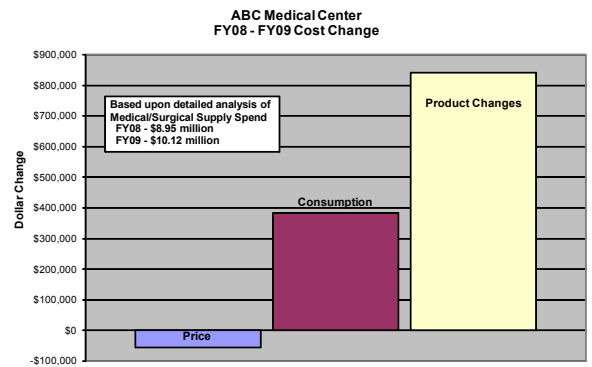


# Cost Drivers Analysis Service



## Overview

Given limited resources, it is essential that health systems concentrate their efforts upon the primary underlying drivers and relative impact on year-over-year changes in non-salary expenses. Healthcare Cost Solutions, LLC (HCS) has developed and refined a process for quantifying the relative impact of changes in acquisition cost, consumption, introductions of new technology, and discontinued or obsolete items. This comparison provides an objective understanding of causes for increase and/or decrease in non-salary expense and provides a foundation for defining interventions specifically targeted to mitigate or offset primary cost drivers.

## Objectives

The Cost Drivers Analysis process isolates the relative impact of each major causative factor, allowing interventions to be tailored to mitigate those factors most impacting for each particular hospital or health system. Examples include:

Factor	Interventions
Acquisition Price	<ul style="list-style-type: none"> <li>Increased focus on contracting, contract utilization and compliance</li> <li>Increased negotiations and implementation of locally negotiated contracts</li> <li>GPO comparison, selection and optimization</li> <li>Increased buyer and requisitioner awareness of contracts</li> </ul>
Consumption	<ul style="list-style-type: none"> <li>Peer comparison and collaboration</li> <li>Protocols for use, inservice for appropriate use, controls</li> </ul>
New Technology	<ul style="list-style-type: none"> <li>New/reinvigorated value analysis process</li> <li>Expand focus of value analysis to include new procedures and service lines being considered</li> </ul>
Obsolescence	<ul style="list-style-type: none"> <li>Return inventory that will not be used</li> <li>Consignment with appropriate controls</li> <li>Standardization</li> </ul>

## Approach and Methodology

Detailed purchase history data is acquired in electronic form from the health system's ERP/Materials Management Information System (in accordance with specifications provided

by HCS). The data normally covers at least two 12-month "snap-shots" of purchases, including details about facility, department, account, vendor, manufacturer, catalog number, description, packaging, unit of purchase, price, and quantity purchased for each item. Data includes both items in the ERP/MMIS Item Master File as well as any non-file items purchased.

## Execution

Data availability is determined and a decision made on periods of purchase history to be extracted and analyzed. This data is processed by HCS through a proven methodology comparing the periods for which data is provided. Reports are generated to provide summary and detailed information about facilities, departments, vendors, manufacturers, categories, and specific items having the greatest impact upon year-to-year changes in cost, with the cost changes isolated by acquisition price, units purchased, new items purchased, and items no longer purchased. We offer over 25 predefined reports as well as optional custom reports to further detail and highlight findings unique to a particular hospital or health system.

Findings and recommendations are presented back to supply chain and executive management. Once causes and impacts are quantified and understood, HCS works with clients to define action plans and implement interventions.

## Deliverables

- Reports identifying vendors, departments, product categories, specific products that comprise greatest increases and/or decreases in year-to-year changes
- Quantified relative impact of change in acquisition price, consumption, new products and products no longer used
- Recommended interventions and action plans to offset or mitigate primary factors driving increases in year-to-year cost
- Define operational changes required to implement recommended interventions
- The process invariably identifies data quality and consistency issues, with recommendations for improvement



For more information, please call us at (972) 496-1979 or visit our web site at <http://www.healthcarecost.com>

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