

# Cost and Transformation in the Future of Healthcare

By Rick Roycroft

Years of operating in an increasingly complex and competitive environment have left healthcare organizations on a constant quest to reduce costs, increase revenue, and improve quality and care delivery. In a post-pandemic world, economic pressures will only intensify as providers prepare for major shifts to payor mix, continued regulatory uncertainty and increased investments in areas such as technology.

Over the next decade, the rising costs of healthcare delivery will outstrip the gains of typical single-digit cost improvement efforts. That decline poses significant sustainability challenges to organizations when combined with shrinking reimbursement rates, competition from traditional and new market entrants, and waffling consumer loyalty.

Leaders who couple cost savings with a clear, bold vision for what their organization can become are best positioned to succeed.

A holistic approach to cost transformation provides the foundation for organizations to define a new future in healthcare, stay ahead of competition and permanently improve margins to reinvest in areas that further the organization's vision and mission.

## The Real Value of Transformational Cost Strategies

An organization's ability to control costs and harness business models that enable cost containment and margin improvement will be a differentiator across the market. But the goal is not cost transformation alone; it is how leaders use cost advantage to ignite transformation that will matter.

Leaders who couple cost savings with a clear, bold vision for what their organization can become are best positioned to succeed. Whether providers reinvest these savings to improve clinical quality, position themselves as cost leaders or transfer savings to reduce the total cost of care, forward-thinking leaders should be considering what cost transformation could mean for their organization — and taking meaningful steps to make it happen.

As healthcare leaders plot out where they are today and imagine what is possible, the goals and outcomes of transformation will be different for every organization. Yet, for any mission and vision, transformational cost strategies and multiyear margin improvements can be the vehicle to accelerate critical priorities such as:

### Consumer-centric care

To garner patient loyalty, organizations will continue to drive toward more affordability, quality and convenience. More investment is needed to develop and [advance consumer-centric strategies](#) that are aligned to the unique consumer and market needs of an organization. This includes redesigning care models based on the services that are most valued by consumers and physicians, and what the organization wants to be known for. Organizations will have to tackle systematic changes to their care pathways, care teams and sites of care, including alternative settings such as [telehealth, virtual care](#) or [acute care in the home](#).

Finding breakthrough efficiencies and transformational cost reductions in core business functions will be critical to funding a consumer-centric future. [Partnerships and collaboration](#) — including outsourcing and managed services — are important cost levers for organizations to gain efficiencies. These relationships are becoming more commonplace to lower operating costs, streamline critical business operations and allow providers to focus on what matters most: patients and consumers.

### Growth, expansion and partnerships

Whether expanding geographical, specialty or digital footprints, the ability of an organization to serve more people will depend on achieving the near-term and long-term cost savings that fuel growth. Additionally, organizations are under pressure to close health equity gaps, address social determinants of health in meaningful

ways and generally improve access. Financial stability and cash become even more important when considering how to remain competitive in a robust merger and acquisition environment.

Information technology, finance, supply chain and contact centers are areas where leaders should consider tapping into outside expertise in order to accelerate business goals and amass savings.

### Data management and technology optimization

Healthcare is in a [data and technology revolution](#). Organizations must develop strategies and [adopt technologies, automation and analytics](#) to enhance their competitive advantage and drive growth. Whether aspiring to be on the forefront of advancements such as automation, predictive and prescriptive analytics, and machine learning or seeking to shore up their core business systems, investments are needed.

Only through transformational cost strategies can organizations make the technology investments needed to finally solve interoperability and electronic health record (EHR) issues, unite disparate data sources, and build future-forward data-powered organizations.

### Talent and learning

[Virtual workforces](#) are changing an already competitive talent market in healthcare. The ability of an organization to develop talent will be a competitive advantage in retaining and attracting talent. Yet, training and learning are often one of the first line items to be cut or underfunded. With breakthrough, transformational cost savings, organizations can invest in [continuous learning as the foundation](#) for talent development, innovation and performance improvement to become an employer of choice and further create a competitive advantage within talent and quality of care.

## Conventional Approaches Are Necessary, but Not Sufficient

Typical single-digit cost reduction strategies are critical, but even the best initiatives lack staying power. These improvement efforts must be repeated frequently to keep up with market dynamics and to prevent backsliding into old ways of operating, which is typical in times of change or stress. Even then, conventional efforts are not enough to bend the cost curve long term, because they cannot change the underlying trend of rising costs and lower revenue.

