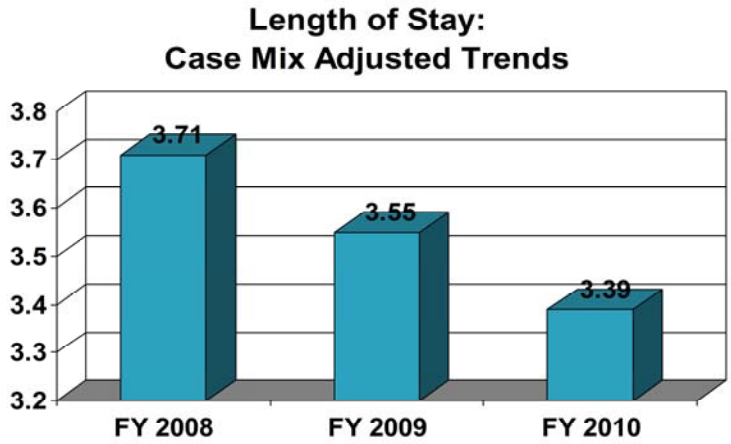
UTILIZATION MANAGEMENT – LOS

- System wide focus on Rigorous Case Management
- Care Coordinator role created by combining Discharge Planners and Social Workers
- Rounding with Hospitalists
- ED Post Acute Navigators coordination of patients with needed testing and follow-up care
- Referral Center / Discharge Navigators Scheduling of Home Care and DME

22

Opportunities2010

UTILIZATION MANAGEMENT: LOS IMPACT



Opportunities2010

23

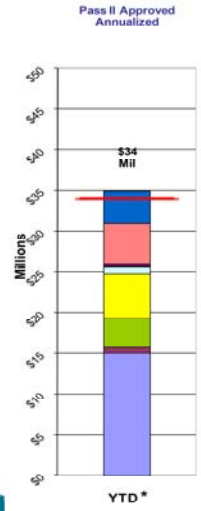
REVENUE MANAGEMENT

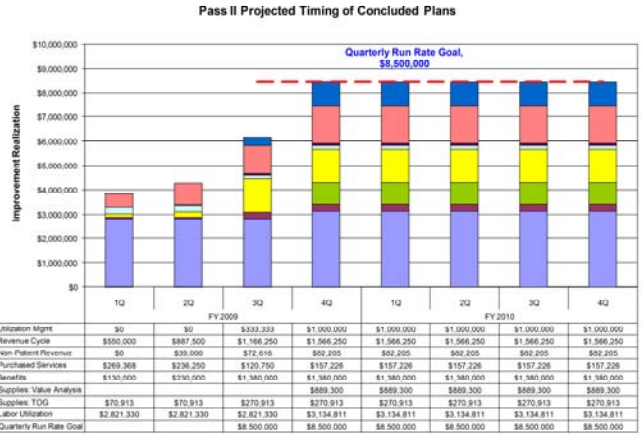
- Denials management system implemented
- New chargemaster accuracy system implemented
- Enhanced payment accuracy monitoring system
  - Over $3 million in additional annual net revenue

Opportunities2010

24

OPPORTUNITIES 2010: TRACKING PROGRESS





Utilization Mgmt	$0	$0	$333,333	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Revenue Cycle	$550,000	$887,500	$1,166,250	$1,566,250	$1,566,250	$1,566,250	$1,566,250	$1,566,250
Non-Patient Revenue	$0	$39,000	$72,615	$82,205	$82,205	$82,205	$82,205	$82,205
Purchased Services	$269,368	$236,250	$120,750	$157,226	$157,226	$157,226	$157,226	$157,226
Benefits	$150,000	$350,000	$1,380,000	$1,380,000	$1,380,000	$1,380,000	$1,380,000	$1,380,000
Supplies: Value Analysis				$889,300	$889,300	$889,300	$889,300	$889,300
Supplies: TOG	$70,913	$70,913	$270,913	$270,913	$270,913	$270,913	$270,913	$270,913
Labor Utilization	$2,821,330	$2,821,330	$2,821,330	$3,134,811	$3,134,811	$3,134,811	$3,134,811	$3,134,811
Quarterly Run Rate Goal			$8,500,000	$8,500,000	$8,500,000	$8,500,000	$8,500,000	$8,500,000

25

Opportunities2010

OPPORTUNITIES 2010: A Changing Economy
Are we prepared for a difficult business environment?
"An economic forecaster is like a cross-eyed javelin thrower: they don't win many accuracy contests, but they keep the crowd's attention."
Anonymous
Opportunities2010
26

OPPORTUNITIES 2010: A Changing Economy

Primary reasons for the negative sector outlook are:

- The tightening of credit markets
- Expected broad based weakening in hospital operating performance
- Declining liquidity
- Softer volumes
- More uninsured patients.

www.moodys.com

Special Comment

Moody's
U.S. Public Finance

December 2008

Table of Contents:

Overview 1
Weakening Economy Has Numerous Repercussions on the Healthcare Industry 2
Conclusion 6
Moody's Related Research 7

Analyst Contacts:

New York 1.212.553.1653
Public Finance Group
Lisa Goldstein
Senior Vice President – Team Leader
John Nelson

U.S. Healthcare: Negative Industry Outlooks Reflect Weakening Economy

Overview

For the first time since Moody's began publishing healthcare industry outlooks, each of the main healthcare sectors has a negative outlook. These sectors include not-for-profit hospitals, for-profit hospitals, healthcare insurers, and medical products and device companies."

