Benchmarking, IT Cost Controls and Efficiencies

Session 191
February 22, 2017
Speaker Introductions

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The Chartis Group
Conflict of Interest

Chris Pass and Greg McGovern:

Have no real or apparent conflicts of interest to report.
Learning Objectives

1. Explain the key components driving IT costs and investments.
2. Evaluate essential controls needed to rightly manage cost.
3. Analyze IT costs using industry benchmarking and peer comparisons.
4. Identify common areas in IT where cost efficiencies can be obtained.
Realizing the Value of Health IT

The outcomes of the IT cost control and efficiencies efforts fell into two categories:

**Savings**
Immediate and long term savings were realized by right-sizing current infrastructure, and right-sourcing IT services such as disaster recovery.

**Satisfaction**
- Transparency into the drivers of IT cost and tools to better govern and shape demand increased executive confidence that IT investments were appropriate and aligned with strategy.
Agenda

Managing IT Investments
Case Study: At a Glance
Benchmarking: Deep Dive
Results: Deep Dive
Managing IT Investments

- Case Study: At a Glance
- Benchmarking: Deep Dive
- Results: Deep Dive
STRATEGIC AND OPERATIONAL OBJECTIVES

- Drives the need for new or enhanced capabilities with dependencies in people, processes, and technologies, yet are generally at too high a level to adequately inform IT decision making and solution selection.

GOVERNANCE

- Essential in clarifying business requirements and expected benefits prior to approval, and in balancing and prioritizing competing needs to ensure investments are balanced and paced appropriately.

DEMAND, PROJECT, AND ASSET MANAGEMENT

- Investments need to be managed throughout their lifecycle, not simply through project execution, to ensure original expectations are met, business benefits achieved, and full value is derived.

IT PLAN AND BUDGET

- Driven by how well demand is managed, and by the maturity of IT processes to manage existing applications and customer needs. Aligning costs with lines of business helps to demystify what IT is supporting.
IT investments can be optimized by insisting on business process ROI, controlling the pace of new IT projects, and aggressively managing the organization’s current application portfolio, while developing clear expectations around ongoing customer support.

Key Considerations

- **Scale**: Some foundational costs may appear higher due to the scale of the organization
- **Efficiency**: Existing application portfolio and infrastructure must be aggressively managed to maintain an optimum cost profile
- **Use**: Return on investment (ROI) from IT investments are found in improved business processes and maximal use of the IT systems deployed
# Managing IT Investments

<table>
<thead>
<tr>
<th>Category</th>
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<tbody>
<tr>
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**John Muir At A Glance**

<table>
<thead>
<tr>
<th>SIZE/ACTIVITY</th>
<th>6,000 Employees</th>
<th>1,037 Beds</th>
<th>3 Hospitals</th>
</tr>
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<tbody>
<tr>
<td>30,000+ Hospital Admissions</td>
<td>500,000 PCP/Urgent Care Visits</td>
<td>100,000+ Emergency Dept. Visits</td>
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</tbody>
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**HUMAN RESOURCES**

- 6,000 Employees
- 3 Hospitals
- 100,000+ Emergency Dept. Visits
- 500,000 PCP/Urgent Care Visits

**FINANCIAL FOUNDATION**

- Credit rating of A+ or equivalent by S&P’s and Moody’s
- $117M Community Benefit
- $1.5B+ Revenue
- Strong Balance Sheet

- 1,037 Beds
- 3 Hospitals
- 500,000 PCP/Urgent Care Visits
The Case for Change

Beginning in 2014, JMH began several strategic IT initiatives to:

- Consolidate clinical delivery tools into a single EHR platform
- Develop a robust analytics and decision support program
- Increase efforts in local redundancy and disaster recovery

As costs rose in 2015, leadership asked several questions:

What is a sustainable cost profile for JMH?

How do we ensure future investments are aligned with strategy?

Are there opportunities to lower existing IT costs today?

These questions led JMH to explore how they could better organize to manage IT demand, and how they could find and address over-investments in their current IT spending.
Approach to the Problem

1. Start with external benchmarking to understand industry and peers.
2. Consider unique market drivers and future business strategies at JMH.
3. Assess the maturity of JMH governance relative to benefits realization.
4. Analyze 3-year trends in detailed GL expense to identify efficiency opportunities.
5. Implement programs to strengthen IT controls and optimize current costs.
THE FOLLOWING PREVIEW HAS BEEN APPROVED FOR APPROPRIATE AUDIENCES

+$5,000,000

decrease in IT costs over an 18-24 month period.
Pluses and Minuses of Benchmarking

**Pluses**

- Industry benchmarks provide healthcare industry-wide averages for high-level metrics
- Peer benchmarks provide a more detailed “apples to apples” comparison of discrete costs

