

Top Ways to Manage Non-Labor Expenses to Improve Financial Performance

Hospitals are facing significant financial challenges more than at any time in memory. As a result of the faltering economy, most states are cutting back on Medicaid funding despite the growing number of people enrolled. Additionally, the percent of self-pay patients is at an all time high in many health systems across the country. Despite this, health systems can realize savings in many areas of non-labor expenses to help control costs and continue to provide quality care in their communities.

There are many challenges to effectively managing the breadth and depth of non-labor expenses in health systems. Despite successful initiatives at many organizations over the years, there are always opportunities to further reductions and performance improvement.

Non-labor expenses typically comprise 40-65% of the overall operating expenses for a health system and generally are in the following ranges (see chart below).

KEY AREAS TO EVALUATE FOR SOME POTENTIAL SAVINGS INCLUDE:

Supplies

- Evaluate how many suppliers and products are being used in more routine categories including wound care, kits and trays and other areas
- Review existing pricing and contracts in key product categories including orthopedic implants and spinal hardware to ensure competitiveness and that correct pricing is being charged

Purchased Services

- Review accounts payable/general ledger information to identify where more than one supplier is used in a purchased service category or where there has been significant growth in expense
- Evaluate cross over in services provided internally and by third parties including courier, equipment maintenance, transcription and other areas

Drugs

- Evaluate antibiotic utilization from a cost and safety perspective
- Define the outpatient and retail pharmacy strategy in margin, health plan coverage and other areas
- Review existing disproportionate share percentages and the ability to access 340B pricing for a 25%+ reduction in drug cost.

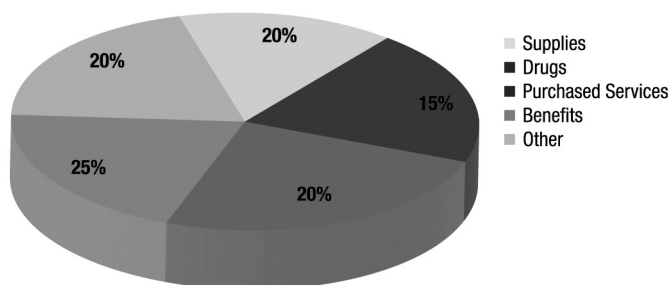
Benefits

- Evaluate the existing pay practices with market and need and their continued use
- Review policies and expenses in overtime, shift differential, leave management and other areas.

Based on our experience, savings opportunities range from 4-8%+ in these categories depending on current



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practices. As hospitals and health systems look to save money in these challenging economic times, evaluating non-labor expenses first can be a key to recovery, and staying financially healthy.

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