



## Driving Improvement to your Bottom Line: Untapped Opportunities to Begin Tackling Now

Given the current and anticipated reimbursement and cost pressures facing healthcare providers today, an organization's ability to manage costs and margin remains an increasingly important strategic imperative. Every year, the American College of Healthcare Executives (ACHE) surveys hundreds of hospital CEOs, asking them to rank a number of issues affecting their hospitals in order of how pressing they are. Not surprisingly, financial challenges has ranked No. 1 on the list for several years running.<sup>1</sup> Today, few organizations are immune to this issue. Every organization is faced with the need to continually drive improvements to the bottom line through a myriad of efforts that improve cost position and/or generate additional revenue.

Improving margin performance is not a one-time event or project, but a continuous journey. For decades, most health systems have routinely optimized labor productivity, supply costs and back office functions. While necessary, these traditional, incremental levers have proven to not be transformative enough to achieve and sustain sufficient improvements to the bottom line. One-off, top-down efforts often yield short-term gains, but, over time, performance challenges creep back in. Meaningful and sustainable margin improvement requires fundamental redesign of clinical, operational and revenue cycle processes, and the creation of a high-performance culture. Regardless of where you are in the journey to improved margin performance, there are actions that you can take now to realize meaningful improvements to the bottom line while building your organization's ongoing margin management capabilities.

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Even health systems with historically strong operating margins are challenged to counteract the financial forces currently at play.

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Common areas of untapped opportunity include:

### **1. Physician Enterprise Optimization.**

Today's physician enterprises wield greater impact on healthcare delivery and performance than ever before. Health systems confronting shrinking reimbursement and heightened market demands for better quality, service and value can no longer absorb the negative financial impact experienced by many physician entities. Every physician entity can improve both cost and revenue performance; common opportunity areas to explore first include access and capacity, productivity and efficiency, clinic operations, contracted services and revenue cycle performance, among others.

### **2. Advanced Practice Provider (APP) Utilization.**

Many health systems have made huge investments in recruiting, hiring and training APPs – in a mid-size health system, it is not uncommon to see investments of as much as \$20-50 million, with hundreds of APP FTEs spread across nearly all care settings. Yet, this sizeable clinical enterprise is rarely managed as a material business unit. APPs should be positioned as professional providers with appropriate resources and support, as well as the commensurate expectations of other provider colleagues – measurable productivity, quality and patient experience.

### **3. Product Standardization and Utilization.**

While most healthcare providers have undergone traditional supply chain improvements, there is often significant untapped opportunity in the “next level” of product standardization and utilization. To realize this untapped opportunity, clinicians should be thoughtfully engaged in product standardization efforts, including physician preference item clean up, to reduce “opened but unused” and overused supplies and identify lower priced yet acceptable replacements for costly supplies, implants and tests.

### **4. Pharmacy Cost Management.**

Pharmacy represents one of the hospital's largest cost centers, with drug costs continually on the rise and staff demands increasing to enable the organization to meet expanding quality and regulatory requirements. While pharmacy supply chain has traditionally been addressed by most health systems, substantial additional opportunity can be realized by exploring pharmacy operations consolidation (e.g., central fill), unified formulary management and use of evidence-based, clinical decision support technology to manage utilization and direct to most appropriate prescribing.

### **5. Care Process Standardization.**

Clinical care and the decisions made by physicians drive a significant portion of healthcare costs. Meaningful, sustainable improvement to provider cost structures over time will not be achieved without efforts to standardize care processes, decrease unnecessary variation of clinical practice and reduce “off-quality” events. Tackling the costs driven by clinical practice can be a daunting undertaking; we recommend starting with targeted, uncontentious areas of focus to begin developing your organization's underlying capabilities, and advance to more significant opportunities over time. Condition-specific improvements in areas with documented, agreed-upon leading practices and protocols are typically a good starting point.

## 6. Charge Capture and Clinical Documentation Improvements.

Optimizing charge capture provides a two-part benefit to your organization. First, it ensures maximum net revenue capture for commercial contracts (percent of charge payments, stop/loss considerations, etc.). Second, it drives accuracy in cost accounting, which is tied to CDM volume capture. Annual charge capture and reconciliation process reviews should be conducted to ensure compliant and optimal revenue recognition while also enabling a full understanding of your true cost of care. Additionally, the full maturation of an inpatient clinical documentation improvement (CDI) program as well as the spread of CDI into the outpatient setting will drive accurate coding and optimal reimbursement.

