Controlling costs for sustainable operations: Health system leaders' pain points + successes

Operating expenses at healthcare organizations have changed dramatically since the COVID-19 pandemic, as costs have increased for supplies, labor, vendor contracts and more. Unfortunately, revenue has not kept pace, resulting in significant margin pressures.

In a recent Becker's Healthcare advisory call sponsored by ECG Management Consultants, a group of healthcare executives discussed strategies they are using to optimize revenue, promote growth and sustainability, and gain a competitive edge in the markets they serve.

Some highlights from their discussion are summarized below.

Reframing efficiency, cost effectiveness and quality

Healthcare leaders are continually looking for cost-improvement initiatives that will help drive efficiency and quality of patient care. Cost improvement often requires a mindset shift throughout the entire organization. Instead of looking at cost per unit of service, organizations need to view capacity as their most valuable asset — and then consider how to maximize it.

“We constantly adjust our workflows and reevaluate all non-essential tasks so that we can bring the highest value to patient care delivery,” said the chief administrative officer of a reference laboratory associated with a health system in the Midwest. “Every year, we identify targeted cost-improvement initiatives. We select certain departments and build in metrics that we manage throughout the year.”

To improve care efficiency, a nonprofit health system with 16 hospitals in the Southeast is optimizing care pathways.

> **“Pathway development is our jumping-off point for supply utilization, quality metrics, length of stay and more,”** the organization’s CFO said. **“As we follow the teams using the pathways, we are seeing lengths of stay drop.”**

Driving improvements in costs and clinical variation with comparative data

At large health systems, leaders often have access to organization-wide data, which allows them to identify improvement opportunities throughout their facilities, as well as improve outcomes.

“I can look at scorecards anytime and generate reports comparing my facilities to others in the organization. When I see opportunities, then I can do a deep dive,” said the senior vice president and CFO at a Southeastern division of a large nonprofit health system that operates in multiple states.

The CEO at a division of an academic health system in the Southeast shared his organization’s similar approach. “We do a lot of granular expense benchmarking across regional hospitals,” he said. “When we find a signal that someone is doing very well or very poorly, we dissect the differences, harvest the best practices and deploy them at scale.”

Many healthcare leaders also use data from companies like Vizient or Premier to benchmark and compare themselves to peer organizations. It is common to evaluate performance using metrics like labor or supplies as a percentage of net revenue. Some leaders are also assessing clinical variation within their organizations or compared to competitors.

"We'll soon be adding a divisional CMO whose role will be to address clinical variation," said the senior vice president and CFO of the Southeastern division of a large nonprofit health system. "We see opportunities in things like antibiotic utilization and overuse of interventional radiology to diagnose certain types of diseases."

This organization recently compared its performance on transcatheter aortic valve replacement (TAVR) procedures with that of a hospital in the Northeast. The CFO and a physician conducting TAVR cases discovered that their facility was missing key documentation on about 30% of the procedures, which affected net profitability. Learnings from this deep dive have enabled the organization to focus on clinical documentation improvement (CDI) and increase reimbursement for TAVR procedures.

"There's a very big revenue component to the margin equation, and reexamining fundamental processes can identify massive opportunities," said Tom Fox, partner at ECG Management Consultants. "For example, CDI related to TAVR procedures seems to be a rampant opportunity — I've seen it at six of my last seven clients."

Diverse approaches to navigating workforce challenges

The nonprofit health system with 16 hospitals in the Southeast has developed its own staffing pools as an alternative to hiring traveling nurses. The organization also created a staffing resource office. Reducing agency spend is a critical consideration to manage costs and drive consistency in patient experience.

"In 2022, we spent a quarter of a billion dollars on travelers," the health system's CFO said. **"This month, it should be zero. We have seven 'air traffic controllers' in our staffing resource office who monitor staffing every two hours. They ensure the right person is in the right place and at the right price. It's been instrumental for us as we cut labor expenses."**

Leaders discussed other labor cost-reduction strategies, including partnerships with nursing schools to increase the supply of talent, as well as virtual nursing to improve patient safety and reduce first-year nursing turnover.

"We use virtual nursing as oversight," said the senior vice president and CFO of the Southeastern division of a large nonprofit health system. "If there's an issue, new nurses on the floor can push a button and an experienced nurse instantly comes on and helps them. We dropped our first-year nursing turnover by 50%."

A health system that operates in six Western states has a division with several rural, critical access hospitals. It's difficult for the health system to find staff with emergency credential-level certifications, so the facilities often operate with minimum staffing.

"We've created an internal tool to benchmark rural facilities against each other," the health system's CFO said. **"That's allowed us to identify opportunities and dial in on efficiency and productivity."**

Workforce challenges and costs aren't limited to nursing, however. Compensation for advanced practice providers is also escalating, and availability of these providers is limited. Anesthesia is a good example, as nurse anesthetists and anesthesiologists are now making very high hourly rates.

"Insurance reimbursement for anesthesia services is on the decline," said an anesthesiologist and anesthesia leader of several organizations in the Midwest. "Healthcare systems have to siphon revenue from service lines to anesthesia, so they don't lose providers. Meanwhile, there has been an explosion in outpatient procedures and surgical centers. The biggest losers are going to be the hospital systems. It's going to become the Wild West with anesthesia."

Running health systems in today's environment is more difficult than it's ever been, calling for amplified improvement strategies and creative shifts. **"Most organizations are doing their best with continuous blocking and tackling and setting new operating cost baselines. Given the unprecedented pressures of increased cost, and negative variances, most organizations now have had to institute a perpetual cost improvement mentality just to keep up,"** said Michael Biggs, partner and leader of ECG Management Consultants' Performance Transformation Division. **"We have to aggressively increase the cadence of cost containment initiatives and explore pulling new levers to sustain operations."**