

Conquering Margin Improvement in a Changing Environment

Focus Ahead For Better Health



The Greatest Opportunities for Margin Improvement

The healthcare environment hasn't just changed. It's constantly changing. From new reimbursement models and regulations, to the rise of consumerism and new technological innovations, healthcare organizations are facing exciting opportunities as well as difficult challenges as pressure mounts to improve quality, access and outcomes.

To survive and thrive in today's evolving healthcare world, you must effectively and efficiently manage your business to not only achieve better patient health outcomes, but to do so at lower costs. To do this, you need to identify and focus on the margin improvement opportunities for your organization.

But what are those opportunities? Better yet, what are some of the greatest opportunities for margin improvement?

We posed that very question to a number of healthcare experts and thought leaders across the industry – from professionals within the Healthcare Financial Management Association (HFMA) to hospital and financial executives, as well as executives from McKesson's own experienced team.

In this e-book, those experts weigh in on what they believe to be some of the greatest opportunities for margin improvement, along with actionable advice on how to take advantage of them.



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If you're ready to learn how your organization can successfully manage costs and operations to improve margins, then dive into the following pages to discover valuable insights and tips.



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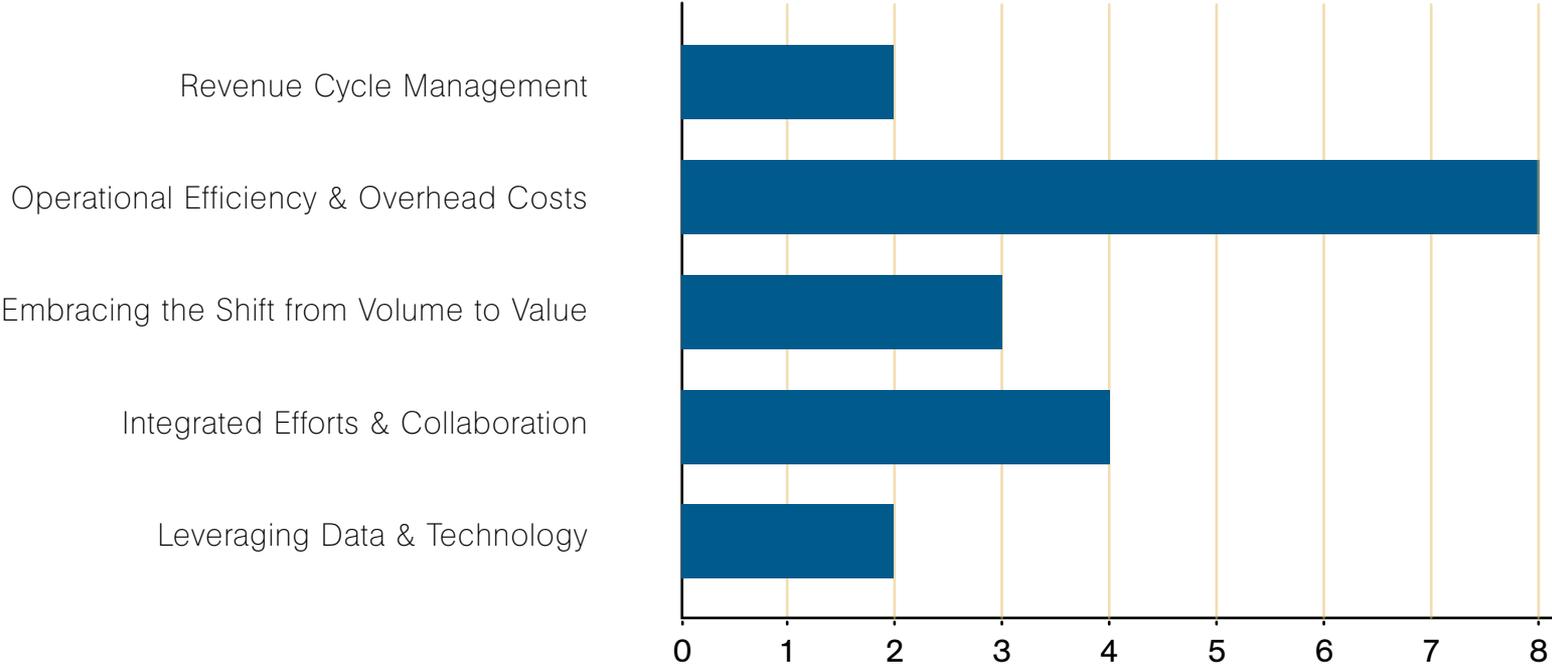
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The Results Are In

