HEALTHLEADERS MEDIA CEO EXCHANGE

Insights Report

February 2014 | Report 1 of 3


DANA THOMAS

FISCAL STEWARDSHIP

CHIEF EXECUTIVES ON EVOLVING COST-REDUCTION STRATEGIES

Analysis and in-depth discussions from healthcare CEOs taken from the HealthLeaders Media CEO Exchange in November 2013.

Analysis

FISCAL STEWARDSHIP

EDWARD PREWITT
Editorial Director
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You would expect the financial leaders at healthcare organizations to be obsessed with cost-cutting. But it's not only them: The top executives attending HealthLeaders Media's second annual CEO Exchange, held in November 2013 at the Boca Beach Club in Boca Raton, Fla., say cost reduction and efficiency is their preeminent concern. In a pre-event survey, they also identify those issues as the biggest challenges facing their organizations.

But while attendees of our earlier CFO Exchange tend to focus on improving the revenue cycle, whittling down suppliers' margins, and other means of improving this year's income statement, CEOs look at the big picture for strategic cost reduction. Top leaders seek strategies for making meaningful, sustainable cost reductions to protect margins and fuel growth.

In small-group discussions on the topic of "Evolving Cost-Reduction Strategies," our CEO Exchange participants returned again and again to the widespread waste in healthcare delivery, the opportunities within redesigned primary care, and the need to work better with partners across the care continuum. Joseph Golbus, MD, president of NorthShore Medical Group in Evanston, Ill., typified his peers' thinking when he said, "We can buy cheaper toilet paper and we can change staffing models. But what I think we all need to do ... is get physicians organized around standardizing clinical medicine. That is our challenge."

While some hospitals, health systems, and physician organizations face dire financial situations, many others have time to prepare for the coming cost crunch. In our pre-event survey, half of the CEO Exchange participants say their organizations' operating margins registered slight growth (1%–5%) or significant growth (more than 5%) in the most recent fiscal year. Just under one-third said their operating margins had declined slightly (1%–5%) in the last fiscal year, while the remainder were flat.

What circumstances will top leaders face this year? We will check back at the 2014 CEO Exchange to see if their strategies have taken hold. EIR

Discussion

SUSTAINABLE APPROACHES TO FISCAL STEWARDSHIP

EDWARD PREWITT

Sustainable cost reduction is overwhelmingly on the minds of healthcare executives today. Patient volume is dropping for many hospitals, health systems, and physician organizations. The cost impact of the ongoing shift toward value-based reimbursement models is unclear. Expenses for everything from coding to IT systems are rising. In search of strategic cost-cutting over the coming years, CEOs look at the big picture. Successful financial stewardship will require clinical redesign, physician alignment, and partnerships across the care continuum.

But how long will it take for these mega-shifts to take hold? The tipping point away from fee-for-service medicine is a topic of debate. It remains unclear how healthcare reform will shake out. Physicians, payers, and other players in healthcare have their own bottom lines to protect. There are many more questions than answers to the cost conundrum.

Concentrating on cost centers

Labor is the biggest cost throughout healthcare, so it's an obvious place to begin on cost reduction. But layoffs are difficult even when necessary. "We've reduced staffing probably in the 30% range over the last five years, primarily through attrition. We did a 10% reduction this past July," says Todd Linden, president and CEO of Grinnell (Iowa) Regional Medical Center. "In 25 years of being a hospital CEO ... it was the first reduction of force I'd ever been part of. I kind of wore a badge of honor that I never had to do that in the past, but we focused on performance, and morale actually got stronger in the organization."

Labor productivity is a preeminent concern for top leaders, and IT investment is one way to get more out of existing staff. "We've all got the same number of hours per patient per day. We're trying to get our floor nurses [to be] more efficient," says Allen Weiss, CEO of NCH Healthcare in Naples, Fla. "The numbers say there's 20% to 30% of

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their time actually doing care, the rest of the time either being scavenger hunters or not being able to find info. ... We've got 'smart rooms,' so that's helping the nurses out quite a bit. Getting them closer to the patients. When you walk into the room, on your badge there's an RFID ... and up pops the patient's electronic medical record and it identifies the patients, and then everything is wired."