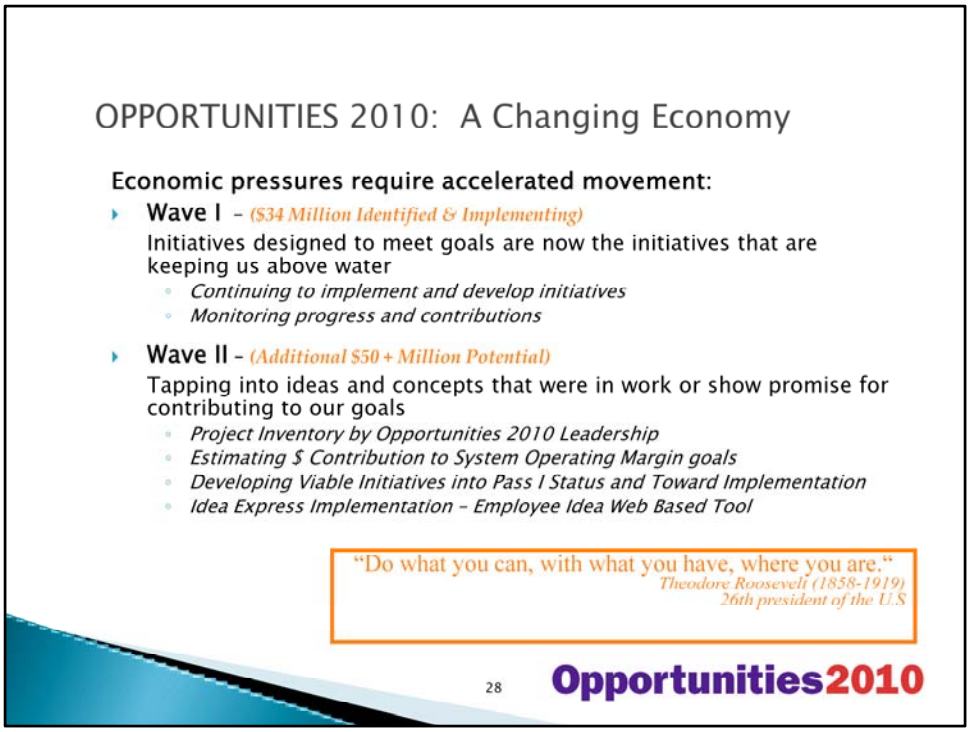
While each of these sectors has its own challenges, the common driver for the

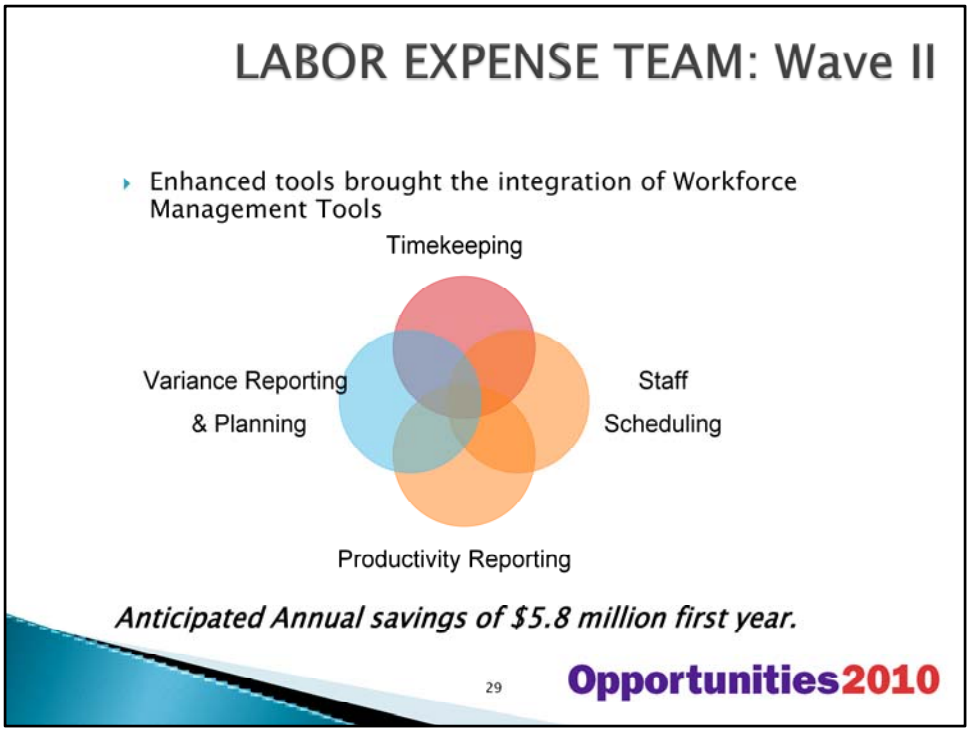
"You only learn who has been swimming naked when the tide goes out..."

