Business Strategies for Successful Hospitals

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Goals for this Presentation

Provide you with essential tools

to successfully operate your hospital

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Outline

- Information gathering
- Perform/update strategic plan
- Evaluate services lines
- Follow-up

Information Gathering

- Community needs assessment
- Departmental costs and charges

Strategic Planning

Good decisions are based on good information.

Know your enemy and know yourself and you can fight a hundred battles without disaster.

Sun Tzu

Strategic Planning *(Continued)*

- Information gathering
  - Non Financial Information
    - Community needs analysis
    - Patient satisfaction survey
    - Community survey
    - Employee survey
    - Changes in regulations and reimbursement

Strategic Planning *(Continued)*

- Information gathering (continued)
  - Financial Information
    - Financial statements
    - Service line/department contribution margin analysis
    - Other useful metrics
      - Days in accounts receivable
      - Days cash on hand
      - Current ratio
      - Etc.

Community Health Needs Assessment

- Information on your primary service area (PSA)
  - Current population and trends by age, ethnicity, and, household
  - Key health indicators
  - Medical procedures performed on patients from your PSA
  - Market share by line of service
  - Service line utilization by area in your PSA
  - Physician need by specialty

Community Health Needs Assessment

(Continued)

- Key points of a CHNA:
  - Demographics
    - What is your primary PSA
    - Are there different PSAs for different lines of service
    - Service area trends
    - Key health status indicators
  - Understanding the communities you serve will help you differentiate your message/outreach efforts

Community Health Needs Assessment

(Continued)

SAMPLE POPULATION DATA

	2000 Census	Pct of Tot Pop	2009 Est	Pct of Tot Pop	Pct Chg 2000-2009	2014 Proj	Pct of Tot Pop	Pct Chg 2009-2014
Tot. Pop.	**7,928**	**100.0%**	**8,698**	**100.0%**	**9.7%**	**9,156**	**100.0%**	**5.3%**
Pop. By Age								
0-17	1,988	25.1%	1,815	20.9%	-8.7%	1,863	20.3%	2.6%
18-44	2,478	31.3%	2,533	29.1%	2.2%	2,685	29.3%	6.0%
45-64	2,270	28.6%	2,766	31.8%	21.9%	2,790	30.5%	0.9%
65-74	669	8.4%	867	10.0%	29.6%	1,038	11.3%	19.7%
75-84	404	5.1%	525	6.0%	30.0%	547	6.0%	4.2%
85+	119	1.5%	192	2.2%	61.3%	233	2.5%	21.4%
Tot. 0-64	6,736	85.0%	7,114	81.8%	5.6%	7,338	80.1%	3.1%

