Efficiency cure

Finding cost savings in healthcare administration

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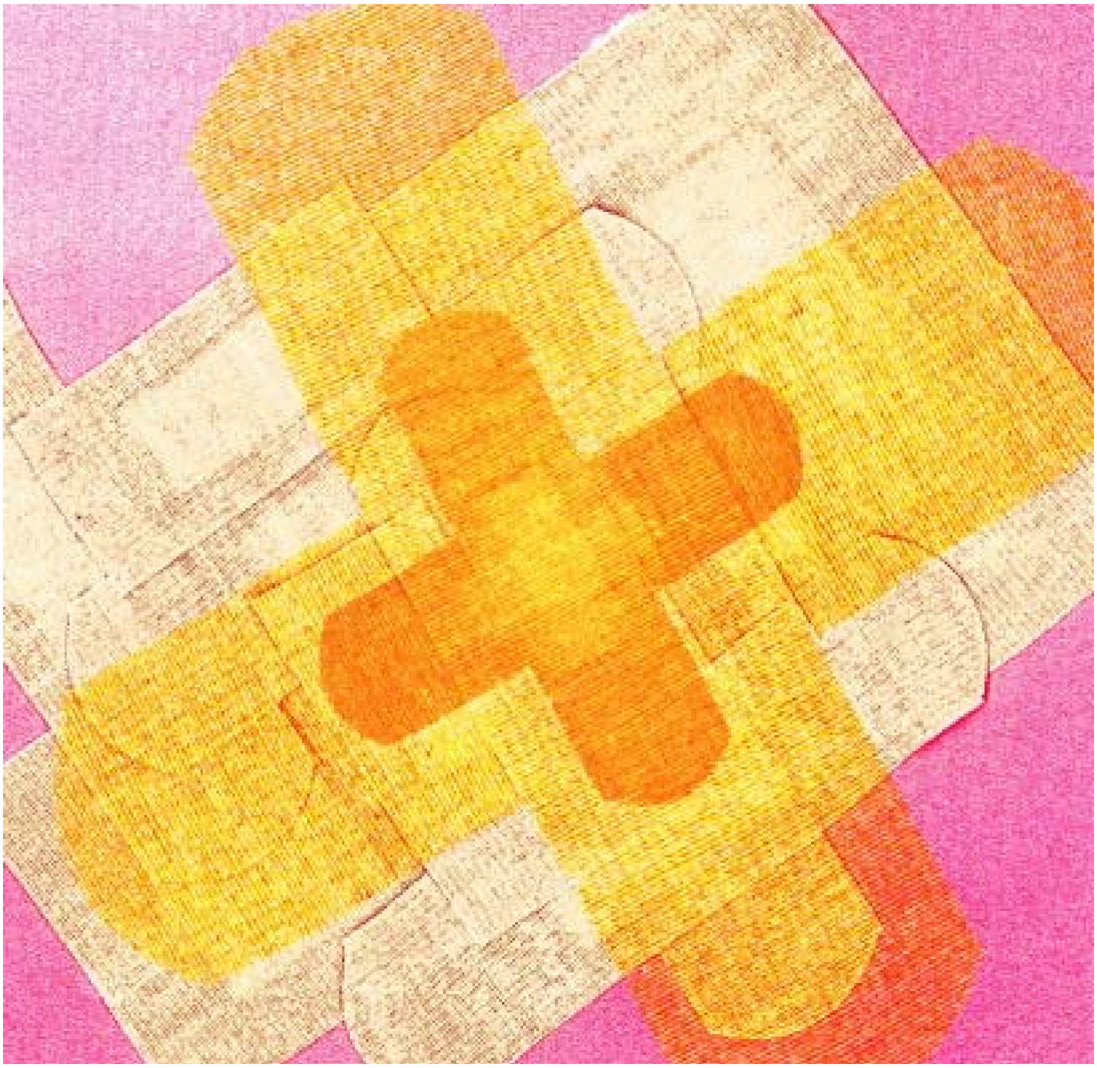

An Oracle white paper

Written in cooperation with the Economist Intelligence Unit

About this white paper
This Oracle white paper was written in cooperation with the Economist Intelligence Unit. The Economist Intelligence Unit wrote an initial draft of the white paper based on an online survey of senior executives in the healthcare industry, as well as on input from Oracle executives and interviews with industry leaders and experts. Feedback from Oracle was included in a revised, final draft.

