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4 Essential Strategies for Cost Containment in Healthcare

The Definitive Guide to Cost Reduction and Containment for Hospitals and Health Systems

Introduction

Managing costs is a strategic imperative for hospitals and health systems today.

Numerous factors have contributed to volatility in performance for these vital organizations in recent years, including ongoing staffing shortages, economic turbulence, shifts in patient demand, increased competition for core outpatient services, and mounting funding pressures. While these factors have caused fluctuations in margins, volumes, and revenues, hospital and health system expenses have remained consistently high by comparison.

According to a recent **Strata survey**, a majority of healthcare finance leaders (55%) cited margin management as their top concern. When measuring service line performance, 50% stated that they focus decisions on whether the service line is improving margin.

Many healthcare leaders have implemented targeted cost reduction initiatives, but the effect of those initiatives often wane over time or are offset by rising expenses in other areas. The survey found that about two in five healthcare finance leaders identified tracking margin initiatives as the most challenging aspect of margin management. To reverse these trends, healthcare leaders need to understand what effective cost containment looks like and move beyond one-off cost-cutting initiatives. This requires healthcare leaders to develop and implement **comprehensive cost containment efforts that become an integral and ongoing part of organizational processes**. The goals should be to continuously analyze and identify opportunities to reduce costs and prevent or minimize further cost growth organizationwide.

This e-book describes four key strategies to help hospital and health system executives make cost containment an intrinsic part of everyday operations:

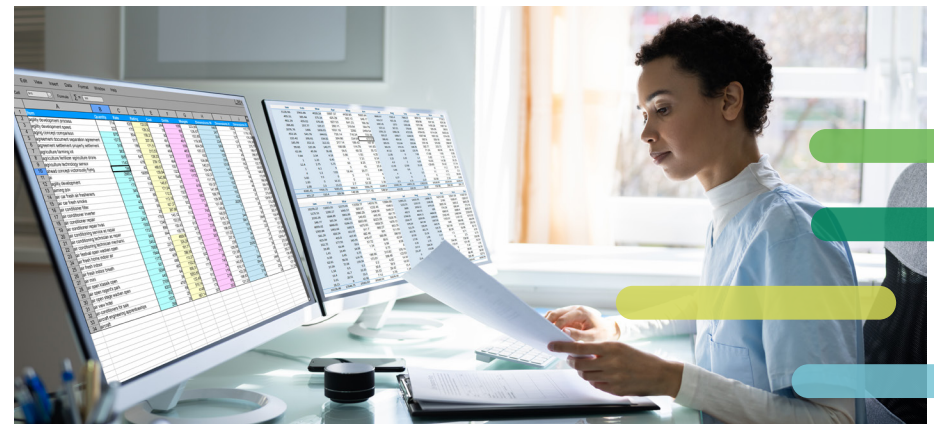> Improve understanding of organizational costs

> Build engagement throughout the organization

> Link labor costs and productivity

> Facilitate data-driven decision-making

Strategy No. 1: Improve Understanding of Organizational Costs

To effectively address rising costs, healthcare leaders must first understand the drivers behind those costs and what is causing them to increase. This requires evaluating costs at all levels across an organization, including supplies, labor, facility needs, maintenance, and clinical performance.

The supply chain, for example, often manages what amounts to as much as 40% of an organization's costs. As such, supply chain processes should be routinely reviewed to ensure the hospital or health system is getting optimal pricing and value from vendors.
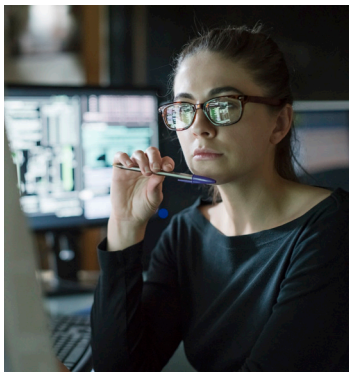
Organizations should have the capabilities in-house to track cost and utilization data on purchased products and services through to individual patient encounters. Supply chain data should be analyzed to gauge the hospital's performance against both internal and external benchmarks. Utilization data also can be used to project future demand and guide purchasing plans.