To change the economics of the market permanently, organizations will have to re-imagine and redesign

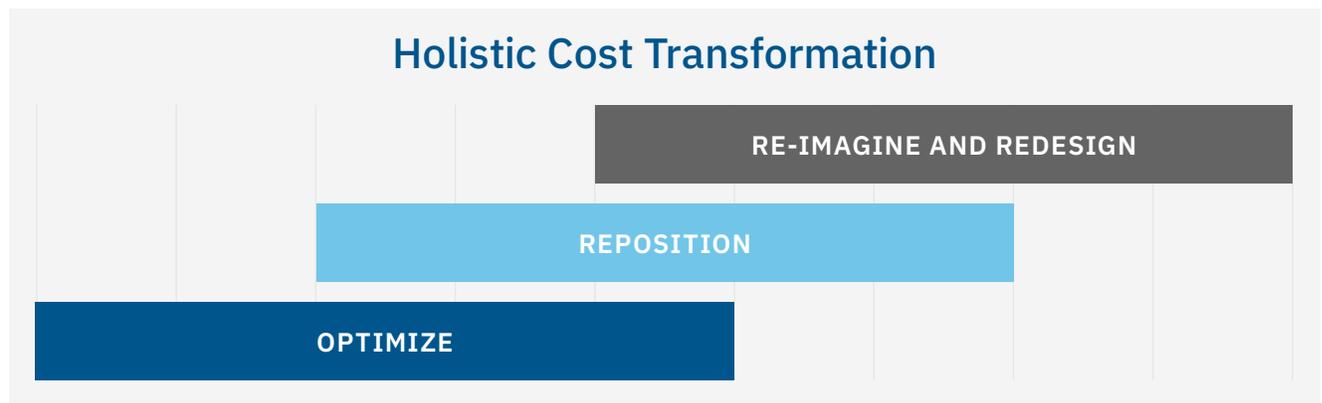
both clinical and operational delivery models for market, consumer and system needs. Ultimately, the task is to reshape the entire footprint of an organization to be nimbler, leaner, consumer-driven and change-ready.

### A Path to Cost Transformation

While transformation will be defined by key actions, milestones, and outcomes or financial returns, the journey is not fully sequential or linear. Instead, optimization, repositioning and redesign are parallel paths.

To be truly transformational and sustainable, organizations must optimize their core while simultaneously repositioning for the future

**Consider the following path to transformation:**



#### OPTIMIZE

In the next 12 months, leaders focus on optimization, assessing all opportunities for better operational and clinical cost performance to improve margins. Typical cost-cutting programs realizing 7% to 10% savings are necessary for nearly every organization and should be actively underway to provide the foundation for fundamental shifts that are needed long term.

#### REPOSITION

In the next 24 months, focus progresses to strengthening and modernizing current operations, repositioning administrative expenses, and reducing care variation to enable success in evolving risk models. Incremental, transformational cost strategies in this phase can yield another 5% to 10% return and position organizations for the next phase on the journey.

#### RE-IMAGINE AND REDESIGN

In the next 48 months, leaders seek fundamental change to system economics by redesigning the care model that aligns to its market and consumer needs. This phase unlocks the remaining 10% to 15% cost savings and repositions an organization's business and cost models to sustain yearly savings that create competitive advantage in the market.

Short-term cost reduction strategies — yielding 3% to 5% savings — are necessary to combat rising expenses. However, long-term transformation remains the call to action for healthcare and will require new economic models that improve the margin and reduce costs. Those that can achieve double-digit savings — 30% or higher — through re-imagined care delivery and transformational cost strategies will shape the future of healthcare.



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## Key Takeaways

Single-digit cost reduction efforts are critical but won't be enough to survive in the future of healthcare. Instead, organizations that implement transformational cost strategies will ultimately define the future of the industry, and will allow organizations to accelerate other differentiating priorities.

### Think differently.

Define what the impact of margin improvements greater than 30% could be for your organization.

### Plan differently.

Chart a course to transformation that uses short-term optimizations in tandem with a re-imagining of how you operate and deliver care.

### Act differently.

Change the economics of the market permanently by redesigning both clinical and operational delivery models for market, consumer and system needs.

