



LEAN SIX SIGMA AND SHERLOCK BENCHMARKS

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A few weeks ago, I had the pleasure of speaking before a large group of Lean Six Sigma professionals associated with health plans. Lean Six Sigma practitioners are leaders of continuous improvement within their organizations. They are focused on processes and look for the best practices that allow an organization to reduce costs in an operation. I was a keynote speaker and hosted two workshops.

Presentations like these are two-way streets. The following summarizes what we learned from the Lean Six Sigma practitioners and what we shared.

1. Of the eighteen participating plans, all had access to the Sherlock Benchmarks. Half had participated in 2013, and another quarter licensed the current edition. The remaining plans participated or licensed recent years' editions. This is not surprising in that you "manage what you measure."
2. Remarkably, many of the participants were unaware of their ability to access the Sherlock Benchmarks. This apparently led to unnecessary efforts of Lean Six Sigma practitioners since they had to recreate many of the metrics necessary to complete their work. In addition to cost information, numerous metrics of quality and productivity are available.

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HEALTH PLANS EXPECT PREMIUM INCREASE ACCELERATION: 9.6% IN 2014, OR 6.8% AFTER BUYDOWNS

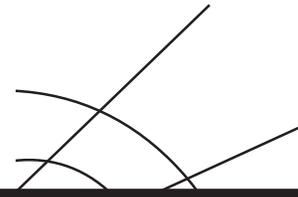
According to Sherlock Company's Nineteenth Annual Health Plan Pricing Survey, health plans are expecting premium rate increases in 2014 of 9.6%, a 2.2 percentage point increase from the 2013 expectation of 7.4%. After benefit buydowns, premium increases are expected to average 6.8% as compared with 5.1% expected last year.

These results reflect the projections of health plans serving approximately 58 million commercial members. Because we sought expectations on trends for group, insured members, and that this year's results reflected the effects of health care reform, we believe that participants in this year's study reported expectations that heavily weight their expectations for their middle market segment.

Sherlock Company's survey, conducted in September of 2013, included the results of 67 plans or 20.3% of health plans offering commercial products nationwide.

Medical trend is expected to be 8.8% in 2013, compared with 7.8% expected in 2012. Because of the effect of buydowns, the health benefit ratio is expected to decrease by 0.6 percentage points. Results varied by region.

Additional information concerning the Nineteenth Annual Health Plan Pricing Survey is available from Sherlock Company. ♣



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Close communication between the finance area, which is often where the Sherlock Benchmarks reside, and the Lean Six Sigma practitioners can be helpful to both. We endeavored to facilitate communication between the attendees and their finance areas. *If you wish to know who the contact person is in your organization that has the benchmarks, please contact us.*

3. There are several definitions of benchmarking currently in use by continuous improvement practitioners. They vary in specificity and emphasis. Collectively, though, they imply four concrete benchmarking steps.

- a. Understand your own “organization’s internal processes.”
- b. Identify “organizations considered to be best-in-class.”
- c. Prioritize “potential targets for improvement.”
- d. “Adapt outstanding practices” from these best-in-class organizations.

Sherlock Company benchmarks are crucial in steps b and c. They identify best-in-class in a way that eliminates distortions due to product mix from comparisons. Moreover, they help you prioritize targets for improvement: since the shortest distance between your plan and best-of-class are the most important differences, the identification *implies* prioritization. The concept is similar to a Pareto chart.

4. Emulating best-in-class *organizations* is superior to emulating selected *processes* considered best-in-class. Sometimes organizations that are not best-in-class appear to have superior processes – these can be blind alleys in the enterprise-wide context of the organizations that adopt them. Remember the fable of the blind men and the elephant.

5. The criteria to select best-in-class organizations may include such corporate priorities as customer satisfaction, quality or efficiency. These criteria parallel the classic project management triangles and the tradeoffs between objectives of fast, good and cheap. In the current environment, efficiency is of particular interest.

6. Identifying best-in-class and prioritizing targets for improvement can be done through an analysis of processes or an analysis of functions. Analyzing processes is far more complex, less quantifiable and difficult to develop sufficient numbers to be statistically informative. To some degree, analyzing costs by process can be imitated using a cost allocation methodology.

7. The algebra of PMPM costs is remarkably powerful at isolating potential causes of variance such as staffing ratios, compensation levels, productivity and unusual work demands on your organization.

Are you a Lean Six Sigma Professional? For no charge, we’ll be happy to email the slides to you and tell you who within your organization has the Sherlock Benchmarks. ♠