



Measure twice, cut once: Three proven strategies that build sustainable margins

Extraordinary financial pressures are forcing the healthcare c-suite to make difficult choices to lower costs. These measures lead to healthier balance sheets, but the benefits are often short-lived with long-term consequences that end up being expensive or even harmful to the organization’s culture and standards of care.

Tighter margins make changes necessary. Kaufman Hall, a Vizient strategic partner, shared that margins were at 1.4% in June 2023.¹ Often, it's patients and the workforce that feel the greatest impact of these cost reduction efforts even as, over time, costs swell again.

As hospitals and health systems work toward a return to better fiscal health, the c-suite should embrace a more comprehensive, holistic and long-term approach. It’s important to strike a balance between short and long-term cost transformation goals. Health systems that concentrate solely on the short-term often miss the opportunity to invest in game changing innovation that sets them apart from competitors. Vizient recommends a well-crafted plan that focuses on revenue growth and sustainable margins while maintaining high standards of care and restoring exhausted, burned-out workforces.

Where should healthcare leaders begin for a sustainable cost transformation that doesn’t cause organizational harm? Table 1 identifies three critical strategies: Utilization and variation improvement, care redesign and workforce optimization.

Table 1

Challenge	Utilization and variation improvement	Care redesign	Workforce optimization
Clinical and non-clinical workforce challenges	✓	✓	✓
Rising acuity and length of stay (LOS)			✓
Procedural shifts to alternative sites of care			✓
Increasing chronic care demand including behavioral health			✓
Recessionary pressures affecting consumers and employers		✓	✓
Pervasive care inequity and access challenges		✓	✓
Margin pressure from inflation and reimbursement challenges	✓		✓
Persistent inflationary pressures across the supply chain	✓		✓

To speed up cost transformation and margin growth, leaders must align values and strategies, recognizing they are all interconnected.



Strategy one: Utilization and variation improvement

While traditional tactics such as productivity improvement initiatives and contract negotiations are proven ways to lower costs, health systems should adopt broad strategies that offer greater transparency into traditional and alternate care pathways and outcomes across the enterprise. Better utilization and efficiency improve speed to therapy and patient outcomes while simultaneously managing cost. Consider the following approaches that can standardize and connect improvement across the health system:

Adopt clinical protocols for high-volume conditions

Vizient data reveals significant disparities in clinical practice and resource utilization at the regional, state and national levels. These disparities exist across service lines and therapeutic areas and don't deliver relative differences in outcomes as far as improving patient care goes. Careful analysis enables clinical and administrative leaders to identify discrepancies within their hospitals or health systems. Adopting standardized clinical protocols and prescribing patterns can decrease variation in inpatient treatment of common conditions traditionally associated with inflated costs and poor outcomes, such as sepsis and pneumonia.

Double down on resource stewardship and spend efficiency

Since inflation is driving up costs, health systems should scrutinize all spending. The most significant cost improvements are often found in the areas of indirect spend and purchased services, such as technology contracts that often fall outside supply chain processes.

Want to learn more about capturing savings from indirect spending? Read our blog:

Purchased services represents ideal opportunity to control costs, improve efficiencies



Healthcare providers are facing an onslaught of challenges

Nurse turnover has doubled since 2019, leading to more vacancies. Overtime hours have increased 20% since 2019.²

Direct cost per patient discharge increased 15%. Supply costs increased 14% between 2019 and 2022.³

Procedural growth at ambulatory surgery centers (ASCs) is estimated to increase by 25% by 2032. Growth at hospital outpatient departments (HOPDs) is estimated to increase 18% over the same period.⁴

Chronic disease rates for Americans are increasing. Thirty percent of U.S. adults have a chronic condition. Sixty-eight percent of patients over the age of the 65 have a chronic condition. Inpatient days for diabetes admissions are forecasted to grow by 41% by 2027.⁵

Adoption of high-deductible health plans (HDHPs) continues. In 2021, 28% of covered workers were enrolled in one, a steep increase compared with 2011, when 17% were enrolled.⁶

Costs often go up due to health system mergers, since the integration process can overlook supply spending. Organizations should seek opportunities to control costs by reducing variation and consolidating inventory across hospitals, including newly integrated facilities.

Labor costs continue to balloon, but staff reductions should be considered only after process improvements have been thoroughly examined. Historically, these initiatives have yielded labor-saving opportunities. Leaders should consider process improvements that support growth strategies without the need for additional staff. Areas to examine include imaging, rehab, lab, pharmacy, respiratory therapy and surgery. Additionally, executives should focus on designing work that enables clinical staff to work at the top of their licenses. This includes delegating administrative and clerical tasks away from physicians so they can focus on direct patient care.

