



Cost Knowledge vs. Cost Transparency

A Journey Towards Cost Management

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Agenda Slide

Kaiser Permanente Overview

Evolution of Cost Transparency

A Deeper Look at IT Operations

Cost Transparency vs. Cost Knowledge

Key Learnings

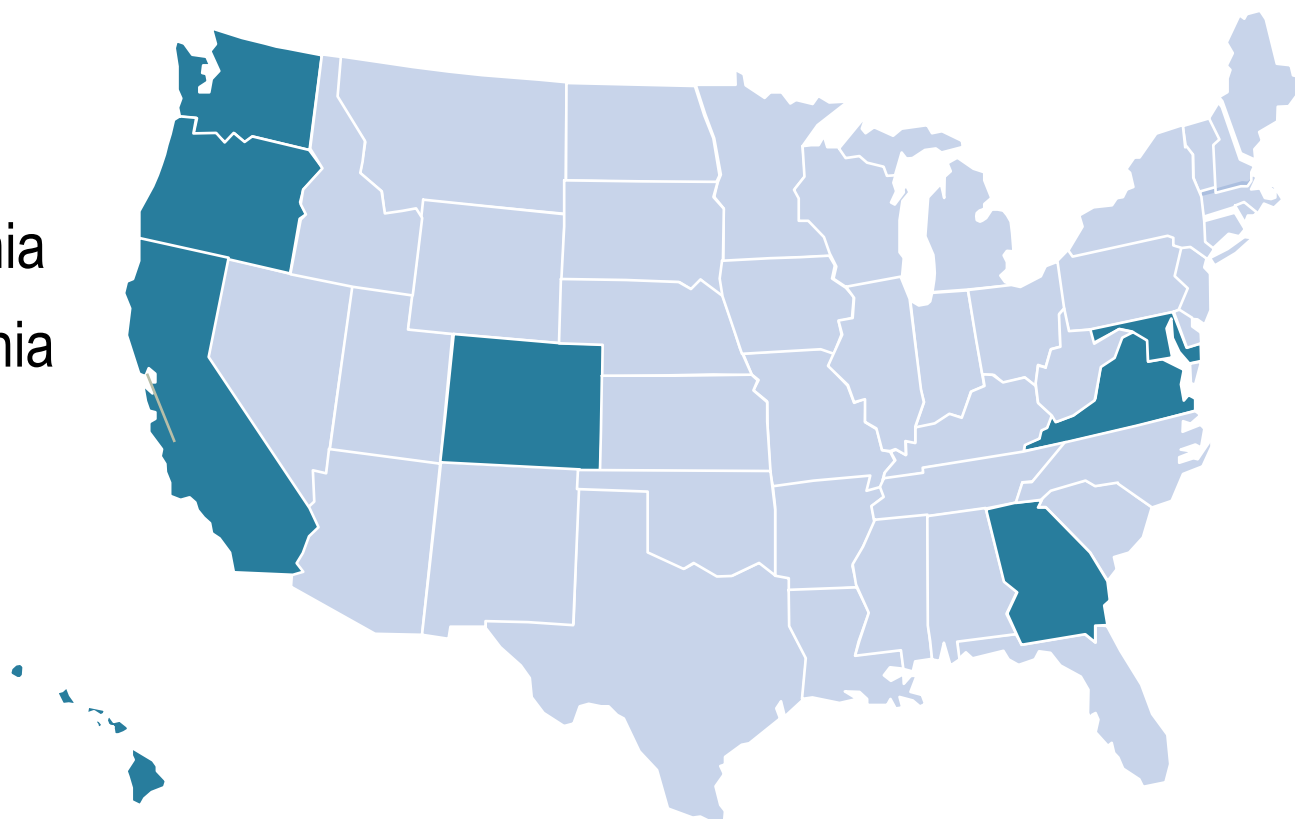
Who is Kaiser Permanente?

- The nation's **LARGEST** nonprofit health plan
- More than **9 million** members
- Nearly **17,000** physicians
- **180,000** employees
- Serving **8 states** and the District of Columbia
- **37** hospitals
- **600+** medical offices
- **60 million+** square feet



Our Footprint

- Northwest
- Northern California
- Southern California
- Hawaii
- Colorado
- Georgia
- Mid Atlantic



