



Better financial health and improved operations

Your roadmap through 3 critical priorities

Current state challenges

Confronted by a range of financial and operational challenges, health systems across the country are struggling through the most difficult operating environment in history. With operating margins throughout health care organizations in a nearly universal deficit, burgeoning inflation, increased labor costs and staffing shortages further challenge opportunities to rebuild profitability.

Flat revenues and rising expenses have forced health system executives to look for new solutions. Fortunately, key industry investments in the areas of automation, data insights, information exchange and innovative partnerships present viable opportunities to address these factors.

Establishing positive operating margins is crucial to ensuring that health systems have the ability to serve patients and communities, attract and retain a skilled workforce, expand lines of service and preserve capital. By working with health system clients and conducting detailed research and review, we documented three specific areas where health systems should look to address these pain points.

With strategies to address cost optimization, revenue performance and clinical efficiency, health systems can get back to what matters most – providing quality care in their local communities.

Our first volume offers a detailed review of the following strategies to improve cost optimization:

- Controlling fixed costs
- Delivering new levels of efficiency
- Enabling organizational flexibility and agility



61%

of health systems are operating at a negative profit margin.

81%

of health systems have at least one hospital with a negative net profit margin.¹

1. Definitive Healthcare Hospital Analytics, accessed September 2022.



Volume 1: Cost optimization

Cost management is fundamental to restoring financial health. Finding areas to feasibly cut back on costs, however, is often a futile endeavor. But it isn't just about cutting expenses. Slowing the rate at which expenses increase while realigning costs to strategic areas can better address the problem – and do so without starving an organization of capital required for investment.

Let's take a closer look at how, and where, health systems can optimize their costs by **managing existing expenses, creating efficiencies to lower costs and delivering enterprise flexibility** to navigate and adapt to new economic challenges.

Controlling fixed costs

Managing existing expenses is the first step in optimizing costs. But understanding how to evaluate these expenses can be daunting for many health systems. To control fixed costs, health systems should focus on:

- Cost structure reconfiguration
- Supply chain management
- Vendor consolidation
- Retiring technical debt

Cost structure reconfiguration

Today, cost structures remain too high for most health systems. Organizations need to take a step back, refocus and return to the basics – income statements. These statements serve as a source of truth that can guide organizations to:

- Accurately capture cost allocations
- Assess the specific areas disproportionately impacting costs
- Assign resources to the best expense areas

When reviewing income statements, we see that supply chain and existing vendor agreements encompass two of the largest expense areas for health systems, representing 30% to 40% of total costs.

Supply chain management

Inventory costs across the board have increased. Organizations used to replenish inventory when they needed to – and usually just before supplies ran out. However, COVID-19 forced organizations to reconsider this approach, given recurring shortages and shipment delays. During the pandemic, health systems began

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buying supplies earlier and in higher quantities to have on hand in anticipation of potential and likely delays. And while this approach was needed initially, today there is an opportunity to reevaluate these costs and establish appropriate protocols to balance when and what to replenish, as well as levels of spend.

Vendor consolidation

Managing vendor relationships and rationalizing tools and products that physicians and administrative staff use can also help manage costs. It's important to understand that not all vendors retain the same value over time. As health systems reevaluate their overarching strategies, vendor relationships should be reassessed on value and need. Look for opportunities to:

- Renegotiate pricing
- Sunset solutions with low adoption rates
- Streamline the quantity of vendors you work with for optimal contracts

Retiring technical debt

Poor management of technical debt prevents a health system's ability to grow. The complications created by old and outdated systems make integrating new products and capabilities more and more expensive. Increasingly, health systems must allocate more than half of their IT project budget on integrations and repairing legacy systems. Conversely, health systems that operate on modern IT stacks and infrastructure have little to no tech debt. These systems are able to direct almost all of their technology investment to new offerings that support growth. In order to effectively manage technical debt, health systems need to:

- Establish a shared definition of what it means across business and IT leadership
- Treat it as a business issue rather than a technology problem
- Thoroughly review existing technologies to categorize investments into three areas – growth, maintain or sunset

Delivering new levels of efficiency

Economic models suggest that if health care productivity could grow by a small percentage, we would solve the health care cost problem. Yet health systems continue to experience declines in productivity despite making hefty investments in technology, EMRs, analytics, enterprise resource planning (ERP) systems and more. And as clinicians and administrative staff continue to work at unsustainable levels, improving productivity through the workforce alone is near impossible. Better efficiency can be delivered by leveraging innovative solutions and approaches. The most critical areas to address costs through new levels of efficiency include:

- Process automation
- Self-service experiences
- Workforce optimization
- Training and education

Process automation

By definition, process automation aims to simplify manual tasks while simultaneously making the results more accessible. And this makes sense – automated actions respond immediately to an earlier action whereas manual processes require staff to review data and input information to complete a task.

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50%

Estimates put physician time spent in their EHR at 50% of their workday, significantly reducing the amount of time they can spend on patient care.²

2. Mobile Aspects. [Physicians are spending too much time documenting in EHRs - and hospitals have to find new solutions.](#) January 17, 2020.

In practice, focusing on process revitalization by embedding clinically aware technology that can inform care decisions is one step in helping optimize your workforce.

When case managers and physicians evaluate cases for medical necessity, the ability to insert artificial intelligence (AI) in that process can minimize an often time-intensive undertaking. By supporting patient-status decisions with clinical evidence and risk factors that are collected automatically, the staff is not burdened by labor intensive analysis. The result is greater utilization review efficiency, accuracy and alignment of clinical resources. That said, automating any and every process won't improve your efficiency alone. Health systems looking to improve hospital productivity should evaluate processes based on effectiveness and desired outcomes, then work to improve current processes prior to automation.

