Pressure to cut costs is coming at hospital leaders from every direction. Those who excel at keeping expenses in check are thinking strategically about where to find savings without adversely affecting patient outcomes and hospital or systemwide goals.

Executives would be wise not to wait for the next financial crisis; rather, they should be carefully planning how their cost-management approach gels with their organizational strategy, says Jason Sussman, managing director of consulting firm Kaufman Hall. The questions they should ask themselves are, “How much capital will it take to support our ambitions, and what is the gap I need to make up to get there?”

The next big leap for most hospitals, he says, is figuring out how to sustain any reductions so they don’t start creeping back in down the line. Doing so requires commitment from the top, a plan to follow, data to continuously gauge improvement and a culture that’s dedicated to staying on track. “As well as hospitals have done attacking those areas of low-hanging fruit, the sustainability, vigilance and what we call the hard-wiring of that activity into their annual processes is that next step,” Sussman says.

Faced with sizable reimbursement cuts — about 55 percent of its payer mix comes from Medicare — Archbold Medical Center determined that it needed to trim about $5 million, or 3 percent of expenses, from its budget. So earlier this year, the four-hospital system based in Thomasville, Ga., set out to refine its processes and look for savings, says Charles Hightower, chief financial officer.

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Strategically minded cost managers take the full picture into account when seeking savings in the supply chain, says A. Christian O’Connor, chairman-elect of the Association for Healthcare Resource Management. "Safety net right now is not the place to show the need for substantial construction and expansion," he says. "The need is to re-evaluate how you spend money for what you spend money on."

Hightower says hospital financial leaders manage costs on an ongoing basis, rather than in big batches when a crisis along comes suddenly. "That’s left hospitals with the choice to make those reductions in the years that follow," Hightower says.

"Get the cuts now because the longer you wait, the more drastic the reductions are going to have to be when you do finally make them," Hightower says. "Your goal is to manage costs on a continuous basis, rather than have big initiatives or one big push to reduce a lot of costs." Archbold also found a significant savings through better oversight of the supply chain, including cutting back on the process times doctors received, but that had to better impacts on patient outcomes.

Kaufman Hall advocates that hospitals perform a "strategic cost-management readiness assessment" to gauge how prepared their institutions are for large scale cost reductions. "It’s difficult, and that’s why we have avoided it until now," he says. "There’s a lot of capital funds that can be found, but hospitals must make sure that all employees are engaged and that it doesn’t impact on quality. Any time a department head wants to add resources, an employee must be hired, or he has to prove that the job is going to change or a position can be eliminated.

Sometimes, it might cost a little to lose money, but if it improves the patient experience or the patient outcomes and increases your revenue stream, then it’s worth the extra expense.

It’s very important for hospital leaders to be upfront about the reductions they are going to have to make. It’s that’s very necessary hospitals need to be transparent and honest about the reductions they are going to have to make, and that it’s going to hurt patients, but the reductions are going to have to be when you do finally make them," O’Connor says. "What people need to realize is that hospital leaders and are responsible for making those reductions, and that they need to report that to the organization.

If it’s not the material manager in the CEO’s office, then change occurs not. "Believe it or not, the customer service and quality end of the organization are for leaders to focus on in new ways, scheduling recurring meetings to discuss various items, and talk with management to review the cost data. The association’s board member John Willi, senior director of supply chain management at the Dana-Farber Cancer Institute in Boston, emphasizes the need to tweak further, Iannoni says.

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