

Case Study: NON LABOR EXPENSE REDUCTION



NOVIA
STRATEGIES

The Impact

"If you need to reduce your non labor expenses,



Novia Strategies is the consulting firm to engage. What distinguishes Novia

from other consulting firms is their ability to work with end users, particularly clinicians, to implement real and lasting savings. For us, that meant over \$10M in annual recurring savings."

Dan Keteri

VP Patient Care Services

"The consultants from Novia Strategies have exceeded my expectations. Not only did they help us save \$14M,



but they created and implemented multi-year strategies around physician contracting and asset lifecycle management which resulted in savings of \$3.2M annually. They understand operations and how to lead complex projects to completion so in my opinion, Novia Strategies is simply the best!"

Renate Atkins

RN, BSN, MHSA, FACHE
Chief Operating Officer/Administrator

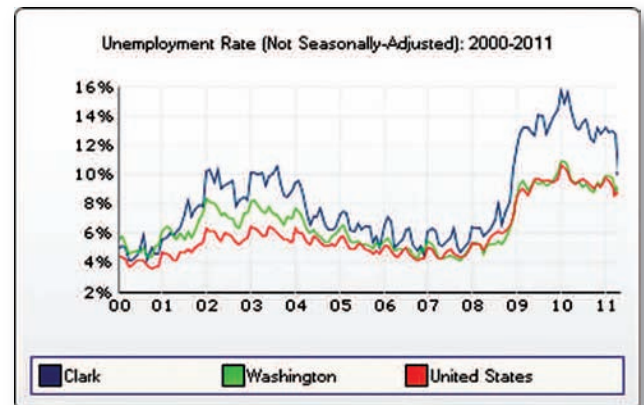
PeaceHealth Southwest Washington Medical Center

Vancouver, WA

Novia Strategies guided the identification and implementation of recommendations for improvement from June 2010 through March 2011.

The Challenge

Southwest Washington Medical Center was a stand-alone 422 bed acute care facility located in Vancouver, Washington. In early 2010, SWMC realized the need for immediate financial improvement due to changing market conditions and the increase in charity care and bad debt due to the downturn in the economy. In addition to initiating a hospital-wide financial improvement effort with targeted improvements in reimbursement, labor and productivity, and non-labor costs, hospital executives opened up merger discussions with PeaceHealth, a large multi-state health care system serving the northwest states of Washington, Oregon and Alaska. Executives ultimately decided that PeaceHealth represented a good cultural fit for their organization, and in early 2011, they became PeaceHealth Southwest Medical Center.



Source: fortress.wa.gov

Our Approach

PHSW created several Operational Excellence Improvement Teams (OEITs) to lead the financial improvement efforts, and Novia was engaged to lead the Non Labor OEIT efforts and the \$14M savings target. While this was a hospital-wide effort, a majority of the focus was on clinical supplies, contracted services, and physician contracting. Novia provided teams of subject matter experts in each of these three areas and developed a team structure focused on expanding the list of previously identified opportunities by PHSW and expediting the implementation of these opportunities, which was why Novia was selected.

Clark County Employment Levels for Selected Sectors: 2000 and March 2009

	2000	2009	Growth
LABOR FORCE	178,500	222,340	25%
Employment	169,600	191,650	13%
Unemployment	8,900	30,690	245%
Unemployment Rate	5.0%	13.8%	176%
TOTAL NON-FARM EMPLOYMENT	116,900	133,900	15%
Construction, Mining, Utilities, Logging	10,000	10,800	8%
Manufacturing	17,300	12,900	-25%
Trade, Transportation & Utilities (total)	21,000	25,000	19%
Wholesale Trade	4,100	5,200	27%
Retail Trade	13,100	15,500	18%
Transportation, Warehousing & Utilities	3,500	4,300	23%
Information	3,600	2,600	-28%
Finance and Insurance	2,700	3,800	41%
Professional and Business Services	12,700	14,800	17%
Education and Health Services	12,600	18,800	49%
Leisure and Hospitality	11,900	13,200	11%
Government	19,300	24,800	28%

Source: Washington Employment Security Department, Clark County Nonfarm Employment, 2000; March 2009

