

# Three Key Strategies for Healthcare Financial Transformation

By Health Catalyst Editors

Health Catalyst

*This report is based on a [webinar](#) presented by Steve Vance, MBA, FHFMA, on October 30, 2019, entitled, “Why Accurate Financial Data Is Critical for Successful Value Transformation.”*

The shift towards value and consumerism in healthcare is pushing providers to adopt new financial mindsets and strategies. Approximately 50 percent of CMS payments are now tied to a [value](#) component. The CMS Innovation Center has allocated nearly \$5.4 billion to implement 37 value-based payment models, with 55 percent of those funds marked for development and implementation of additional value-based models. In order to succeed in today’s rapidly evolving business environment, healthcare organizations must have—and leverage—accurate financial data.

Since 2013, Medicare [dollars at risk](#) has increased steadily in the areas of hospital-acquired conditions, readmissions, [value-based purchasing](#), and meaningful use. While some may argue that health systems aren’t yet realizing the benefits, in reality many organizations aren’t employing the necessary strategies and tools to be successful in this value proposition. The shift from volume to value varies across the country and by institution, but experts estimate that approximately [15 percent](#) of payments nationwide are based on value rather than fee-for-service (FFS). Organizations that are unprepared for this shift will be left behind once they reach a tipping point of roughly 26 percent of total payments tied to value-based care (VBC).

## Shifting Incentives to Meet Today's Demands

The shift from volume to value necessitates a corresponding shift in incentives. In a FFS world, providers' financial incentives are tied to higher volumes. In contrast, VBC shifts providers' incentives to keeping people healthy and maintaining healthcare utilization at appropriately low levels. Living in both a FFS and a VBC world creates conflicting incentives, placing payment models at odds with one another, but providers can thrive if their organizations have the right tools and data to manage these competing incentives.

## The Importance of Accurate Financial Data in Reducing Costs

Providers and healthcare organizations aren't alone in taking on more financial risk. Consumer healthcare costs have increased by more than [25 percent](#) since 2014, largely due to an increase in high deductible health plans, and consumers are also paying more for health insurance as plan premiums continue to rise. As a result, healthcare users are increasingly demanding cost transparency and convenience. In order to meet these rising demands, health systems must shift their mindset and strategy, or risk being left behind.

As healthcare organizations embrace new payment methodologies, they must have accurate financial data. According to the [Healthcare Financial Management Association](#) (HFMA), not-for-profit hospital average operating margins are at an [all-time low](#) of 1.6 percent, and approximately 30 percent of those hospitals are operating at a loss. While many healthcare organizations focus on increasing topline revenue, eliminating waste can be more impactful, providing as much as a [50 to 100 percent](#) contribution per dollar saved.

### #1. Understanding Costs at All Levels of the Organization

The first step to reducing healthcare costs is understanding the current costs. Knowing profitability, operating margins, and the various components that drive these margins is key. Healthcare organizations should understand cost drivers at all levels of the organization, down to a department or even procedural level. Having accurate data is crucial in gaining providers' trust. When reviewing and comparing data such as [cost-per-case](#) between clinicians, healthcare leaders must be able to trust and easily understand the data presented. Additionally, organizations seeking to reduce waste need to trust the accuracy of data that shows those opportunities exist.

### #2. Finding Cost Savings in Waste Reduction

After addressing some of the low-hanging efficiency improvement opportunities, healthcare organizations can dig deeper into the data to uncover more significant areas for waste reduction. This might include identifying variation in provider expenses and patterns such as operating room minutes, implant costs, and many others. Figure 1 illustrates one such example. In this vascular procedures cost-per-case example, the user (Dr. J.) has 15 cases with a \$60,000 average cost-per-case. The mean cost-per-case is \$20,000. That difference of \$40,000 times 15 cases represents a \$600,000 opportunity.