Evolution of Cost Transparency

Growth in Technology Consumption

2004 →

2013 →

2016 →

Health Plan

8.2 million members

\$28 billion revenue

Limited electronic claims

9.1 million members

\$53 billion revenue

5 million electronic claims

10.5 million members

\$66 billion revenue

140 million electronic claims

Access

391 hospitals & MOBs

Limited phone encounters

No secure message encounters

646 hospitals & MOBs

88 million video & phone

15 million secure messages

700 hospitals & MOBs

101 million video & phone

28 million secure message

EMR

0.8 million electronic records

400 terabytes of storage

41 million electronic records

10,667 terabytes of storage

53 million electronic records

23,978 terabytes of storage

Population Care

Limited patient registries

No "smart" clinical devices

10+ disease/specialty registries

5,533 "smart" clinical devices

100+ disease/specialty registries

11,607 "smart" clinical devices

Pharmacy

No electronic prescriptions

No online prescriptions refills

70 million electronic prescriptions

15 million online refills

81 million electronic prescriptions

20 million online refills

Lab & Imaging

No online test results

Limited local film archives

35 million online test results

8 petabytes digital image archive

50 million online test results

10 petabytes digital image archive

Self Service

No visits to KP.org/mobile

No mobile apps installed

132 million visits to KP.org/mobile

500,000 mobile apps installed

200+ million visits to KP.org/mobile

4 million mobile apps installed

IT costs too much

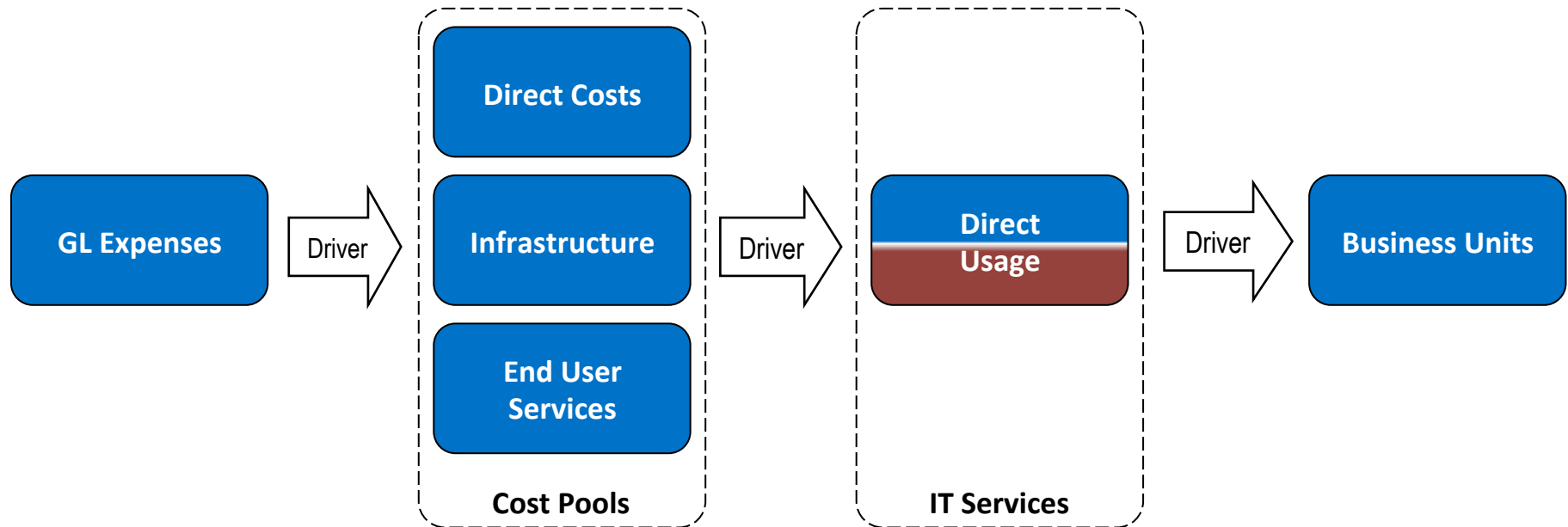
What are the levers

What value do I get for the cost to control cost

IT grows faster than
business operations

I want to pay only for what I use

IT Chargeback Methodology



Current Bill of IT – Room for Improvement

Region	Sep - 2010			
	Budget (B)	Actual (A)	Fav/ (Unfav)	Pct
Statement Component Level 1				
A-Project	\$ 12,500	\$ 12,000	\$ 500	4%
B-Application	\$ 27,400	\$ 27,100	\$ 300	1%
C-EUS	\$ 15,300	\$ 15,100	\$ 200	1%
D-Business Services	\$ 4,400	\$ 5,800	\$ (1,400)	-32%
E-M&S	\$ 6,200	\$ 4,800	\$ 1,400	23%
F-G&A	\$ 9,400	\$ 6,500	\$ 2,900	31%
G-Unassigned	\$ 5,700	\$ 2,900	\$ 2,800	49%
I-Labor Balancing	\$ 3,400	\$ 4,800	\$ (1,400)	-41%
J-Budget Balancing	\$ (110)	\$ -	\$ (110)	100%
Total:	\$ 84,190	\$ 79,000	\$ 5,190	6%

