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HOSPITAL COST IMPROVEMENT STRATEGY SPECIAL REPORT

INCLUDED: AN EXCLUSIVE ANNUAL
BUDGET PREPARATION GUIDE CREATED
BY VIE HEALTHCARE CONSULTING®

By Lisa T. Miller, MHA & Richard Dormer, MHA



VIE HEALTHCARE®
CONSULTING

MARGIN IMPROVEMENT EXPERTS



VIE HEALTHCARE CONSULTING®
RESEARCH REPORT

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INTRODUCTION

Most hospitals are currently in the process of preparing their annual budgets for the upcoming year.

At VIE Healthcare Consulting® we receive numerous enquiries from healthcare organizations who reach out to us for guidance in implementing cost reduction strategies that will enable them to improve their operating margins while maintaining the quality of their patient care.

Our team at VIE Healthcare Consulting® has compiled this cost research document to assist your hospital in its budgetary preparation. At the end of this report we have provided an exclusive guide outlining seven key ways in which VIE Healthcare Consulting® can assist your hospital with its margin improvement strategy.

EXECUTIVE SUMMARY

“As a general principle...about one third (of hospitals) have margins that are above zero, probably about one-third of hospitals are pretty close to zero... and about one-third are running in the red.”

GARY J. YOUNG, DIRECTOR OF THE CENTER FOR HEALTH POLICY AND HEALTHCARE RESEARCH
AT NORTHEASTERN UNIVERSITY¹

Healthcare costs are on the rise. The latest Health Trends Spending Brief from the Organization for Economic Co-operation and Development (OECD) notes that the US spend per capita on healthcare costs has exceeded \$10,000 in 2017.

Healthcare consumption now represents 17.2% of the country’s GDP² but too often, that spend does not equate to improved patient care. Health outcomes are worse in comparison to other countries and hospital closures are predicted to increase this year, particularly in rural locations.

But the financial pressures aren’t limited to smaller or more isolated hospitals. The Harvard Business Review notes a ‘deterioration’ in the financial performance in the sector, with some of the biggest hospitals reporting significant losses as costs soar and revenues remain flat³.

This report explores the four essential steps to financial transformation and margin improvement and provides an annual budget preparation guide exclusive to VIE Healthcare Consulting®.

1 <https://www.nbcnews.com/business/business-news/hospitals-made-21b-wall-street-last-year-are-patients-seeing-n845176>

2 <http://www.oecd.org/health/health-systems/Health-Spending-Latest-Trends-Brief.pdf>

3 <https://hbr.org/2017/10/how-u-s-hospitals-and-health-systems-can-reverse-their-sliding-financial-performance>



THE FOUR STEPS TO FINANCIAL TRANSFORMATION

One of the biggest obstacles to delivering both better patient care and increasing your operating margin is the absence of a cost improvement culture. That can be rectified with the following four steps for a successful cost improvement strategy. In my experience, they are critical to create a high performing healthcare organization and deliver essential cost savings.



LEADERSHIP



PRIORITIZATION



PROJECT
MANAGEMENT



EXECUTION

LEADERSHIP

60% of healthcare leaders are concerned about their ability to create a culture of accountability and transparency in their organizations⁴. Successful leadership in a change-oriented industry such as healthcare demands CEO accountability with full Board visibility and support, coupled with implementation, measurement and addressing a cultural shift towards transparency. But it also goes beyond that.

Cost improvement must be the responsibility of a sponsor – a VP of Cost Strategy for example - who reports directly to the CEO. This role must be fully accountable for liaising with the CFO, COO, Chief Medical Officer, Chief Nursing Officer, supply chain and managing the disparate components required to successfully implement a cost improvement plan.

⁴ <http://www.ihl.org/communities/blogs/what-s-keeping-quality-leaders-up-at-night->

PRIORITIZATION

Prioritization requires your organization to differentiate between what is important and what's urgent before deciding on execution and process.

Your decision making process must be aligned with the strategic priorities of your hospital.