# Variation Example

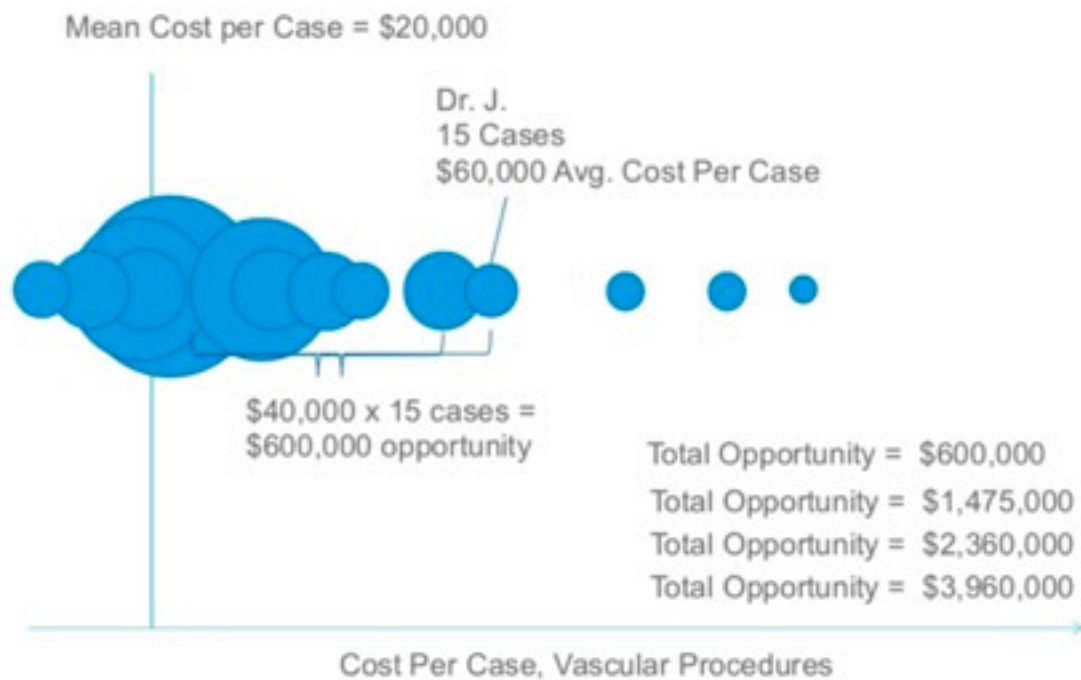


Figure 1: Example illustrating the potential cost savings that come from identifying variation.

## Operational, Organizational, and Financial Strategies for Value Transformation

Healthcare organizations can employ certain tactics for successful value transformation, including operational, [organizational](#), and financial strategies. Accurate financial data is crucial to the success of each one.

### Operational Strategies

Healthcare financial transformation can't happen without constant measurement and evaluation. The following operational strategies can help organizations cut costs and improve care:

- Identify and reduce variation – Finding and addressing [clinical variation](#) can drive down costs by as much as 30 percent while improving clinical outcomes.
- Link quality to costs – Healthcare quality is [tied](#) to cost; as quality of care increases, costs generally decrease.
- Look outside the hospital walls – Quality and costing data extends beyond the hospital stay. When a patient is discharged, whether to their home, a skilled nursing facility, or other facility, each decision has ramifications for both cost and outcomes. Understanding that data is key to improving efficiency and eliminating waste.

- Use current leading indicators – Healthcare leaders need to look at current leading indicators on a regular basis. Using lagging indicators or post-monthly reports for [revenue cycle](#) and financial metric data leads to late or incorrect responses.
- Report and review regularly and consistently – Healthcare organizations working on process improvement initiatives need to review data on a consistent basis. Multidisciplinary teams should meet monthly to look at financial metrics such as cost, as well as length of stay, return to surgery, mortality, readmission, infection rates, and other clinical metrics to sustain and further improvements.