Warren E. Buffett
Chairman, Berkshire Hathaway Inc.
Letter to shareholders, February 2008

Opportunities2010

27


OPPORTUNITIES 2010: A Changing Economy
Economic pressures require accelerated movement:
Wave I – ($34 Million Identified & Implementing)
Initiatives designed to meet goals are now the initiatives that are keeping us above water
Continuing to implement and develop initiatives
Monitoring progress and contributions
Wave II – (Additional $50 + Million Potential)
Tapping into ideas and concepts that were in work or show promise for contributing to our goals
Project Inventory by Opportunities 2010 Leadership
Estimating $ Contribution to System Operating Margin goals
Developing Viable Initiatives into Pass I Status and Toward Implementation
Idea Express Implementation – Employee Idea Web Based Tool
"Do what you can, with what you have, where you are."
Theodore Roosevelt (1858-1919)
26th president of the U.S
28
Opportunities2010



The processes around Workforce Management within WellStar were cumbersome for our leaders. Our existing tools were disparate and delays in reporting did not provide leaders with an actionable toolset. Our leadership team recognized the need for an integrated system , which would link data from scheduling and time and attendance through daily productivity.

As an example of how Opportunities 2010 worked, we identified additional labor opportunities contingent upon implementing a labor productivity system that included all the above.

We went from RFP to implementation in 1 year. This was done because we prioritized Opp 2010 initiatives as a system. The IT staff, HR staff, hospital leadership, decision support, etc. made this a priority and it was successfully implemented on time and is now delivering those savings on an ongoing basis.

PURCHASED SERVICES: Wave II

- Ambulance utilization and pricing optimization

  Annual Savings – $659,000
- Bringing self-pay collections In-house

  Annual Savings – $995,000
- Significant reduction of use of outside consultants

  Annual Savings – $3.7 Million

30

Opportunities2010

GREEN INITIATIVES: Wave II

- **Lighting Retrofit** – Installed more energy efficient light fixtures which last longer and require less frequent bulb changes

  Annual Savings – $475,520

- **Well for Cooling Tower and Boiler**

  Utilizing underground well water has eliminated purchasing water as a cooling media

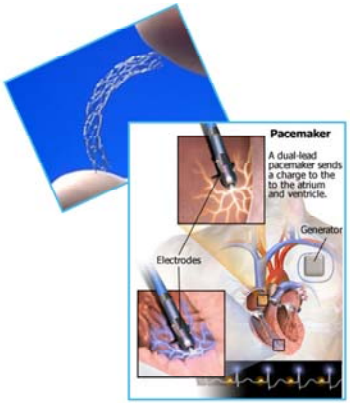
  Annual Savings – $180,000

31

Opportunities2010

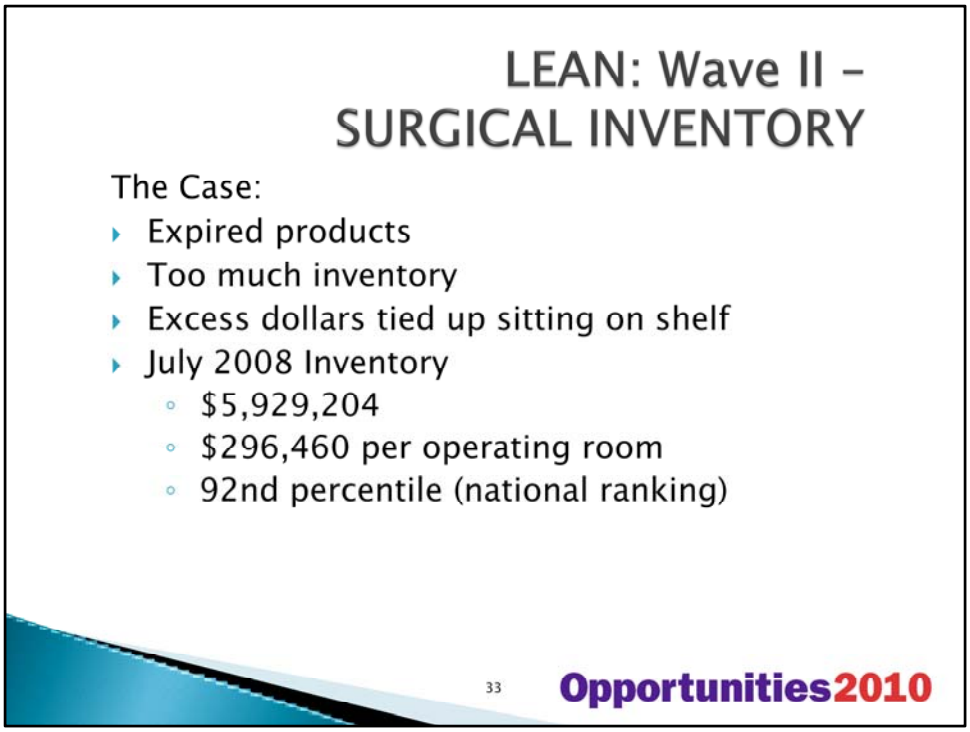
VALUE ANALYSIS: Pacemakers, ICDs, and Stents – Wave II

