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Strategies to Weather the Recession

The economic recession that began in December 2007 has challenged U.S. hospitals on nearly every level. Revenue has dropped as patients forgo elective procedures and those with high insurance deductibles struggle to pay their portion of the bill. Access to capital has diminished while investment losses have depressed balance sheets and further reduced liquidity. As the amount of charity care hospitals provide has increased along with unemployment rates, state economies in financial jeopardy have cut Medicaid payments for hospital care of low-income patients. Yet many hospital financial leaders are unbowed in the face of this financial turmoil, recognising that the steps they take today to cut costs, maximise revenue, and preserve cash will make them stronger, more efficient institutions poised to respond quickly to tomorrow's economic hardships.

As part of its Healthcare Financial Pulse project, the Healthcare Financial Management Association (HFMA) surveys healthcare financial executives on a quarterly basis to assess how the economic fallout is affecting hospitals and health systems—as well as how providers are responding in the current climate. The most recent survey results were published in July 2009 and were based on263 responses to an email survey conducted in March. Survey findings reveal that hospital finance leaders have adopted a wide array of strategies to keep their institutions financially viable and maintain their ability to serve their patients and communities through the recession. These initiatives can easily be adopted in Europe. Here are several strategies that have already paid dividends.

Keep the Focus on Value

It's not enough for hospitals to reduce their costs, they must also increase their quality— thereby proving their value to patients and payers. Other industries have long accepted and acted upon the mandate to continually demonstrate their value to stay in business. "As the hospital industry shifts to a more retail environment, providers need to learn lessons from other industries as to how they compete for the purchaser's dollar," said one hospital financial leader responding to the HFMA survey. Hospitals are approaching this issue strategically, focusing attention first on processes that are highcost, high-volume, or prone to problems.

Patient throughput, for example, is often inefficient and fraught with problems that adversely affect hospital revenue and patient satisfaction. Overcrowded emergency departments (EDs) can result in patients seeking care elsewhere, treatment delays can lead to errors, and hiccups in admissions and discharges can waste resources. Asking staff to identify where patient throughputs break down and soliciting their advice on how to make processes more efficient allows them to create a better work environment as they enhance revenue for the hospital. Some approaches hospitals have taken to make patient throughput more efficient: Adding observation units to EDs to free up more inpatient beds, designating staff to monitor discharges and admissions, and improving space utilisation.

Renegotiate Supply Chain Design and Costs

Standardising the supply chain is among the quickest and easiest ways to reduce costs and errors. Management teams are doing their homework to secure price data for targeted products, especially for high-cost physician preference items. Finance leaders are also working closely with physicians and nurse leaders to communicate the alternatives, costs, and benefits to the organisation and secure their support.

Competition among physicians may be motivation enough for change. "No physician wants to be the most costly and least productive in their department," says Mark David Iannettoni, Chairman of Cardiovascular Surgery at the University of Iowa Hospitals and Clinics in Iowa City. As an incentive to continue improving supply chain management, a portion of the savings can be allocated to departmental budgets for use in hiring staff or purchasing equipment.

During a recession, supply manufacturers and distributors, worried about cash flow, are often inclined to accept contract terms they would have dismissed in better times. Hospitals should seek to negotiate contracts with longer payment terms and reduced acquisition prices and fast payment discounts to balance the tradeoff between the discount and improved cash flow. Because some suppliers may be curtailing production or even going out of business, hospitals need to negotiate safety stock guarantees and more favorable shortage allocation rules for guaranteed purchase volumes. They should also increase selfmanaged inventories and distribution, and develop a structured, efficient product substitution and expediting process.

Standardising products isn't the only approach to cutting supply chain costs. When one health system's seven joint surgeons realised they were using implants from nearly as many vendors, the surgeons told the vendors they would switch products if they didn't meet a capped price for the implant. All the vendors agreed, and the hospital saved 850,000 dollars the first year.

Be Candid with Employees and Ask for Their Help

Paul F. Levy, *president and CEO of Beth Israel*

Deaconess Medical Center in Boston, shared with 6,000 employees the sobering news that the medical centre would likely suffer an operating loss of 20 million dollars in 2009. In email messages and a town hall style meeting, he asked for their suggestions on cost-cutting measures the institution could take to offset the predicted loss. Levy announced that he would take a 10- percent salary cut and would forgo his bonus, as would senior executives, who agreed to a five percent pay cut. Employees came through with cost-cutting ideas—and overwhelmingly agreed to a salary freeze—resulting in savings of more than 16 million dollars.