## Organizational Strategies

Individual efforts alone won't result in sustained improvements. Successful initiatives require systemwide support and the backing of senior leadership, which the following organizational strategies illustrate:

- Establish financial partnerships – In order to achieve financial alignment, the CFO needs to form financial partnerships with clinicians. These relationships help build the trust and synergy needed for organizational change.
- Develop a strategic direction – For financial partnerships with clinicians to work, the organization needs a strategic direction from senior leadership that encompasses systemwide financial alignment.
- Align goal and incentives – Once that strategy is developed, goals and incentives must align at all levels of the organization, including the C-suite.
- Establish a governance structure – Once there is systemwide alignment around goals, real change can take place. A robust governance structure must be in place to ensure data governance and sustained operational and financial improvements.

## Financial Strategies

Quality and cost improvements require informed use of both financial and clinical data in the following financial strategies:

- A robust analytics “toolbelt” identifies opportunities – To realize meaningful improvements, health systems need an analytics toolbelt to identify opportunities and drill down into data to find out the cause of problems (e.g., clinical variation).
- Understanding profitability drives strategic decisions – As mentioned earlier, knowing the profitability at a system level alone isn't adequate. To make strategic decisions, leaders must know and understand profitability at all levels of the organization.
- Strategic thinking is key to success – The CFO or other similar decision makers needs to think strategically to utilize financial data coupled with quality and clinical metrics.
- Profitability is tied to value and quality – Focusing on financial ratios and traditional cost cutting is not sufficient in the long run. The strategic direction needs to include a deep understanding of profitability tied to both value and quality indicators for all segments of healthcare delivery, down to the provider and patient level.

- Accurate costing data is critical to success – Accurate costing data is the heart of the financial data for variation discovery.

## Tools to Support Healthcare Financial Transformation

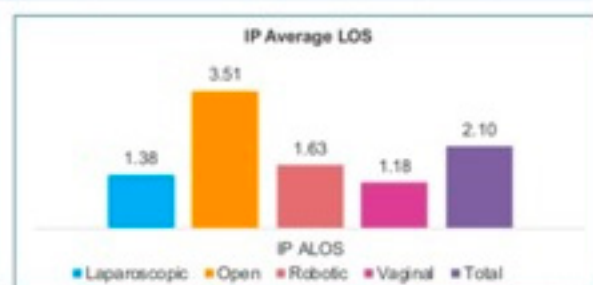
The above operational, organizational, and financial strategies will help healthcare organizations begin their transformational journey, but to succeed, they'll need tools to improve quality and efficiency. The following Health Catalyst tools and resources support organizations on the data-driven journey to massive clinical, financial, and operational improvements.

First, the cloud-based [Data Operating System](#) (DOS™) is a healthcare-specific, open, flexible, and scalable data platform that provides customers a single comprehensive environment to integrate and organize [healthcare data](#). Then, a suite of [analytics applications](#) built on top of DOS allows customers to make measurable clinical, financial, and operational improvements.

The [CORUS™ Suite](#) is especially important to obtaining accurate financial data. This activity-based costing application accurately calculates cost based on activities, whereas other costing tools base cost on work relative value units (RVUs) or a percentage of code charges. CORUS uses more granular data to provide an accurate, comprehensive view of all the organizations' costs, enabling users to identify actionable insights into the real drivers of cost variation. Figure 2 shows a sample report from CORUS that combines both clinical and financial data about hysterectomies.

### Combining Financial and Clinical Ad Hoc Report - Average Cost per Case

	LAPAROSCOPIC	VAGINAL	ROBOTIC	OPEN	TOTAL HYSTERECTOMIES
Cases	870	250	330	280	1,730
Revenue	\$ 6,207	\$ 10,480	\$ 5,152	\$ 7,036	\$ 6,757
Per Case Variable & Supporting Expense	\$ 5,397	\$ 4,400	\$ 6,803	\$ 7,893	\$ 5,925
Contribution Margin	\$ 810	\$ 6,080	\$ (1,651)	\$ (857)	\$ 832



Sample data for illustrative purposes.

