

After 7 years of losses, Anna Jaques Hospital achieves financial turnaround in a year, bond ratings improve

CASE STUDY



Yankee Alliance, Premier help Massachusetts hospital continue to serve community

For nearly seven years, Anna Jaques Hospital in Newburyport, MA had been losing money, despite strong revenues and community support. In January 2006, new CFO Mark Goldstein arrived from Boston Medical Center with a clear mandate: bring financial stability to the 123-bed hospital that serves more than 165,000 residents in the Merrimack Valley, north of Boston.

Despite financial challenges, the quality of patient care had remained extremely high. "Our revenue was growing between 8 and 12 percent each year," said Goldstein. "But our expenses were growing in the 10 to 15 percent range. Over a seven-year period, we had lost \$20 million."

The losses resulted in Moody's Investors Service rating the hospital's credit-worthiness outlook as negative, and threatened the hospital's ability to continue serving its community. Yet a year after the hospital and its physicians partnered

with Yankee Alliance and Premier, Moody's has upgraded the hospital's financial outlook from negative to stable, citing the improved control of expenses, among other factors.

"One of the major factors in the turnaround of AJH is Yankee Alliance and Premier," said Goldstein. "In just under 12 months, we were able to take the organization from negative cash flow and a \$1.5 million loss to a \$56,000 operating surplus." That's been good news for staff, physicians, and patients alike.

The hospital saved more than a million dollars in supply costs this year simply by switching to Premier and Yankee contracts, according to Goldstein. The hospital reduced expenses by 4 percent. Materials management staff has now begun to look at additional savings in areas where Premier or Yankee agreements are with different manufacturers than AJH is currently using.

The turnaround began when Goldstein and his team launched a new effort to control costs and change the hospital's purchasing processes. In the past, every department leader had been able to buy supplies from any manufacturer, even though the organization had GPO agreements with Novation and Amerinet. The result: too many high-cost supplies.

To illustrate the problem, Goldstein and his team gathered samples of every glove the hospital used. "We had 19 different glove manufacturers," said the CFO. "Obviously, that had to change."

To get a fresh start, AJH sent requests for proposals to three GPOs – Novation, Amerinet, and Yankee Alliance/Premier – for a market basket of med/surg, pharmacy, and dietary supplies.

“One of the major factors in the turnaround of AJH is Yankee Alliance and Premier.” **— Mark Goldstein, CFO, Anna Jaques Hospital.**

Yankee is a regional alliance of 54 hospitals in New England and New York, and the alliance is a member of Premier. Hospitals that join Yankee Alliance can access Premier contracts and services on an aggregated basis, as well as regional Yankee contracts.

“Yankee Alliance has the ability to leverage the volume of all their members, which allows even a small hospital to purchase materials at a higher tier,” said Mark Gahagen, region director for Premier. “In addition to using regional contracts, Yankee members are able to take advantage of higher tiers and enhanced tiers on the standard Premier agreements.”

In spring 2006, Richard Doolan came on board as materials manager to lead the purchasing staff in a new direction. He brought with him 30 years of materials management experience. “We felt that picking the right GPO was a huge decision in helping turn around the hospital” said Doolan. “That’s why we chose Yankee Alliance.”

Members of Yankee Alliance are able to leverage the volume of \$1.3 billion in purchases, according to Cathy Spinney, Yankee Alliance vice president. “As a regional alliance, we are also able to provide a hands-on approach,” said Spinney. “Our account manager goes into a hospital and works directly with new members to help convert the contracts more quickly and provide additional support.”

Chris Johnson became the Yankee Alliance account representative for AJH. His role was to help train the staff, making the transition to the new contracts as smooth and effective as possible.

Johnson immediately began to work with the hospital’s team to discover opportunities for savings and train the staff on how to implement those savings. “Yankee staff was here all the time, helping us constantly,” said Doolan. “They are just as invested as you are in saving money for your hospital.”

