

# Case Study



## Data Integrity, Visibility and Collaboration Enable New Jersey Medical Center to Control Spend

### Challenges

When Karl Blomback is asked what he believes to be the key to the future of healthcare, he always has the same answer: “cost containment now.” Like most hospitals, Hackensack University Medical Center (HUMC), where Blomback is vice president of Finance, faces multiple financial challenges caused by declining reimbursements from Medicare and Medicaid, a weak economy and the mandates created by healthcare reform. These same challenges make it difficult for many hospitals to remain profitable and, in some cases, even keep their doors open.

Blomback feels strongly that a hospital should operate “like a business” so it can continue to fulfill its mission of providing excellent patient care. Yet he estimates that 90 percent of hospitals in the U.S. really don’t understand their cost of doing business because they either don’t have enough cost data or the data they do have is wrong. “Visibility to spend equals control over spend,” he said. “Having a foundation of good data can make the difference between a hospital making money and losing money.”

Visibility to spend is particularly important when it comes to controlling the purchase of high-cost physician preference items (PPI), such as orthopedic implants and drug-eluting stents, which frequently account for as much as 40 percent of a hospital system’s medical-surgical supply spend, Blomback says. So controlling PPI was a high priority for HUMC. In addition, there was no auto replenishment system, so the medical center ended up buying more than it needed, and products sat on the shelves and eventually expired.

HUMC also had a problem with miscellaneous charges, which Blomback says are a function of creating chargemasters “the lazy way.” He believes that a good item master feeding a good chargemaster is key to understanding how well a hospital is doing from a business standpoint. Miscellaneous charges, he says, can ruin the accuracy of a decision support system and inhibit good decision making. “This is an industry where we really need to understand our costs,” Blomback says. “If you don’t know what your costs are, you don’t know which services to grow and which to shrink, and you can’t negotiate with payers.”

### Overview

Founded in 1888 with just 12 beds, Hackensack University Medical Center (HUMC) was Bergen County, N.J.’s, first hospital. More than a century later, this nonprofit teaching and research hospital has grown to become the largest provider of inpatient and outpatient services in New Jersey. Not only has it added 763 more beds to its facilities, but it’s now Bergen County’s largest employer and a healthcare hub for the northern New Jersey and New York metropolitan areas. HUMC’s affiliation with the University of Medicine and Dentistry of New Jersey–New Jersey Medical School brings hundreds of specialized programs and services to its campus and makes it a center for emerging medicine and technologies, with world-class programs that range from cardiac care to pediatrics and cancer therapy. To ensure it can continue its history of excellence and provide the same high-quality patient care that it has since 1888, HUMC has prioritized increasing visibility into what it spends on medical-surgical supplies to help control costs and remain profitable.



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Blomback points out that revenue codes also are important. HUMC wanted to make sure its charge codes were accurate to help it capture all of the revenue to which it is entitled. That required including the correct HCPCS codes on Medicare/Medicaid reimbursement claims. HCPCS codes usually are found in a hospital's chargemaster, rather than in the item master. They are difficult to keep current, since the Centers for Medicare & Medicaid Services changes portions of the codes every quarter. If a code changes and a hospital submits an incorrect code because its chargemaster hasn't been updated, the claim is subject to rejection—which can be costly.

HUMC also experienced inefficiencies related to a highly manual invoicing process. “The whole process was broken,” says Francisco Maciel, Accounts Payable manager. “All our invoices were paper, and there were no standard processes, so we had 15 people (most of whom were temporary employees) all processing invoices their own way.” The result, Maciel says, was thousands of costly invoice exceptions that had to be researched and resolved—a time-consuming and costly process.

## Solution

HUMC took a multi-faceted approach to cost containment in its procure-to-pay processes that included new technology, process changes and an effort to drive collaboration among clinicians, departments, its GPO and suppliers. It leveraged a foundation of critical data that enabled it to understand where it was making money and, more importantly, where it was losing money.

HUMC had joined the GHX electronic trading exchange in 2007 to automate the process of conducting business with its suppliers and already had maximized utilization of the exchange, moving from zero to \$57.2 million in transaction volume and zero to 24,881 electronic purchase orders (POs) within the first year.

To address its data integrity and product sourcing needs, HUMC signed on for the NuVia<sup>SM</sup> content management solution in 2008. Initially, the medical center used NuVia from GHX to clean several small inventory files to support its auto replenishment system, and to download catalogues to put into its ERP system. In the first quarter of 2011, NuVia played a major role when the medical center decided to change GPOs. The change required loading a large amount of new contract data into HUMC's item master, and that data needed to be up-to-date and accurate. Richard Killeen, executive director of Materials Management,

said HUMC faced the prospect of manually updating 12,000 GPO contracted items and 3,000 items under local contracts in its item master, which would be time-consuming and could lead to data entry errors.

Here is a brief summary of the technology solutions HUMC used and how it used collaboration to achieve its results:

**Content Management**—HUMC recognized that a good item master was key to automating its supply chain processes to achieve sustainable cost savings. “Sixty percent of our purchasing process was paper-based, and we were directed to fully automate it in less than a year,” says Mike Goolsby, director of Materials and Applications. “That required us to update an 87,000-item item master.”