- Profitability analysis completed to understand current financials with these produce categories
- Collaborate with physicians on contracting strategy
- Thorough data gathering and price benchmark analysis are critical to success
- Total Savings of these from Wave II – $3,004,115

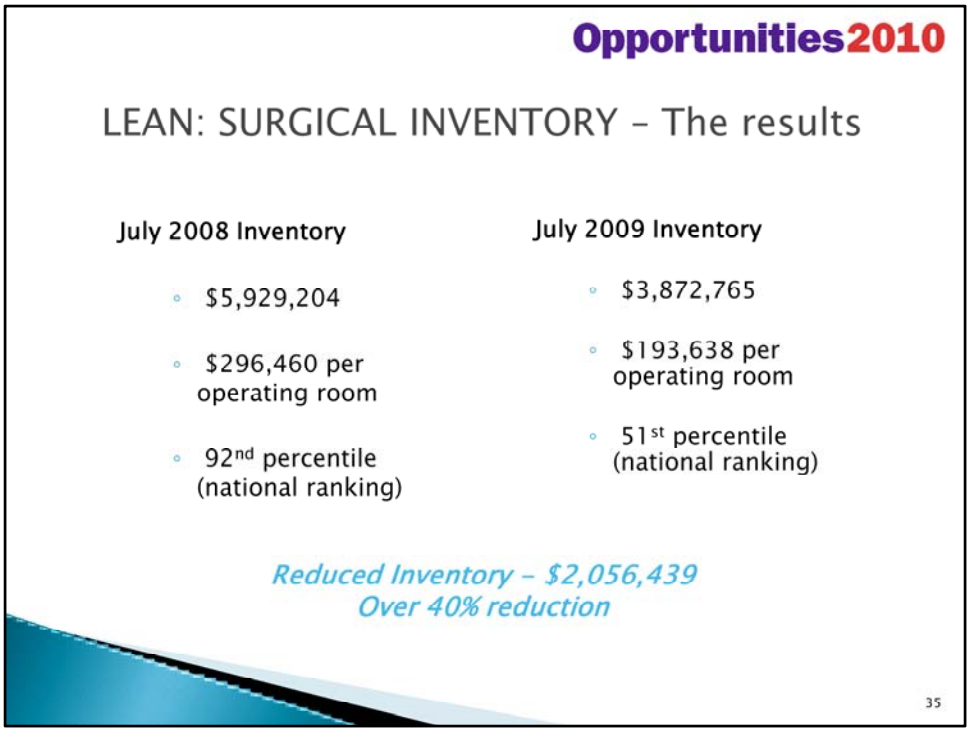


Opportunities2010

32

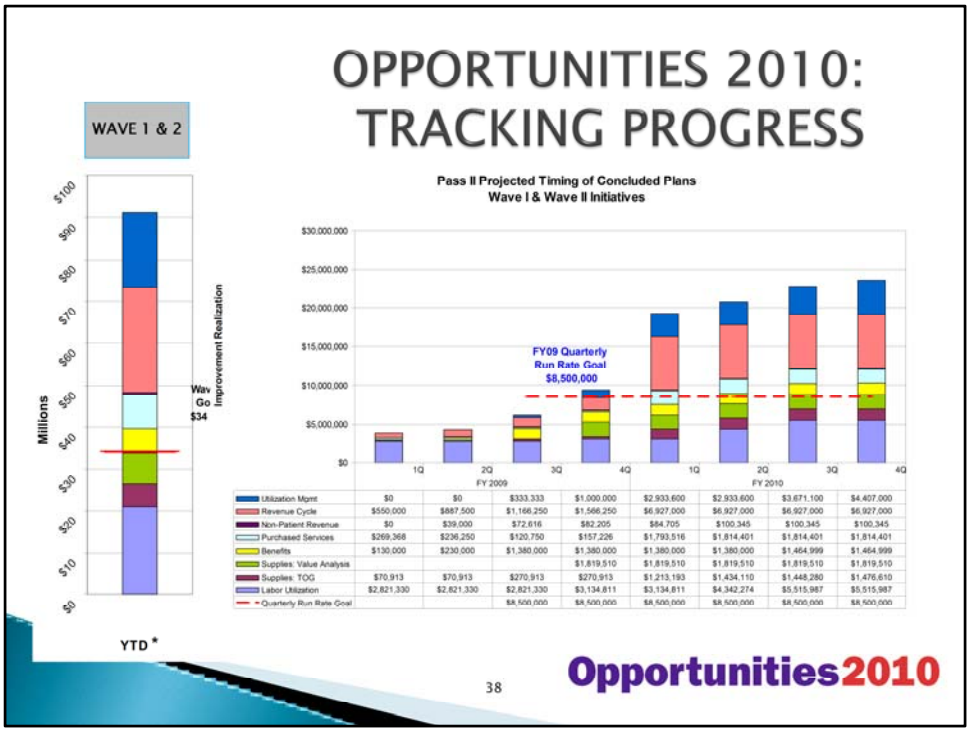

LEAN: Wave II –
SURGICAL INVENTORY
The Case:
Expired products
Too much inventory
Excess dollars tied up sitting on shelf
July 2008 Inventory
$5,929,204