*Figure 2: Sample report from the CORUS activity-based costing suite that shows the importance of combining profitability with financial and clinical data to see the total cost of care.*



In this sample report, hysterectomies overall contributed a positive \$800. Drilling down, however, the user can see that, depending on technique, there are significant differences in cost, contribution margin, and outcomes—showing why combining profitability with accurate financial and clinical data is so important in seeing a holistic picture of the total cost of care.

Health Catalyst offers a comprehensive suite of financial applications, such as [Revenue Cycle Explorer](#) and [Financial Management Explorer](#), as well as powerful operational and clinical applications, giving health systems the tools they need for healthcare financial transformation. Figure 3 shows a sample of the applications that work together to provide accurate financial data and insights needed for value transformation.

## Applications

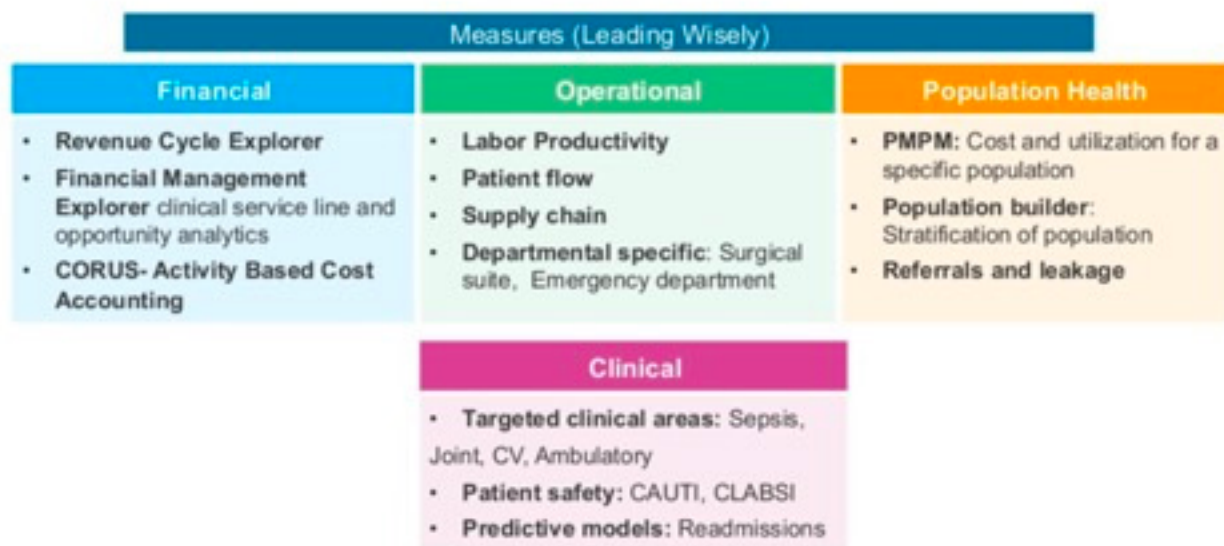


Figure 3: Health Catalyst’s catalog of financial, operation, and clinical applications works together to provide clients the accurate data and actionable insights they need for transformation.

## Financial Transformation in Healthcare Starts with Accurate Data

As the healthcare industry moves further into pay for value, organizations need to shift their strategy and mindset to deliver the best care at the lowest costs. Accurate financial data is critical for any successful value transformation and enables strategic decision making and goal alignment across the organization. Health systems must invest the time and resources to obtain and leverage the data needed for sustained transformation. Organizations must also have a clear long-term vision for financial viability that includes a path to providing high-quality, affordable healthcare. A robust analytics platform combined with operational, organizational, and financial strategies translates to sustained success in the world of VBC. 💡