The drive to standardize clinical care

CEO Exchange participants tend to look quickly to the big picture for cost control. "To me, the money for cost reduction in healthcare is in standardizing clinical care," says Joseph Golbus, MD, president of NorthShore Medical Group in Evanston, Ill. "We can buy cheaper toilet paper and we can change staffing models. But what I think we all need to do at the end of the day is get physicians organized around standardizing clinical medicine. That is our challenge."

John Haupert, president and CEO of Grady Health System in Atlanta, sounds a similar note. "Our top concern is working with our physician leadership and medical staff to proactively drive waste out of the system for much more organized, evidence-based practice. I think that is one of the areas where we have a huge opportunity."

Getting physicians aligned with new approaches to clinical care is no easy task, notes Todd Werner, CEO of Banner Gateway Medical Center in Gilbert, Ariz. "We think the big lift is going to be with fundamentally changing how we deliver care. That

To me, the money for cost reduction in healthcare is in standardizing clinical care.

JOSEPH GOLBUS, MD, PRESIDENT OF NORTHSHORE MEDICAL GROUP IN EVANSTON, ILL.

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has our physicians front and center. Having them on board is a big challenge, especially when there isn't a gold-plated standardized way that their societies and others have said, 'This is how you do it.' "

Data analytics offers promise for determining new clinical care standards. "I think really getting down into the weeds and understanding clinical variation is a completely different game," says Michael Wiechart, the newly appointed president and CEO of Capella Health in Franklin, Tenn. "You can be 'efficient' doing the wrong things very well. Clinical effectiveness, conversely, is doing the right things very well. You need clinical informatics, IT solutions. We're increasingly focused on clinical variation and doing it at the patient bedside."

Challenges of the care continuum

What happens after patients leave the hospital matters more than ever, as readmission penalties and value-based payments take hold. Leaders must pay attention to care outcomes from organizations other than their own. "The problem is, it's not what happens in your four walls," says Kurt Barwis, president and CEO of Bristol (Conn.) Hospital and Health Care Group, Inc. "It's what happens after the patient leaves your hospital: 85% of your patients are going to the skilled [nursing] facility, so your cost is $5,000 more than the big centers in other parts of the country, where 85% of their patients are going to homecare. ... We've got a lot of cost out. We've held our overall expense increase to just about zero for the last five years. We've implemented a whole


DANA THOMAS

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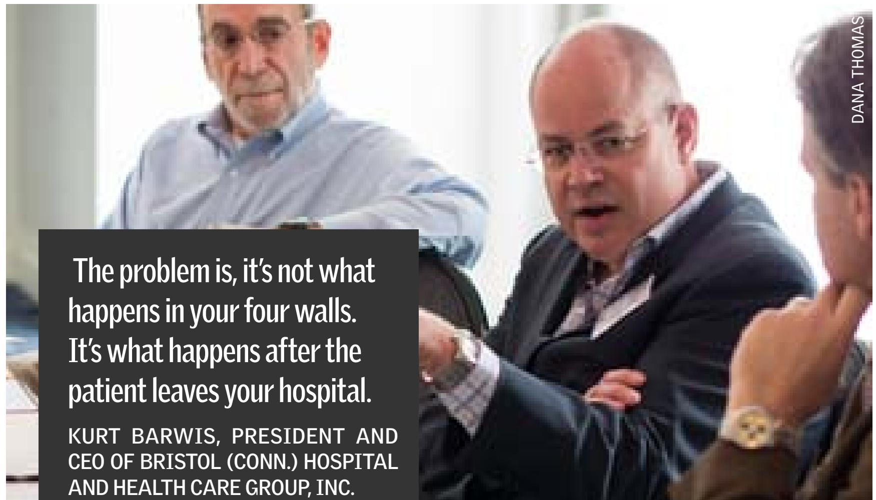


The problem is, it's not what happens in your four walls. It's what happens after the patient leaves your hospital.

