

Strategic alignment of quality and financial goals creates five-year savings of over \$70 million



For its first 50 years, Beaumont Hospitals' real estate experience might be described as, "If you build it, they will come." The three-hospital, 1,744-bed not-for-profit system had grown steadily in the Detroit area as a market leader with a reputation for excellence in clinical care, research and teaching. Physicians and other staff considered Beaumont an optimal healthcare employer.

Then came the economic downturn of 2008. As a result of the collapse of the national financial infrastructure and major Detroit employers General Motors and Chrysler entering crisis mode, significant layoffs of healthcare-insured workers occurred throughout Southeastern Michigan. This halted Beaumont's revenue growth trend and the healthcare system actually experienced a revenue decline. Beaumont lost \$30 million in operating income in 2008, much of it driven by reductions in patient care services volumes and surges in uninsured patients and bad debts. In response, Beaumont initiated employee layoffs, a wage freeze for most employees and wage reductions for executives, managers and employed physicians. The impact of these actions included some erosion of the longtime physician and staff loyalty the hospital had enjoyed, and threatened patient perception of the system. In 2009, a financial turnaround team was put into place and the real estate portfolio, a significant portion of Beaumont's budgetary expenses, came under sharp scrutiny.

In 2010 Jones Lang LaSalle, which combined nationwide major hospital construction program management experience and extensive background in the management of highly technical and complex facilities with local presence in the Detroit market, was chosen over several competitors as a strategic advisor to identify opportunities for Beaumont to achieve both short and long term savings. To develop a customized solution, our Healthcare Solutions team drew upon the expertise of our broad platform of service groups including Facility Management, Construction Program Management, Transactions, Lease Administration, Finance, Space and Occupancy Planning and Energy and Sustainability.

Turning our attention to Beaumont Services Company (BSC), a 315-employee subsidiary that provides corporate real estate management services, facilities management services, biomedical engineering services and construction management services across all Beaumont facilities, we applied best practices our firm had learned from not only healthcare, but other applicable

Challenge

- Reverse financial losses triggered by the economy
- Reduce operating expenses without impacting patient care or employee satisfaction
- Reduce non-core functional costs
- Engage a strategic partner to help reposition the healthcare systems' physical assets and support Beaumont's future success in the new healthcare industry environment

Solution

- Conducted strategic analysis and definition of current baseline conditions against nationwide best practices in healthcare and other relevant industries
- Developed a five-year plan with 70 improvement opportunities generating \$70.7 million in cumulative savings
- Entered a unique joint venture relationship with Beaumont to manage and drive improvements
- Applied real property and asset management expertise to improve the performance of Beaumont's asset

Results

- Savings of over \$7.9 million, over \$1.5 million ahead of projections in the first year
- Stronger Key Performance Indicator and Client Satisfaction Survey scores
- Reduction of lost work day incidents from almost 300 per year to zero
- Expansion of responsibility to manage other purchased service "spend"
- Inclusion of Jones Lang LaSalle in Beaumont's capital planning process and future real estate development project planning teams



industries to drive performance improvement and cost savings for Beaumont. Performance improvements and cost savings initiatives included outsourcing non-core functions, service delivery process improvements and optimization of Beaumont real estate portfolio. These cost reduction initiatives were accomplished without negatively impacting Beaumont's patient care environment. To reinforce our commitment to align our objectives with those of Beaumont's, we agreed to transform BSC into a jointly owned (Beaumont and Jones Lang LaSalle) company, named Jones Lang LaSalle at Beaumont Health System. Through this organizational structure, Jones Lang LaSalle literally became a partner with Beaumont to reduce the health system's operating expenses while at the same time, improving service levels. Our project leader became COO and General Manager of the new joint venture company.

Our team began by analyzing and defining current baseline conditions and experiences at Beaumont including:

- Portfolio size and space utilization
- Annual owned and leased property operating costs
- Organizational structure, staffing levels and infrastructure maintenance costs
- The condition of the facilities
- Past and projected capital improvements and prioritization of need
- Service delivery processes and impact on patients and employees
- Joint Commission – Environment of Care and other regulatory compliance programs

We reviewed the facilities management organizational structure, processes, and systems; toured Beaumont's acute care hospitals, ambulatory care, and physician office properties; conducted interviews with key executive leadership and functional managers; and researched historical and existing facilities' operating expense and capital cost. To foster a collaborative environment and build support for the initiative, we engaged Beaumont personnel ranging from the three hospital presidents and ambulatory care administrative executives to physicians and other employees throughout our research and data collection activities.

After a comparative analysis of the existing service delivery processes with Jones Lang LaSalle "Best Practices", we identified 70 opportunities for improvement. These initiatives

held the potential for \$70.7 million in cumulative cost savings over a five-year period, with progressive annual run rate saves from 6.3 to 20.3 million annually. It was decided to focus on 22 improvement goals during 2011, such as:

- Optimizing landscape services by consolidating vendors into a smaller group of top performers, and increasing their scope in return for larger contracts. This strategy increased quality, reduced overall costs and reduced the effects of weather and seasonal variability
- Maximizing leaseholds through aggressive transactions and administration, reducing lease costs by 4.3 percent while providing Beaumont full and accurate information on their overall leasing expenses
- Sustainability initiatives to save over \$2 million per year in energy costs, mostly on the demand side

Though Year 1 cost reductions were forecast to be \$6.3 million, our team actually generated over \$7.9 million in savings over a cost baseline of \$130 million. Other first-year project results include:

- Expense budget performance that exceeded (actual expenses below target budget) expectations
- Key Performance Indicator scores of 4.75 for Capital Management, and 4.50 for Customer Satisfaction (1 – 5 scale)
- High modality clinical equipment "uptime" results of 99.75%
- Outstanding Joint Commissions accreditation survey Environment of Care results
- Above-target scores in seven of nine categories in a 2011 Client Satisfaction Survey
- Zero work days of lost time incidents, compared to almost 300 in 2010
- Staff retention rate of that exceeded 95%

In recognition of our expertise and the our ability to deliver value, Beaumont officials have since asked Jones Lang LaSalle at Beaumont Health System to manage an additional \$35 million of its annual purchased service "spend".

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