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 approximately 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
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

<table>
<thead>
<tr>
<th>People</th>
<th>Customer Service</th>
<th>Quality &amp; Patient Safety</th>
<th>Financial</th>
<th>Successful Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieve the 65th percentile on Employee Engagement</td>
<td>Achieve the following: Patient Satisfaction percentile targets: Inpatient - 65th</td>
<td>Achieve CORE measure top performer status for 70 of 97 measures</td>
<td>Realize an Operating Margin of 4.0%</td>
<td>Achieve projected volume growth in inpatient - 6%</td>
</tr>
<tr>
<td>Achieve the 55th percentile on Methical Engagement</td>
<td>Reduce system-wide turnover rate for FTE/FTE staff to 12%</td>
<td>Reduce Healthcare Associated Infections to 4% or fewer total ICU’s and VAP’s</td>
<td>Achieve Foundation Performance Goal of 15% utilization</td>
<td>Amb surgery - 3%</td>
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<tr>
<td></td>
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<td></td>
<td>Identify and implement strategic performance improvement initiatives to realize an operating margin run rate of 6% by the 4th quarter FY09</td>
<td>Emergency - 2%</td>
</tr>
</tbody>
</table>

PPP Goal

Essential Nurse & National benchmarks on percentage of 9% and 10% on the “Overall Rating” HCAHPS question

WellStar HR
Linking the goals to the Vision Map
LEADERSHIP OPTIONS: MARCH 2008

1. National Turn Around Consultant engagement, or;
2. Regional Expense Reduction Consultant Engagement or;
3. Wait for CFO vacancy to be filled – make a finance driven and led initiative, or;
4. Revise 5 year capital plan, or;
5. Executive Leadership Team initiative

After taking the initial steps to work with a regional expense reduction consultant, WellStar realized that this approach was in direct conflict with the culture being cultivated at our organization.

• 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
GETTING STARTED

- Chose to lead and manage internally
- Concept and Structure drafted
- Presented to Exec Leaders – Unanimous Acceptance
- Team of 6–8 expanded conceptual design
- Initiative named and logo created

• 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

- Utilization Management, $4,000,000
- Revenue Cycle, $2,000,000
- Non-Patient Revenue, $2,000,000
- Purchased Services/Other, $2,500,000
- Benefits, $3,600,000
- Supply, $5,019,000

"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.
Cabinet

Top Opportunities Group

Opportunity Teams

· Labor Utilization
· Supply Expense
· Benefits
· Purchased Services / Other
· Expense Reduction

Pass I

Non-Patient Revenue
Revenue Cycle
Utilization Mgmt

Business Unit Teams

· Cobb
· Douglas
· Kennestone
· Pauleting
· Windy Hill
· Enterprise Support
· Physician Group (WPG)

Pass II

Opportunities 2010

- Led by Executive Sponsor
- Responsible for Planning / Execution
- Bi-weekly (rotation) status reporting at weekly TOG meetings (Phase I)

- Led by Administrator
- Responsible for Planning / Execution (Phase II)
- Status reporting to Opportunity Teams
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 recommendations through analysis and quantify by business unit, if applicable.

**Pass I Approval:**
Opportunity Team presents recommendation to TOC for Pass I approval. Pass I approval indicates that the TOC 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 TOC 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 TOC.
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
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
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.

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

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

Length of Stay:
Case Mix Adjusted Trends

<table>
<thead>
<tr>
<th>Year</th>
<th>Length of Stay</th>
</tr>
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<tbody>
<tr>
<td>FY 2008</td>
<td>3.71</td>
</tr>
<tr>
<td>FY 2009</td>
<td>3.55</td>
</tr>
<tr>
<td>FY 2010</td>
<td>3.30</td>
</tr>
</tbody>
</table>

Opportunities 2010

Version with Notes

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
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
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.

“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
OPPORTUNITIES 2010: A Changing Economy

Economic pressures require accelerated movement:

- **Wave I** - (534 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 1 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)
32nd president of the U.S.
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
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

**Opportunities 2010**
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

Opportunities 2010
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)
LEAN: SURGICAL INVENTORY
“Before”
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
LEAN: SURGICAL INVENTORY
“After”
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
• 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