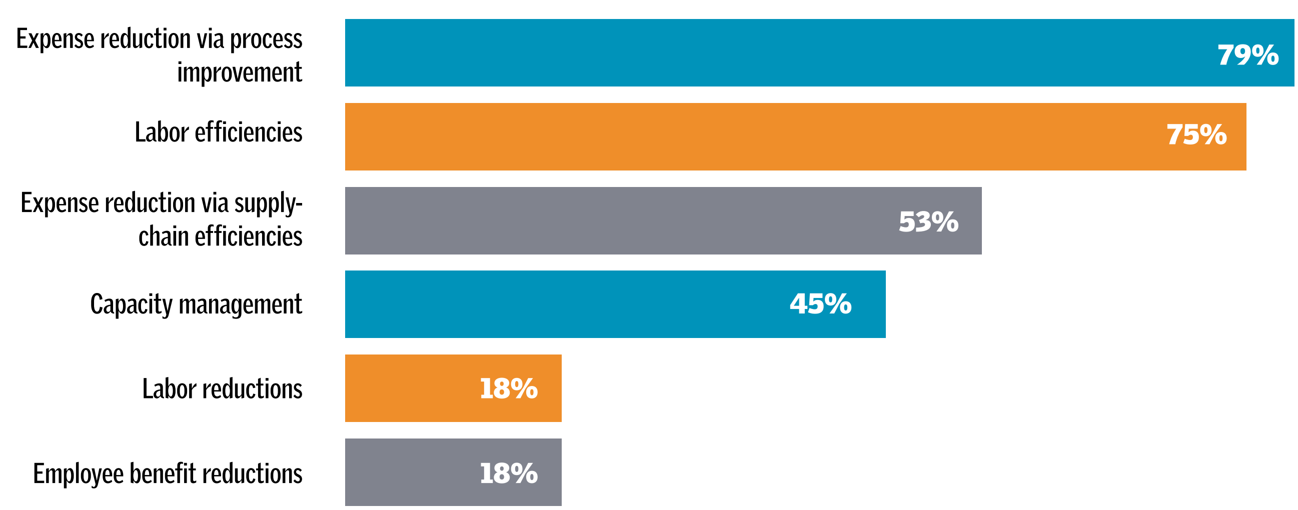
KURT BARWIS, PRESIDENT AND CEO OF BRISTOL (CONN.) HOSPITAL AND HEALTH CARE GROUP, INC.

bunch of changes. ... But I have to be much more aware of what happens when the patients leave my hospital."

Echoing that sentiment from a different geography, Keith Alexander, CEO of Memorial Hermann Memorial City Medical Center in Houston, says, "We have to figure out how to manage the total cost of care, which involves cost before hospitalization as well as the hospitalization and posthospitalization. We're trying to

COST CONTROL, FOCUS AREAS

What are the top three areas you will focus on next year to control costs?



Multi-response
SOURCE: *HealthLeaders Media Industry Survey 2014, CEO Report: The Winners and Losers of Healthcare Reform*, January 2014

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COST CONTROL, OVERALL PERFORMANCE

How would you rate your organization's current cost control performance?