AJH leadership wanted to make the changes as seamless as possible, so they began the turnaround by implementing “exact match” contracts. “I sat with purchasing manager Linda Sowder and we got them signed up through Premier’s Supply Chain Advisor,” said Johnson. “We went line by line, and in a short time, we had more than 100 contracts activated.”

Those contracts included Specialty Labs, which was the reference lab used by AJH through their previous GPO agreement. With the new Yankee/Premier agreement, the hospital was able to save nearly \$100,000 without making any changes. Other examples include saving \$70,000 on orthopedic implants, \$17,500 on orthopedic softgoods, and \$13,000 on pharmacy supplies. They also saved \$84,000 on pacemaker/generators.

“There were dozens of contracts where we could switch to Yankee and not have to change a thing,” said Doolan. “All we had to do was take advantage of the contracts, and we would improve our costs.”

Remember the 19 different glove manufacturers? Being a member of Yankee allowed AJH to benchmark with other hospitals in the alliance. They found that no other organization bought so many different gloves. The materials staff asked surgeons to evaluate gloves that Yankee had under contract. They selected a glove from Medline that satisfied everyone. The hospital saved \$20,000, but more important, sent a message about the value of product standardization and improving the purchasing process.

“Yankee Alliance goes above and beyond simply contract savings,” said Goldstein. “They bring a lot of value-add process redesign, including looking at our supply chain and bringing together best practice strategies. They are really engaged in helping us become an efficiently run organization.”

Supply Chain Advisor, Premier’s online automated contract management system, made the price activation process simple and stress-free. “I use the Premier online system every day,” said Doolan. “It’s very easy to use.”

When AJH staff had questions about whether to let an existing contract run out, or terminate early and pay a penalty, there were resources available through Yankee.



“We were able to call on their pharmacy expert or their lab expert whenever we had questions about the contracts,” said Doolan. “They are hands-on, and they have an enormous amount of experience.”

Goldstein believes that the Yankee Alliance/Premier business model is ideal for community hospitals such as AJH. “They have a different business model than other GPOs that I’ve been involved with,” he said. “They are more of a service-driven organization.”

Yankee, Premier, and the dedicated staff at AJH became partners in improving the organization’s ability to provide the highest quality patient care. “This doesn’t work without a well-organized team,

including purchasing and materials,” said Goldstein. “We have a terrific staff that has helped turn around our hospital.”

Yankee rep Johnson said, “We’re constantly uncovering new areas in which to save,” one of those being capital equipment purchases. AJH plans to participate in Premier group buys for capital equipment where they expect considerable savings.

“Yankee and Premier are really geared toward my hospital,” said Goldstein. “We get all the value and benefits of one of the greatest purchasing organizations in the world, but we also have a local value-add above and beyond that.”

Doolan agreed. “It’s the best of both worlds,” he said. “We get the purchasing power of Premier, and we get the enormous experience of Yankee, the local team that is helping us every step of the way.”

“We get all the value and benefits of one of the greatest purchasing organizations in the world, but we also have a local value-add above and beyond that.”



• 12225 El Camino Real
San Diego, CA 92130

• T 858 481 2727
F 858 481 8919

• 2320 Cascade Pointe Blvd (28208)
P.O. Box 668800
Charlotte, NC 28266-8800

• T 704 357 0022
F 704 357 6611

• 444 N Capitol Street NW
Suite 625
Washington, DC 20001-1511

• T 202 393 0860
F 202 393 6499

premierinc.com

About Premier, 2006 Malcolm Baldrige National Quality Award recipient

Serving 1,700 hospitals and more than 45,000 other healthcare sites, Premier Inc. is the largest healthcare alliance in the United States dedicated to improving patient outcomes while safely reducing the cost of care. Owned by not-for-profit hospitals, Premier operates the nation's largest healthcare purchasing network, the most comprehensive repository of hospital clinical and financial information and one of the largest policy-holder owned, hospital professional liability risk-retention groups in healthcare. Premier is headquartered in San Diego with offices in Charlotte, N.C. and Washington.

For more information

Please contact your Premier Region Director, our Solution Center at 877.777.1552, SolutionCenter@premierinc.com, or www.premierinc.com.