Seek procedural efficiency for key surgeries

Payers and patients are seeking less invasive procedures, better outcomes and lower costs in response to advances in clinical technology. These procedures include non-invasive diagnostics, minimally invasive surgeries and interventional medicine.

[Want to learn more about reducing operating room costs? Read our blog:](#)

[Physician preference cards: How a small card can lead to big savings in the operating room](#)

Transform the value analysis process

Traditionally, managing spend has been based on two goals: product standardization and reducing overall costs. However, focusing solely on these two areas undermines factors prized and prioritized by payers, employers and consumers, such as quality, patient outcomes and value of care. The value analysis process should expand beyond fee-for-service considerations such as pricing to drive desirable clinical, patient and financial outcomes.

Transformational value analysis requires an entirely new thought process and should consider life-cycle costs and clinical outcomes.

The results can be substantial; Vizient estimates that transformational value analysis can lead to savings of approximate 20%, meaning a health system that spends an average of \$100 million on supplies can expect to save approximately \$20 million.

[Want to learn more about a transformational approach to value analysis? Read our report:](#)

[Transformational value analysis: How optimizing supply spend savings can maximize health system performance](#)

Strategy two: Care redesign

In the U.S., volume continues to shift from inpatient settings to alternate sites of care across the care continuum. Organizations should adopt an integrated approach to move beyond traditional targets for reducing unnecessary care and focus on designing care around where it is best accessed. Consider the following approaches that can reduce unnecessary care from pre-acute to post-acute to in-home settings:

Eliminate unnecessary or obsolete testing

Labs may improve quality, financial performance and processes by transitioning from transactional to strategic assets while reducing costs and strengthening performance. Through careful program evaluation, Vizient estimates that many labs can trim 7-10% of expenses annually. Education for clinicians around ordering unnecessary lab tests is essential in achieving this goal, since these tests increase costs and delay turnaround times. For example, a national study found that testing patients in the Intensive Care Unit (ICU) increases over time, even as test results move closer to typical values. Nonessential testing consumes limited labor and supply resources and increases the potential for additional costly interventions which can lead to reduced patient outcomes.⁷

Build seamless patient management capabilities across the System of CARE (Clinical Alignment and Resource Effectiveness)

Research from 2018 by the U.S. Centers for Disease Control and Prevention (CDC) revealed that 52% of adults had at least one chronic health condition. Twenty-seven percent of adults had multiple chronic conditions.⁸ Older adults and other complex patients account for a growing percentage of discharges, and these patients need thoughtful and connected care coordination across settings to improve outcomes and reduce unnecessary readmissions. Chronic conditions can be better managed by taking a firmer stance regarding health equity and engaging more patients throughout the System of CARE.

Improving health equity begins with identifying social determinants of health (SDOH) in targeted patient populations and developing interventions to overcome them. By investing in clinical management for these targeted patients, they receive better care and have better outcomes while the health system reduces overutilization in higher-priced settings.

Health systems can benefit from enhanced care coordination that moves beyond discharge summaries and home-care consults to team-based efforts that combine technology, digital patient engagement tools and close team collaboration. Healthcare systems should also build competencies around end-of life care to expand palliative care and hospice access across all settings that focus on educating and engaging patients and their caregivers in the decision-making process.

Broaden the care continuum by expanding virtual access

Telehealth can be a communication channel, a clinical support tool and a platform for diagnosis and treatment. As a communication channel, telehealth enables clinicians to provide consultations to rural facilities or patients receiving care at home. As a clinical support tool, it can relay real-time physical data, alerting clinicians and patients to health changes. Telehealth functions as a platform for treatment and allows health systems to diagnose patients virtually, expanding their digital “front doors” and enabling them to compete with emerging non-traditional competitors. Expanded virtual care can also help to achieve better health equity outcomes.

Segment and treat patients by readmission risk

Care utilization tends to be skewed toward small segments of the patient population. According to the U.S. Health and Human Services’ 2019 Medical Expenditure Panel Survey (Medical Expenditure Panel Survey) data, 5% of the population with the highest health expenditures account for nearly half of healthcare spending.⁹ Healthcare leaders that proactively identify and target these patients, using tools such as predictive modeling during admission and post-discharge evaluations, can significantly reduce utilization and cost. Providers that identify patients with more complex physical and social needs can prevent readmissions and post-acute ED visits. The first step in successful post-acute integration is evaluating provider performance and accessibility. An example of predictive modeling includes assessing whether hospital beds are typically available on short notice.