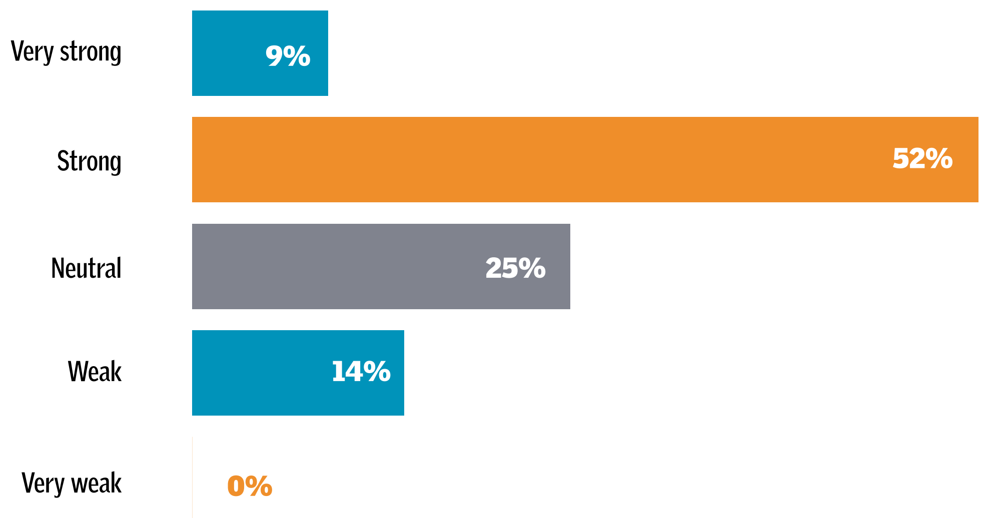

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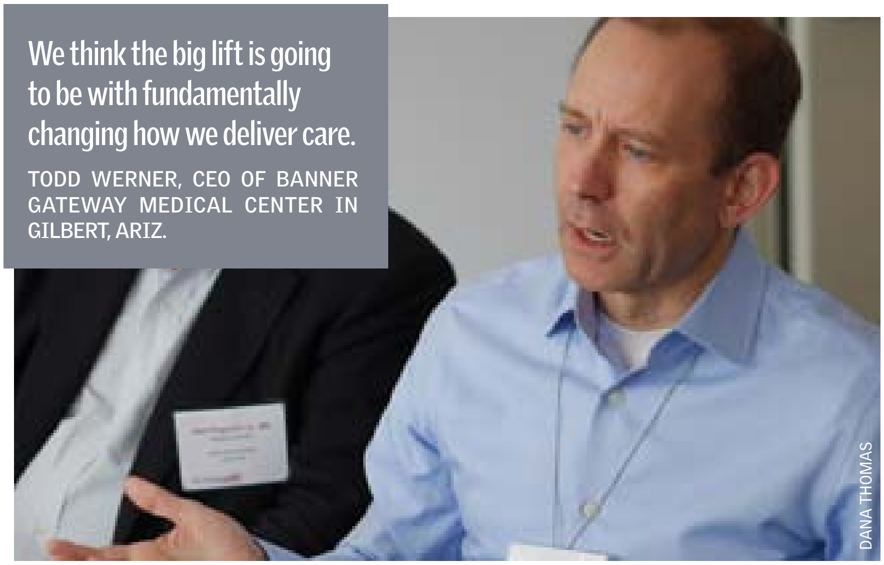
figure out how to take costs out along that entire continuum. ... We don't own the prehospital stuff, nor the posthospital stuff—various SNFs and LTACHs or home health agencies—and yet we're showing up on a CMS scorecard and my hospital doesn't look all that good. I'm thinking to myself, 'How do I change that unless we more closely align with physicians and local postacute care providers?"

Where does cost-cutting end?

CEO Exchange participants bemoaned that the end of the current cost squeeze is unclear—a tunnel with no sign of light. "About three years ago, we cut about 25% [of] cost out of the system, but we still can't make money. So that's the biggest challenge: When you've already cut to the bone, where do you go from there?" asks Linden of Grinnell Regional Medical Center.

