

Optimizing your Healthcare Organization's Core Business Today

By: Ray Anderson and Dan May

Healthcare organizations are in the business of caring for patients, but to continue doing so your healthcare organization must be able to pay its bills. By optimizing core functions of your business, you can pay your bills today, invest in the future and continue to provide care to your community for years to come.

To increase profits, you must increase revenue or cut costs.

Set a Strategy and Stick to It

Approximately \$750 billion is wasted annually¹ within the healthcare industry. This accounts for nearly 30 percent of all healthcare spending. While unnecessary lab tests, supplies and other day-to-day expenses add up, in many cases organizations waste money because they haven't aligned spending and the strategy around people, technology and/

or acquisitions. To do so, create a strategic plan and then make sure that future investments align with this strategy. This ensures that your organization operates efficiently and allocates funding to areas of the business that will drive growth.

Align People and Purpose

60% HEALTHCARE ORGANIZATION COSTS GO TO LABOR²

Healthcare is a high-touch business. Every patient encounter with a healthcare system involves an engagement with one employee and in most cases, multiple employees. Unlike other industries which have been able to automate many aspects of their businesses, healthcare has not. As a result, labor accounts for a significant amount of an organization's costs.

- **Align people to strategic goals.** While organizations have invested significantly in this area, this may not be identified as a key area for growth in their strategic plan. For instance, if increasing outpatient surgery volume is part of the strategic plan, then backfilling

1. www.khn.org/morning-breakout/iom-report/
2. www.healthcarefinancenews.com/news/research-ties-staffing-sustainability

nurses on the inpatient surgery unit may not be necessary. It's also important to think about whether present staffing needs align to your long-term goals and, if they don't, how to create a short-term staffing solution.

- **Benchmark.** To hire top talent, it's critical that your organization's compensation and benefits are competitive. Staffing should also match the marketplace to make sure that staff to patient ratios are also optimized.
- **Align incentives.** Healthcare systems are typically a conglomeration of hospitals, small systems and physician groups. As a result, the organizations often do not operate as a unified entity. This means that incentives vary across the system. Aligning incentives can help to standardize the cost of labor which may reduce costs. This same principle should be applied to nonlabor expenses.

Evaluate Your Portfolio

55% HOSPITALS LOST MONEY ON EACH PATIENT THEY SERVED³

To increase profits, you must increase revenue or cut costs. This is basic math for most businesses, but it's not always applied to healthcare organizations, in part because much of the revenue comes from fixed pricing set by government entities. To do this, look at your strategy and what is driving growth so you can identify revenue generators or opportunities to shed superfluous expenses.

- **Know the profitability of your service lines.** Looking at revenue for each service line area rather than looking at the hospital's overall revenue is critical to understanding an organization's true financial state. This assessment can help to determine if resources are allocated appropriately and if the organization's strategy for growth is generating revenue.
- **Optimize products and service lines.** Don't try to be all things to all people. Instead, look at the services and products that are bringing in

revenue and explore ways to continue growing those areas of your business. Look at the business lines you want to grow, the technologies required to expand these areas and invest there rather than in areas that don't tie back to the strategic plan. It's also important to look at the risk of an investment as you identify new areas for growth.

- **Divest non-core service lines.** For services that aren't generating a profit, assess whether you should stop providing that service. While it is possible to just end a service, carving it out can bring in cash that can be used to support your strategic plan. To make the most out of type of deal, it's critical to conduct a valuation process to estimate the potential price/sales ratio.

More Effectively Manage Costs and Improve Revenue

20 CENTS OF EVERY DOLLAR SPEND ON HEALTHCARE IN OECD COUNTRIES IS WASTED⁴

By identifying ways to reduce costs, improve revenue and optimize technology, healthcare organizations can ensure that they are making the most of the resources they have.

- **Invest in the right tools.** Identify tools and technologies that will allow you to better measure and manage costs (labor, supplies, resource utilization, etc.) and revenue (coding/documentation, charge capture, denials, etc).
- **Streamline and optimize processes.** Analyze and improve processes for all major functions of the organization such as medication management, revenue cycle, supply distribution, care management and patient access.

3. www.usnews.com/news/healthcare-of-tomorrow/articles/2017-03-09/hospitals-are-wasting-billions-of-dollars-worth-of-medical-equipment

4. www.oecd.org/health/tackling-wasteful-spending-on-health-9789264266414-en.htm

- **Optimize labor management.** Focus on key labor management functions including productivity management, position control, daily staffing tools, skill mix, premium pay and compensation, and overtime.

Assess Your Financial Situation

Look at your balance sheet and identify ways to collect money quicker or pay it out more slowly. To get paid faster and capture charges correctly, use revenue cycle tools that help to reduce claim denials and ensure coding is accurate. To pay your expenses more slowly, look at your debt, and how it will mature and when you must pay back.

Key Metrics To Consider

211.8 MEDIAN DAYS OF CASH ON HAND FOR NONPROFIT HOSPITALS⁵

- Revenue per discharge based on payor basis
- Labor cost per adjusted occupied bed
- Days cash on hand
- Operating cash flow
- Capital structure
- Capital expenditures (CapEx): Minimize it or maximize CapEx efficiency
 - How much debt does the organization have?
 - What type/duration is it?
 - When does it mature?

5. www.beckershospitalreview.com/finance/65-financial-benchmarks-forhospital-executives-022117.html



By defining and focusing on a strategic plan for all financial decisions, healthcare organizations can reduce unnecessary expenditures, increase revenue, spend money on what matters and generate a profit. This allows you to optimize your core business and overcome the financial challenges from declining reimbursement, shrinking inpatient admissions and other industry pressures.



huronconsultinggroup.com

©2022 Huron Consulting Group Inc. and affiliates. Huron is a global consultancy and not a CPA firm, and does not provide attest services, audits, or other engagements in accordance with standards established by the AICPA or auditing standards promulgated by the Public Company Accounting Oversight Board ("PCAOB"). Huron is not a law firm; it does not offer, and is not authorized to provide, legal advice or counseling in any jurisdiction. 20-1748