View from the Frontline: Working with Hospitals to Protect Margins

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Amid Uncertainty, Margin Growth Remains Important

A ‘Perfect Storm’ of Chaos Targeting Hospitals’ Financial Viability

- Disappearing commercial subsidy
- Decreasing profits on outpatient/ambulatory
- Increase in pay-for-performance penalties
- Increased patient deductibles and co-pays
- Future of repeal and replace legislation unclear
- Medicaid uncertainty—rates and coverage

Initial resignation gives way to renewed commitment

“We did not have quite the votes to replace this law...[and so] we’re going to be living with Obamacare for the foreseeable future.”

Paul Ryan
March 24th Press Conference

“We are going to keep getting at this thing...We’re not going to just all of a sudden abandon health care and move on to the rest.”

Paul Ryan
March 26th Team Ryan Donor Call
Far More Than Just a Quality Case for Change

Care Variation Reduction Required to Grow Margins Today

Traditional Margin Levers No Longer Sufficient

“...are neither sustainable nor significant enough...”

60% Of hospitals projected to have negative profit margin in 2025 if they do not improve productivity or reduce costs

CFOs’ Estimated Breakdown of Cost Savings Opportunities

Our View: Inpatient Care Management

7 hospital system in the Northeast looking to address inappropriate ICU utilization
- Focused on three specific DRGs with the most significant problems
- Worked with physicians to set criteria for appropriate ICU admission and target length of stay

$10M saved in 10 months
- Decreased excess ICU utilization
- Reduced avoidable ICU days

$10M saved in 12 months
- Reduced avoidable days and unnecessary ED admissions

4 hospital system in the Southeast looking to improve the care management function
- Focused on daily rounding on units tied to GMLOS
- Aligned next-day home health visits and observation unit referrals
Our View from the Frontline

Our View: Workforce Optimization

Improving Efficiency for Financial Sustainability

*Network of hospitals, outpatient service centers, and providers*

To sustain the medical and surgical services necessary for the community, this system needed to significantly improve its financial situation, so it set out to improve efficiency through:

**Productivity**
- Labor productivity targets by cost center
- Eliminate built-in overtime and sunset irrelevant premium pay models

**Management**
- Bi-weekly productivity and open position review
- Management Action Plan if target missed 2 consecutive PP

**Care**
- Changed nursing care model to support top-of-license practice
- Eliminated inefficiencies in inpatient care delivery
- Enhanced care management services

$12M in savings from improved labor productivity
50% reduction in overtime hours
1,000+ reduction in avoidable patient days

Maximizing Scope of Practice for Staff

*Large system with a network of full-service and satellite hospitals*

This system set out to maximize the scope of practice for licensed professionals, while appropriately delegating to unlicensed staff by:

- Aligning skill mix with clinical and professional requirements
- Defining roles and responsibilities
- Establishing consistent training and tools
- Aligning the care delivery model to support efficient use of staff resources
- Standardizing protocols, workflows, and processes

$2.9M identified in target savings from top of license initiatives in nursing
Our View: OR Efficiency

Reducing Procedural Sites and Open Rooms

*Large teaching hospital in the Midwest*

- Experienced a drop in utilization and rates
- Many procedural sites became unprofitable due to additional anesthesia coverage, equipment and supply duplication, and strain on limited staff
- Hospital leadership made the decision to reduce the number of locations where procedures were performed

Cleaning Up Preference Cards

*Large tertiary hospital in the Southeast*

- Focused only on high-volume procedures
- Got rid of waste by having a conversation with surgeons about the preference list, then captured those savings.
- Now, they are setting a course to have a dialogue with physicians about standardizing.

Re-aligning sites and open rooms generated a $6M+ reduction in staffing, supplies, and anesthesia costs

Cleaning up unused items in preference cards led to a $1M+ reduction in just a few months
Our View: Supply Costs

Pharmacy Initiative Team

**Health System 1**

$375K

Potential savings from order set implementation

**Approach**

Implemented a “Pharmacy Initiative Team” focused on the following initiatives:

- Pharmacy organizational structure
- Order set implementation
- Antimicrobial stewardship
- Utilization focused clinical specialist
- Engagement with disease state teams (COPD, pneumonia, diabetes)
- Purchasing and contracting collaboration
- Oncology utilization

**Health System 2**

$3.5M

Savings achieved on spine supplies

**Standardized Formulary Pricing**

**Approach**

- Advisory Board, the system’s supply chain leadership, and physicians collaborated to update the spinal implants formulary and set aggressive maximum contract prices for each category.
- Advisory Board and supply chain leadership worked across separate regions to ensure every requirement was captured.
- Using the online bid platform, suppliers proposed pricing for each formulary category. Only items with pricing at or below set thresholds were placed on contract.
**Is the CMO the new CFO? More CMOs are on the hook to reduce costs.**

Find out why the emerging partnership between CMOs—who are increasingly being held accountable to their organizations’ financial performance—and CFOs is so powerful in achieving significant, measurable cost improvement.

[Read the post](#)

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**With so much uncertainty, how do you build your hospital’s budget?**

Although average margins are up overall, we have seen a trend of hospitals finding it harder to hit annual budgets. With less predictability than ever, hospitals need to take a new approach to budget planning to develop more accurate, yet flexible, projections.

[Read the post](#)
Questions?

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How do you address excess inpatient days when your physicians are not supportive?

Every situation is unique, but generally we have been able to reduce days without physician resistance. We find that if you address the operational factors that are driving up excess days, like discharge coordination and ineffective rounding, physicians are pleased with the impact these changes have on managing their inpatients. This opens doors to asking for their help.

How do I know if I am spending too much on labor expenses?

What areas of contracting are the GPOs strongest at?

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