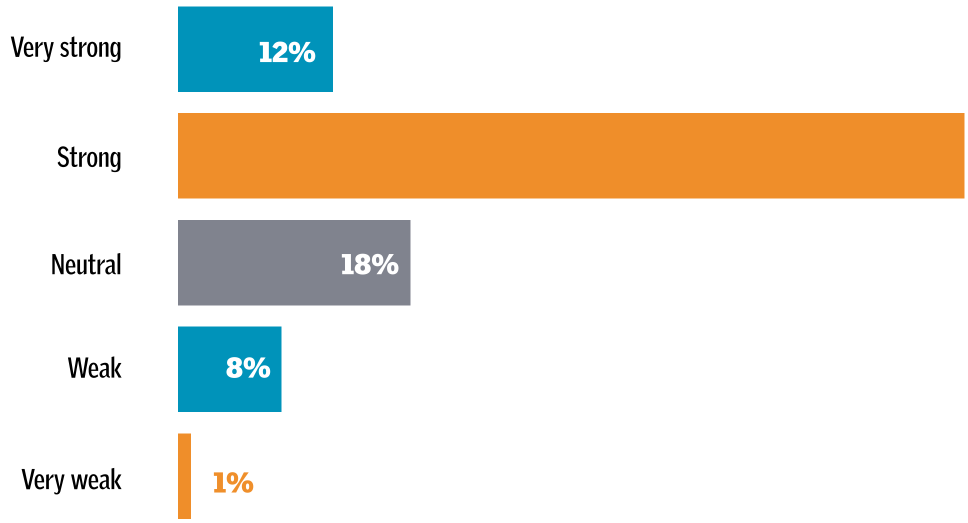
Dave Brooks, president of St. John Hospital & Medical Center in Detroit, says, "If you're managing, within reason—productivity and supply cost at the lowest quartile—what is

> We think the big lift is going to be with fundamentally changing how we deliver care.
>
> TODD WERNER, CEO OF BANNER GATEWAY MEDICAL CENTER IN GILBERT, ARIZ.



FISCAL MANAGEMENT, OVERALL PERFORMANCE

How would you rate your organization's current performance in fiscal management?



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next? I think the key is how do you find structural cost reduction? I'm getting convinced that we just can't cut nursing staff much further in most units or other variable costs and still have a high level of quality service and some level of improving clinical quality."

A cost-cutting mind-set is foreign to much of healthcare, says Patrick Cawley, MD, CEO of Medical University of South Carolina Medical Center in Charleston, S.C. "The thing that we're struggling with is the constant culture change of cost reduction. We've been very successful in some ways cutting costs in the last several years, but I have people coming to me saying, 'I did my share' or 'I'm done.' Other industries don't do that because they see the value in constantly picking away at costs. ... We're not there."

The uncertainty of the shift from fee-for-service to value-based payment makes management and forecasting difficult.

The thing that we're struggling with is the constant culture change of cost reduction.

PATRICK CAWLEY, MD, CEO OF MEDICAL UNIVERSITY OF SOUTH CAROLINA MEDICAL CENTER IN CHARLESTON, S.C.

PERFORMANCE ON COST REDUCTION INITIATIVES

How is your organization performing on each of the following?

	Strong	Neutral	Weak	Don't know	Not involved
Cost containment/removing waste from the system	57%	30%	12%	0%	1%
Reducing excess/unnecessary care	37%	45%	14%	4%	0%
Responding to reduced reimbursements	34%	49%	12%	2%	4%
Disease state management	27%	40%	21%	4%	8%
Nurse navigators/care coordinators	23%	33%	19%	6%	19%
Preparing for bundled payments	17%	34%	36%	4%	10%

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Steve Simonin, CEO of Iowa Specialty Hospital, located in Clarion and Belmond, Iowa, says, "I know how to behave in the fee-for-service world. I know how to behave in a capitated world. How do you navigate knowing it's going to take several years to get from one to the other?"

Cost-cutting will be an imperative until the current transformation of healthcare shakes out. "I think the game is to cut our costs until we're capitated, because I think we have the right model," says William Streck, MD, president and CEO of Bassett Healthcare Network in Cooperstown, N.Y. "We have a chance, but we've got to squeeze the expenses so tight, standardize, and then get the capitation."

Edward Prewitt is editorial director for HealthLeaders Media. He may be contacted at *eprewitt@healthleadersmedia.com*.

Additional Resources

About Us

HealthLeaders Media is a leading multi-platform media company dedicated to meeting the business information needs of healthcare executives and professionals. To keep up with the latest on trends in physician alignment and other critical issues facing healthcare senior leaders, go to *www.healthleadersmedia.com*.

Consult Exchange Insights Reports to learn more about the concerns and solutions of senior leaders attending HealthLeaders Media CEO Exchanges and CFO Exchanges.

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