

Why Do Cost-Savings Initiatives Fail In Healthcare And What You Can Do About It?

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The healthcare industry is a vital and constantly evolving sector that faces a variety of challenges, including rising costs and increasing demand for services. In order to provide high-quality care to patients, organizations must find ways to reduce costs while improving patient outcomes. Cost-savings initiatives are one of the strategies that organizations use to achieve this goal, but despite good intentions and hard work, many of these initiatives fail to produce the desired results.



How Should You Create Your Cost-Savings Initiative?

A successful organization-wide cost-reduction initiative must include a deep assessment of the current organization as well as the granular detail associated with your non-labor spend. And as with many initiatives – in life as well as in business – we’re often just too close to the matter at hand to make optimal decisions.

For that reason, you need to bring in resources who can offer you fresh eyes and a fresh perspective to look for areas for reducing costs that you may not be able to see yourself. The honest assessment can only come from external resources who have your interests – not their own – in mind. The bias must be removed for the analysis to be both useful and successful.

This external analysis will provide you with insights and opportunities you may never have thought of that are hiding in various corners of your operation. Just because the assessment may come from a third-party, doesn’t mean an outside business or partner will necessarily need to execute the plan – that can still be taken on within the hospital. Unfortunately, despite the best intentions of the leadership team and staff, cost initiatives pose many challenges, and they can often fail.

The purpose of this document and other related articles is to help give you more perspective on why cost-savings initiatives fail and what you can do about it to ensure that your efforts are successful.



Why Do Cost-Savings Initiatives Fail?

There are several reasons why cost-savings initiatives often fall short in hospitals and healthcare organizations. One major reason for failure is a lack of proper planning and implementation. Many organizations begin cost-savings initiatives without fully understanding the scope and complexity of the problem they are trying to solve. This can lead to a lack of understanding of current costs, potential savings, and resources required to implement changes - making it difficult to achieve success.

Another reason for failure is a lack of buy-in from staff and leadership. Cost-savings initiatives often require significant changes in how the organization operates, pays, negotiates, communicates and more. These changes can be disruptive and difficult for staff to accept. If staff members do not understand the reasoning behind the changes or do not see the benefits, they may resist or eventually give up the process. Similarly, if leadership is not fully committed to the initiative and does not provide the necessary support and resources, it is unlikely to succeed.

Another critical aspect that often hinders cost-savings initiatives in the healthcare sector is the lack of a complete and detailed view into their total annual purchased services spend in any real granular detail. To date, traditional industry tools have provided only generalized data, which makes it difficult for organizations to identify specific areas where cost-savings can be made. This lack of detailed data makes it difficult for organizations to make informed decisions and develop targeted cost-reduction strategies.

And lastly, cost-savings initiatives can also fall victim to an absence of clear metrics and measurement. Without clear metrics and measurement, it's difficult to determine if the initiative is achieving the desired results. Many organizations begin cost-savings initiatives without clearly defining what success looks like or how it will be measured. Without clear metrics and measurement, it's difficult to determine if the initiative is on track or if adjustments need to be made.



What Is The Right Way To Execute A Cost-Savings Initiative?

To overcome the points of failure listed above, healthcare organizations must take several steps and put appropriate measures into place. The complete list of these provisions can only come through the consultation of an expert after a detailed review of your environment and procedures. Typically, a winning solution will include a few constant and predictable elements.

First and foremost, your organization must develop a strategic plan that outlines the steps to be taken to achieve the identified cost-savings. This plan should be comprehensive and should include timelines, milestones, and responsibilities for each step of the process. The plan should also be aligned with the organization's overall strategic goals and objectives.



Beyond the plan, you must be sure to get buy-in from all involved parties. This is critical; and you need to go outside your comfort zone and let adjacent groups know about the programs you are putting into place. As an example of this principal, one vital group that must be educated on your initiative is your physicians. Study after study has proven that an educated and empowered population of physicians sitting on the front line of your cost-savings initiative can lead to a major boost to your bottom-line.

Hospitals must also make use of advanced analytics and data management tools that can provide a comprehensive view of their spending across all departments and services. These tools can help organizations identify areas of inefficiency, waste, and overspending, which can lead to significant cost-savings. By gaining a detailed view of their spending, organizations can make more informed decisions and develop targeted cost-reduction strategies.

To track progress, scorecards should be created to monitor weekly financial progress during the initiative. Additionally, a system should be set up to track progress against milestones and timelines. Progress should be regularly reported to senior management and adjustments should be made as necessary to ensure the initiative stays on track.

Of course, these are only a few of the critical steps you need to take to ensure success in your cost-savings efforts. But even after this simple run down of best practices, the fact becomes very clear that this is difficult and there is a lot to keep track of. This level of detail and effort is absolutely vital to ensure the financial health of your hospital or healthcare systems. It is important, to remember you are not alone - there are many systems and facilities that have already put these measure into place, and there are several experts you can rely on to share their best practices and create a road map that you and your organization can follow.

ABOUT THE AUTHOR

Lisa Miller, MHA, founder of VIE Healthcare Consulting (a SpendMend Company) and architect of InvoiceROI™ is a 20-year expert in the healthcare consulting space. She has extensive hospital operations experience and a consistent record of achieving financial and operational performance improvements for both small and large organizations with annual operating budgets from \$10 million to over \$50 billion.

For a different take on why cost savings initiatives fail at hospitals and health systems, please read Lisa's companion piece to this article entitled: "Why do cost savings initiatives fail in healthcare and what you can do about it."