Blomback says NuVia was the only content management system available on the market that allowed an upload of data from HUMC's ERP system. Without that ability, “we would have had to manually load thousands and thousands of items into the item master.”

With the NuVia solution, HUMC is standardizing product descriptions so that everything's coming in in the same format and assigning UNSPSC (United Nations Standard Products and Services Code<sup>®</sup>) codes that make it possible to categorize products by type. This information is then carried over into HUMC's chargemaster and decision support system. By using the correct coding, HUMC can compare its data by spend category against other healthcare organizations to see how it is doing.

HUMC also is using NuVia to assign HCPCS codes to products on the front end in the item master, as opposed to on the back end in the chargemaster. This ensures up-to-date HCPCS codes on a real-time basis prior to a medical procedure ever being done. By adding HCPCS codes into NuVia, accurate reimbursement information is provided to HUMC's Finance department, ensuring the correct codes are used every time a Medicare/Medicaid claim is submitted.

With the ability to assign the correct UNSPSC, HCPCS and revenue codes through NuVia, HUMC has been able to address the challenge of miscellaneous charges. “Claims sail through now with nobody looking at them, and all charges have the correct revenue and HCPCS codes and are updated as changes are made,” says Blomback.

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HUMC also addressed miscellaneous charges, which Blomback calls the “Achilles heel” of many healthcare systems. “We had miscellaneous charges in our chargemaster that would not allow us to understand our cost of doing business,” he said, adding that this is one of the barriers to controlling PPI. In the Cath Lab, HUMC moved from manual to barcode scanning in order to capture all of the net revenue and used NuVia to eliminate all miscellaneous charges/part numbers and obsolete inventory. It also moved to 100 percent auto replenishment, while still offering choices to physicians in the Cath Lab.

**Contract Management**—To bring more non-file and off-contract spend under management, HUMC automated its contract management process using CCXpert by GHX, which enables the organization to store and access its contracts and the most current pricing in one place, and more easily monitor contract activity and compliance. By using a three-way price match between purchase order, PO acknowledgment and contract price, which CCXpert provides in real time, HUMC can work with its suppliers to correct pricing errors before they become costly invoice exceptions. The solution also eliminates the need to manually key price changes and new contract prices into the item master, saving time and minimizing errors.

CCXpert was an important element in the GPO change, and the HUMC team says it would not have been able to go live with its new GPO without it and NuVia.

**Accounts Payable Management**—Even though HUMC’s ERP system could process invoices, all of its invoices were paper and had to be manually entered into the system. The medical center wanted a solution that could deliver up to 100 percent electronic invoicing for all vendors it does business with, so it chose OnDemand AP® by GHX. HUMC also created an AP policy that directs that invoices be filed by batch date instead of check number and consolidated into monthly invoices.

Fifty-one percent of HUMC’s invoices are now electronic, says Maciel, and the department is moving toward automating 80 to 90 percent of its invoices. “When we went live with OnDemand AP, we eliminated all of the temporary employees,” he adds. “We now have six employees and they’re doing a lot more than just processing invoices. We have plans to create a customer service desk with two of the employees as representatives and only four employees handling invoices when the desk is up and running.”

Maciel adds that because OnDemand AP integrated with its new imaging system, it eliminated paper and filing.

**Collaboration**—Obtaining buy-in from physicians was essential to gaining control over spend in the Cath Lab and OR, Blomback says. “We ask them for their help and try to communicate to them how important it is to the entire medical center to control costs,” he says.

Blomback says visibility into data allows HUMC to show physicians which products lines the medical center is losing on, helping them make a decision to use a different product line.

Blomback and Goolsby both emphasize the importance of collaboration to the success of HUMC’s efforts. “We had a commitment from senior management and IT, Purchasing and AP working together with all the other departments,” Blomback says. “Without that, we couldn’t have gotten it done.”

## Results

In part by employing technology solutions from GHX, HUMC has achieved the following results:

- Saved \$3 million in less than a year in the Cath Lab alone, using NuVia to eliminate all miscellaneous charges/part numbers and obsolete inventory
- Built a virtual item master that consists of more than 70,000 enriched items
- Brought 80 to 90 percent of its spend and 50 percent of the items in its item master under contract
- Within just 11 days of changing GPOs, was able to eliminate all match exceptions with its distributor through CCXpert
- Automated 51 percent of its PO-related invoices
- Reduced invoice cycle time from a month to a week

## Benefits

- Increased visibility into supply costs for improved decision support
- Increased revenue/reimbursement through HCPCS assignments
- Reduced off-contract spend and ensured that HUMC is procuring items at negotiated prices
- Reduced requirements for manual intervention in areas now highly automated



## View video testimonials from HUMC

*(Click the QR codes below if you are viewing this on your computer, or scan with your smartphone barcode reader)*

### Item master management (2:19)



### 100% paperless purchasing (1:10)



### GHX NuVia and GHX CCXpert (0:46)



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