Monitoring and analyzing supply chain data help leaders ensure purchased products and services are being used as intended, identify variations across departments or facilities, and pinpoint other areas for potential savings.

Examples of supply chain initiatives include:

- Centralize supply chain operations
- Standardize product purchases
- Minimize costly physician preference items
- Negotiate volume-based discounts from vendors
- Comparison shop for alternative high-quality products or vendors
- Pursue bundled payment and pricing opportunities

Strategy No. 2: Build Engagement Throughout the Organization

Narrow or temporary cost reduction initiatives are not sufficient to address pervasive, high hospital expenses. Healthcare leaders need to build a culture of cost containment that permeates the entire organization and supports achievement of performance improvement goals on an ongoing basis.

Maintaining buy-in and input from stakeholders across different departments, facilities, and service lines can help leaders better understand cost drivers and identify realistic, sustainable cost containment targets. Having the support of physicians and other frontline clinical and support staff is essential in developing actionable cost containment strategies, as they likely will be the ones executing many of those strategies day-to-day.

Healthcare leaders should maintain regular communication with physicians and other clinical leaders to foster a collaborative approach. Providing accurate and actionable quality and cost data also can help build physician engagement. In turn, those physicians and clinicians can serve as ambassadors to help build broader buy-in and engagement among their peers.

Tips for helping to build engagement organizationwide include:

Routinely seek input from clinical, departmental, and other operational leaders	Maintain transparency
Establish realistic targets in partnership with those leaders	Define accountability
Minimize administrative burdens associated with cost containment intiatives	Track and report progress
Clearly communicate cost containment goals	Recognize and reward success

Strategy No. 3: Link Labor Costs and Productivity

Labor costs can account for as much as 60% of a hospital's total costs and are the largest expense area for most departments. Tying labor costs to physician and staff productivity can help hospital leaders identify inefficiencies. It also can help them determine how best to allocate labor resources to improve workflows, minimize downtime, and ensure appropriate staffing levels to meet patient demands.

As with other cost containment initiatives, hospital and health system leaders should collaborate with clinical and departmental leaders to evaluate labor costs and establish reasonable productivity targets. Maintaining high standards for quality of care is paramount. Reducing labor costs should not be done at the expense of patient care.

By analyzing productivity in conjunction with fluctuations in patient volumes, hospital leaders can help identify optimal staffing levels, including how to flex staffing as volumes change.

Strategies for addressing high labor costs include:

- Identify areas experiencing frequent staff shortages or overages
- Analyze patient volume trends in those areas to develop more effective staffing plans
- Cross-train personnel to help fill gaps in high-demand areas
- Monitor and take steps to minimize overtime in variable staffing departments
- Build employee engagement and incentives to improve staff retention and reduce turnover
- Provide managers the data and tools they need to flex appropriately to volume

Strategy No. 4: Facilitate Data–Driven Decision–Making

Hospital leaders, departmental managers, clinicians, and others across the organization working to implement cost reduction and containment initiatives need the right tools to be successful. Analyzing and monitoring expenses, cost and utilization trends, patient volumes, productivity, and other performance metrics relative to targets require modern cost accounting and clinical comparison solutions.

Organizations need access to accurate cost data and analytics at all stages of implementing cost containment initiatives, including through each of the three previously discussed strategies:
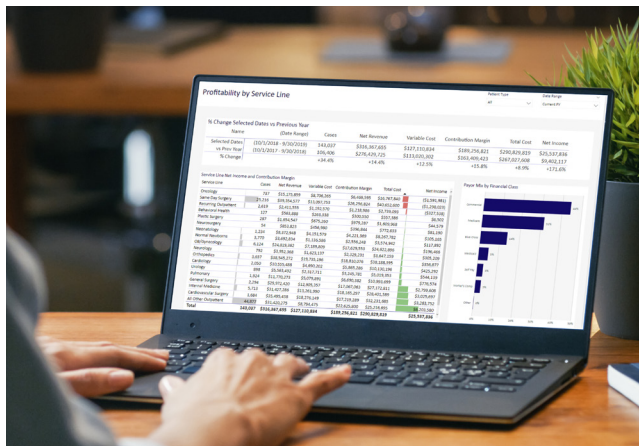
Strategy No. 1: Improve understanding of organizational costs

At the outset, the right data and analytics solution can help healthcare leaders identify cost trends, drill down to understand the underlying factors driving those trends, and target opportunities for improvement. In addition to robust cost accounting data and analytics, an integrated platform links to an organization's strategic financial planning software to provide important contextual information that can further inform and drive sustainable cost restructuring efforts.

