

# BECKER'S --- **Hospital CFO Report** ---

## **The Journey to Cost Savings: 4 Qs with CHOP's VP of Financial Strategy**

In 2017, leaders at the Children's Hospital of Philadelphia began crafting a systemwide financial stewardship program. The ongoing effort has already overcome significant roadblocks and yielded a cultural transformation that supports better collaboration between CHOP's operations and finance teams.

CHOP operates at more than 90 percent occupancy daily and is one of the world's largest pediatric research facilities. Implementing a systemwide financial stewardship program at an organization with this many moving parts is no small task. The system overcame barriers to adoption and implementation by embracing a culture of collaboration and integrating technology designed to facilitate more fruitful internal communications and more precise performance improvement tracking.

Spencer Kowal, CHOP's vice president of financial strategy, helped lead this effort. He recently spoke with *Becker's* about CHOP's cost savings journey and how his organization is preparing for healthcare's future.

*Note: These responses have been edited for length and clarity.*

### **Question: Can you walk us through CHOP's savings journey so far?**

**Spencer Kowal:** Toward the end of 2017, I was sitting with our COO and CFO, and we were talking about how we would frame financial management at CHOP. Ultimately, we landed on a four-domain process. The domains are Lead, Grow, Improve and Perform. Each of those domains carries its own group of processes and goals.

First, Lead is really focused on communication and increasing the financial acumen of the organization. To support it, we've built out some really great training modules and used technology to support lot of communication across the organization. Second is Grow, which brings the operations and finance team together to build business strategy.

The third domain is Improve. We created a \$120 million improvement target for the next three years and are using the Strata's Continuous Improvement tool to help support that pursuit. Before integrating the solution, we already had an inventory of different improvement projects we were working on, but we didn't have a structure to move them forward — now we do. We've loaded about 90 initiatives into Continuous Improvement tool to centralize tracking on the true savings (General Ledger dollars) of these initiatives. We also leverage the solution's algorithms help us identify new opportunities by quantifying the cost associated with clinical variation across the organization.

The last domain is what we call Perform. To support this domain, we're working to start a monthly operating review process and leveraging Strata's tools to do that.

### **Q: What are some of the lessons you've learned along the way?**

**SK:** I'm really proud of what CHOP has accomplished with the financial stewardship program. In my career, I've served as a management consultant for turnaround engagements for different health systems, and this is the most well-organized program I have been associated with. That said, there has been a learning curve.

For example, when we first launched the program, our emphasis was on launching cost-cutting initiatives, which were certainly very helpful. But to support our improvement goals, we needed to do more than that. CHOP is an extremely busy health system. We have just over \$3 billion in revenue and an average occupancy rate of 500 patients. We operate on average at about 90 percent occupancy with many days at 100 percent, so trying to find beds for patients and manage discharge planning is critical for us.

We now have significant capacity management initiatives underway, but we weren't initially considering using our performance improvement tracking efforts to support them. We had to do some course adjustment. We had to start thinking more like economists rather than just accountants. We had to learn to not only think about cost savings, but also revenue opportunities, throughput and capacity management initiatives.

**Q: How is CHOP preparing for the future of healthcare?**

**SK:** We're in the process of updating our 10-year financial plan. We're taking a look at our long-term 340B strategy. We've been very successful in our 340B program and are building out a specialty pharmacy model at CHOP, which will benefit from the program. However, that will also mean we're more reliant on 340B and presents more risk given the uncertainty around the future state of the program. Our finance committee has also asked us to think about how a single-payer environment would impact the financial performance of the hospital. Neither of these changes will happen overnight, but they do need to be taken into consideration now.

**Q: What do you want readers to know about driving out costs?**

**SK:** It's a journey, and it needs to be a collaborative journey between operations and finance. If it's a finance-led initiative, it is unlikely to succeed. There needs to be a partnership between the COO and the CFO that extends down to every level between operations and finance. I think that's one of the key ingredients for a successful business improvement strategy.