Strategy three: Workforce optimization

Vizient data raises questions about industry assumptions on how contract labor impacts quality. To better understand the correlation between the effects of contract labor and patient outcomes, Vizient analyzed pre-pandemic data of more than 170 acute care facilities. The analysis found no significant correlation between contract labor and nursing-sensitive quality outcomes. In short, Vizient’s research findings negated the traditional way of thinking and found no relation between contract labor and patient outcomes.¹⁰

Financially unprecedented demand for contract labor continues to strain margins. Shifting the current mindset approach to limiting contract labor to seeing it as a strategic advantage can bolster employee retention and promote a culture of flexibility. This new way of thinking can help organizations reassess traditional approaches that positively improve the profit margin. As a result, the c-suite should think differently to create a long-term contract labor strategy that balances reliance with efficiency and avoids seesaw reactions.

**Want to refocus your contract labor strategy?
Read our blog:**

**Contract labor is here to stay: Three strategies
for long-term success**

In addition to efforts to manage, recruit and retain staff, health systems can use the following strategies that improve workforce effectiveness across the system:

Move patients to optimal sites of care

Health systems can maximize labor resources by accelerating activity related to efficiently managing patient needs in the appropriate sites of care. This helps pivot from traditional one-size-fits-all primary or specialty face-to-face care to new care settings, including at-home care with remote monitoring, visits with more appropriate care providers, etc.

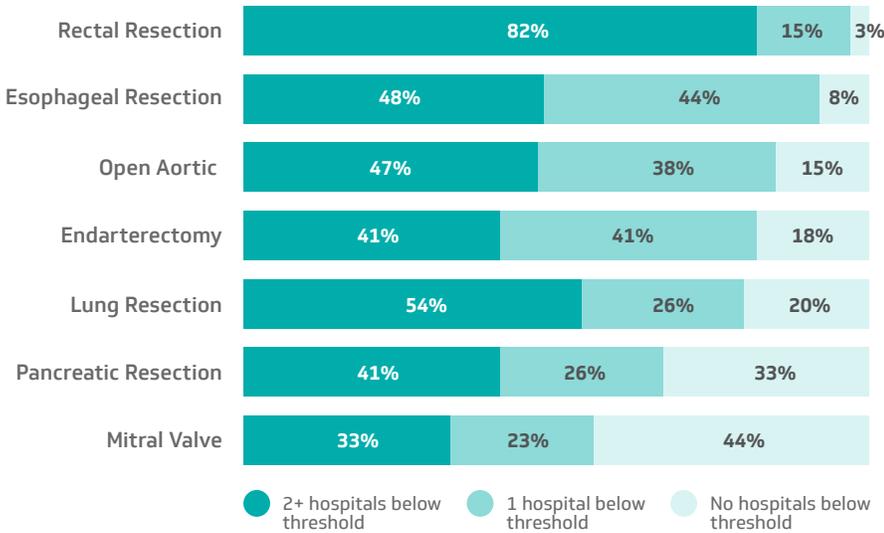


Consolidate for quality and cost management

Health systems should consider service rationalization and consolidating duplicative or low volume services in an identified market. Reducing these redundant services allows for more precious resources and better quality. The graph below illustrates procedures sensitive to poor outcomes based on volumes below minimal thresholds.