Strategy No. 2: Build engagement throughout the organization

To build engagement, healthcare leaders first must provide stakeholders with reliable evidence that change is, in fact, needed. Clear communication and data transparency are also critical in defining goals and ensuring accountability. Sophisticated comparative analytics, cost accounting, and clinical analytics solutions offer a trusted source of information to foster support for cost containment initiatives and to track progress for ongoing engagement.

Strategy No. 3: Link labor costs and productivity

Tying labor costs to physician, staff, or departmental productivity requires powerful analytics capabilities. Managers need the ability to assess operations and staffing levels within their departments to identify and respond to trends quickly. Integrated solutions can also efficiently collect, analyze, and track costs tied to specific quality indicators and benchmark those results to show how the organization is performing relative to peer hospitals or to its own historical performance.

Conclusion

The need for hospitals and health systems to implement continuous, organizationwide cost containment and reduction initiatives has never been greater. With the right infrastructure and systems in place, healthcare leaders can integrate their clinical and financial management and transform their organizational approach to managing costs.

Awareness about the importance of comprehensive cost reduction and containment has grown in recent years, yet many hospitals and health systems lack effective tools to successfully tackle complex cost structures at their organizations.

Strata surveys of finance professionals have found more than one in four respondents do not use data to drive cost improvement initiatives, suggesting their decision support solutions are not able to pinpoint areas for improvement. More than three-quarters (82%) said they did not have advanced decision support solutions that provide a high degree of confidence in performance tracking and management.

Strata offers healthcare leaders access to robust, accurate, and timely cost and budgeting data and analytics on a single, integrated platform. Our decision support solutions alert healthcare leaders to unfavorable trends, providing a comprehensive and detailed view across cost, quality, and service line measures. This granular detail helps inform decision-making to drive improved financial, clinical, and operational performance.
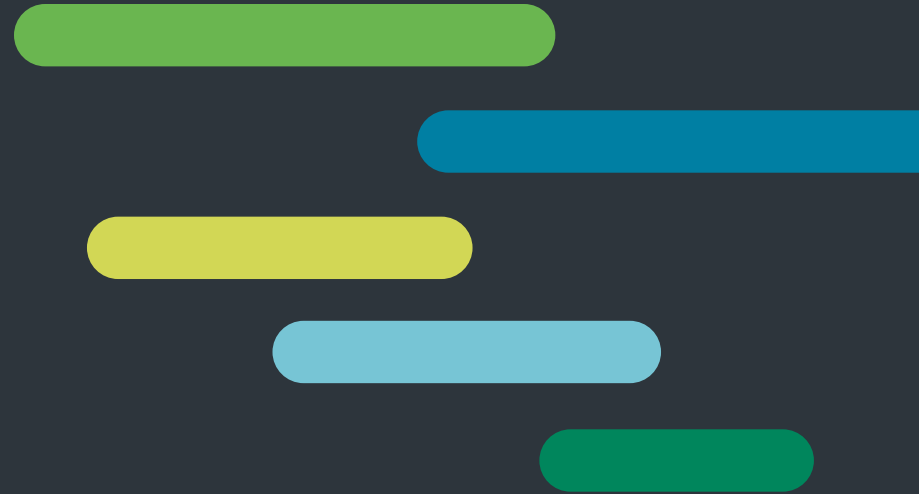
About Strata

Strata Decision Technology, LLC provides an innovative, cloud-based platform for software, and data and service solutions to help healthcare organizations acquire insights, accelerate decisions, and enhance performance in support of their missions. More than 2,300 organizations rely on Strata's StrataJazz® and Axiom® solutions for market-leading service and enterprise performance management software, data, and intelligence solutions. To learn more about Strata and why the company has been named the market leader for Business Decision Support for more than 15 consecutive years, please go to **www.stratadecision.com**.

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