When asked what they see as the top opportunities for margin improvement, the largest majority of responses fell within “Operational efficiency and overhead costs,” with “Integrated efforts and collaboration” coming in second:





Revenue Cycle Management





Bess Ann Bredemeyer, RN, BSN, CHC, CHPC, CPC  

Senior Director of Healthcare Consulting
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“A large part of the revenue cycle is changing with the evolving value-based incentive model.” 

For hospitals with employed physician groups, one of the greatest margin improvement opportunities is ensuring they have experts in the **physician revenue cycle** — from charge capture through timely filing — and timely follow-up on correct payment and denials management.

We frequently see large, competent hospitals fail to truly embrace the **uniqueness of the physician revenue cycle**. Sometimes the same words in the hospital world don't have the same meaning in the physician world, and organizations need to dig deep to help ensure each step of the revenue cycle makes sense to their physician groups.

As for the physician groups themselves, a large part of the revenue cycle is changing with the evolving value-based incentive model. As a result, it's important for physician groups to ensure they're working toward understanding the role of this model and taking steps to evaluate their processes to absorb changes that will impact them for years to come.



David Dyke 

Vice President of Product Management & Business Development
McKesson Health Solutions

“There are many proven methods to identify and attack specific operational costs.” ▣

Margin improvement generally translates into cost reduction initiatives that focus on process optimization and quality management, and there are many proven methods to identify and attack specific operational costs. Significant direct costs are related to two key revenue cycle functions: denial management and cost to collect.

Traditional denial management activities are focused on worklists, driven by volume, age or value.

More progressive models attack denials systematically, both at their source and driven by their cost of resolution. There's a significant opportunity to invest in tools that are preventative in nature, focused on areas like **registration quality, patient coverage and eligibility**, as well as clinical areas such as medical necessity and **authorizations**.

In terms of cost to collect, providers should focus on **accelerating patient collections** earlier as well as improving the patient collection rate. Both can be improved by setting appropriate expectations and **making it easy for patients to pay**.



Operational Efficiency & Overhead Costs





Andrei Gonzales

Director of Value Based Reimbursement Initiatives

McKesson Health Solutions

“Providers need to have full view and control over their expenses and business processes.” 

Improving margins and profitability will continue to be a challenge, with increased scrutiny on healthcare costs as a major economic, political and social issue in this country. To meet this challenge, providers need to have full view and control over their expenses and business processes. This requires detailed cost accounting, which has eluded many provider organizations, and collaboration with clinicians and business staff.

Cost accounting in health care is complicated because it requires a layer of clinical analysis to generate an accurate accounting of costs relative to specific procedures and conditions. Knowing the full cost of all of a system’s laparoscopic cholecystectomies is not enough. A health system needs to look at differences between cases from different surgeons and facilities to identify unwarranted variation, local best practices and opportunities for improvement.

Maximizing margins **may result in changes in surgical technique, staff procedures, materials sourcing or many other areas.**



Chinue Jecker, MBA, SPP  

Manager of Knowledge Management
International Capital & Management Company

“Focus on people, process and technology to understand areas for margin improvement”.

From my perspective and background in lean Six Sigma, operational efficiency is the greatest opportunity for margin improvement. Healthcare organizations should focus on people, process and technology to understand areas for margin improvement.