Service
76%

Overhead
24%

*Sample Dollars

The Service Costing Evolution



Pre-ABC



ABC 1.0/2.0



Service Catalog

Progress

- Billing codes for services
- Improved data quality
- Operational cost management

- Customer facing
- Simplified hierarchy
- Provides actionable structure to ABC data

Remaining Issues

- Cost center-based accounting
- No service view
- Black box

- Poor data quality
- No operational ownership
- Too much detail, data overload
- Requires deep expertise
- Actions difficult to align with savings
- Black box

- Inflexible cost model
- Identifying service owners
- Black box

Justification

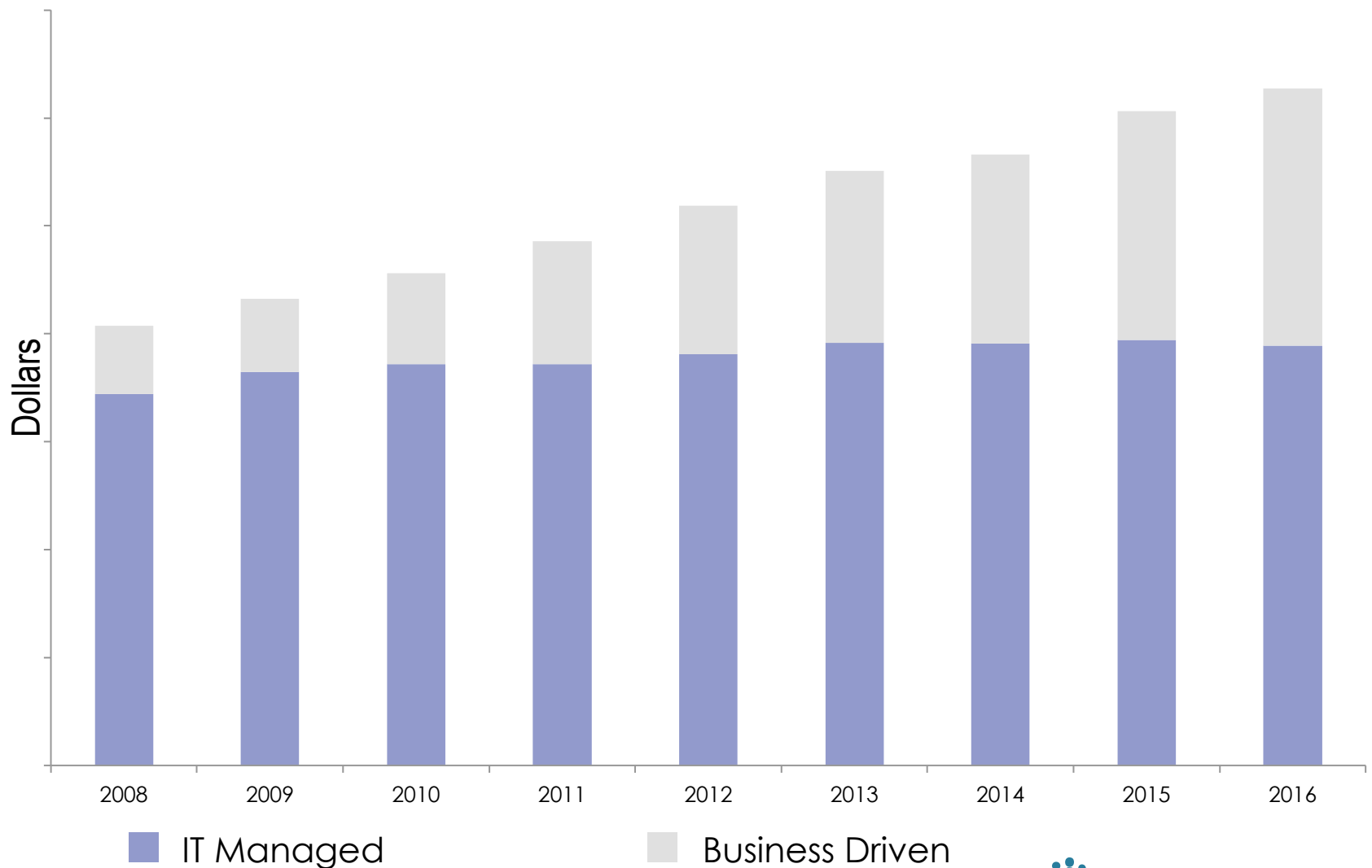
Limited insights