Community Health Needs Assessment

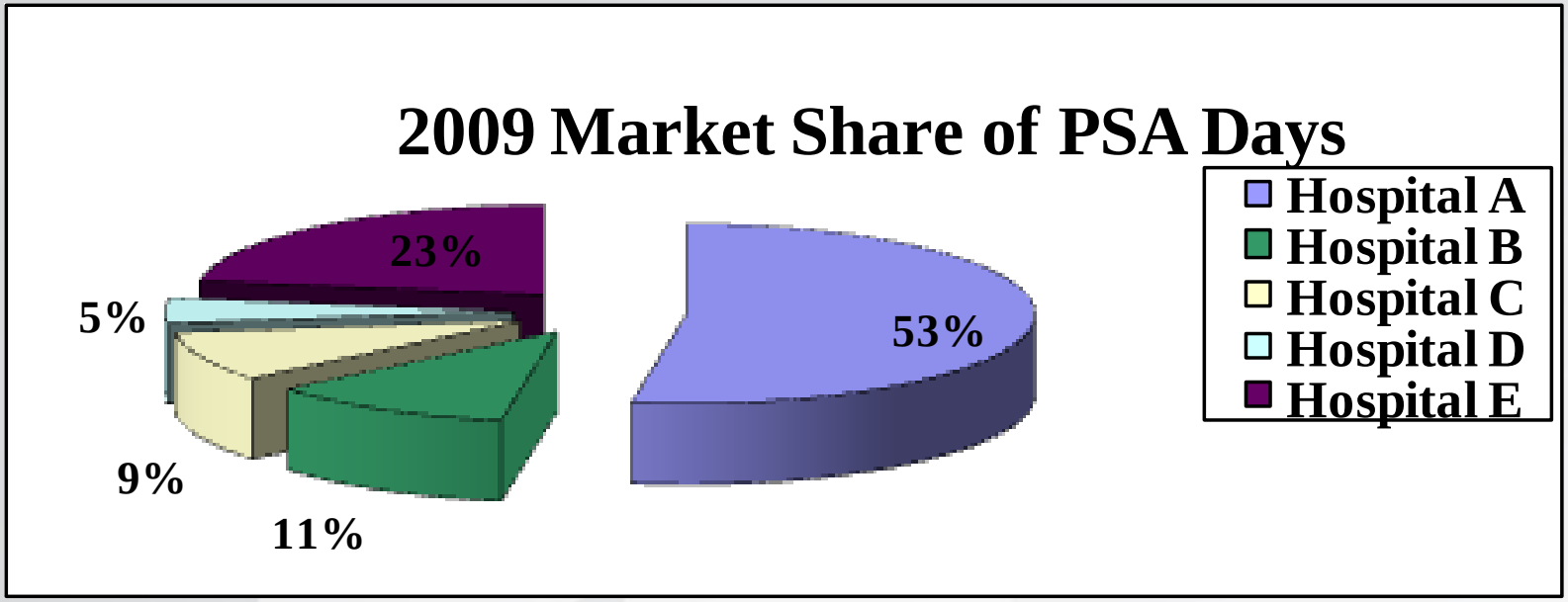
(Continued)

- Market size and share
  - What is the size of the inpatient and outpatient markets and what piece of the “pie” does the hospital currently enjoy
  - What are the largest lines of service
  - Payor mix by line of service

Community Health Needs Assessment

(Continued)

SAMPLE INPATIENT DAY MARKET SHARE



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Community Health Needs Assessment

(Continued)

SAMPLE TOTAL INPATIENT PROCEDURES FOR THE PSA AND THE HOSPITAL'S MARKET SHARE

			Service Area Total			Hospital A			
Service Line	**MS-DRG**	**Desc**	**Disch**	**Days**	**Rank for Service Area**	**Disch. from Svc. Area**	**Market Share**	**Total Disch**	**Rank**
OB/Delivery	M775	Vaginal delivery w/o complicating diagnoses	462	752	**1**	277	60%	321	**1**
OB/Delivery	M766	Cesarean section w/o CC/MCC	165	391	**2**	113	68%	125	**2**
OB/Delivery	M774	Vaginal delivery w complicating diagnoses	121	215	**3**	92	76%	101	**3**
OB/Delivery	M765	Cesarean section w CC/MCC	70	221	**4**	45	64%	51	**4**
Orthopedics	M470	Major joint replacement or reattachment of lower extremity w/o MCC	57	157	**5**				
OB/Delivery	M767	Vaginal delivery w sterilization &/or D&C	45	79	**6**	35	78%	37	**5**
General Medicine	M195	Simple pneumonia & pleurisy w/o CC/MCC	37	103	**7**	22	59%	29	**8**
Gastroenterology	M392	Esophagitis, gastroent & misc digest disorders w/o MCC	36	71	**8**	26	72%	29	**7**
General Medicine	M203	Bronchitis & asthma w/o CC/MCC	33	52	**9**	29	88%	31	**6**
Gynecology	M743	Uterine & adnexa proc for non-malignancy w/o CC/MCC	32	51	**10**	15	47%	18	**11**

Source: WA State CHARS Database

Community Health Needs Assessment

(Continued)

SAMPLE MARKET SHARE COMPARISON

	Hospital A	Avg Comp Hospital	Hospital B	Hospital C	Hospital D	Hospital E	Hospital F	Hospital H
	City A		City B	City C	City D	City E	City F	City H
Home Zip Population Pct. Age 65+	17.7%	16.6%	13.7%	17.7%	16.5%	5.8%	21.6%	0.0%
Acute Beds	4	14	4	12	11	8	25	11
Swing Beds	2	12	21	12	14	0	0	0
Births	0	108.5	0	0	0	0	0	
Tot. Discharges (Excl. newborns, swing)	100	116	190	119	98	135	31	492
Tot. Patient Days (Excl. newborns, swing)	286	289	481	349	217	302	77	302
Avg. Length of Stay	2.9	2.5	2.5	2.9	2.2	2.2	2.5	0.6