For the people component, organizations should understand how the internal resources (the most valued assets) are used, the skills they possess and their capacity. For the process component, organizations should measure current performance, document their processes, identify root causes for process issues and brainstorm ways the process may be improved. For the technology component, organizations should understand what technology they have or lack, what redundancies exist, and what technology solutions align with their strategy and culture.



Karl Wolf, MBA 

Vice President for Workforce Management
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Billie Whitehurst, BC, RN, MS 

Vice President & General Manager for Capacity Management
McKesson Technology Solutions

“Operational efficiency is more than just reining in labor costs.” 

An integrated capacity management strategy can help hospitals and health systems overcome issues that have a significant impact on margins. For example, traditional approaches to reining in labor costs have been insufficient for creating the operational efficiency hospitals and health systems need to sustain or grow margins today. Why have efforts to control labor costs failed?

1. **Lack of accurate, predictive analytics-based forecasts.**
2. **Inability to make near-time and real-time workforce decisions.**

But operational efficiency is more than just reining in labor costs. Other key reasons that margins have suffered include:

3. Lack of visibility into the patient journey.
4. **Lack of visual tools and indicators.**
5. Resistance to change.

An **integrated capacity management strategy** drives better resource management, helping organizations improve operational efficiency, reduce labor costs, improve quality outcomes and, ultimately, improve margins.



Rob Saunders, MHA 

Senior Consultant

McKesson Business Performance Services

“Constantly review and negotiate commercial contracts whenever possible.”

One very effective way to improve a group’s margins is to **constantly review and negotiate commercial contracts whenever possible**. Physician groups that continually renegotiate their payer contracts often have more favorable terms of reimbursement, allowing them to offer competitive compensation and benefit packages to their employees.

Conversely, those groups that ignore their payer agreements and whose fee schedules have remained stagnant for many years tend to have lower-than-market fees. Further, at some point, those groups with lower fee schedules may have a more difficult time in both retaining and recruiting physicians.

I’d encourage groups to **develop a payer-contracting strategy** which includes, if possible, negotiating multi-year agreements with step increases. The strategy should help also ensure they have an organized system for initiating the next round of negotiations, keeping in mind each payer’s termination deadline.



Jo-Anne Brown 

Director of Accounts Receivable
Lighthouse Guild International

“Organizations most likely to thrive are those that embrace the change and find opportunities for rebirth.” 

As health care gradually moves to a value-based environment, the organizations most likely to thrive are those that embrace the change and find opportunities for rebirth and expansion. Operational efficiency will no doubt be a major key to success.

Start by reviewing and updating SOPs (standard operating procedures) to ensure processes are in place and accountability for non-compliance exists. Evaluate staff placement and shift responsibilities as needed, and ensure existing technology is utilized to maximize productivity and clinical outcomes. Also assess your patient population, the appropriateness of services provided and how well customer service is executed.

Next, be sure to educate your clinical and business staff. They need to understand the mission, standard procedures, risk areas and expectations as it relates to the organization and the industry.

Lastly, invest in change. Provide adequate and ongoing training, adopt new technology that will enhance business processes and patient engagement, and use analytics to keep your organization on target and thriving at optimal performance.



Christopher Kerns  

Executive Director
The Advisory Board

“Minimizing clinical variation is one of the greatest no-regrets opportunities for margin improvement.” 

Minimizing clinical variation presents one of the greatest no-regrets opportunities for health system margin improvement, regardless of payment model. Services containing large variation in quality also tend to be costlier, and so developing clinical standards around high-variation, high-volume services enhances margins in two important ways:

1. It lowers direct cost by reducing LOS (length of stay), ICU usage, and variation in device and supply spending.
2. The quality improvement it produces helps optimize rewards and reduce penalties from mandatory Pay-for-Performance programs. Advisory Board analysis indicates the biggest opportunities for most organizations lie in four diagnoses: heart failure, sepsis, hip and knee replacement, and labor and delivery.