No service accountability

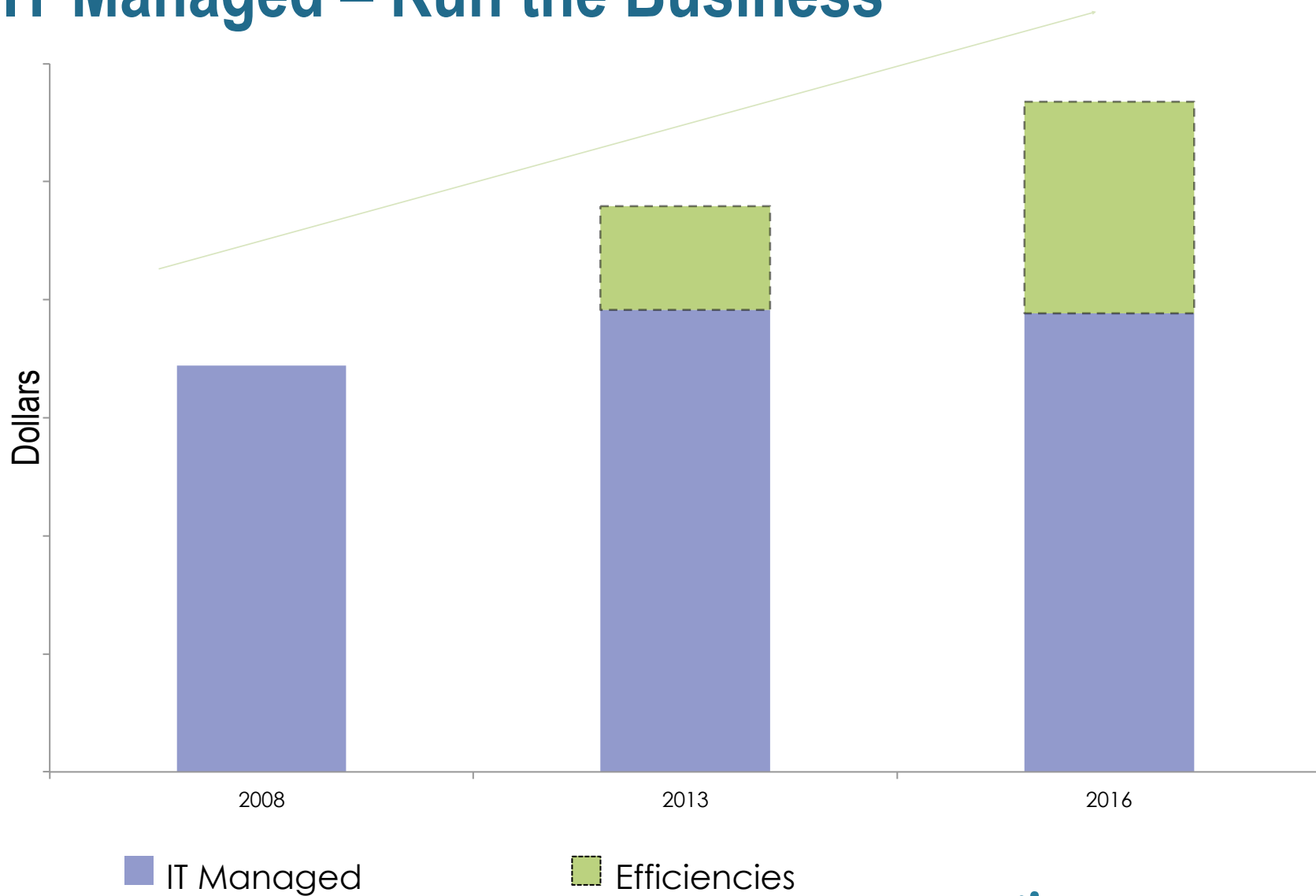
Adversarial

A Deeper Look at IT Operations

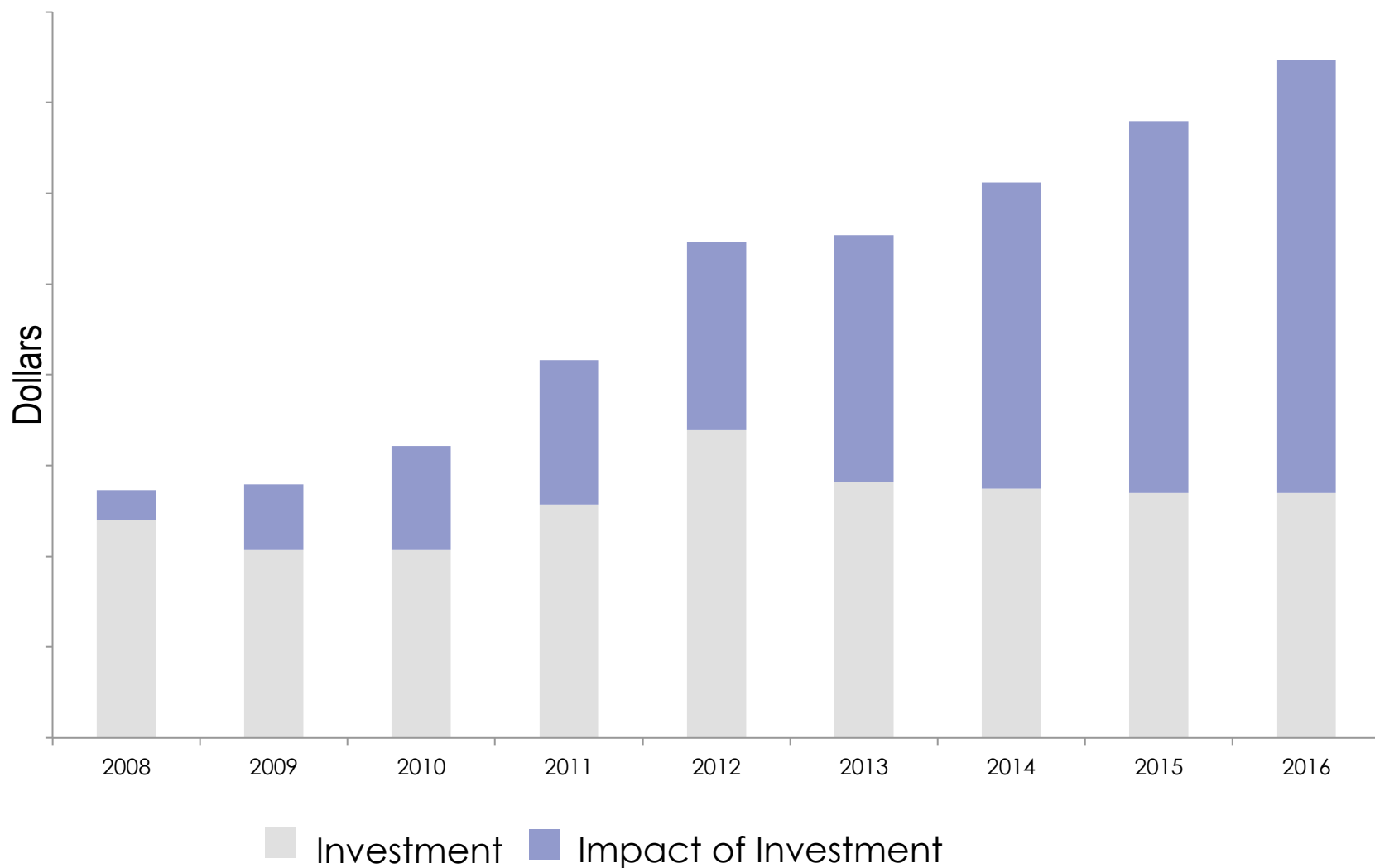
IT Managed and Business Driven



IT Managed – Run the Business



Business Driven – Change the Business



Cost Transparency vs. Cost Knowledge

The Service Costing Evolution



Pre-ABC



ABC 1.0/2.0



Service Catalog



Future State Apptio

Progress

- Billing codes for services
- Improved data quality
- Operational cost management

- Customer facing
- Simplified hierarchy
- Provides actionable structure to ABC data

- Flexible modeling
- Industry standards
- Easy to add new services

Remaining Issues

- Cost center-based accounting
- No service view
- Black box

- Poor data quality
- No operational ownership
- Too much detail, data overload
- Requires deep expertise
- Actions difficult to align with savings
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- Inflexible cost model
- Identifying service owners
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- Establish supply-demand relationships
- Align cost with consumption

Customer Statement Changes

Current State View

Service Name	Actual
A-Project	\$ 431
B-Application	660
C-EUS	362
D-Business Services	224
E-M&S	120
F-G&A	137
G-Unassigned	71
I-Labor Balancing	96
J-Budget Balancing	-
Total:	\$ 2,100

