Hospital Strategies

Case Study

Coker GROUP
Business Advisors for the Healthcare Industry

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Hospital Strategies

There is not a time in the recent past where hospitals have felt more financial and operational pressure due to the recent economic downturn. Based on that premise, Coker has assisted numerous hospital clients in some unique business opportunities and challenges that focus upon an improvement of the hospital's bottom line.

What Coker Observes

- The hospital 'C-suite' (CEO, COO, CFO) consistently are attentive and focus on hospital margin, in an attempt to understand which service lines are most effective.
- Analyses and attempts by accounting and IT professionals often are looking at historical data and are unsure as to the best method or allocation in a determination of service line margins.
- The measurement of staff productivity does not align with industry productivity standards. As hospital volumes (inpatient, outpatient, ancillaries, and related business activities) either deteriorate or the mix of such volumes change significantly, the hospital does not respond to such changes. This results in a concept of reactive versus proactive management.
- Reduction in force (RIF) is typically the first (and generally only) line of attack in an attempt for the hospital to align productivity and volumes.

What Did Coker Do

- The benefit of Coker performing a service line analysis encompasses independence and objectivity as Coker reviews and applies accounting allocations to <u>every</u> service line within the hospital (inpatient, outpatient, employed physician network, ancillary services).
- Coker identifies real cost and processes through an intense interviewing process whereby internal communications may be 'blind' to roadblocks in regards to better efficiencies.
- The result of Coker's objective study was a reinforcement of certain service lines that were producing significant losses, but also a new awareness to those service lines that were actually thought to be losing money and are actually breaking even or producing a reasonable margin.
- Due to various and complex allocation methods, agreed upon bottom line conclusions could not be drawn internally by management without outside objective assistance.
- The Coker process involves high-level meetings beginning with board of directors, inclusion of senior management, and subsequent high-level but specific reviews with vice president/department head involvement. It is essential to the process that department heads achieve buy-in in order to implement new processes and affect better efficiency.
- Coker's close review of productivity reports quickly identifies dangerous trends in staffing when measured against an appropriate benchmark or statistic.
- Coker applies up to 5 different sources of hospital benchmarking sources to identify areas of concern and align hospital staffing levels with patient volumes and statistics.
- The ongoing process involves consideration of reengineering certain workflow processes that assist the hospital in better understanding how their employees spend their time, and thus become more productive.

- There is quickly an acknowledgement that attrition, overtime, duplication of services, and payroll related benefits are amongst the first area of focus, but that other workflow processes are necessary to effect long-term results.

Coker Documented Results

- Coker client example: a recent valued client expressed that senior management and the board had assumed that a cardiology service line had a minimal loss and that the OB/GYN service line was a cause of the significant bottom-line deterioration. Further, management has assumed that their free-standing psychiatric facility was near break-even and that the orthopedic service line was making a significant contribution to the bottom-line. The result of Coker's independent service line analysis, including a restructured allocation of indirect and overhead expenses, resulted in an analysis where the cardiac service line was actually experiencing in a significant loss, that indeed OB/GYN was producing a loss, but the psychiatric facility had much better than anticipated contribution margin results. In addition, the board of directors and senior management first became aware of the orthopedic service line that was drawing down on the hospital profitability, versus their assumption that they were producing a profitable line of service. The result of the service line analysis and reallocation was a reduction of operating expenses of nearly $17 million dollars.

- After Coker applied the 5 hospital benchmark analyses to the productivity/staffing results, it was apparent that certain areas of the hospital would need to do a better of job of aligning with the volumes and activities they were experiencing. The result of the productivity analysis and the 'reengineering' of certain work processes resulted in a reduction of paid FTE's from near 1100 to 750.

- As a result of Coker's assistance, it became apparent that each respective manager within the hospital would need to refocus their attention on a daily basis within the 24/7 hospital staffing environment. Coker became the objective source for assisting in the much needed changes.