Opportunities 2010
# Opportunities 2010: Six months Ended Results

## WELLSTAR Health System (Excluding PhO Div)

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
<th>Actual</th>
<th>Plan</th>
<th>Prior Year</th>
<th>Amount</th>
<th>Percent</th>
<th>Plan Variance</th>
<th>Prior Year Variance</th>
<th>Amount</th>
<th>Percent</th>
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<tbody>
<tr>
<td>10</td>
<td>Operating Income %</td>
<td>5.1%</td>
<td>5.4%</td>
<td>3.9%</td>
<td>5.7%</td>
<td>19.7%</td>
<td>-6.6%</td>
<td>-11%</td>
<td>-20%</td>
<td>-12%</td>
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<tr>
<td>11</td>
<td>System Investment System %</td>
<td>11.9%</td>
<td>13.0%</td>
<td>8.9%</td>
<td>8.7%</td>
<td>25.0%</td>
<td>26.5%</td>
<td>19%</td>
<td>25%</td>
<td>19%</td>
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<tr>
<td>12</td>
<td>Net Revenue per CMS WH Adj Acute Discharge (Ind BD)</td>
<td>6,552</td>
<td>6,660</td>
<td>6,321</td>
<td>(100)</td>
<td>6.8%</td>
<td>231</td>
<td>3.6%</td>
<td>231</td>
<td>3.6%</td>
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<tr>
<td>13</td>
<td>FTEs per CMS WH Adj Acute Discharge (Ind BD)</td>
<td>9,008</td>
<td>9,078</td>
<td>8,489</td>
<td>589</td>
<td>7.0%</td>
<td>147</td>
<td>3.8%</td>
<td>147</td>
<td>3.8%</td>
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<tr>
<td>36</td>
<td>Adult &amp; Peds Acute ALOS</td>
<td>4.54</td>
<td>4.59</td>
<td>4.75</td>
<td>0.05</td>
<td>1.0%</td>
<td>-0.21</td>
<td>4.3%</td>
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<tr>
<td>37</td>
<td>Adult &amp; Peds Acute ALOS CMS WH</td>
<td>3.11</td>
<td>3.15</td>
<td>3.63</td>
<td>0.10</td>
<td>3.0%</td>
<td>0.35</td>
<td>6.2%</td>
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<tr>
<td>40</td>
<td>Total Medi care ALOS</td>
<td>54.4%</td>
<td>55.3%</td>
<td>59.4%</td>
<td>-4.9%</td>
<td>8.1%</td>
<td>3.4%</td>
<td>15.1%</td>
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<tr>
<td>41</td>
<td>Medicare Acute ALOS/CMS WH</td>
<td>3.54</td>
<td>3.89</td>
<td>3.89</td>
<td>-0.35</td>
<td>5.1%</td>
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<td>42</td>
<td>PPD FTB / CMS WH Acute AOB</td>
<td>3.66</td>
<td>3.78</td>
<td>3.77</td>
<td>0.10</td>
<td>2.8%</td>
<td>0.11</td>
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<tr>
<td>43</td>
<td>Operating Income %</td>
<td>0.86</td>
<td>0.89</td>
<td>1.49</td>
<td>-1.22</td>
<td>-41.7%</td>
<td>-1.22</td>
<td>0.6%</td>
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<tr>
<td>44</td>
<td>Supply Expense per CMS WH Adj Acute Patient Day</td>
<td>231</td>
<td>243</td>
<td>243</td>
<td>2.0</td>
<td>1.0%</td>
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<td>45</td>
<td>Drug Expense per CMS WH Adj Acute Patient Day</td>
<td>25</td>
<td>23</td>
<td>23</td>
<td>0.0</td>
<td>0.0%</td>
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<tr>
<td>46</td>
<td>Cash Collection as % of Net Revenue (Ind BD)</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>0.0</td>
<td>0.0%</td>
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<td>0.0%</td>
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<tr>
<td>47</td>
<td>Net Days in Accounts Receivable</td>
<td>15.5</td>
<td>15.0</td>
<td>15.3</td>
<td>0.3</td>
<td>2.0%</td>
<td>0.3</td>
<td>2.0%</td>
<td>2.0%</td>
<td></td>
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<tr>
<td>48</td>
<td>Last 50% of Net Revenue (Ind BD)</td>
<td>33.0%</td>
<td>33.5%</td>
<td>33.5%</td>
<td>0.0</td>
<td>0.0%</td>
<td>0.0</td>
<td>0.0%</td>
<td>0.0%</td>
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</tr>
</tbody>
</table>

## Opportunities 2010

42
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
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 systems
- Provided an avenue for strengthening our system resources to best support the organization
- Created the ability for innovation to be a part of every employee's 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*
THANK YOU!

Lynn Alters
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Director of Workforce Management/Special Projects
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