$296,460 per operating room
92nd percentile (national ranking)
33
Opportunities2010

LEAN: SURGICAL INVENTORY
"Before"
34
Opportunities2010


Opportunities2010
LEAN: SURGICAL INVENTORY – The results
July 2008 Inventory
$5,929,204
$296,460 per operating room
92nd percentile (national ranking)
July 2009 Inventory
$3,872,765
$193,638 per operating room
51st percentile (national ranking)
Reduced Inventory – $2,056,439
Over 40% reduction
35

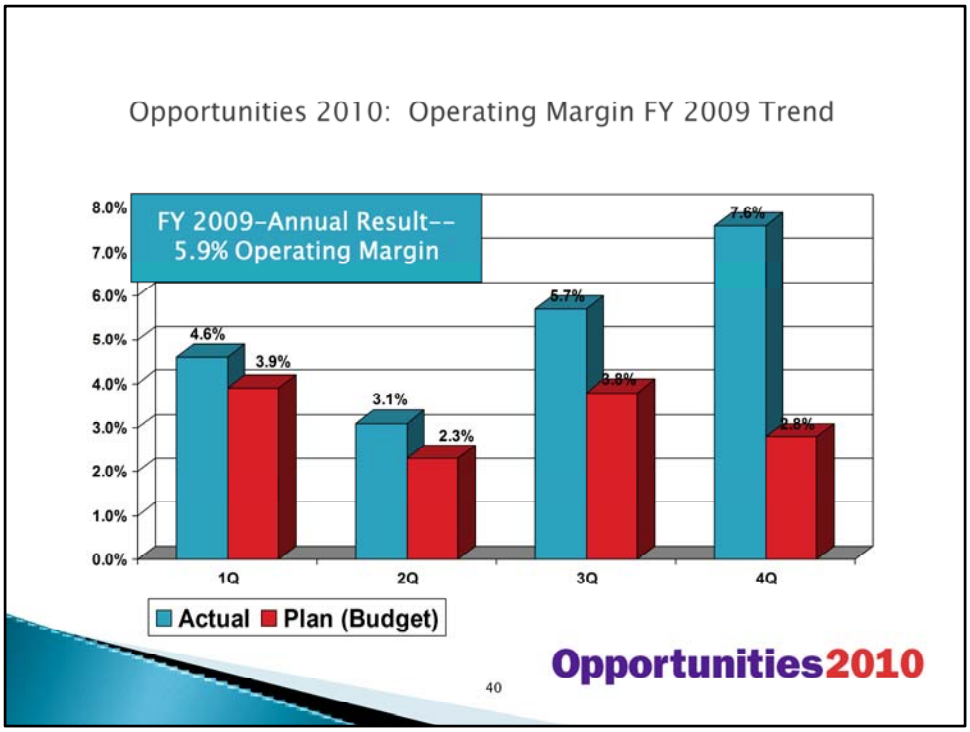
LEAN: SURGICAL INVENTORY
"After"
1
14
36
Opportunities2010