Hospital leaders face three fundamental problems in this context:

- Only 52% believe that their day-to-day activities are aligned with their organization's strategic priorities⁵.
- Less than 1 in 10 healthcare executives are satisfied with how they spend their time. Conflicting priorities, unplanned distractions and a lack of vital resources means that high value, meaningful tasks are often neglected⁶.
- *68% of organizations have no process in place to help them prioritize their projects⁷. Combined with the lack of strategic alignment these are the major causes of project failure.*

⁵ <https://www.mckinsey.com/business-functions/organization/our-insights/making-time-management-the-organizations-priority>

⁶ <https://hbr.org/2017/10/a-survey-of-how-1000-ceos-spend-their-day-reveals-what-makes-leaders-successful>

⁷ <https://bia.ca/how-to-develop-a-systematic-approach-to-prioritizing-all-projects/>



PROJECT MANAGEMENT

The delivery of a successful cost improvement plan requires a customized, robust project management system to monitor each phase, take a deep dive and gather as much data as possible for future projects.

To ensure ongoing buy-in from stakeholders:

- Evaluate, document and communicate all financial and performance improvements at each stage of the project.
- Reflect on what works, what doesn't - and readjust your processes accordingly.

An effective project management plan not only enables your organization to anticipate and minimize risk but creates a culture of cost saving.

I recommend a web-based project management system which should be used for the sole purpose of executing your cost improvement plan.

1. The framework to create a project management system has already been done for you. You will probably need some customization specific to your organization; however, a pre-built project management system enables you to begin immediately.
2. Visibility and accessibility - one of the immediate benefits of web-based project management system is the visibility and accessibility, which means cost savings projects can be seen and worked on at any time.
3. Establish cost savings goals with a specific timeline and then track and measure performance and final results.
4. See what projects are stalled and need support from leadership for completion.
5. Review your progress and reference the improvements for internal success stories and your own internal and ongoing knowledge base.

With these things in mind, we recommend using an externally built system which should be used for the sole purpose of executing your cost improvement plan. This, in turn, allows your organization to focus its time and energy on patient care, patient outcomes, and patient satisfaction.





EXECUTION

Execution is the most important phase of achieving your cost saving potential but in my experience it is often where healthcare organizations fail. My recommendations cover a three step process:

- **Agree** how the core strategy will be implemented. Specify the category, the opportunity gap or the need. For example, your environmental services system may be purchasing janitorial supplies from seven different companies when, for efficiency, you only require one or two suppliers. Carrying out a detailed analysis of everything associated with environmental services will enable you to understand how to standardize processes and identify potential cost savings.
 - As an example, one of our clients utilized several janitorial companies but didn't know exactly how many were across the health system.
 - We reviewed their accounts payable spend report, talked with the internal stakeholders and were able to determine a total of seven janitorial companies.
 - It was agreed by the client that they would utilize a primary janitorial company for 80% of their needs and a secondary for the remaining 20%.



- **The final results:**
 - *Annual cost savings of \$238,512 (economy).*
 - *A reduction in vendors from 7 to 2 (efficiency).*
 - *The organization was better able to manage the service providers which meant a higher quality of delivery of services (effectiveness).*
- **Identify a team consisting of** a project lead and supporting project sponsors for each individual cost saving opportunity to monitor and deliver the project. You'll also need to have a solid definition of what data is needed to better understand and address the issue. The data can be gathered from various places, for example from accounts payable, contracting, your internal information systems and even vendors.
- **Gain** stakeholder buy-in. Dealing with change can simultaneously be one of the biggest challenges and opportunities in healthcare. A collaborative implementation strategy requires a well-executed presentation supported with accurate data. In these situations, I recommend implementing the lower hanging fruit first. If your proposal suggests savings of \$1m are achievable, demonstrate how to achieve that reduction over two years. Provide clear milestones and deadlines for each phase of implementation and allocate clear lines of responsibility.

CONCLUSION

As healthcare costs continue to rise, implementing an effective cost improvement strategy must be a priority for your hospital to deliver high quality patient care and remain financially viable. Included in the next section of this report is our exclusive Annual Budget Preparation Guide. This guide outlines the seven areas your hospital needs to review as it finalizes budgets for the upcoming financial year. In addition, we offer three bonus thoughts for your consideration. Each step plays a vital role in creating a high performance healthcare organization and delivering crucial cost savings for the next 12 months and beyond.

7 things every hospital needs to consider during their annual budget preparation

ONE

In order to realize margin improvements, hospitals must both understand and analyze their High Cost and High Utilization Data for the previous 12 months. The following steps offer a tactical way of achieving this.

High costs and utilization data enable the best opportunities for cost improvement, as well as initiating the real conversations that need to happen around hospital processes and behaviors for progress to begin.

These four ways enable you to identify the best cost savings opportunities in your organization.