Community Health Needs Assessment

(Continued)

SAMPLE ESTIMATED OUTPATIENT PROCEDURES FOR THE PSA AND THE HOSPITAL'S MARKET SHARE

	2009				
	Est. Total Service Area Volumes		District Est.	Estimated Market Share	Estimated Totals
	LOW	HIGH			
ED	25,450	29,555	21,210	83%	24.395
Rehab-PT Visits	11,431	11,431	6,711	59%	8,567
X-Ray Procedures	4,894	5,503	2,273	44%	2,902
CT Procedures	896	1,366	273	30%	348
Colonoscopy	290	440	80	28%	102
Sigmoidoscopy	16	32	4	24%	5
Upper GI endoscopy	156	215	9	6%	11
Bone Scans*	NA	NA	122	NA	156
Echocardiography	908	1,405			
Mammography Procedures	143	199			
MRI Procedures	489	735			

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Community Health Needs Assessment

(Continued)

- Physicians
  - Do you have enough physicians by specialty in your PSA?
  - What are the forecasted physicians needs for your PSA?

Community Health Needs Assessment

(Continued)

SAMPLE PHYSICIAN CLINIC CAPACITY

Primary Care	# Physicians and Providers	P/T	Accept New Patients	Accept New Medicare	Accept New Medicaid	New Pt. Appt Wait
FP	13		1 (7%) CLOSED	6 (46%) CLOSED	8 (62%) CLOSED	1.4 wks
Internal Medicine	5		5 (100%) Limited	1 (20%) Limited	5 (100%) CLOSED	1 wk
Pediatrics	3		Open	Open	Open	2 wks

You can also estimate physician demand by specialty, using MGMA data and your population data.

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Community Health Needs Assessment

(Continued)

- Sources of data available for use in the creation of a community needs assessment
  - Nielsen Claritas (demographic data)
  - OFM – Washington Office of Financial Management (demographic)
  - Medpar File (Medicare inpatient data)
  - State Hospital Associations
  - State databases
    - Chars (Inpatient data for Washington)
  - MGMA data for physician data
  - Thomson/Reuters for outpatient activity estimates
  - Internal data

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Survey Says

- CHNA paints a picture of what is happening.
- A good survey or focus group tells you why it is happening.
  - Focus on asking the right questions
  - Ensure your survey or focus group represents the population of your PSA
  - Consider hiring a consulting firm to perform this research for you

Pre-Strategic Plan

- Two tasks
  - Community needs assessment
  - Departmental financial statements
- Good information lends itself to good decision making

Departmental Financial Statements

- Provides data for current operations
- Each department separately
- Separate inpatient and outpatient when possible
- Develop financial indicators
  - In total and by department

Service Line/ Department Contribution Margin

- Gross patient revenue
- Contractual adjustments
  - Specific assignment
- Other revenue (if directly attributable to the service line)
- Direct costs (include employee benefits)
- Contribution margin
- Allocated support services (use Medicare cost report or alternative cost accounting system)

Contribution Margin

- Caveat – cost accounting is never “perfect” and qualitative factors and interrelationships must be considered
- 90% confidence level
- Know what each service line contributes to the organization
- Know what subsidy a service line requires
  - How will it be subsidized?
  - Community willing to subsidize?
  - How much can the organization subsidize?

Departmental Financial Statements With Contribution Margin

	Acute care	Operating room	Lab	Radiology	ER	Nursing home	Total
Total gross revenue	3,300,000	4,000,000	2,200,000	3,000,000	1,000,000	4,300,000	17,800,000
Total contractuals	961,950	1,590,000	607,600	990,000	272,500	1,025,000	5,447,050
Net revenue	2,338,050	2,410,000	1,592,400	2,010,000	727,500	3,275,000	12,352,950
Direct costs	1,300,000	500,000	895,000	700,000	575,000	2,000,000	5,970,000
Contribution margin	**1,038,050**	**1,910,000**	**697,400**	**1,310,000**	**152,500**	**1,275,000**	**6,382,950**
Support costs	1,200,000	500,000	305,000	500,000	300,000	2,400,000	5,205,000
Total costs	2,500,000	1,000,000	1,200,000	1,200,000	875,000	4,400,000	11,175,000
Net income (loss)/total margin	**(161,950)**	**1,410,000**	**392,400**	**810,000**	**(147,500)**	**(1,125,000)**	**1,177,950**

