Balancing Cost Reduction and Growth

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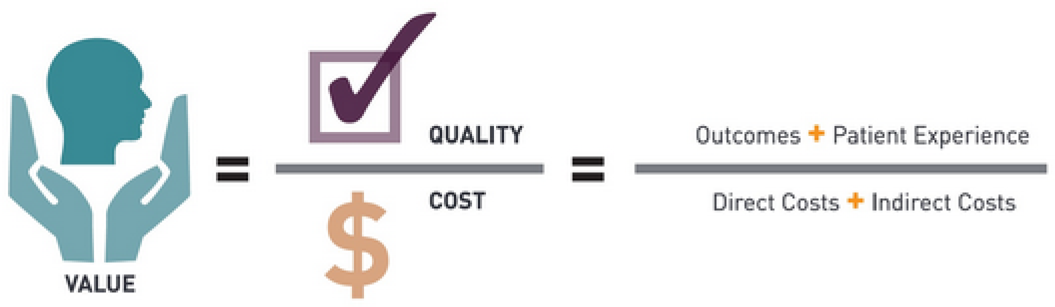
The challenges faced by the healthcare industry require healthcare organizations to reduce costs. Yet many organizations are determined to grow, and doing both simultaneously may seem counterintuitive. Yet the two imperatives are not necessarily at odds.

Growth is typically seen as the product of investment. And reducing costs can itself require the investment of organizational focus and resources. While in other industries quality can be adjusted to generate savings or drive revenues, that's certainly not true in healthcare, where payers and regulators are requiring objective demonstration of better clinical outcomes and care experiences.

So – reducing costs while growing is a complex and intense proposition, but not an insurmountable challenge, as many creative and competitive health systems are proving it is possible. Not easy, straightforward, or quick, but possible.

Rather than viewing cost reduction and growth as in conflict, it may be helpful to see the two as interconnected. Savings from cost reduction can actually help fund growth, and certain types of growth can facilitate cost reduction. And if growth can impact both inputs of the value equation, quality and cost, then perhaps select growth initiatives are the key to driving greater value.

FIGURE I: Value in Healthcare



[1]

Growth via ambulatory care expansion provides a good example. Let's say it has been determined that your health system needs a bigger ambulatory care presence. The

[1] PM360, 'How Do You Define Value in Healthcare?', March 2015
http://www.pm360online.com/how-do-you-define-value-in-healthcare/

underlying rationale may be greater visibility, response to competitor expansion, increased system capacity, more referrals to specialists, or some combination of these and others.

To achieve this expanded ambulatory presence, you invest in a strategically sized and located ambulatory site with the appropriate mix of services. Some proportion of patients previously seen in your emergency department and even some that may have ended up requiring hospitalization seek care at this site. It is reasonable to assume that, compared to the hospital, this site has lower fixed and variable costs, and that this site is more accessible and convenient. Your growth initiative therefore lowers the cost per unit of care (this assumes that the site's operational costs, which are additive to pre-existing costs, are offset by the revenue, direct and/or indirect) and improves the quality of care provided, in that users likely have more positive care experiences and potentially avoid needing inpatient services.

Strategic partnerships provide another example. Perhaps your organization sees the need for greater size and scale to avoid being marginalized in the market and to remain relevant. You pursue some form of partnership with a larger and perhaps more sophisticated partner. Through this partnership you have access to purchasing contracts at better rates and to select administrative functions that were costly to provide on a small base of operations. In an ideal case, working with your partner enables broader standardization that promotes better adherence to evidence-based guidelines, which minimizes variation and eliminates waste. Here again, an initiative with the primary purpose of growth and sustainability results has real potential to improve your cost position and quality performance.

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Clearly, these are simplified examples, and there will remain a need to cut costs and improve quality in ways that may not result from or have any real impact on growth. Further, if cost savings derived from growth efforts are not applied to improve cost-position, are reinvested for short-sighted gains or used in ways that payers and consumers never see, then the potential for synergies evaporates. But if in fact there are ways to grow that will yield more value, and this value is effectively leveraged, then cost reduction and growth can be seen as complementary and not as contradictory paths to longevity.