Driving down labor costs by improving performance

Webinar
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Driving down labor costs by improving performance

- Understanding its importance
  - Identifying opportunities
  - Capturing the value
INTERACTIVE POLL

How much higher were operating expenses per adjusted admission (AA) in 2012 compared with 4 years prior?

Pick the best answer from the following list

☐ 3%

☐ 5%

☐ 10%

☐ 12%
Operating expenses have grown 2% annually in recent years, but the pace of growth is accelerating.

- Represents 10% increase over 2008 rates
- 3.4% higher than inflation over same time period

Source: Publicly reported provider financials (includes CYH, HCA, HMA, LPNT, THC, UHS); www.usinflationcalculator.com/inflation/current-inflation-rates
Meanwhile NR/AA has been flat and actually declined in 2012

Financials per AA

$ per AA

CAGR\(^1\)

2008–12

0%

2%

1 Compound annual growth rate.

Source: Publicly reported provider financials (includes CYH, HCA, HMA, LPNT, THC, UHS); www.usinflationcalculator.com/inflation/current-inflation-rates
Of the expense categories SWB is growing the fastest at 3% CAGR

**SWB and other expenses per AA**

- **$ per AA**
  - 5,000
  - 4,000
  - 3,000

**CAGR**

- **2008–12**
  - 3%
  - 2%

**SWB represents 55% of operating expenses**

1 Compound annual growth rate. 2 Salary, wage, and benefits.

Source: Publicly reported provider financials; includes CYH, HCA, HMA, LPNT, THC, UHS
Labor is the largest hospital expense and is typically driven by a set of large, high-spend departments.

**Hospital expenses**

<table>
<thead>
<tr>
<th>Category</th>
<th>% of total cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct supplies</td>
<td>25</td>
</tr>
<tr>
<td>Indirect expenses</td>
<td>9</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
</tr>
<tr>
<td>Wages &amp; Benefits</td>
<td>55</td>
</tr>
</tbody>
</table>

**Hospital labor spend by department**

<table>
<thead>
<tr>
<th>Department</th>
<th>$Millions</th>
<th>% of total labor spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clinical</td>
<td></td>
<td>32%</td>
</tr>
<tr>
<td>Nursing</td>
<td></td>
<td>30%</td>
</tr>
<tr>
<td>Non-Clinical</td>
<td></td>
<td>24%</td>
</tr>
<tr>
<td>Physician</td>
<td></td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: Client financial data; Objective Health sample hospital data set
Driving down labor costs by improving performance

- Understanding its importance
- **Identifying opportunities**
- Capturing the value
INTERACTIVE POLL

To tackle salary, wage, and benefit spend, how many of you have tried…

Pick the best answer from the following list

☐ Set productivity standards for all departments to flex staff based on census

☐ Redefining nursing skill mix to increase use of individuals working at the top of their qualifications

☐ Addressing premium-pay policies

☐ Freezing wage increases

☐ Redefining labor contracts

☐ All of the above
Spend on salaries, wages and benefits is made up from a combination of labor spend policies, workforce practices, and structural factors

**Base** compensation rates, relative to market, and increases over time

**Premium** pay rates and eligibility requirements

Rates for **daily and contract** labor

**Benefits** eligibility and plan design, including use of system facilities

- **Hiring** appropriate volume and skill of staff to meet expected patient demand
- **Scheduling** staff appropriately for shifts based on patient acuity and expected flows through the shift
  - Skill mix
  - Nurse : patient ratio
- **Flexing** staff as appropriate with changes in census, within and across units

- **Cost of living** adjustments across markets
- **Capacity** of hospital to address fixed component of staffing
- Presence of **unionization**
# Diagnosing and Prioritizing SWB Opportunities

Diagnosing and prioritizing SWB opportunities is a 3-step process:

1. **Segregate the Labor**
   - **Purpose:** Segment labor into groups for easy analysis, with different roles relative to the core competencies of the organization.
   - **Requirements:**
     - 3-5 years of historical FTE and budget data
     - Syndication with client of groupings

2. **Conduct Key Analyses**
   - **Purpose:** Conduct “killer” analyses that will identify
     - Is there opportunity?
     - Where is the opportunity largest?
   - **Requirements:**
     - Setting right targets based on institutional complexities

3. **Evaluate Labor Management Systems**
   - **Purpose:** Determine if organization has the people, processes, and systems to manage labor in a sustained way.
   - **Requirements:**
     - Understanding of key HR, budgeting, and management systems

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**Prioritize effort and develop approach**

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INTERACTIVE POLL

In your experience, how difficult is it to go after these types opportunities as compared to more traditional areas?

Pick the best answer from the following list

☑️ Easier than other opportunities

☐ About the same as other opportunities

☐ More difficult than other opportunities
A world-class labor management organization has three primary attributes

<table>
<thead>
<tr>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labor management processes</strong></td>
<td>- Periodic FTE budgeting and review process</td>
</tr>
<tr>
<td>The hardwired processes that force organizations to reevaluate labor spending on a continuous basis</td>
<td>- Wage and benefit analysis and calibration process</td>
</tr>
<tr>
<td>- Periodic FTE budgeting and review process</td>
<td>- Process for periodically conducting in-depth analysis of employee activity</td>
</tr>
<tr>
<td><strong>Critical people-management capabilities</strong></td>
<td>- Ability to conduct thorough make vs. buy analysis</td>
</tr>
<tr>
<td>The analytic and management capabilities within the organization to analyze and manage the labor spend proactively</td>
<td>- Capability to evaluate labor decisions from an ROI perspective</td>
</tr>
<tr>
<td>- Ability to conduct thorough make vs. buy analysis</td>
<td>- Analytic skills to determine the total cost of labor (e.g., wage, benefits, management overhead)</td>
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<td>- Capability to evaluate labor decisions from an ROI perspective</td>
<td>- Algorithms for overtime/regular time</td>
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<td>- Analytic skills to determine the total cost of labor (e.g., wage, benefits, management overhead)</td>
<td>- Labor productivity metrics and reporting system</td>
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<td>- Algorithms for overtime/regular time</td>
<td>- HRIS system leveraged to provide critical information to management</td>
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<tr>
<td><strong>Labor management systems and platforms</strong></td>
<td>- Accurate labor data and market data integrated into strategic HR decisions</td>
</tr>
<tr>
<td>The tools and infrastructure necessary to assist leaders in making labor management decisions</td>
<td>- Labor productivity metrics and reporting system</td>
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<td>- HRIS system leveraged to provide critical information to management</td>
<td>- Accurate labor data and market data integrated into strategic HR decisions</td>
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Four elements need to be in place in order to successfully capture opportunities

- Clinical leadership and broad engagement of physician and nursing staff is required to drive sustainable change

- Dedicated resources, both people and capital, are essential to the successful completion of any project

- The ongoing ability to assess opportunities, share information and measure impact is critical to focusing efforts and providing feedback

- An application of the principles that support change will help ensure success
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Q & A

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