

Financial Rx: New Rigor—Strategies for Success during Challenging Times

By Scott Davis and Jeff Benton

Once thought to be recession proof, hospitals are under increasing strain in today's economy. Faced with declining elective medical procedures and admissions, and increased reimbursement pressure from constraints in federal and state budgets, many hospitals and healthcare providers are under greater pressure than ever. These factors, coupled with a slower payment cycle from private-payers, an increase in uncompensated care and, most recently, tighter financing with higher interest rates, are causing many hospitals and healthcare providers to struggle for their very survival. Now more than ever, healthcare providers are focused on improving financial performance and better managing existing processes in order to soften the financial impact of the weak economy.

What should today's healthcare providers be doing to maximize success during this unquestionably difficult period?

The following are some practical tips for improving your organization's financial performance, based on Grant Thornton's experience working with both distressed healthcare companies and those proactively seizing the opportunity to enhance their performance.

Examine and Strengthen Key Relationships

In challenging times, it is more important than ever to take a critical look at all of your key relationships. This includes the most important relationship of all, your referral sources—physicians and the medical community at large. The competition is eyeing your referral sources, so work to align the interests of your referral sources with yours.

Other important relationships include those with your internal staff and your community. Since it is common for hospitals to be the largest employer in an area, maintaining open communication with staff and the surrounding community will serve to maintain and strengthen your position as market and employment conditions improve.

Take a critical look at those relationships that are most effective for your organization and seek ways to strengthen these relationships. Consider establishing strategic partnerships with other providers in your marketplace that will enable you to better meet the community healthcare needs. At the same time, it may be time to end or at least scale back those relationships that are chronically unprofitable.

Minimize Collection Risk and Maximize Revenues

The already staggeringly high rates of unpaid medicals bills are growing quickly, as more patients lose employment, insurance and their ability to pay for care. To minimize the impact of collection risk to your bottom line, strengthen your registration and admissions process, verify data inputs and maintain accurate and complete medical record files. This will allow you to avoid costly payment deferrals and denials. Analyze clinical documentation to ensure all reimbursable complication or co morbidities are captured in order to maximize revenue. Stay ahead of third-party contract renewals and realign incentives when possible.

In order to have less exposure to receivables that are outstanding for a

long period of time, it is also a good idea to speed up the collection process. Create an atmosphere of zero tolerance for significant delays to collect. After patient care, managing the revenue cycle is the most complex process in provider management. Seamless operational integration and flawless execution are essential to maximize net revenue realization. Taken as a whole, not only do these steps minimize collection risk, but they also improve provider satisfaction and the patient encounter.

Ensure a Reliable Supply Chain

It's no secret that suppliers are under pressure too, and some of your vendors may be in trouble. It's important to manage your supplier relationships effectively at this time by identifying your key suppliers and monitoring their financial health.

Stay in communication with your key vendors to address any business issues and to stay in tune with any supply chain risks. By opening the lines of communication, your organization and its vendors can work more effectively during these difficult times. The goal is to discuss creative solutions to minimizing supply chain costs, while maintaining high-quality service.

But, it's essential to protect yourself from trouble in your supply chain caused by distress or even bankruptcy of key suppliers. Don't wait until you hear of problems with a supplier—because by then it may be too late to secure a viable replacement. Make sure you have more than one supplier for any product or service that is particularly critical to your operations. If no alternative sources

exist, be prepared to offer programs and incentives to maintain the flow of critical products and services from certain key suppliers.

Review the contracts you have in place with vendors. Are payment terms flexible and commitments being met by both parties? It's also advisable to review supplier risk management plans. If you have not already done a supplier risk analysis, this is the time to do it.

Optimize Your Operating Cost Structure and Improve Margins

Many hospitals have been successful at cutting costs in recent years. While these efforts have made a difference, profit margins have continued to decline year after year. Typically, the biggest cost savings are captured early and after that, additional savings are smaller and increasingly difficult to realize and sustain.

Focus on expenses with the greatest impact. Labor and medical supplies are generally the two largest line items of healthcare organizations' operating expenses. Analyze these categories of spending thoroughly to get the highest potential savings impact.

Sharpen your pencil and look at all of your administrative expenses, such as use of consultants, temporary staff and managerial salaries, including inefficient distribution of positions within support service departments. Continually examine your entire indirect cost structure to ensure that it links directly with patient and quality care.

How else can you improve and maintain margins? Increase the efficiency of

patient processes, allowing more patients to be treated. This leverages existing beds and allocates fixed expenses more efficiently, thus generating higher operating margins. You might also consider critical process improvement reviews, such as six-sigma, in order to align the efficient use of resources with high quality patient care. Managing patient flow more effectively will result in better revenue capture, as well as reduced expenses.

Manage the Use of Capital Effectively

Examine any approved strategic plans to assess whether they are on budget and on schedule. Push for proper return on investment (ROI) analyses for any proposed capital projects, large equipment purchases or acquisitions, and judiciously protect capital.

Another area of concern is inventory control. Re-examine optimal order size in light of increased carrying costs. Consolidate SKUs where possible and ensure that your operating personnel and inventory management team are not maintaining excess inventory. To the extent you have excess inventory, liquidate it. Now also is an ideal time to negotiate with suppliers for consignment opportunities, extended terms and larger, early-pay discounts.

If your healthcare system has multiple facilities, consider opportunities to consolidate its buying power into a centralized purchasing department in order to purchase more for less. You may even want to join or form a group

purchasing organization. Put aside competitiveness and work with other healthcare systems for opportunities to pool purchasing power, aggregate demand and wield more clout with suppliers.

Now is an Opportune Time

Hospitals have always been under some economic pressure, but many haven't yet adapted to the crisis management mentality needed to navigate today's choppy waters. However, now even hospitals that are not in crisis are protecting and improving their financial performance. Maintaining a focus on key operating metrics and indicators is critical during these times.

Inevitably, cost rationalization decisions are difficult. Certain tough choices, such as a staffing reduction, will encounter some resistance. Enlist the support of key leaders of your organization and make sure they understand the rationale for the choices. Now is the time to lay out the hard truths and make objective decisions. Be proactive and communicate with the community you serve.

While times may be challenging currently, this is a good opportunity to improve your organization's financial performance going forward by instilling a new level of discipline. Certainly, the current environment provides ample motivation to address issues that will only help to improve your financial performance, both now and into the future. These suggestions are not simply 'recessionary' measures, but rather good business practices. ■

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