Lab Departmentals with IP/OP Separated

	IP		OP		Total	
Gross revenues (with payor mix %)						
Commercial	116,000	29%	1,204,000	67%	1,320,000	60%
Medicare	240,000	60%	530,000	29%	770,000	35%
Medicaid	24,000	6%	20,000	1%	44,000	2%
Self-pay	20,000	5%	46,000	3%	66,000	3%
Total gross revenue	400,000	100%	1,800,000	100%	2,200,000	100%
Contractuals (with collection %)						
Commercial	40,000	65%	158,000	87%	198,000	85%
Medicare	110,000	45%	240,000	45%	350,000	
Medicaid	11,000	45%	9,000	45%	20,000	
Self-pay	12,000	40%	27,600	40%	39,600	40%
Total contractuals	173,000		434,600		607,600	
Net revenue	227,000		1,365,400		1,592,400	
Direct costs	162,000		733,000		895,000	
Contribution margin	**65,000**		**632,400**		**697,400**	
Allocated overhead	55,000		250,000		305,000	
Total costs	217,000		983,000		1,200,000	
Net income (loss)/total margin	**10,000**		**382,400**		**392,400**	

Strategic Planning

- Who should be part of the strategic planning team
  - Governing Board
  - Chief Executive Officer
  - Chief Financial Officer
  - Director of Nursing Services?
  - Chief Medical Officer?

- Location
  - Pick a location where there will be minimal interruptions and team members can speak freely
- Where to begin - Review and update the hospital's:
  - Mission
  - Core Values

Strategic Planning *(Continued)*

- Review the financial and non financial information gathered
- Set goals for the year
  - Goals for each service line
  - Financing plans for department expansions
- Formulate action plan

Service Lines Offered

- Evaluate your lines of service based on:
  - Your hospital's mission and goals
  - The CHNA
  - Contribution margin by department
    - Payor mix
      - Inpatient and outpatient
  - Is it an essential service?

Essential Services

- Acute care
- Emergency room
- Laboratory
- Radiology
- Physical therapy

Essential Services *(Continued)*

- Strategies
  - Market outpatient (CHNA)
  - Manage cost levels
  - Charge capture

Non-Essential Services

- MRI, bone density, other radiology
- Occupational/speech therapies
- Surgery
- Endoscopy
- Nursing home
- Home health
- Hospice
- Dialysis
- Diabetes education
- Clinic

Non-Essential Services *(Continued)*

- Strategy
  - CHNA
  - Market/grow lines with community need and low Medicare Medicaid utilization

Service Lines Offered

- For each service line make a conscious decision to perform one of the four following actions:
  - Maintain it at the current level
  - Expand it
  - Reduce it
  - Discontinue it

- Based on information gathered

Review Revenues

- Charge master review
- Charge capture review
  - Chart audits
- Review contracts
  - Do they still make sense?
  - Can we negotiate better?
  - Does the business office know what they should be paid?

Review Costs

- Types
  - Fixed
    - Building
    - Equipment
    - Interest
  - Variable
    - Salaries, benefits, contracted salaries, professional fees (partially stepped)
    - Supplies
    - Pharmaceuticals
    - Reagents
    - Food
  - Mixed of above or stepped
    - Salaries, etc.
    - Repairs and maintenance
    - Most costs for rural hospitals
  - Cost-reimbursed