**Minuses**

- Benchmark data is typically self-reported and reporting variances can confuse attempts at comparison
- Benchmarks are often misused to “prove” that an organization is doing well or doing poorly, when all they really offer is a starting point to help in directing deeper analysis of IT costs

Benchmarking “proves” nothing, but serves as a helpful guide in directing efficiency efforts
IT Operating Expense (OPEX) as a % of Organizational Operating Expense (OPEX)
IT OPEX as a % of Organizational OPEX
Comparison to EHR Peers

Peer B
Peer A
Peer C
Peer E
JMH 2016
Peer Avg
IT OPEX per Supported User

2013 Actual
2014 Actual
2015 Projected
2016 Budget
Managing IT Investments

- Managing IT Investments
- Case Study: At a Glance
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- Results: Deep Dive
Maturing the Enhancement Request Process

Focus on This

Business Process Improvement
- Focuses on workflow analysis and process reengineering
- Prioritizes efforts with quantifiable ROI potential
- Drives organizational cost savings

Not This

Application Enhancements
- Focuses on changes to existing systems
- May have no relevance to business process improvement
- Drives increase in IT resource costs

Deprioritize EHR enhancement requests that are not directly related to, and driven by, business process improvement efforts.
Are Enhancements Worth the Investment?

Application support hours were broken into their component parts to arrive at an estimate of the current resource hours and costs associated with EHR enhancement requests.

<table>
<thead>
<tr>
<th></th>
<th>2016 Application Hours</th>
<th>2016 Application Expense</th>
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<tbody>
<tr>
<td>Standard Support</td>
<td>236,766</td>
<td>$18,116,648</td>
</tr>
<tr>
<td>Strategic Projects</td>
<td>81,127</td>
<td>$6,207,603</td>
</tr>
<tr>
<td>EHR Enhancements</td>
<td>18,295</td>
<td>$1,399,880</td>
</tr>
</tbody>
</table>

By strengthening enhancement request governance, IT discovered they could eliminate or defer 80% of incoming requests, thereby freeing up 14,636 hours annually to focus on other strategic initiatives.
Optimizing application development and maintenance can cut costs by 50% or more.”¹

**Relevance**


**Best Practice**

Weigh requests for new applications against your existing application portfolio.

**Next Steps**

JMH instituted Application Portfolio Management to continually assess the value and health of the application and technology infrastructure.
What is the Cost Savings Potential?

Context

• Software-related costs as a percent of total IT costs is generally 20%¹

• Reduction targets frequently range from 10-20% of current costs

• Due to a recent EHR purchase, a very conservative 5% target was used for the initial program

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
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<tbody>
<tr>
<td>2016 ITS Budget</td>
<td>$81,269,005</td>
</tr>
<tr>
<td>2016 ITS SW Maintenance Budget</td>
<td>$18,094,438</td>
</tr>
<tr>
<td>Number of Applications</td>
<td>326</td>
</tr>
<tr>
<td>5% Reduction in SW Maintenance</td>
<td>$904,722</td>
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¹ Gartner, "Key Metrics," 2014

Evaluate applications based on the lifecycle of the application, relevance to strategic objectives, breadth of use, cost to maintain, and other criteria.
Outsourcing and Shared Services

Relevance
Outsourcing disaster recovery (DR) services to a cloud vendor can decrease costs by 10-20%.

Best Practice
Develop a comprehensive outsourcing strategy and plan, focusing on commodity-IT services as early candidates to consider.

Next Steps
Evaluate partners who can provide disaster recovery services more cost effectively than JMH.
Why Consider Outsourcing?

<table>
<thead>
<tr>
<th>Description</th>
<th>Internal Costs</th>
<th>DRaaS Costs</th>
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<tbody>
<tr>
<td>Capital</td>
<td>$6,478,386</td>
<td>$231,100</td>
</tr>
<tr>
<td>Operating</td>
<td>$5,699,270</td>
<td>$6,717,600</td>
</tr>
<tr>
<td>Total</td>
<td>$12,177,656</td>
<td>$6,948,700</td>
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## Outcomes by Area – First Two Years

<table>
<thead>
<tr>
<th>Area</th>
<th>Amount</th>
</tr>
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<tr>
<td>Application Rationalization and Renegotiation</td>
<td>$1,457,573</td>
</tr>
<tr>
<td>Technology Management</td>
<td>$1,607,740</td>
</tr>
<tr>
<td>Outsourcing DR</td>
<td>$2,170,312</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,235,625</strong></td>
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</table>
A Summary of How Benefits Were Realized for the Value of Health IT

**Savings:** Immediate and long term savings were realized by right-sizing current infrastructure, and right-sourcing IT services such as disaster recovery.

**Satisfaction**

Transparency into the drivers of IT cost and tools to better govern and shape demand increased executive confidence that IT investments were appropriate and aligned with strategy.