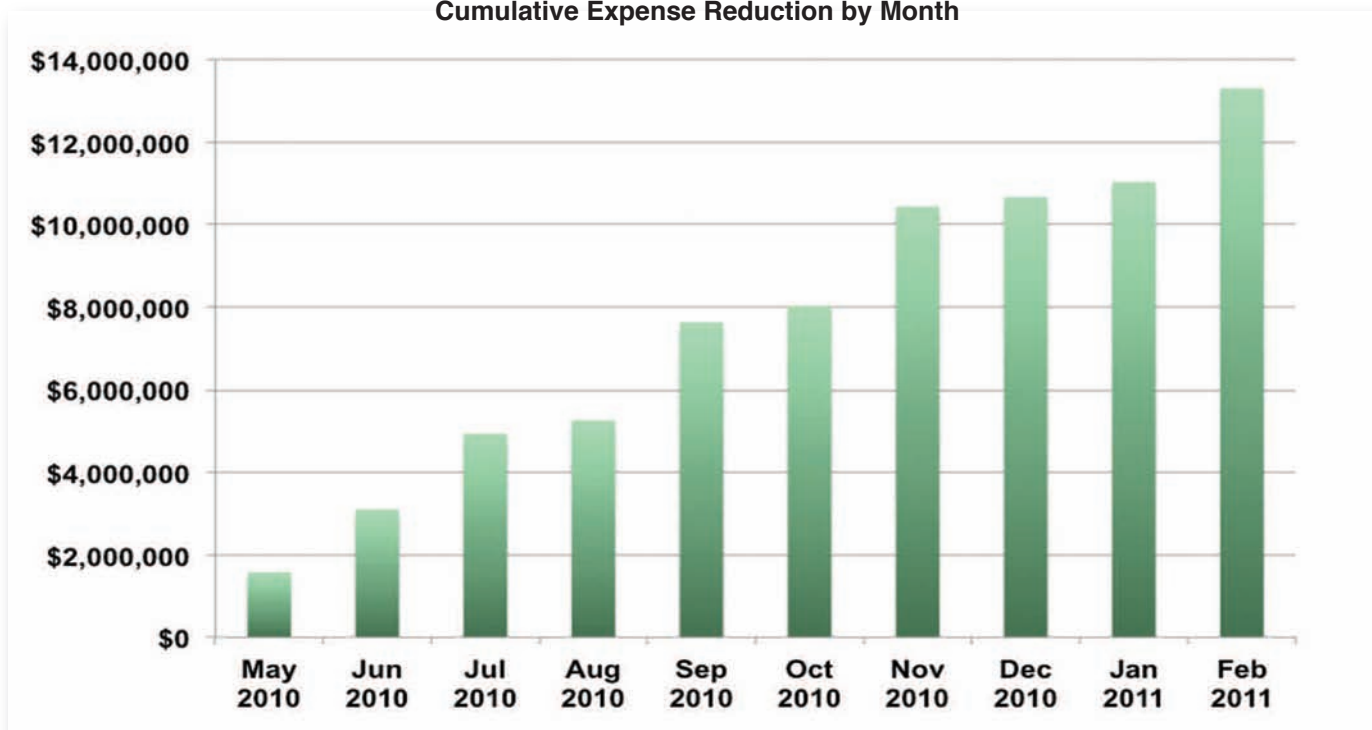
The Solution

The merger with PeaceHealth had a significant impact on the cost reduction strategy and methodology used since each supply or contracted service had to be reviewed against new contract portfolios available to PHSW as a result of the new affiliation. While some savings on the commodity products and physician preference products were captured fairly quickly and easily as a result of the transition, many others required extensive local renegotiation, clinical trials and clinical practice changes. In addition, some unique long term initiatives were completed to capture savings, e.g., Asset Lifecycle Management and Physician Contracting Philosophy. While implementation efforts were very complex, the ROI of these two initiatives alone is in the millions of dollars with top-of-class process improvements.

Achieved Outcomes

Throughout the course of the project, the teams identified over \$16.2M in savings and, as of the writing of this document, had implemented just over \$14M of the identified opportunities. While some of the savings came as a result of the conversion to PeaceHealth contracts, a majority of the dollars were captured through local contracting efforts and innovative savings strategies for complex expense categories like orthopedic and cardiovascular implantable devices, supply and instrument inventory, distribution, physician contracting fees and asset lifecycle management. In addition to the financial benefits of the project, PHSW's familiarity with the methodology used throughout the project has positioned them very well for continued success with non-labor savings efforts in the future.

Cumulative Expense Reduction by Month



The Bottomline



- Executive leadership and department directors recognized the need for outside assistance to attain their new aggressive financial goal.
- Hospital Executives were willing to utilize outside assistance if their past efforts were recognized and their commitment to quality was respected.
- The savings associated with this project were vital for the hospital to uphold its mission of being the leader in high quality, affordable health services for their entire community.
- In the end, the target goal was exceeded at \$14.2M in savings. That's the bottom line.