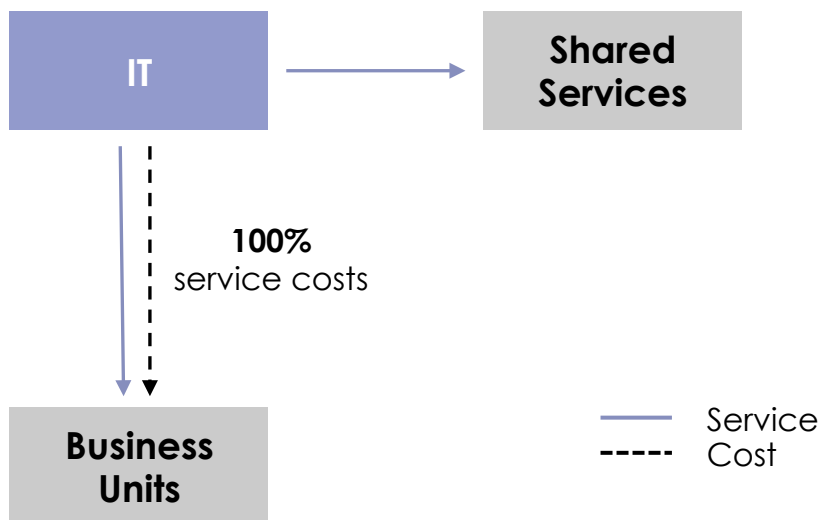
Future State View

Service Name	Actual	Budget	Fav/ (Unfav)
Application Mgmt	\$ 1,539	\$ 1,447	\$ (92)
Connectivity	149	178	29
Workplace Productivity	161	191	29
Enterprise Hosting	132	205	73
Telecommunications	77	74	(3)
Content & Collaboration	37	7	(29)
Info Security Technical	4	10	6
Overhead	2	3	1
Total	\$ 2,100	\$ 2,115	\$ 15

*Sample Dollars

Aligning IT Costs with Business Demands

Business Unit Charged



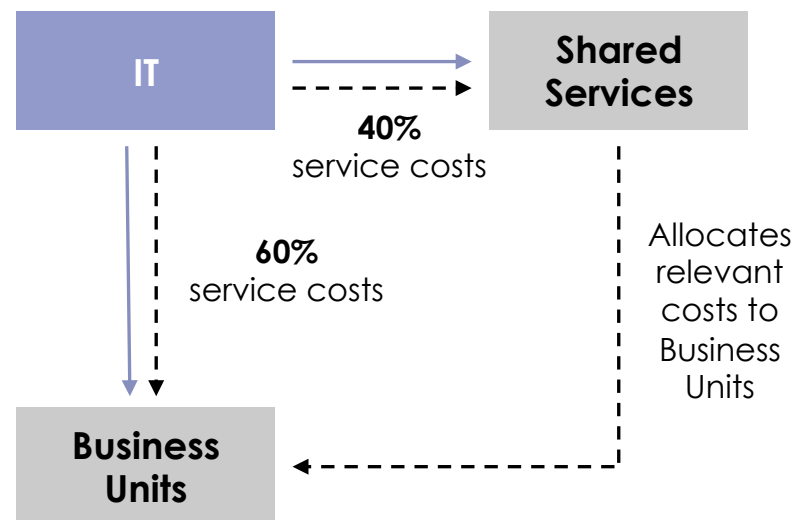
Benefits

- Low level of effort

Challenges

- Consumption does not align with charges
- PO/SS have limited visibility into IT cost and limited accountability to manage IT consumption
- No visibility into total cost of service for service provider or service consumer