About Oracle
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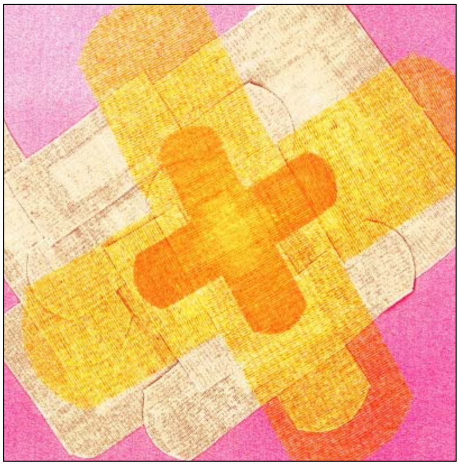

Efficiency cure

Finding cost savings in healthcare administration

Confronted with rising costs, staff shortages and complicated finances, healthcare providers are using technology to find efficiencies in administration and channel savings to patient care

When it comes to matters of life and death, no one wants to pinch pennies. Doctors, hospitals and other healthcare providers are noted for their dedication to providing the best care available, whatever the cost. But an exclusive focus on quality can also be a weakness—and can actually undermine healthcare provision—if it means turning a blind eye to costs. Ignoring opportunities to capture efficiencies can jeopardize the financial welfare of healthcare providers, meaning less money for patients in the long run.

Pressure to control costs is growing, as hospitals, doctors and other healthcare providers face growing criticism from businesses, government and consumers over the soaring price of healthcare. Fortunately, there's an obvious place to start: healthcare administration. "There is money hiding in your hospital," notes John Wookey, senior vice president of Oracle Applications, responsible for the development of Oracle's healthcare product offerings. Scarce resources can be reclaimed through back-office efficiencies in areas like procurement and recruitment, then redirected to patient care.

The symptoms

Extracting these savings is no easy matter, particularly given the litany of administrative challenges currently confronting the healthcare industry. These include:

- Growing government and consumer resistance to the high cost of healthcare;
- Tight margins;
- Complicated finances;
- Staff shortages;
- Supply-chain confusion; and
- Inadequate technology.

Most important challenges for healthcare providers
(up to *three* responses permitted)

Government pressure to lower medical costs	73%
Consumer backlash over rising healthcare costs	55%
Constrained reimbursement from public and/or private payers	55%
Thin profit margins	20%
Workforce shortages	14%
Lack of adequate technology to run administration efficiently	7%
Too many patients	7%

Source: Economist Intelligence Unit survey, January 2004.

Cost concerns. The outcry caused by rising healthcare costs is foremost among these problems. According to a recent Economist Intelligence Unit survey of 53 senior healthcare executives, government pressure to reduce costs is the most significant challenge faced by healthcare providers, cited by 73% of respondents, followed by a consumer backlash over rising costs, chosen by 55%, and constrained reimbursement from public and private payers, also selected by 55% of respondents.

The cost problem is particularly acute in the US, where healthcare absorbs as much as 14% of GDP. But other industrialized nations face similar pressures, particularly as they are often shouldering heavy pension and social welfare burdens in addition to high healthcare costs. “If we don’t fix things, we’re going to break our own backs,” says Michael Davis, a research director at Gartner. High costs in the form of soaring insurance premiums are a particular burden for US businesses. In December 2003, for instance, Ford Chairman Bill Ford Jr. revealed that healthcare costs add $1,200 to the price tag of each US-made car and called for an auto industry “dialogue” on the subject.