Providers draw line in sand on high-risk/low-volume programs

Distribution of health systems by prevalence of subthreshold surgical sites



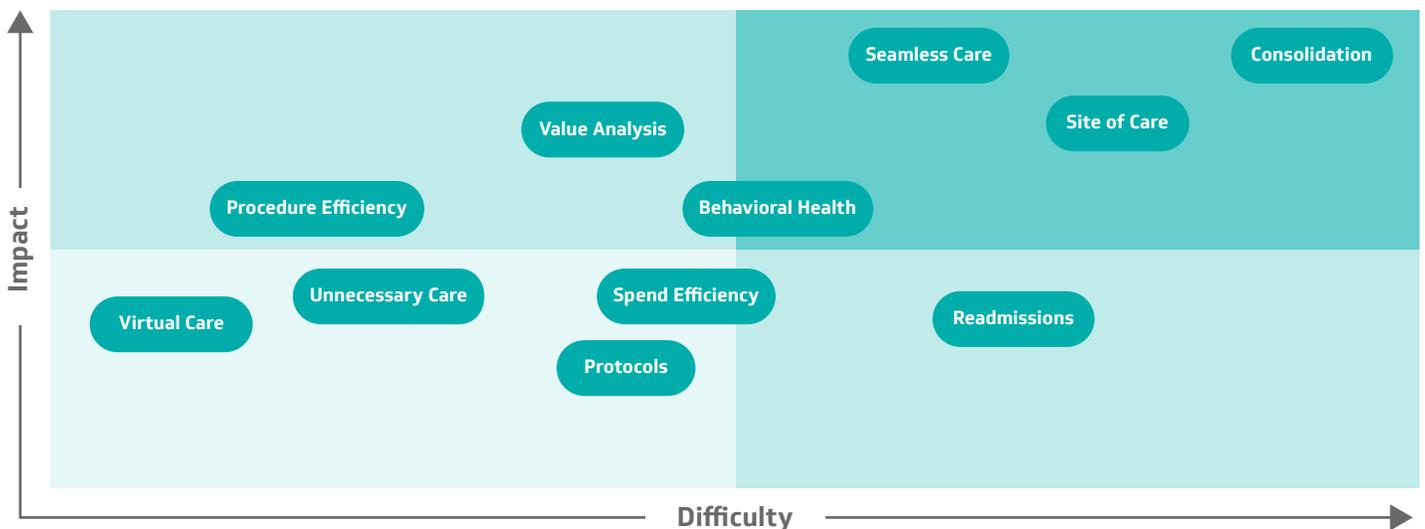
Low volume cost and outcome challenges require consolidation – either within or across health systems – to eliminate high-risk programs below proficiency thresholds

Sources: Vizient Research Institute analysis of 39 multi-hospital health systems in the Vizient Clinical Data Base, 2019; [2020 Surgical Volume-Appropriateness Fact Sheet.pdf](#) (leapfroggroup.org).

Reexamine the deployment of behavioral health services

According to the U.S. National Institute of Mental Health Disorders, part of the National Institutes of Health, an estimated 26% of Americans ages 18 and older suffer from a diagnosable mental disorder annually.¹¹ The National Alliance on Mental Health estimates that untreated mental illness costs the U.S. more than \$300 billion in lost productivity each year.¹² Payment limitations and workforce shortages have eroded the health system’s ability to meet complex needs. Evolving payment models based on value and care coordination reward integration of behavioral services into the continuum. An integrated approach begins with identifying gaps in the System of CARE, recognizing that access challenges will continue. Additionally, all efforts must be made to actively direct patients to the most appropriate resource.

Keys to success for transforming cost





At Vizient, we know the pressure you feel to reduce costs quickly without damaging the culture or standard of care at your organization. It can feel daunting, but the following are the keys to success we've found from working with leading healthcare providers.

Do your homework. Gather clinical evidence and analytics to identify the top cost transformation initiatives for your organization and gain clinical and administrative buy-in. Focus on initiatives aligned with organizational culture and mission.

Build a framework to address variation. Utilize a structured process that benchmarks market performance compared to your competitors. In addition:

- Prioritize the clinical populations that may require the greatest cost and variance reductions
- Determine which diagnosis-related groups (DRG) reflects the greatest total cost reduction opportunity
- Identify high-cost DRGs that also carry a high degree of cost variation, indicating potential opportunity for standardization

Strengthen the System of CARE. Integrate primary and specialty services to improve care pathways, enhance patient experience and support implementation of new care models. Establish programs and services to bolster historically weak areas in the continuum:

- Health promotion and wellness
- Palliative and end-of-life care
- Behavioral health and psychosocial support

Tier and tailor care coordination based on acuity and risk assessment. Example tiers may include:

- **Level I—Basic management:** Ensure all patients receive age-appropriate preventive services and timely care for acute conditions
- **Level II—Management and coaching for simple chronic disease:** Ensure patients with conditions such as hypertension and asthma understand and comply with care plans, engage in optimal self-care and receive recommended follow-up care
- **Level III—Complex chronic care:** Requires ongoing complex medical decision making and coordination among multiple providers. Monitor frequency of ED visits, admissions and readmissions and track psychosocial challenges

Build strong partnerships across the ecosystem.

Accelerate cost transformation by leveraging the expertise of supplier partners, especially in mitigating acute pain points like workforce, efficiency, clinical quality, patient engagement and satisfaction. Create a “win-win” through creative contracting allowing suppliers to participate in appropriate strategic initiatives.

Today's financial climate presents the health system c-suite with a unique opportunity to transform spend management across the enterprise by focusing and prioritizing initiatives that reduce variation and unnecessary utilization, redesign care and drive workforce effectiveness. This work is complicated but should be implemented immediately to create a vision for both short and long-term solutions. The outcome of these changes will not only improve patient care, but also strengthen financial health for all health systems.

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