Internal Consumer Charged



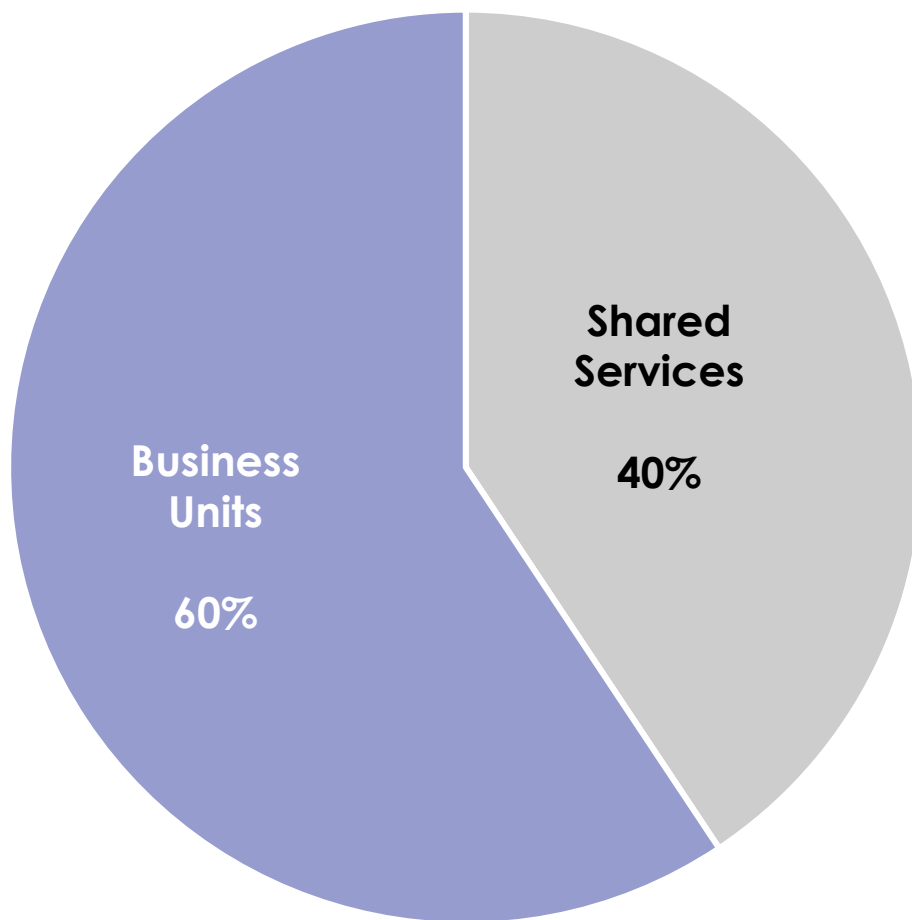
Benefits

- Aligns consumption with charges
- Visibility into full cost of PO/SS programs
- Places accountability with PO/SS, Regions and IT to jointly manage the complete cost of service