Tight margins. Yet while healthcare costs are rising at a disturbing rate, most providers have razor-thin profit margins. For healthcare providers, a 5% margin is generous, and many make do with as little as 2%. “The margins in healthcare are extremely tight,” confirms Jim Williams, director of applications management in the information technology department at Oregon Health and Science University (OHSU), a nonprofit corporation involved in patient care, community service and biomedical research.

Complicated finances. Margins might be helped if the circulation of funds through the healthcare system weren’t so tortuous and opaque. The healthcare payment process, says OHSU’s Mr. Williams, “is very circuitous.” Three parties—the patient, the provider and the insurance company—are always involved; and billing agencies and multiple insurance providers are also frequent players. Multiple parties can cause confusion

about precisely what income a healthcare provider actually has.

"The money flow in healthcare is the strangest in any industry I've ever seen," says Mr. Wookey. This circuitousness makes it extremely difficult to relate revenue to the actual costs incurred in delivering a particular service. Yet if healthcare providers had a way to understand the real cost of each type of treatment, they would be able both to track the margin for specific treatments if costs changed, and to determine overall profitability if their case mix shifted.

"We often didn't have a clue on how things were going financially," concedes Jason Kirk, the financial controller at University College London Hospitals (UCLH) NHS Trust, describing the situation before UCLH replaced a variety of legacy financial accounting systems with a single, integrated system combining reporting, analysis, purchasing and accounting features. UCLH has installed the new system at all eight of the London hospitals it currently administers, with a ninth due to open in 2005.

A further complication is the use of billing systems based on standardized classifications. Under the diagnostic-related group (DRG) system, doctors are paid for a class of treatment such as an appendectomy done on a certain category of patient, rather than for actual services or costs they incur when treating a patient. Billing based on the DRG system has long been the US norm, but is now being launched across Europe. Even in the UK, where healthcare is typically free at the point of delivery, the National Health Service is engaged in a far-reaching reform to control costs and plans to implement national tariffs for services in April 2004.

Frequency of difficulty in filling staff vacancies

Never	9%
Rarely	22%
Sometimes	50%
Often	17%
Always	2%

Source: Economist Intelligence Unit survey, January 2004.

Staff shortages. An acute shortage of healthcare personnel is another serious problem, as cost pressures keep wages low, discouraging recruitment, while demographic factors keep demand high—and rising. "Healthcare is labor-intensive and labor costs go up every year," says Mr. Williams. "When you have shortages of labor, you don't have a lot of bargaining power. It's supply and demand again: costs go up."

Moreover, as baby boomers age, the healthcare system is seeing a surge in the number of senior citizens requiring

medical care. "The population is getting older and older, so we are becoming greater consumers of healthcare," says OHSU's Mr. Williams. At the same time, healthcare professionals who date from the baby boomer era are themselves reaching retirement age, compounding the staffing shortage. "As we get older, so do the doctors and nurses," observes Oracle's Mr. Wookey.

As a result, there aren't enough healthcare professionals to go around, particularly in a number of specialized fields. "Nursing is hurting a lot," says Gartner's Mr. Davis. "We also don't have enough people in pharmacy and radiology." There's little hope for relief. "The shortages are likely to increase," predicts Anna Sestrich, human resources director at OHSU, which has an annual operating budget of over $1bn and more than 10,000 employees. As a result, hospitals face "a competition for talent," says Mr. Wookey. Yet few healthcare providers have the financial resources they need to lure staff.

Measures employed to improve staff recruitment
(multiple responses permitted)

None	17%
Improving compensation	21%
Increasing use of part-time/ temporary staff	33%
Increased advertising	19%
Increased use of Internet recruitment	24%
Increased use of recruitment agencies	38%
Incentives for recommendations from current staff	21%
Improved work conditions	14%

Source: Economist Intelligence Unit survey, January 2004.