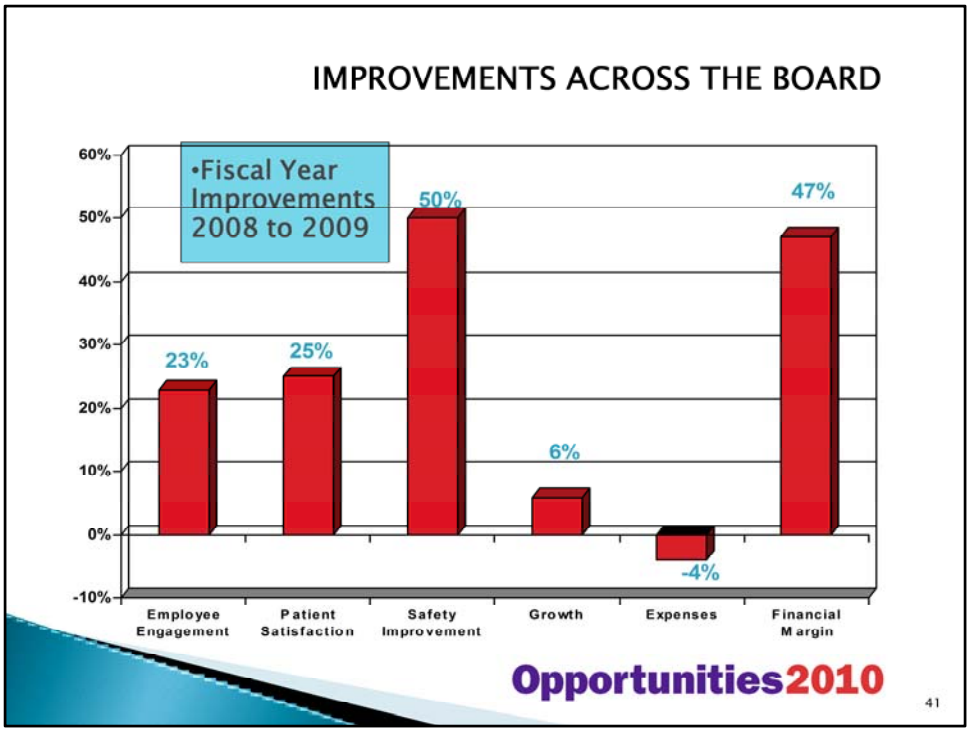
REVENUE MANAGEMENT: Wave II
• Renegotiated third party payer contracts.
• Implemented new documentation improvement systems and processes.
• Improved point of service collections.
Over $17 million in additional annual net revenue identified
Opportunities2010
37


OPPORTUNITIES 2010:
TRACKING PROGRESS
WAVE 1 & 2
Millions
$100
$90
$80
$70
$60
$50
$40
$30
$20
$10
$0
YTD *
Improvement Realization
Pass II Projected Timing of Concluded Plans
Wave I & Wave II Initiatives
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
FY09 Quarterly
Run Rate Goal
$8,500,000
1Q
2Q
3Q
4Q
FY 2009
FY 2010
Utilization Mgmt $0 $0 $333,333 $1,000,000 $2,933,600 $2,933,600 $3,671,100 $4,407,000
Revenue Cycle $550,000 $887,500 $1,166,250 $1,566,250 $6,927,000 $6,927,000 $6,927,000 $6,927,000
Non-Patient Revenue $0 $39,000 $72,616 $82,205 $84,705 $100,345 $100,345 $100,345
Purchased Services $269,368 $236,250 $120,750 $157,226 $1,793,516 $1,814,401 $1,814,401 $1,814,401
Benefits $130,000 $230,000 $1,380,000 $1,380,000 $1,380,000 $1,380,000 $1,464,999 $1,464,999
Supplies: Value Analysis $1,819,510 $1,819,510 $1,819,510 $1,819,510 $1,819,510
Supplies: TOG $70,913 $70,913 $270,913 $270,913 $1,213,193 $1,434,110 $1,448,280 $1,476,610
Labor Utilization $2,821,330 $2,821,330 $2,821,330 $3,134,811 $3,134,811 $4,342,274 $5,515,987 $5,515,987
Quarterly Run Rate Goal $8,500,000 $8,500,000 $8,500,000 $8,500,000 $8,500,000 $8,500,000
38
Opportunities2010

- Ideas submitted are aligned under one of our five pillars
  - People
  - Customer service
  - Quality/Safety
  - Financial
  - Growth
- Assigned to a leader to evaluate and respond within established timeline
- Managed by a full-time staff person
- Executive leader

Why this is important?
Everyone is in the game and is empowered to participate.
Not all suggestions are margin improvement - some related to quality, patient safety, retention improvement, etc.


Opportunities 2010: Operating Margin FY 2009 Trend
FY 2009–Annual Result--
5.9% Operating Margin
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
4.6%
3.9%
3.1%
2.3%
5.7%
3.8%
7.6%
2.8%
1Q
2Q
3Q
4Q
Actual
Plan (Budget)
Opportunities2010
40