Lab Costs by Type

	Lab Costs			
Direct costs				
Salaries	420,000	Mixed	19%	420,000
Benefits	80,000	Mixed	4%	80,000
Reagents	250,000	Variable	11%	292,000
Other	145,000	Variable	7%	186,000
	895,000		41%	978,000
Support services				
Building	10,000	Fixed	1%	10,000
MME	15,000	Mixed	1%	15,000
Benefits (HR)	10,000	Mixed	1%	10,000
IT costs	25,000	Mixed	2%	25,000
Business office	70,000	Mixed	4%	70,000
Admitting	30,000	Mixed	2%	30,000
Other administration	70,000	Mostly fixed	4%	70,000
Plant	15,000	Mixed	1%	15,000
Housekeeping	10,000	Mixed	1%	10,000
Cafeteria	20,000	Mixed	1%	20,000
Nursing administration	-	Mixed	0%	-
Medical records	30,000	Mixed	2%	30,000
	305,000			305,000
Total cost	1,200,000			1,283,000

Cost-based Expenses

- Example:
  - Assume acute care is 66% Medicare/Medicaid
  - Assume laboratory is 35%
  - $100,000 decrease in cost
  - Bottom line effect
    - Acute care = $34,000
    - Laboratory = $65,000

Departmental Strategic Planning

- Strategic planning for each department
  - Led by the department manager
  - Based on strategic plan
- Set goals for the department
  - Balanced scored card approach

Departmental Strategic Planning

(Continued)

- Department budgets
  - Designed by the department mangers
  - Department managers responsible for outcomes
  - Evaluated using scorecard
- Give them the ability to direct their departments

Departmental Reporting

- Monthly balanced scorecard

- Include measures from all perspectives
  - Learning and Growth
  - Business Process
  - Patient Satisfaction
  - Financial

Rural Health Clinics (RHCs)

- Medicare *encounters* paid cost
- Medicaid *encounters* paid prospectively

Rural Health Clinics *(Continued)*

- Cost-based reimbursement by RHC
  - Typically 25% to 50%
  - Usually less than assumed

- Low cost-based = cost management important

Other Physician Clinics

- Medicare and Medicaid reimburse on fee schedules

- Provider-based pay mix of cost and fee

Clinics

- Strategy –
  - Provider compensation
    - Tie to productivity
    - Look at NET revenue
    - Specify pay for medical director duties
    - Consider balance scorecard approach
  - Monitor productivity by provider, by month, and to best practices
  - Scheduling
    - Training to schedule patients to maximize physician productivity
    - Patient rooms (waiting, with physician, discharge)
    - Give them the tools to perform their jobs
  - CHNA: number of providers in relation to clinic volume and other duties

Hospital-based Physicians

- Medicare and Medicaid reimburse on fee schedules
  - No cost-based fall back
- Compare compensation to *net* revenue generated
- Know the amount of subsidy
  - continually assess providing access to care
  - Perhaps instead of profitability

Hospital-Based Physicians *(Continued)*

- Hospitalists:
  - Analyze
    - Increased hospital admissions or
    - Increased clinic productivity
  - Does the improved quality of care justify the subsidy?
  - Use a different staffing model?

Hospital-Based Physicians *(Continued)*

- Radiologists – can you contract with a group that will bill and collect charges as their compensation?

- Emergency Room Physicians:
  - Use mid-levels?
  - Explore alternatives every few years

Home Health and Hospice

- Medicare and Medicaid prospective payment
- Unduplicated census count by payor – usually high Medicare
- Monitor costs per visits

Home Health and Hospice *(Continued)*

- Strategies:
  - Sell to another organization that will continue to operate in the community
  - Outsource
  - Manage labor costs
    - Staffing levels
    - Different compensation model from hospital
  - Base compensation on productivity
    - Balanced scorecard report
  - Increase volume (CNHA)

Nursing Home

- Medicare prospective payment
- Medicaid prospective /cost blend
- Payor mix is mostly Medicaid

Assisted Living Facilities

- Medicaid prospective payment
- Payor mix is mostly Medicaid
  - Medicaid does not pay well

Nursing Home and Assisted Living Facilities

- Strategies
  - Sell to another organization that will continue to operate in the community
  - Convert to swing beds
  - Convert assisted living to nursing home
  - Manage labor costs
    - Staffing levels
    - Different compensation model from hospital
  - Run like a for-profit business and hold the NH administrator responsible

Surgery

- Tie to CHNA
  - How many surgeries provided to service area residents? How many could hospital serve?
  - Depending on one person carries risk
- Typically higher commercial

