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healthcare financial management association

HFMA's Healthcare Financial Pulse

Hospitals Transitioning from Tactical to Strategic Cost Management: HFMA Study

Research Findings

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Three quarters of hospitals said they had reduced costs over the past 12 months, and one-fifth of hospitals achieved cost savings of more than 5%, according to results of a new HFMA Financial Pulse survey. Hospitals with 300-500 beds were the most likely to have cut costs.

Cost-containment efforts in the past year focused primarily on the traditional areas of supplies and labor. Supply costs were most frequently managed by negotiating lower prices and more advantageous contracts, standardizing supply choices, engaging physicians in supply-chain initiatives, and holding department managers accountable for supply costs and saving. Labor costs were addressed through staffing reductions, cutting overtime and agency costs, reducing retirement contributions, revisiting employee health benefits, and freezing pay and cutting salaries.

Respondents displayed a modicum of optimism about the financial outlook for FY 2010, with nearly half of respondents expecting operating margins to grow through a combination of cost reduction and revenue growth.

In the next year, respondents report they will use more strategic approaches to cost and margin management. More than four-fifths report that process improvement will be used to

contain costs. More than one-third of respondents plan to reduce or freeze capital spending in 2010. However, hospitals with 100-500 beds are more likely to indicate an increase in capital spending. New construction is the area most likely to be targeted for capital spending reduction. On the other hand more than a quarter of respondents expect an increase in IT expenditures

Growing revenue will be increasingly important as hospitals find that additional cost reductions will take time to achieve. Almost two-thirds of respondents are focusing revenue-growth efforts on existing services. Managing both revenue and expense will be necessary to maintain margins as process improvement efforts unfold, with half of respondents anticipating reversing 2009's cost control measures if the economy improves. This suggests that many of the cost cuts made in 2009 were stop-gap cuts necessitated by the severe nature of the recession.

Moving forward, margin success will depend on:

- > Cost and quality: Driving value by controlling expenses while enhancing quality
- > Wise capital spending. Balancing capital reductions with strategic expenditures
- > Targeted growth. Understanding your market and grow accordingly

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