Review and analyze the last 12 months of your hospital's top 25 highest cost line-item services.

Review and analyze the last 12 months of your hospital's top 25 most utilized line-item services.

Review and analyze the last 12 months of your hospital's top 50 highest cost supply items.

Review and analyze the last 12 months of your hospital's top 50 highest utilized supply items.

TWO

Examine last year's historical data to identify where successes - and misses - were realized and how those misses can be the focus for improvement in this year's budget.

THREE

Provide Operational and Department Leaders with Line Item spend data for all of their purchases within the last 12 months.

VIE Healthcare Consulting® has been providing detailed spend data to our clients since 1999. We provide your organization with a comprehensive, detailed report of our findings, together with our recommendations for improvements and a specific action plan.

We help hospitals improve their operating margins by creating a **comprehensive customized cost strategy** and achieving real bottom line results.

FOUR

Provide Operational and Departmental Leaders with access to competitive benchmarking and tools for areas that offer cost improvement.

Provide Operational and Department Leaders with access to competitive benchmarking and tools for areas that offer cost improvement.

VIE Healthcare Consulting® has the largest data base for benchmarking in the marketplace. We offer benchmarking service spend pricing to clients to ensure they are paying the best in class pricing for every service line item.

Take advantage of your untapped in-house expertise with our EXCITE! Program

Leverage the talent and skills in your organization by tapping into your staff's creativity and knowledge to deliver effective cost-savings initiatives.

The EXCITE! program from VIE Healthcare Consulting® trains hospital employees in essential techniques to reduce costs.

FIVE Ensure Department Leaders engage department staff in innovative ideas for cost improvement. In our experience, most hospitals already have their very own expense reduction analysts, without being aware of it. Your existing employees are uniquely qualified to identify cost-savings opportunities in their working environments.

SIX Ensure Department Leaders create their budget commitments and stretch goals that they and their department can be incentivized for achieving.

SEVEN Allow Department and Operational Leaders the opportunity to gain access from performance based companies that can assist them in achieving their budget goals.

Bonus Section: 3 Thoughts for Consideration

1. In establishing budget targets for non-labor cost reduction, it useful to list the target cost savings dollar amount and then assign a confidence level to achieving that amount (eg. 90%, 50%). For example, if an initiative had a \$500,000 benefit and you are confident you could realize 75% of that, it can be noted as \$350,000.
2. It is a simple but often overlooked fact that in making a cost savings commitment your hospital should take note of the point during that year when the cost savings will be realized. While it is a simple task to add up all the targets of each initiative, the timing during the year is critical. For example, if an organization is working on an initiative to save \$300,000 per year in the OR, but the negotiations and contract execution will not be realized until July 1, then the cost saving is only for 50% of the annual savings in that year. As the financial year continues, the realized savings in that year fall.
3. It is understandable for your hospital to celebrate a big win which, in terms of the budget, could satisfy a significant part of the cost savings commitment. However, in order for you to benefit – and for the cost savings contribution to be realized - there must be some form of follow-up to ensure the new pricing is in the system and effective immediately from the date of contract execution. This should be applied across all departments. For example, Finance must ensure they can accept negotiated discounts and that vendors are promptly providing any rebate checks that are due under the terms of your agreement.

What Our Clients Say About VIE Healthcare Consulting®:



Lisa and her team at VIE Healthcare Consulting® gave our hospital a significant boost to our bottom line at a time when we really needed it. Even with a GPO in place, they were able to help our hospital reduce our supply costs and contracted costs in so many areas. A good example of this was when they negotiated an exclusive agreement with a top orthopedic knee and hip vendor to be our sole source vendor. It was a huge boost to our bottom line and helped us standardize our joint program at the hospital. I just can't say enough good things about VIE and the savings they can find for your organization.

Chief Financial Officer



Lisa and the VIE Healthcare Consulting® team did an outstanding job on an expense reduction initiative at our hospital. The VIE Healthcare Consulting® team worked closely with our staff to identify and implement significant cost saving opportunities. Based upon their thoroughness, persistence, professionalism and results delivered I highly recommend the services provided by Lisa and the VIE Healthcare Consulting® organization.

VP Supply Chain



I have worked with VIE Healthcare Consulting® on more than one project and found Lisa and her team to be subject matter experts. They have an affinity for details and picks up things that many have missed in prior reviews. They have access to a variety of experts within the hospital environment.