Challenges

- Additional effort to incorporate IT usage into PO/SS regional chargeback

Understanding the Initial IT Consumer



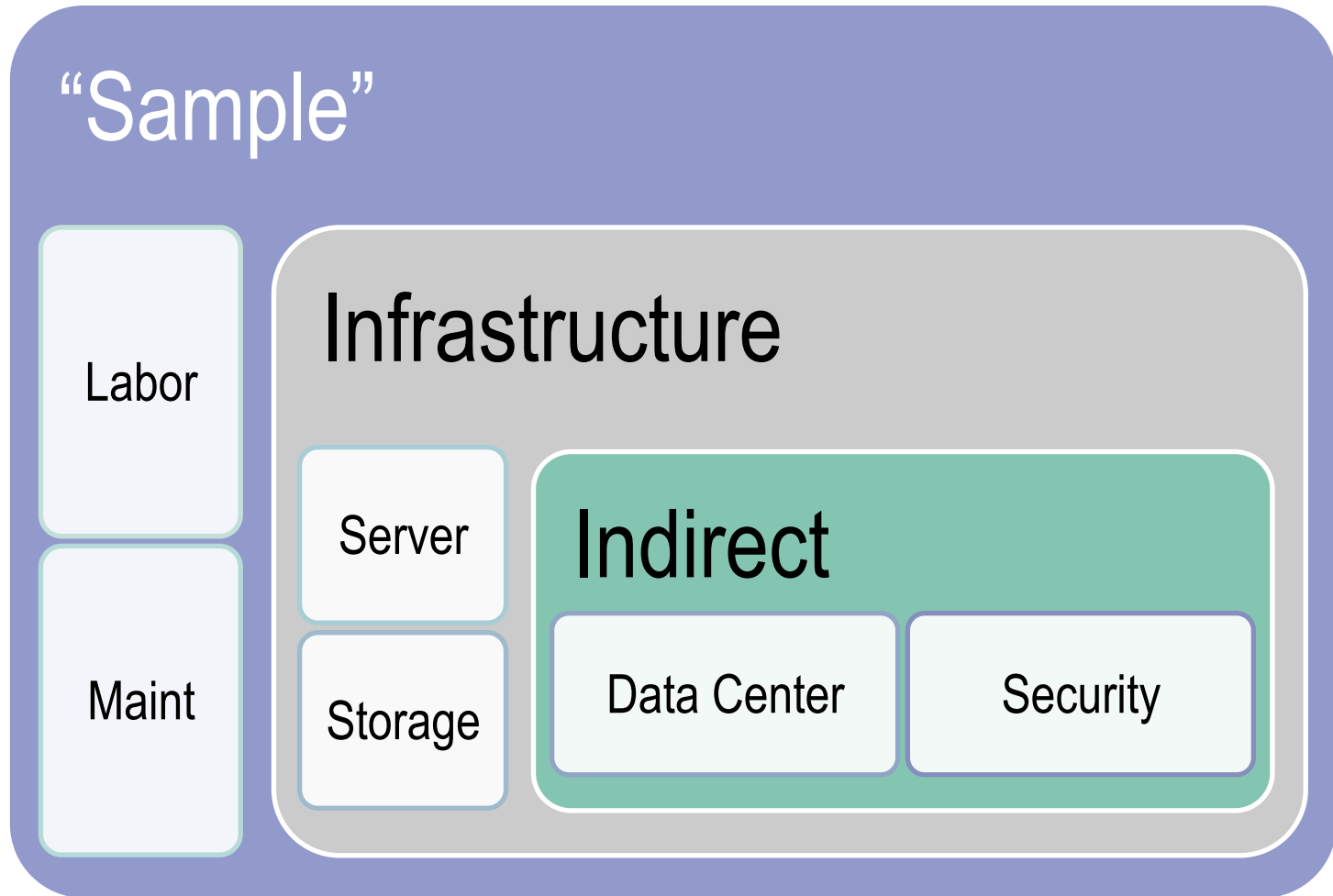
Shared Services

- Finance
- Human Resources
- Facilities
- Risk Management

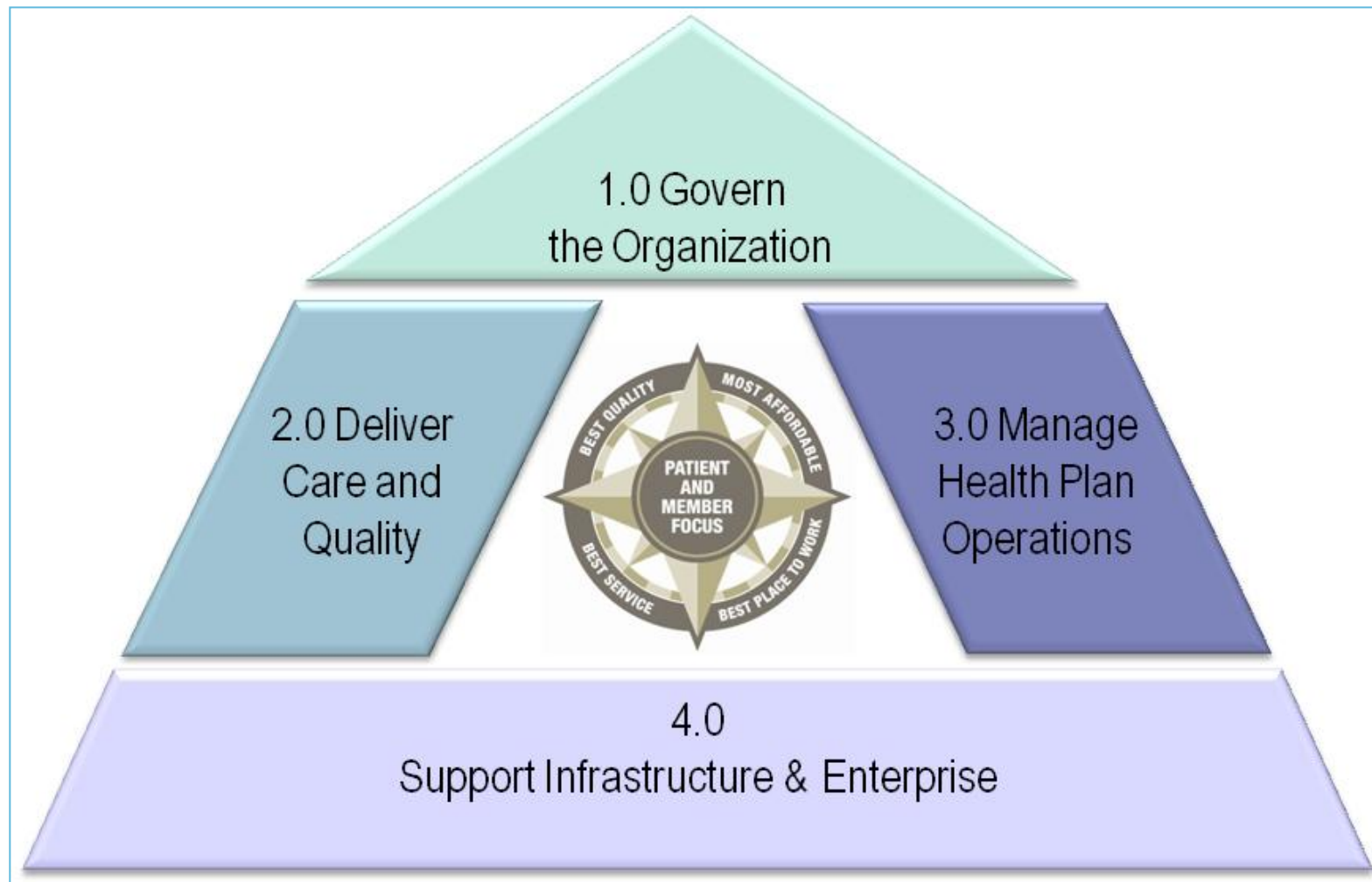
Business Units

- Northern California
- Southern California
 - Colorado
 - Georgia
 - Hawaii
- Mid Atlantic
- Northwest

Total Cost of Ownership



Enterprise Process Value Chain



Key Learnings

Summary

- IT cannot manage service cost on our own
- Shift the focus from cost justification
- Understand how IT services function
 - Internal efficiencies
 - Business partner understanding impact of decisions