Supply-chain confusion. A further challenge for healthcare providers comes from outdated and dispersed supply-ordering systems that can't keep up with a proliferation of new medications and supplies in the health market. In the US, for example, most hospitals have no centralized purchasing department. Personnel often struggle with unstocked supply rooms because providers lack an inventory-management system or a centralized approach to buying supplies. Even if there is a purchasing contract for certain suppliers, goods are often purchased "off contract" because a doctor prefers a certain brand or model.

Frequency of difficulty in ensuring adequate supplies

Never	7%
Sometimes	64%
Often	16%
Always	0%
Not applicable	13%

Source: Economist Intelligence Unit survey, January 2004.

"We have struggled with some of those challenges," says Mr. Williams at OHSU. "It's hard to tell a surgeon who brings in X amount of revenue every year, 'You're not going to use that catheter.'" OHSU has overhauled its procurement system recently, but a consultant's report some ten years ago revealed that the institution had "40 different pockets of purchasing and contracting." That number has since been streamlined to five primary suppliers. Many institutions could incur big savings by buying from even half the number of medical-supply vendors that they do today, according to Gartner's Mr. Davis.

Supplier consolidation is certainly supported by the findings of the Economist Intelligence Unit survey. An overwhelming 91% of respondents said they thought reducing the number of suppliers could cut costs.

Inadequate technology. Healthcare providers are hampered in their efforts to make administration more efficient by technology systems that are outdated and fail to share data effectively with other systems, either within the same institution or outside it. "The legacy systems can't keep up," says Mr. Davis. Adds OHSU's Mr. Williams: "Customer service is more difficult when you have disparate systems."

Recognition of the need for enhanced IT is widespread. But most healthcare providers lack the funds needed to make upgrades. According to Gartner Healthcare's 2003 Integrated Delivery System (IDS) IT Budget and Staffing study, more than half of IDSs (IDSs include doctors' offices, ambulatory clinics, rehabilitation centers, home-health agencies, hospitals and groups of hospitals) expect their 2003/04 IT capital budget either to stay the same (31%) or decrease (23%). IDS IT operating budgets average just under 3% (2.9%) of their entire organization's operating budgets.

Such financial constraints were confirmed in the Economist Intelligence Unit survey, in which 69% of respondents rated their IT budgets

Could supplier consolidation save supply costs?

Yes	91%
No	9%

Source: Economist Intelligence Unit survey, January 2004.

How adequate is your institution's IT budget?

Quite inadequate	13%
Somewhat inadequate	56%
Adequate	31%
Generous	0%

Source: Economist Intelligence Unit survey, January 2004.

as either “somewhat inadequate” or “quite inadequate.” Less than one-third thought IT budgets were adequate, and none of the respondents ranked them as generous.

Not only are healthcare providers suffering from past failures to invest in adequate technology; they are also finding it difficult to make up lost ground. Currently, when an IT department approaches management to request funding for an IT project, “a lot of times administrators will say, ‘It’s a fantastic idea, but we don’t have the money. Come back to us in two years,’” according to OHSU’s Mr. Williams.

Cultural reluctance to embrace technology is also a factor. According to Forrester Research, hospital CEOs and other top healthcare executives are much less likely than their counterparts in other industries to consider information technology vital to their success, or to use business applications themselves.

Supplying a solution

Overcoming this reluctance is crucial to making administration more efficient and easing the burden on clinical staff, however. By revamping business processes and applying new technologies to problem areas such as procurement, finance and human resources, administrators can deliver improved performance. And with smarter information management, says Mr. Williams, “you can get better continuity of care.”

Before making changes, institutions need to create process maps in order to see how they operate and where technology can best promote administrative efficiency. Fortunately, healthcare providers are gradually recognizing the importance of data and how information technology can help to streamline administrative functions. “There’s a need to integrate data flows,” says Gartner’s Mr. Davis. “As soon as you register the patient,” information about necessary supplies, billing information, insurance reimbursements and available medical professionals needs to start flowing through the administrative system—saving staff time and helping the hospital to better serve its patients.