Vice President Perioperative Services



Just as a sports team would not walk onto a field without a meticulous playbook and without a coach to lead them, nor should an organization enter into an outsourced service provider arrangement without an expert coach.

VIE Healthcare Consulting® is an experienced strategic outsourcing advisor to hundreds of hospitals. We have assisted hospitals and organizations with outsourcing decisions and benchmarking strategies since 1999. We are committed to your priorities.

ABOUT US

Since 1999, VIE Healthcare Consulting® has supported hundreds of hospitals and healthcare organizations in reducing their non-labor costs. Lisa Miller and the VIE Healthcare Consulting® team are passionate about working with hospitals to extract unnecessary healthcare costs and improve operating margins and patient care using proven and innovative margin improvement strategies.

VIE Healthcare Consulting® has unique cost reduction services that thoroughly analyze operational expenses and quickly identify costs that can be extracted from your organization. These include overutilization, standardization, pricing opportunities and process improvements.

- The VIE Healthcare Consulting® team are specialists in hospital non-labor expense reduction. We are independent advisors to hospitals in achieving best pricing in the marketplace, to optimize their resources and reduce clinical variation.
- **Our specialization includes:**
Cost Analysis, Physician Preference Items, Purchased Services, IT/Telecommunications and Operating Room Performance Improvement Services.
- Our approach is data driven, customized, collaborative and sustainable for every client.
- Cost savings realized by our clients range between 17% and 39%.

WHY VIE HEALTHCARE CONSULTING® DOES THIS WORK

When you partner with VIE Healthcare Consulting®, you will strengthen the financial health of your organization. You'll strengthen the financial health of your organization when we increase your operating margin and profitability by securing the most value from what you spend on your technology, equipment, testing, drugs, medical devices, supplies and services. Your hospital can then utilize these savings to provide exceptional care for your patients without ever needing to reduce labor costs. We guarantee you will pay the best prices, gain the most favorable agreement terms and optimize your utilization – all while increasing the quality of care.

By achieving this, VIE Healthcare Consulting® also enables you to fully commit to YOUR mission. As a financially healthy organization, YOU can devote more time, energy and resources to YOUR patients and empower YOUR employees to focus on what they do best: providing excellent patient care with better outcomes.



Lisa T. Miller, founder and CEO of VIE Healthcare Consulting®, is a proven healthcare strategist and a recognized leader in hospital purchased services, healthcare supply chain management and performance improvement. Having generated over \$600 million in non-labor cost savings and revenue improvements for healthcare clients, Lisa's approach is comprehensive and enterprise-wide, specializing in clinical expense reviews and direct impact of supply chain reimbursement.

LISA T. MILLER, MHA

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Richard Dormer, COO, VIE Healthcare Consulting®, is a healthcare margin improvement expert with extensive knowledge of hospital expenses across an organization. Rich's subspecialty is hospital purchased services, where he has saved clients over \$106 million during his tenure at VIE Healthcare Consulting®. As an expert in finance analytics for healthcare organizations and a skilled negotiator, Rich applies an analytical approach to drive down contract costs without sacrificing services or quality. A skilled learned during his nine years in Wall Street, Rich is known to skillfully negotiate difficult areas of physician preference items and clinical preference services.



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HOW TO WORK WITH US

VIE Healthcare Consulting[®] delivers dramatic margin improvement strategies and value driven solutions for breakthrough results. There are several ways your hospital or healthcare organization can work with us:

Margin Improvement Strategies

Engage our in-house team of analysts to identify opportunities for non-labor savings, develop customized cost-saving reports and deliver the best pricing available anywhere on the market today. Our team of experts offer proven strategies to guide our clients into a profitable partnership with their outsourced service provider.

Consulting and Advisement

VIE Healthcare Consulting[®] is passionate about empowering our clients to transform the patient experience and deliver smarter healthcare. Our team of experts conduct comprehensive assessments to deliver rapid results aligned with your core business goals for increased profit.

Invoice ROI™

Consult with our margin improvement specialists to review your purchased services spend. Our unique Invoice ROI™ delivers guaranteed margin improvement and identifies cost saving opportunities in real-time.

Data Analytics

As leaders in the field of data analytics in healthcare, we work on the principle of 'what can be measured can be improved'. Retain our expert data analysts to deliver actionable insights to drive your success.

Call or email today for
a complimentary consultation:

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