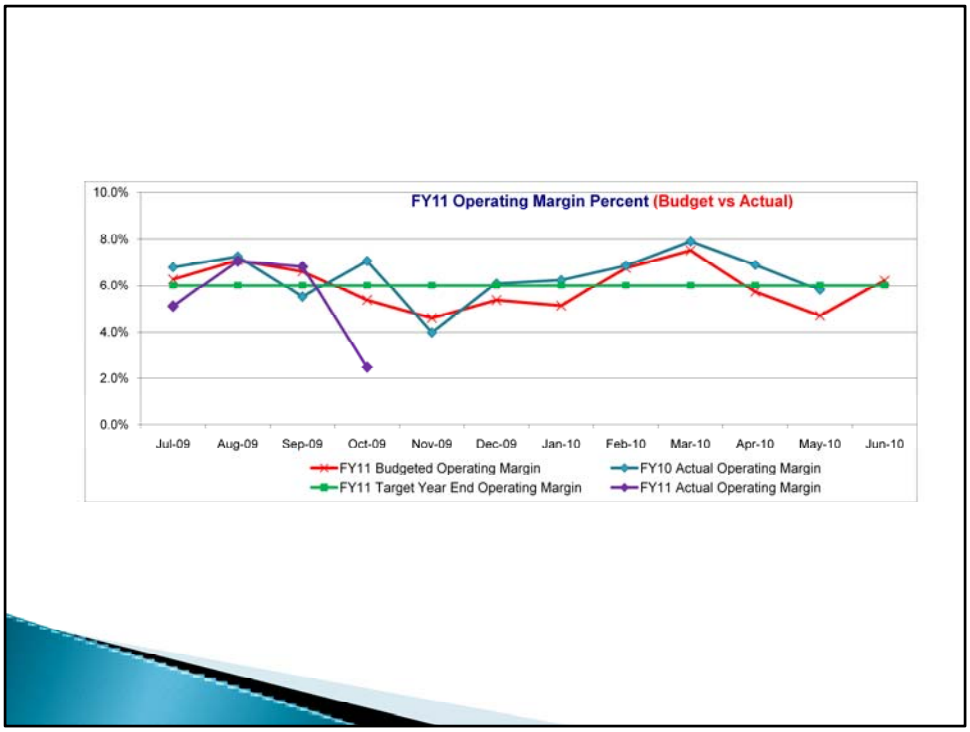

IMPROVEMENTS ACROSS THE BOARD
•Fiscal Year Improvements 2008 to 2009
60%
50%
40%
30%
20%
10%
0%
-10%
23%
25%
50%
6%
-4%
47%
Employee Engagement
Patient Satisfaction
Safety Improvement
Growth
Expenses
Financial Margin
Opportunities2010
41

Opportunities 2010: Six months Ended Results

WELLSTAR Health System

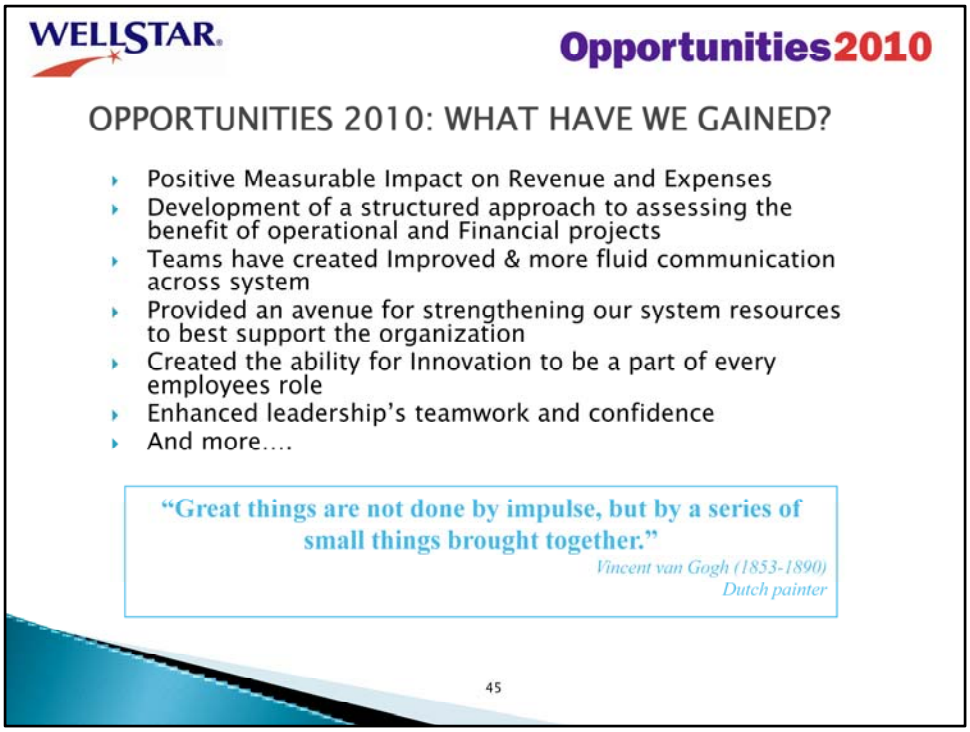
	WellStar Health System (Excluding Phy Div)	Year to Date						
					Plan Variance		Prior Year Variance	
		Actual	Plan	Prior Year	Amount	Percent	Amount	Percent
Financial	34 System Operating Margin %	6.1%	5.4%	3.8%	0.7%	13.0%	2.3%	60.5%
	35 System Investment Return %	11.7%	3.0%	(14.8%)	8.7%	290.0%	26.5%	179.1%
	36 Net Revenue per CMI Wt Adj Acute Discharge (Incl BD)	6,552	6,660	6,321	(109)	(1.6%)	231	3.6%
	37 Expense per CMI Wt Adj Acute Discharge (Excl BD)	5,868	6,028	6,049	161	2.7%	182	3.0%
	38 Adult & Peds Acute ALOS	4.54	4.59	4.75	0.05	1.0%	0.21	4.3%
	39 Adult & Peds Acute ALOS CMI Wt	3.41	3.51	3.63	0.10	3.0%	0.23	6.2%
	40 Medicare Acute ALOS	5.62	5.97	5.97	0.35	5.9%	0.35	5.9%
	41 Medicare Acute ALOS CMI Wt	3.54	3.89	3.89	0.35	9.1%	0.35	9.1%
	42 Paid FTEs per CMI Wt Acute AOB	3.66	3.76	3.77	0.10	2.6%	0.11	3.0%
	43 Salary per Adj Acute Discharge	2,900	2,893	3,003	(7)	(0.2%)	104	3.5%
	44 Supply Expense per CMI Wt Adj Acute Patient Day	231	243	233	12	5.0%	2	0.7%
	45 Drug Expense per CMI Wt Adj Acute Patient Day	59	62	57	4	5.6%	(2)	(3.7%)
	46 Cash Collected as % of Net Revenue (Excl BD)	102.3%	100.0%	99.0%	2.3%	2.3%	3.3%	3.3%
	47 Net Days in Accounts Receivable	43.5	54.0	49.3	10.5	19.4%	5.8	11.8%
	48 Days Cash On Hand	150.0	122.0	106.2	28.0	23.0%	43.8	41.2%

