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KEY PERFORMANCE INDICATORS FOR NON-LABOR EXPENSES



Last year, AMS launched a new service line evaluating key performance indicators for managing non-labor expenses. Since that time, AMS has completed over 20 KPI assessments that identified savings opportunities and additional value added benefits.

What is a KPI non-labor analysis?

AMS has developed a comparative database of 28 KPIs that evaluate where a hospital has opportunity to reduce non-labor costs. The indicators address the cost of medical and non-medical supplies, purchased services, maintenance services, utilities, and administrative services. The data required to do the assessment is minimal: the Accounts Payable file and 15 additional data elements such as patient days, discharges etc. In recent studies, AMS has achieved a **4-8% opportunity** for hospitals. Certainly this is worth pursuing in this cost-constrained environment.

Milford Regional Medical Center (MRMC), located in the south central part of Massachusetts, is a 121-bed, regional health care system that includes an affiliated physician group practice and a healthcare foundation. AMS assisted MRMC to implement savings by working "behind the scenes" to facilitate the negotiation of contracts with existing vendors. In a follow-up conversation about the value of the process, Jeanne Lynskey, Vice President of Finance and Chief Financial Officer, said: "The project broadened our knowledge base about vendor pricing strategies and gave us the tools that we continue to use to negotiate contracts for reduced cost".

Conemaugh Memorial Medical Center is the flagship teaching hospital for the Conemaugh Health System. This 545-bed medical center has been repeatedly recognized as a HealthGrades Distinguished Hospital with clinical outcomes in the top five percent in the nation. Following the KPI analysis, Conemaugh used the results to develop budget targets for non-labor expenses. According to Steve Tambolas, Vice President, Supply Chain and Facilities, "over the past 5 years, we have successfully reduced absolute and relative non-labor expenses to levels lower than those in 2005. The KPI analysis identified areas where we still had opportunity to reduce our costs even further. Our non-labor expenses this year will be lower than last year."

Cambridge Health Alliance (CHA) is an integrated health system serving Cambridge, Somerville, and Boston's metro-north communities. With three hospital campuses, an

Quickly reveal opportunities to reduce labor expense

The **AMS Key Performance Indicator (KPI) Review**, is a rapid review to identify cost reduction opportunities in labor expense through a high level, off-site data analysis of payroll and workload statistics. AMS analyzes your performance against other hospitals using comparative data in our proprietary database.

Compare labor performance against our proprietary database

Immediate Benefits

■ **Areas of opportunity:** A KPI analysis identifies areas of opportunity that go beyond a typical high level benchmark such as FTEs/AOB. While global labor ratios will be reviewed, AMS will provide indicators of opportunity at the department level.

■ **Annual budget planning:** A KPI analysis identifies opportunities to reduce labor expense in next year's budget.

■ **Target resources:** A KPI analysis allows you to quickly identify where to focus your efforts to achieve maximum savings with minimal effort.

Recent Results

4 hospital, 1,100-bed regional system: AMS identified areas with staffing opportunity equal to 6.9% (601 FTEs) of the system's 8,677 FTEs.

120-bed hospital: AMS identified a labor improvement opportunity of 94 FTEs of the hospital's 1,273 FTEs. Seven outlier departments accounted for 75% of the opportunity.

Critical access hospital: AMS identified a 5% staffing opportunity in a health system consisting of 25-bed acute care, 25-bed nursing home, 10-bed rehab unit, and support staff for physician practices. A detailed review identified an additional 2.5% staffing opportunity for a total of 25 FTEs.

Labor KPIs

Global KPIs

- FTEs/AOB
- FTEs/AOB CMI Adjusted
- Paid Hours/Adjusted Discharge
- Salary, Wages and Benefits as a % of Net Revenue
- Labor Expenses/Adjusted Discharge
- Net Operating Revenue/FTE
- Overtime Usage

Unit of Service KPIs for Major Departments

- Nursing Services
 - Med/Surg/Telemetry
 - Critical Care
 - Rehabilitation
 - Pediatrics
 - Maternal and Child Health
- Surgical Services
 - OR/PACU
 - Endoscopy
 - Sterile Processing
- Emergency Services
- Imaging Services
 - Diagnostic/CAT
 - MRI
 - Nuclear Medicine
 - Ultrasound
- Laboratory Services
- Environmental Services
- Health Information Services
- Patient Financial Services
- Nutrition Services
- Cardiac Cath Lab
- Cardiopulmonary Services
 - EKG
 - Respiratory
- Pharmacy
- Rehabilitation Services

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Quickly reveal hidden opportunities in non-labor expenses

The **AMS Key Performance Indicator (KPI) Review**, is a quick way to identify cost reduction opportunities in non-labor spend categories through an analysis of your accounts payable file. AMS summarizes your spend into 28 KPI categories and then analyzes your costs against other hospitals using comparative data in our proprietary database.

Allows you to identify potential savings and target your resources

Immediate Benefits

■ **New areas of opportunity:** A KPI analysis identifies areas of opportunity that go beyond a typical supply chain engagement such as utilities, HVAC expenses, and transcription expenses. These expenses do not typically flow through the Materials Management Information system.

■ **Annual budget planning:** A KPI analysis will identify where opportunity exists to reduce non-labor expense in next year's budget.

■ **Target resources:** A KPI analysis allows you to quickly identify where to focus your efforts to achieve maximum savings with minimal effort

Recent Results

400 bed hospital: AMS identified \$2.5 million in opportunity from 7 areas (maintenance contracts, waste management, travel and education, OR and cardiac cath implants, temporary staffing, outsourced food service agreement, and office supplies).

200 bed hospital: AMS identified \$1.0 million in opportunity from 5 areas (food service management, transcription, record storage, OR and cardiac cath implants, and waste management).

AMS KPIs

Medical and Surgical Supplies

- Medical surgical supply expense/CMI adjusted discharge
- Surgical supply expense/case
- Cardiac catheterization supply expense/case
- Medical gas expense/case
- Instrument repair expense/case
- Lithotripsy cost/case
- Rental bed cost/patient day

Purchased Services

- Purchased services expense/total operating expense
- Transcription cost/adjusted patient day
- Record storage expense/adjusted patient day
- Printing and copying services/adjusted patient day
- Temporary staffing expense/FTE
- Recruitment and advertising expense/patient day
- Collection fees/adjusted patient day
- Waste management expense/patient day

Non-Medical Supplies and Services

- Non-medical supply cost/total operating expense
- Office supply expense/total operating expense
- Maintenance supplies and services/sq. feet maintained
- HVAC supplies and services/square feet maintained
- Elevator repair supplies and services/elevator
- Clinical engineering supplies and services/piece of equipment
- Clinical engineering supplies and services/patient day
- Food and nutrition management expense/patient day

Utilities, Telecom and Information Technology Services

- Gas and electric expense/square feet maintained
- Telecommunications and information technology expense/total operating expense

Administrative/Discretionary Spend

- Discretionary spend/total operating expense
- Books, dues, and subscriptions/discretionary spend
- Education, travel, and entertainment/discretionary spend

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