Self-service experiences

Self-service functions improve efficiency by letting people serve themselves. These experiences allow your hospital to offer faster, more efficient and more cost-effective support for your patients, staff and community. And opportunities to implement self-service experiences are available across many junctures of your health system.

As an example, consider implementing self-service functions to address the most common technology challenges. By creating systems that allow for automated password resets or non-business hours software updates, your staff not only has more time to focus on mission critical initiatives, but also removes unnecessary administrative burden.

Workforce optimization

Workforce accounts for more than half of a health system's expense structure. However, eliminating roles is not the key to managing these costs. Many health systems are focused on improving how the work gets done through process revitalization, real-time analytics, automation for repetitive tasks and bringing in experts to focus on strategic initiatives.

Eliminating barriers to efficiency is key for the management of these costs. For health systems where efforts for optimization across these areas are already underway, projects can be accelerated by reprioritizing business objectives and bringing in partners as trusted advisors and industry experts. These partners can help create standards for operating disciplines and automating processes in a way that bring in new technologies and analytics.

Health system leaders must establish a holistic workforce approach that brings together an optimal employee experience with increasing quality and automation to reduce workload and enhance satisfaction to be successful.

Training and education

Supporting the existing health workforce through education and training to address technical gaps needs to be top of mind for health systems. As patient demands, technology and government regulations change drastically, care providers have to regularly keep up with new policies, techniques and technologies, and expand their knowledge and skills. This means continuous education is not a nice-to-have, but an absolute necessity for professionals who want to provide the best possible employee and patient experience. To be successful, health systems need to:

- Establish an education curriculum focused on learning at every career stage



The health system spent less than \$100,000 a month on contract workers before the pandemic, but that has now increased to roughly

\$1.4 million
a week.³

– Brad Ludford, CFO
Bozeman Health

Workforce accounts for more than half of a health system's expense structure.

3. Advisory Board. [How hospitals are cutting back to reduce costs](#). August 29, 2022. Accessed September 2022

- Attract highly qualified educators
- Ensure front-line workers are certified to do their job
- Adapt to the learning needs and styles of employees

Enabling organizational flexibility and agility

Given the current workforce climate and labor market, we've witnessed the balance of power shift to employees over the last year. An unprecedented number of workers struggle with burnout or have become unsatisfied with their compensation. Many have decided to leave their jobs for other opportunities. Health systems need to be able to adapt quickly and successfully to the shifting environment in order to keep costs down. And for the most impact, organizational flexibility should encompass areas of your organization, including human resource management, application of new tools and resources, and investment priorities.

The most critical areas for enabling organizational flexibility for lower costs are:

- Global workforce models
- Strategic partnerships
- Capital preservation

Global workforce models

Health systems are challenged with recruiting individuals who want to make careers in back-office functions, which has become especially difficult in smaller markets. At the same time, there is a need to give health care leaders additional workforce bandwidth to continue to push their organizations forward and remain agile. Some systems are turning to partners who have a global bench of resources that can be mobilized to address shifting needs in areas like revenue cycle, IT, supply chain and clinical operations to be more agile in the rapidly changing market. A good partner delivers a blended workforce approach using existing staff while bringing in experts for special projects as needed. A great partner also blends institutional knowledge with best practices to make the most impact.

Strategic partnerships

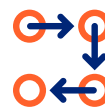
Strategic partnerships can deliver a leading-edge strategy for health systems. The right strategic partnership can pull from a global workforce and infuse talent across various overhead functions and other disciplines further removed from patient care. In addition, it can help eliminate some of the human capital costs and burdens that prevent health systems from flexing with market demands.

With strategic partnerships, health systems also remain sustainably independent while having additional access to larger capital investments. This allows health systems to retain focus on the needs of their local communities – a focus typically lost when pursuing more standard merger and acquisition options.

Capital preservation

Most health systems recognize their capital allocation process needs improvement to better focus on critical imperatives. But priorities for day-to-day operations and investments across infrastructure, talent and internal support functions limit their ability to invest in these initiatives. And as available strategic capital is already limited across health systems, margins only continue to fall as these daily operational costs increase. To be effective, health system leaders must establish processes to monitor and evaluate the ROI of programs that support day-to-day

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78%

of CFOs acknowledge their capital allocation process needs to be improved, while only 48% take a formal, systematic approach to allocating capital.⁴

4. Ernst & Young [Drive value in health care through optimal capital allocation](#), August 2021.

operations. And they must align on a capital allocation strategy that supports every investment being made while also strengthening their analytics in order to monitor, review and model more accurately.

Final thoughts

It's critical for health systems to understand how their current performance and practices impact their costs. With careful review of data and processes, emphasis on improving efficiencies to lower cost, and establishment of a flexible, full-scale organizational environment, health systems will have the tools needed to curtail the high expenses and rising inflation without having to sacrifice care services.



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Prior to joining Optum, Young was system chief financial officer for a large health system, managing turnaround resulting in doubling revenues and liquidity achieving a 4% margin. He also redesigned board financial and statistical reports to provide more transparency, financed more than \$200 million in capital to support the system strategic plan, and centralized many of the financial functions across the health system resulting in standardized reporting and increased efficiency.

Young is a CPA and is a Fellow of the Healthcare Financial Management Association (FHFMA).



Next up

For additional strategies to address other current state issues, see volumes 2 and 3 of this series:

Volume 2: Revenue performance – strategies to improve revenue performance through the optimization of revenue recovery, achieving revenue integrity and succeeding in risk- and quality-based programs

Volume 3: Clinical efficiency – strategies to improve clinical efficiency through focus on elevating the quality of care, reducing cost of care and improving population health

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