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Finding new, meaningful financial metrics for hospitals post-reform

Written by Andrew Simon, Partner, Simon Associates Management Consultants | August 21, 2014

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Early action can help preserve hospitals and their brands, avoiding the next consolidation wave

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Given the ongoing changes following the passing of the Patient Protection and Affordable Care Act, there has been some preliminary discussion around the need for new metrics, and contemporary best practices, as hospitals shift from volume to value. Similar to all new metrics, they can be challenging to determine. But that shouldn't prevent people in the healthcare business from at least attempting to define early ways to measure their progress.

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At the very least, new metrics give institutions a place to start, and then they can be adjusted as the new realities, obstacles and benefits of the emerging healthcare landscape become more clear.



For the sake of this discussion, I am going to suggest that there are two sets of metrics that we should call capital "M" and one with a lower case "m." However, we should not assume that one is more important than the other. In fact, they are both critical to the well-being of any healthcare institution.

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Let's start with the big "M." As a recent editorial by Matthew Weinstock states in *Hospitals & Health Net*, "The shift from cost to value inevitably raises the question of profitability. Even with this seismic shift, the bottom line is still the bottom line, and cash flows are cash flows."

Thus, the understanding of what factors affect the new delivery and its bottom line are critical. This is where things begin to get a little murky. Can we understand direct costs? Sure! But what about indirect costs? How to allocate? An example is marketing. If you can create an ROI for inbound marketing, shouldn't you be able to allocate it to a service line, or will it always be treated as an indirect expense?

Unless this is accomplished in a rational manner, you have metrics that don't mean much or more importantly, tell you much. With the drive to value, the cost constraints on institutions, the rise of bundled pricing and the increasingly competitive landscape, I believe there is a future for new costing mechanisms. And when these mechanisms finally surface, we will have some real macro indicators.

So that gets us to the lower case "m." Are there any and can they be used toward the application of metrics? A few years ago I wasn't too sure, but today things are very different.

Let's talk about marketing activities. Now, we market differently because consumer behavior has drastically changed in regards to accessing healthcare. It is pretty easy to identify and develop metrics that are necessary to run your business and calculate ROI. Organizations like [HubSpot](#) focus on measuring the effect of several inbound activities — something that is important to both lead generation and patient retention.

Two other examples to cite are [CPM HealthGrades](#), which provides a platform for hospitals to perform marketing activities and allows you to measure ROI based upon their initiatives. The other is [Truven Health Analytics](#), which offers methodologies that convert what had always been hopeful marketing initiatives into measurable results. In other words, the implementation of strategies and tactics into measurable metrics has become a reality. Thus, the creation of the small "m"

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One more point: People are radically changing within hospital marketing departments. They are much more knowledgeable and more analytical, and therefore have become more important assets of the hospital. In summary, more people are employed with a greater set of skills than ever before.

So where does this leave us? Both the large "M" and small "m" will undoubtedly continue to play a greater role in the future. However, there will be a need to merge the understanding or definition of volume and value to ensure that both are aligned in the future.

As with so many other activities at hospitals, all of these factors will become part of a new set of best practices to help institutions to allocate funds in the right way and remain competitive.

The sooner that hospitals can determine the new equations for their financial success, the better off they will be both short-term and long-term. Many industry observers and experts are predicting waves of mergers and consolidations in the next 10 to 15 years, and the institutions that prove they are both functioning with great innovations and are remaining profitable stand the best chance of continuing to chart their own course.

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