Surgery *(Continued)*

- General vs. orthopedic surgeries:
  - What is the financial contribution to the hospital?
    - Need to consider physician and hospital component
    - Need to consider impact on ancillary services
  - If not contributing financially can community needs be met by another hospital?
  - Analyze separately

Laboratory

- Increase outpatient utilization
- Serve as reference laboratory for local nursing home and/or other local health care providers
- Evaluate prices
  - Make competitive for outpatient laboratory tests going to other local providers or out of the community

Radiology

- Increase outpatient utilization
- Know your competitors pricing – be competitive
- Compete against other local imaging providers (urgent cares, physicians, etc)

Administration & Support Departments

- Administration
- Finance and Accounting
- Nurse Administration
- Human Resources
- Patient Accounting and Admissions
- Information Technology
- Education
- Medical Records
- Housekeeping
- Dietary
- Laundry
- Plant, Maintenance, & Utilities

Support Departments

- What is their “mission”?
- Who are their customers?
- Balanced scorecard approach
  - Financial
  - Patient (or customer if patient is not direct customer)
  - Internal business processes
  - Learning and growth

Revenue Cycle Departments

- Outsource
  - Entire business office
  - Partial
  - Coding
  - Reimbursement
- Consultants/contractors
- Educate your staff
- Hold accountable (balanced scorecard)

Information Technology

- Electronic health records
- Clinical systems
- Financial systems
- Organizations need information technology leaders that have a seat at the table with top management and are involved in strategic planning
- CIO – leadership, management, and strategic-thinking skills more important than technical skills

Education

- Try to avoid as a “simple” fix to budget concerns
- Explore alternatives to travel (webcasts, etc.)
- Peer to peer interaction is necessary

Balanced Scorecard

- Strategic planning and management system
- Aligns business activities to the vision and strategy of the hospital
- Improves internal and external communication
- Monitors organization performance against strategic goals
- Clarifies the vision and strategy and translates them into action

Balanced Scorecard *(Continued)*

- Learning and Growth Perspective
  - Includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement
  - Are we learning and innovating in business critical areas?
  - How will we sustain our ability to change and improve as fast as times require?
  - Workers are the repository of knowledge
  - Includes more than “training”
    - Mentors and tutors
    - Ease of communication among workers
    - Technological tools

Balanced Scorecard *(Continued)*

- Business Process Perspective
  - Internal business processes
  - How are core processes performing?
  - To satisfy patients, what key processes must be perfect?
  - Allow managers to know how well their business is running
  - Allow businesses to know whether its products and services conform to customer requirements

Balanced Scorecard *(Continued)*

- Customer (Patient) Perspective
  - Customer satisfaction
  - How do we look in the eyes of our patients?
  - If customers not satisfied, a leading indicator of future decline

Balanced Scorecard *(Continued)*

- Financial Perspective
  - Timely and accurate financial data
  - How are we doing at managing costs and making margins?
  - Financial is a lagging indicator

Balanced Scorecard *(Continued)*

- Vision
- Mission
- Strategic Plan
- Balanced Scorecard – Hospital
- Balanced Scorecard – Department or Service Line
- Balanced Scorecard – Individual

Example – Learning & Growth

- Nursing staff turnover
- Staff Turnover
- Staff Loyalty Index
- Medical Error Policy
- Staff Training Dollars
- Access to Training
- Mission Index
- Staff Engagement Index

Example – Clinical & Business Processes (Internal Processes)

- Contractual Allowances
- Bad Debt Expense
- Net Days in A/R
- Unbilled A/R
- MD Engagement Index
- Average Age of Plant
- Falls: Acute Care
- Falls: Swing Bed
- Medical Error Rate
- ER Wait Time
- Responsiveness
- ACE Inhibitor Delivery
- Beta Blocker Delivery
- Antibiotic Delivery
- Aspirin Delivery

Example – Community & Providers (Customer)

- MD Loyalty Index
- Time to Treating Provider
- Courtesy & Respect
- Patient Engagement
- Inpatient Satisfaction
- Emergency Department Satisfaction
- Patience Access Index

Example – Finance (Financial)

- Operating Profit Margin
- Days Cash on Hand
- Commercial Mix
- Net Revenue Increase
- Cost per Patient Day
- Salary & Benefit Expense
- Nursing Staff Productivity

QUESTIONS?

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