



How Successful Organizations are Addressing Cost Issues with Data

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Labor costs are the single largest expense item for most hospitals, often exceeding 60 percent of net patient revenue. Organizations need to manage their labor spend carefully to curb costs enough to keep pace with revenues. Those that pursue a data-informed, forward-thinking strategy can slow the growth of labor expenses today while positioning themselves to succeed in a future of continued revenue decline and increased workforce shortages.

Healthcare organizations often seek to lower costs by outsourcing some labor force areas. And yet, like most cost-savings strategies, outsourcing carries risks for an organization and isn't "one size fits all." Systems that succeed with outsourcing pursue a thoughtful, data-informed approach—one that promises not only lower costs but increased value to their organization and a positive experience for their team members. This way of outsourcing is called smartsourcing.

Here is how the most successful organizations are tackling these cost-related problems.

Activity-Based Costing and Clinical Service Lines Team up to Improve Financial and Clinical Outcomes



Executive Summary

Healthcare costs continue to increase at a disproportionate rate relative to gross domestic product, and Americans are becoming increasingly aware that they aren't getting their money's worth. Lack of understanding about how much it costs to provide patient care, and lack of knowledge about how those costs compare to the outcomes achieved, lead to the cost increases. To build sustainability, healthcare organizations must identify and address waste in healthcare and reduce the total cost of care.

UPMC recognized that the common denominator to addressing threats to sustainability is to fully understand and effectively manage costs. It implemented activity-based costing (ABC), facilitated by the Health Catalyst CORUS™ Suite, to deliver detailed and actionable cost data across the analytics environment, and support service line reporting, contract modeling, and clinical process improvement. UPMC has used this capability to effectively drive cost savings and improve clinical outcomes in many of its service lines, including Surgical Services, Women's Health, Orthopedics, and Cardiovascular.

Through its analytics platform and best-of-breed, ABC models, UPMC is improving quality and safety, reducing costs, and increasing value across service lines. For example:

In surgical services:

- Increased insight into cost variation and drivers of inefficiency in the operating room setting.
- \$3M cost savings/avoidance over 2 years through the implementation of the ERAS program.

In orthopedics related to the Comprehensive Care Joint Replacement (CJR) program:

- Improved patient outcomes and quality (readmissions, complications, patient reported outcomes, patient satisfaction, etc.).
- Insight into the most significant areas of opportunity for financial improvement.

Runaway Costs, Dwindling Margins Harm Sustainability

Healthcare costs are climbing disproportionately to gross domestic product (GDP), and are predicted to account for 19.9 percent of GDP by 2025.¹ This spending is exorbitant, and Americans are becoming increasingly aware that they aren't getting their money's worth. Healthcare outcomes lag those of other developed countries, while over \$700 billion of healthcare spending is considered waste. Major factors contributing to increased healthcare costs are a lack of understanding about how much it costs to provide patient care,