Tim Wright, PharmD, BCACP [in](#) [tw](#)

President & CEO
Wagner Pharmacy Co

“Supply chain management and diversification in auxiliary services are the best opportunities for pharmacies.” ▣

With specific reference to margin improvement, supply chain management and diversification in auxiliary services are the best opportunities for pharmacies. The disparities between equivalent product cost and the rate at which they fluctuate makes its tight management an absolute must.

Third-party payers are adjusting reimbursements in a far more timely manner, and the contractual agreements that dictate generic drug pricing are changing just as fast, possibly faster. Staying ahead of that is paramount to profitability. Auxiliary services represent another opportunity for pharmacies, as the number of services that payers no longer cover increases daily, leaving them a cash business.



Embracing the Shift From Volume to Value





John Wallace

National Vice President and General Manager of Accountable Care Services,
McKesson Business Performance Services

“Creating and implementing value-based contracts is the greatest opportunity for margin improvement.” 

For providers, **creating and implementing value-based contracts** is the greatest opportunity for margin improvement.

Currently, there are a plethora of different reimbursement methodologies entering the market, all providing alternative revenue streams for providers as they bridge the fee-for-service (FFS) to value-based reimbursement (VBR) gap. As these contracts continue to propagate, providers will miss out on some of the early-mover incentives, which are supporting the lucrative incentives for the provision of high-quality and timely care.

Providers should enter this space more aggressively and drive these conversations with payers, **suggest new ideas** and collaborate with their payers to get ahead of this inevitable wave of change. The question around value-based contracts entering your local market has moved away from “if” or “when” and has simply become “how”.



Emily Dulong  

Director of Operations

Massachusetts Council of Community Hospitals

“One of the most significant opportunities for margin improvement is aggressively moving away from FFS.” 

With the benefit of a head start in expanding access to health insurance coverage, Massachusetts providers have had significant experience navigating a changing healthcare landscape. Our member hospitals provide high-value care that is both affordable for patients and ensures the financial stability of their institutions.

In my experience in health policy, one of the most significant opportunities for margin improvement is aggressively moving away from fee for service and toward population health management. These models prioritize data and information sharing, optimizing integration across hospital departments. They also allow for the flexibility to coordinate with community organizations to manage patient wellness and minimize emergency department use. Most importantly, patients are generally more satisfied and engaged in choosing where to seek care. Healthcare consumers still look to their friends and neighbors for guidance, and happy patients provide the best free publicity for hospitals.

**Suzanne Travis** 

Vice President of Regulatory Strategy
McKesson

“Prepare for a shift away from a predominantly fee-for-service market.”

Health systems and physician practices need to prepare for a shift away from a predominantly fee-for-service market to one where the majority of revenue comes through alternative payment models (APMs).

Since most APMs today are voluntary, providers that aren't participating can prepare for future change by solidifying their current foundation and gaining a deeper understanding of their costs, quality performance and the patient population they serve. A good first step would be to optimize the current revenue cycle process, minimizing revenue leakage due to inefficient claims handling and sub-optimal coding practices.

Once ready to transition to APMs, providers need to analyze their costs and quality of care and be aware of how their performance matches up against regional and national benchmarks. Organizations should also analyze their patient population to understand the profile of patients with the highest costs and poorest outcomes, so that improvement opportunities can be effectively prioritized.



Integrated Efforts & Collaboration



**Jack Hill** 

Executive Vice President & Partner
Accountable Care Solutions Group, LLC

“Providers need to know the market and be able to communicate their value proposition.” 

For healthcare providers, one of the greatest opportunities for margin improvement is exploring collaboration and partnership opportunities. One specific avenue to consider is value-based, direct-to-employer healthcare programs.

Direct-to-employer health plans and programs offer value and financial incentives for both sides — with quality care and better outcomes being the bedrock of revenue for providers, and cost savings and healthier employees being the big win for employers.

