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## Hospital Sentiment Report: Interview with Peter Krause



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Conducted by GE Capital, the Hospital Sentiment Report is based on a survey of 382 hospital decision makers across Australia, Germany, France, Italy, Japan, Switzerland, Spain and UK. HealthManagement spoke to Peter Krause to gain some insight into the survey and discover how the hospital sector looks at investments.

### Why is this research important?

Hospital managers increasingly face the challenge of having to deliver high quality of care at lower costs, but their cash fund is constrained and stakeholder's expectations keep rising. That creates a challenging dynamic between patients, regulators and healthcare providers and also the manufacturers that are linked to the hospital sector. Our research has a main focus on finance. Without money there is no higher quality of care and hospitals are going to have a very difficult time in meeting patients' expectations. They need to find a way of funding, they need to find a way of financing and the research is looking into how hospitals find financing, how are they planning to invest, how do they think, how they look at this challenge and what they want to focus on.

### Which of the countries surveyed are showing the most confidence, which are showing the least, and what are the reasons for this?

The most optimistic and the most confident country is clearly Switzerland. That is a very solid market, a wealthy country with a lot of money in healthcare. The sector is robust and so far, hospital providers have not been put under pressure. Their DRG system remunerates inpatient hospital services with a flat rate per case structure, which was introduced to control costs. Hospital managers think very optimistically about how they treat patients, but they are also extremely optimistic about their own growth expectations going forward. 74% of the respondents show they are optimistic about their performance expectations for the next 12 months. That is a level of optimism we have not seen in any other market, the trend is very bullish, very optimistic both on the financial outcome as well as their abilities to deliver.

We find the countries outside of Europe less confident, Australia is showing the least confidence with a concern about the ability to deliver patient care with 27% of the public hospitals optimistic about meeting their patients' expectations and the desired outcome. Australia has been hit by a serious conflict in the healthcare system. Having a primarily public healthcare system, their negative policy changes are impacting the hospital institutions that are in difficulty.

Looking at all the countries, Australia and Japan are the least optimistic.

### Overall, why do you think hospitals are becoming more positive about their growth in this economic backdrop?

Hospitals generally had positive experiences. Looking back 5 years to the beginning of the financial crisis in 2008, it appears hospitals have adjusted; they stayed positive in their financial status, they will continue to adjust and improve their operation efficiently. Being able to achieve that under such difficult circumstances gave them confidence to continue on the same path. When we talk about hospital managers, about the quality of care, we talk about the reduced budget that they have to work with. Hospitals are now looking towards outsourcing to become more efficient, optimising the patient flow and optimising equipment by working with an external company is a financially viable solution.

**What is the dynamic between private and public hospitals; is the private sector performing stronger than the public counterparts?**

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Both are important for the healthcare system; they are both following the same path and have the same expectations in some respect. Take the example of operation costs allocation, how will these develop in the next 12 months? 40%- 44% believe there will be an increase, 50 to 60% say there will be a decrease. Consequently they may not invest in new technology if both private and public hospitals think they will experience a drop in investment. The difference between the two sectors is not so significant, but private hospitals are more focused on profitability and they are also more focused on growth. That is not a priority in the public space. With regards to performance, 55% of the private hospitals had a profitable evolution, for the public sector that number was only 16%. In the private sector 34% said they would be breaking even, whereas 66% of the public hospitals said they would be breaking even. Public hospital managers' biggest priority is to reach break-even point in the quality of care. This focus around profitability and growth, which you would expect at a private company, is evident in private hospitals as well, whereas in the public space the focus seems to revolve more around contribution: 'if you contribute to increase the quality of care, we deliver.'

### **Is the trend towards increasing costs a cause for concern for the industry?**

It does not appear so. The industry is pushing towards increasing efficiency even further, analysing where these costs coming from. Which ones does the hospital have eligible control over, which costs need to be worked with, which ones have to be accepted, which costs can be adjusted to increase efficiency?

Cost transparency and the total cost of ownership also become important because they allow hospital managers to better assess how to implement new technology, it enhances informed decision-making. Ten years ago, when the equipment was ten years old it was simply taken out and exchanged for new equipment. Nowadays, the issue is not only to replace old technology, but the hospitals are also taking this opportunity to try to adjust patient flows. Patients cannot be treated without new technology and with new technology new investments are found. We need to look at the total solution and the fluctuation in costs.

### **What areas are hospitals looking to invest in the most and why?**

In the private sector the biggest investment is going towards IT or software, which is second priority for public hospitals. They primarily invest in their operating room equipment; this in turn is ranked second for the private sector.

Third for private hospitals are automated logistics, in the public sector this is general imaging. Hospitals now fully understand that the key for more efficiency is software. In the operating room the key for efficiency is equipment, but when you think about operation in a hospital, you see how complex the process is, getting the patient ready before and after operation, not to mention technology required during the process. Hospital managers will spend more money on equipment to become more efficient.

### **How is the financing model of global hospital sector changing over time?**

In the public sector the budget was coming from the government in the past, hospitals received it and they had to spend it and sometimes they even spent more than they had. It was a very long process, it took 2 to 3 years to draft the budget, to observe a hospital and see how would that work. Private hospitals are more efficient in budgeting; they apply different ways of financing. They are leading the way as they work exactly like a private company, applying all the funding mechanisms that work in a private company and put them into practice in a private hospital. Public hospitals are now heading towards this system. Our research looks at all sorts of funding mechanisms and found that traditional banks provide 37% of financial needs. Leasing comes second with 29%, but ten 10 years ago, leasing was considered a last resource. Some hospital managers had a very traditional mindset, if they did not have it in the budget, they did not make investments. To use different funding mechanisms to run the operation is a big change.

### **Is leasing becoming a more relevant option for hospital executives?**

As contract running times are getting shorter and offer bundle solutions, bundle equipment and bundle financing all in one package, hospitals are paying a unitary charge for 10 years. Typically they get service-level agreements for the service they are provided with, while at the same time they get to exchange high-tech equipment faster, often within 5 years. The improvement is also on a quality level, allowing hospitals to control their cost, to manage their cost, while at the same time to operate higher technology. We actually see that the number of assets that are being deployed is reducing, and that the assets that are being implemented are now being used more intensively.

### **Is this the first time that GE Healthcare has conducted such research on hospital sentiment?**

We have run similar surveys in the United States for CFOs. This research though has a global scope, it is the first time we had such a broad coverage with financial decision makers at the core, Project Directors, CEO's, General Managers, Chief Medical Officers and Hospital Managers.

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