## 7. Hospital-Based Case Management Optimization.

Often overlooked, the hospital-based case management (CM) organization should be a key driver of clinical quality, financial performance and patient experience. Shared focus and alignment of effort between the CM organization and the CFO, CMO and CNO can lead to significantly improved performance on a critical array of capabilities, from quality of care to clinical variation management to revenue cycle results. A unified governance structure, integration of case and utilization management responsibilities, and empowerment of a Physician Advisor firmly anchored within the organization's physician leadership structure are all key requirements that should be considered to maximize patient reimbursement. Additionally, key case management roles and processes, including discharge planning and interdisciplinary rounding processes, should be defined and deployed to decrease LOS, reduce unnecessary admissions and preventable readmissions, and reduce the costs resulting from "off-quality" events, avoidable complications and unnecessary resource utilization.

## 8. Third-Party Revenue Cycle Vendor Management Review.

There are valid reasons to structure targeted outsourcing arrangements across all functional areas of the revenue cycle to drive value. However, many of these arrangements have been in place for years, and most organizations do not have a single point of contact for revenue cycle vendor management. Consider establishing a comprehensive and consolidated vendor management function to ensure maximum value is being realized, systemically enabling a process to review performance against leading practice, service level agreements, rate structure for incentive alignment and competitive positioning, and support structure to identify and resolve barriers to performance.

## 9. Automation Tied to Predictive Analytics.

Healthcare continues to be riddled with a variety of process steps tied to insurance and/or compliance considerations, which result in a myriad of if/then statements for many daily functions across the revenue cycle. Many of these require manual documentation and/or electronic manipulation to complete daily job requirements. Identify routine processes and consider how technology can be utilized to automate frequent manual tasks. Doing so will improve cost to collect by allowing your staff's efforts to be optimized and focused on exceptions-based work, while improving auditability, consistency and control over error-prone activities.

In parallel with these action items, there are foundational organizational competencies that should be in place to enhance adoption and sustainability of your improvements. These include:

## ORGANIZATIONAL COMPETENCIES TO SUPPORT SUSTAINABILITY OF IMPROVEMENTS

Top-down leadership commitment and alignment around a shared vision and definition of success for margin improvement efforts to coalesce the organization around the goals and need for change.

Organizational commitment to continuous improvement and the supporting change management required to build a culture of accountability and high performance.

Intentional partnership with and engagement of physicians as leaders of the clinical enterprise with the skills, management capabilities and decisional authority to drive performance.

Active involvement of front-line managers and staff in the identification of opportunities and development of solutions to enhance buy-in, adoption and sustainability of improvements.

Identification of clear performance targets, managers and staff who are empowered with actionable data, and a disciplined approach to measure and monitor progress.

A well-structured and disciplined approach to performance improvement, including clear accountabilities and goals and dedication of resources to help manage the various initiatives.

An approach tailored to the organization's capacity for change, including thoughtful prioritization and staging of initiatives, appropriate deployment of organizational resources, and recognition when organizational resources are not sufficient.

In our experience, most healthcare provider organizations have the opportunity to improve margins by 10-20% through a broad, thoughtful approach encompassing operational expense management, clinical cost management, revenue cycle optimization, and growth and revenue optimization. With any transformation effort of significant scale, we recommend a combined focus on targeted improvement initiatives along with development of underlying organizational capabilities. While the actions we have highlighted above are not meant to represent the totality of a comprehensive performance transformation plan, they should serve as a reference for ongoing discussion and dialogue within your respective leadership teams to ensure you are consistently driving towards and maintaining performance excellence.

## Sources

<sup>1</sup>ACHE Press Release, Survey: Healthcare Finance, Governmental Mandates, Personnel Shortages Cited by CEOs as Top Issues Confronting Hospitals in 2017: <http://www.ache.org/pubs/Releases/2018/top-issues-confronting-hospitals.cfm>.

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