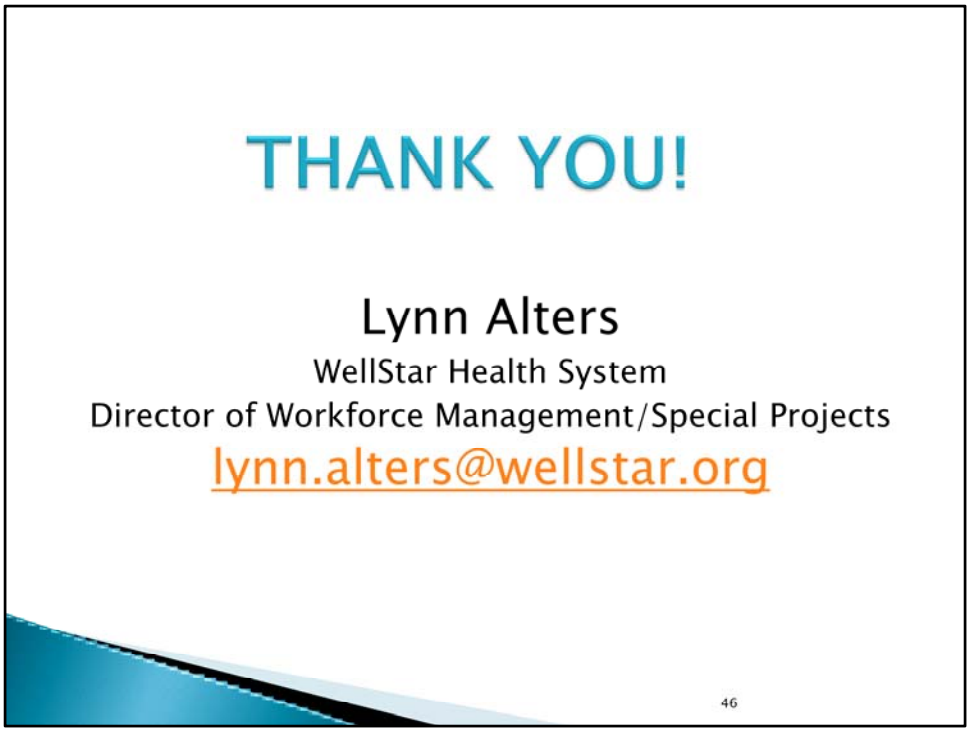
Opportunities2010


FY11 Operating Margin Percent (Budget vs Actual)
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Jan-10
Feb-10
Mar-10
Apr-10
May-10
Jun-10
FY11 Budgeted Operating Margin
FY10 Actual Operating Margin
FY11 Target Year End Operating Margin
FY11 Actual Operating Margin

As Jim stated this is an on-going initiative that has had a profound impact on our organizational culture.

- Employee Engagement
- Trust
- Leadership Development
- Esprit De Corps
- Board and CEO Confidence in leadership team


WELLSTAR
Opportunities2010
OPPORTUNITIES 2010: WHAT HAVE WE GAINED?
Positive Measurable Impact on Revenue and Expenses
Development of a structured approach to assessing the benefit of operational and Financial projects
Teams have created Improved & more fluid communication across system
Provided an avenue for strengthening our system resources to best support the organization
Created the ability for Innovation to be a part of every employees role
Enhanced leadership's teamwork and confidence
And more....
"Great things are not done by impulse, but by a series of small things brought together."
Vincent van Gogh (1853-1890)
Dutch painter
45


THANK YOU!
Lynn Alters
WellStar Health System
Director of Workforce Management/Special Projects
lynn.alters@wellstar.org
46