In order to form these partnerships, providers need to know the market and be able to communicate their value proposition. They should focus on understanding the purchasing patterns in their market (e.g., what plans are employers purchasing and why?) and use that knowledge to position themselves as a valuable partner that can provide quality care and reduce employer costs.



Jeff Akers, CPA 

Vice President of Financial Management
McKesson Business Performance Services

“Organizations can lose sight of what made them successful: financial health and being competitive.” ▣

Too often, healthcare organizations lose sight of the keys that made them successful: **financial health and being competitive** in the market.

Improving the financial health of a business requires a mix of tactics, including:

- Optimize revenue. Dedicate time to meet with your **revenue cycle management** company to help ensure proper documentation, reduce unnecessary denials, and understand procedure, patient, payer and referring physician trends.
- Create an ideal staffing model and adjust annually. Personnel expenses make up a significant portion of a practice's cost structure. Appropriate staffing levels, particularly in the midst of the changing healthcare environment, drive improved morale, patient care and financial success.
- Leverage capacity. Simply put, only do what only you can do. Outsource all non-clinical administrative functions and leverage physician time to maximize patient and facility outcomes. Depending on what functions are being handled by physicians currently, this may impact the staffing model.



Chuck Alsdurf, MAcc, CPA  

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Susan Horras, CPA 

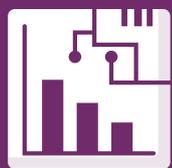
Director of Healthcare Finance Policy – Health Plan and Population Health Initiatives
HFMA

“It’s time to come together as an industry and improve population health.” 

There is an opportunity for margin enhancement in value-based transformation through collaboration among hospitals and health systems, physicians and health plans.

By enabling deeper collaboration through bidirectional data sharing and leveraging analytics, all stakeholders can reduce inefficiencies and waste while improving care coordination and disease management to improve health outcomes and the quality of care. Collaboration of stakeholders can eliminate duplicative efforts in managing the health of an attributed patient population. This will also lead to an improved experience for both the patients and healthcare professionals.

While this is obviously a challenging task, true transformation will not occur with providers or health plans working in silos. It’s time to come together as an industry and improve population health, which should ultimately lead to financial sustainability for provider and health plans.



Leveraging Data & Technology





David Chou  

Chief Information & Digital Officer
Children's Mercy Hospital

“Automation technology is the No. 1 thing hospitals and health systems should be using.” ▣

One of the greatest opportunities for margin improvement is leveraging health IT tools to not only streamline processes, but also identify gaps, spur innovation and improve the patient experience.

With that said, automation technology is the No. 1 thing hospitals and health systems should be using. Whether it's automating billing or workflows or even medical coding, we shouldn't be entering those things manually. This is where technology can really streamline and relate to positive ROI and margin improvement.

In addition, technology should be used to improve the patient experience. People are more digitally savvy than ever before. While traditional communication is important, many people want to be able to engage through the web, email, text and social media. Organizations that provide this level of service can attract new patients and keep others coming back, which has a direct impact on revenues and margins.

**Sally Connally** 

Vice President of Regulatory Strategy
McKesson

“Optimizing margin requires a holistic approach where you are pulling on multiple levers to refine and improve.” 

There is no one panacea that is applicable to every health system or hospital because each situation is unique given the community and environment that it serves. Optimizing margin requires a more holistic approach where you are pulling on multiple levers to refine and improve.

With that said, one of the greatest opportunities for margin improvement for hospitals and health systems is to use data and tools to get a deep understanding of the dynamic relationship between clinical quality and operational costs. This knowledge allows you to optimize patient care, track performance, guide program adjustments and inform contract negotiations.

The must-have components are robust data acquisition and aggregation plan and analytics and decision-support tools. These will serve as the backbone of any margin improvement initiative to optimize future performance.

Read more expert discussion on the journey to financial success for healthcare organizations.

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