Share budget data with employees and be sincere about considering their suggestions when you ask for their participation in cutting costs, advises Levy. And be open to listening to employees enumerate problems, even though it may be uncomfortable. “You can’t improve if you don’t know what’s wrong,” Levy says.

Staff According to Patient Census

To hold down labour costs, hospitals are replacing clinical positions only if volumes justify a new hire and are holding managers accountable for staffing correctly. Lee Memorial Health System in Fort Myers, Florida, controlled its labour expense by getting smarter about matching staff nurses with patient volumes. Instead of laying off staff or instituting hiring freezes—at the risk of jeopardising quality— the hospital started using a more accurate forecasting model for predicting staffing needs. The health system saved more than 11 million dollars in one year by avoiding the use of agency nurses, and staff nurses were more satisfied with the more predictable schedules, which reduced nurse vacancies. The new model has also helped the hospital refine its bed management approach at five acute hospitals, which has led to a 20 percent daily increase in the number of beds filled across the system.

Pursue Innovations in Revenue Management to Preserve Cash

In hard times, hospitals have had to rethink their patient billing practices, knowing that some patients may have lost their jobs and their health insurance. Many hospitals are providing cost estimates to patients before elective procedures so they can negotiate and commit to a payment schedule with the hospital or apply for financial assistance if they don’t have the ability to pay. St. Elizabeth Medical Center in Edgewood, Ky., recovered 375,000 dollars in revenue when its automated preservice financial clearance process found that 3 percent of its self-pay patients had valid health insurance.

Automating charge capture and coding compliance in an ED is another way to add significant revenue to a hospital’s balance sheet. One consultant estimates that ED bills shortchange hospitals by 14 to 260 dollars per patient visit—or 184,545 to 3.2 million dollars for a hospital that has 50,000 ED visits annually.

Establish Close Working Relationships with Physicians

Hospitals are considering ways to integrate physicians into their organisations in order to cope with growing shortages of certain physician specialties, to ensure call coverage by trauma and surgical specialists, and to prepare for outcomes-based and bundled payment. Just under half of HFMA survey respondents says that it is highly or extremely likely that “nearly all hospitals will employ a majority of their physicians” in the next 10 years. In fact, the most important near-term action identified by HFMA survey participants is to develop a business plan for physician integration.

But concerns about what healthcare reform will bring has hospitals holding off on employment contracts with physicians now. Many are emphasising physician alignment strategies that focus on their referring physicians rather than jumping into direct physician employment or ownership of physician practices. They want to be sure to avoid the mistakes of the 1990s, when the last big wave of physician integration efforts resulted in revenue and productivity losses. Employment strategies must carefully consider how physician compensation will be linked to productivity or quality improvements.

Develop Contingency Budget Plans

Given the many uncertainties facing the industry today, healthcare leaders are modelling the impact of different economic and financial scenarios. They use those models to develop budget plans that spell out temporary or permanent expense reductions that will be made if margins/revenues decline to a certain level or if other financial triggers are hit. A common trigger is decline in patient revenue or volume by a specified percentage, typically in the range of 5 percent to 20 percent. Other triggers include a shortfall below operating margin targets, consecutive months of undesirable performance, or failure to meet debt covenants.

Amend Capital Plans

With access to capital markets remaining tight, and credit ratings more important than ever, hospitals are developing financial metrics and modeling to benchmark their organisation against credit rating agency medians. They are also implementing formal processes to determine or reevaluate their organisational risk tolerance and are considering alternative forms of capital financing as market conditions change.

While they wait for credit markets to open up again fully, some hospitals are using internal cash flow to spend on projects, reevaluating whether to continue offering service lines that don't contribute to cash flow, and focusing on top-line revenue opportunities. Hospitals that can prove they have consistent and predictable financial performance and have a history of being accountable for their institutions' financial results will be in the best position to access capital when the credit crunch abates.

Be Resilient

Although this recession has been particularly challenging, hospitals have faced periods of financial adversity before and emerged with renewed strength. Many financial leaders are drawing on those experiences to gain perspective on their current economic difficulties. "Few sectors of the economy have faced and weathered, as much continuous financial tension as the hospital sector, which must regularly adjust to payment and regulatory changes," said Richard L. Clarke, DHA, FHFMA, President and CEO of HFMA. "Hospital financial leaders must, once again, marshal all of their assets to face current realities and use their considerable expertise to provide what is best for their communities."

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