Supply-chain management is a good place to start, given that inefficiencies there are often pronounced and gains can be substantial. Many hospitals let individual departments do their own purchasing, and operate in departmental silos, so “this is one of the great opportunities for healthcare institutions,” says Oracle’s Mr. Wookey. Automated supply-ordering systems can save doctors time and concentrate buying power. They can also ensure “on contract” purchases, manage inventory levels and generally make buying and stocking supplies “a lot less hassle.”

OHSU has seen the benefits. It installed a system that lets employees order supplies online from five preferred providers. Special rates are displayed and all purchase information is fed back into OHSU's IT systems to be used later for further product standardization and price negotiation. Ultimately, OHSU hopes to move to a just-in-time delivery system in which the hospital "buys smaller lots of supplies more frequently to cut a lot of labor costs," says Mr. Williams. "Potentially you can save on the holding costs." Reducing the time that clinical staff is forced to spend on administrative work is another benefit.

UCLH expects similar gains from its new procurement system. Integrated into the finance system, it is expected to "free up so much time for people," says Mr. Kirk. The new technology will also help address issues of contract compliance, helping the hospitals to spend less on better-quality goods. "It's all about better information," adds Mr. Kirk. "We're spread out over ten sites in London and disseminating information to everyone is difficult. But if it's in the system, you update it and everyone knows."

Hiring ease

Human resources is another area where technology can help healthcare providers find efficiencies by automating administrative practices and putting the Internet to use. OHSU is an innovator here as well. "We were stuck in the 1965 'mail-in-your-resume' situation," recalls OHSU's Ms. Sestrich. By the time the hospital received a resume, processed it, sent it through inter-office mail to the hiring supervisors and tried to contact a promising candidate, "the candidate could already be snapped up."

In 2003 OHSU moved recruiting online, and within 30-40 days more than 60% of applications were coming in electronically. Internet recruiting made it possible to respond to candidates within a few hours; the online system "cut out at least a week of processing time" in hiring, reckons Ms. Sestrich. It also eliminated time-consuming forms and filing. "We used to have to be heavy on data entry," adds Ms. Sestrich. "Now we can be on the phone, helping people. We're more customer-focused." The system has "transformed the recruiter's job from paper-pushing to actually recruiting," agrees Mr. Williams.

Now all candidates are registered in a database. If a strong candidate applied for work with OHSU after a position was filled, he or she can be contacted later when a new position opens. Short-listed candidates who opt for another institution are contacted regularly by postcard to keep the door open for an eventual posting at OHSU.

Using management and organizational features that technology offers, "We try to stay in touch with our job applicants," says Ms. Sestrich. "We can see the difference already."

The impact of OHSU's shift to an online, automated recruitment system is indeed striking. In mid-2002 OHSU had so many nursing vacancies that it used 200 or more "traveling" nurses on a temporary basis to meet patient needs at its 450-bed facility and throughout its clinics. Since then the number of traveling nurses has declined to 80, "and we are anxious to get that number to zero," says Ms. Sestrich.

Conclusion: Channeling funds to patient care

Other areas of healthcare administration, particularly in patient records, billing and financial management, stand to benefit from IT automation and integration. "We are bringing more doctors into management so they understand that money matters," says UCLH's Mr. Kirk. "The doctors tend to think they are doing the best they can do and financial systems have tended to lag." Thanks to a new finance system in operation at UCLH hospitals, continues Mr. Kirk, "we are becoming a lot smarter at cash collection."

As these examples suggest, improved financial, human resources and supply-chain management systems can all help healthcare providers squeeze efficiencies out of administration. The savings generated can be channeled into new equipment, higher salaries and improved patient care. For this reason, controlling administrative costs at medical institutions is one of the best ways to improve the quality of healthcare delivery. Moreover, as public alarm grows at the soaring healthcare prices, providers desperately need to draw a line on costs. Concludes Gartner's Mr. Davis: "If they don't improve, they won't survive."