

Dennis Kennedy

## tough times call for data-driven decisions

But finding the right data sources requires ingenuity and resourcefulness.

The nation's economic crisis is posing major challenges for hospital and health system financial executives. They are wrestling simultaneously with the need to access capital, protect revenue streams, and control costs—all in a highly uncertain environment that requires thoughtful analysis and timely decision making.

Clearly in these circumstances, data-driven decision making is essential. However, accessing the right information in a timely and inexpensive fashion is often an obstacle to developing informed analyses. It can be done, though, with a combination of ingenuity and resourcefulness. Finance leaders who tap and effectively analyze sound data sources will enable their institutions to make smart, data-driven decisions that support mission-critical strategies. Here are three real-life examples.

### 1. Negotiating Payment Rates

"Health System A" needed to develop a strategy for negotiating new commercial payer rates. It believed its current rates were significantly lower than those of its larger and financially stronger-performing competitor but had no way of knowing for sure, given the confidentiality of that information.

The system's finance team creatively used publicly available information and performed some simple income statement modeling to estimate the "gap" in rates. Although the competitor's commercial volumes and revenues were not publicly available, the institution's totals could be gleaned from multiple sources, such as web sites, bond offerings, and community reports. Once these data were synthesized, estimating commercial

volumes/revenues—and hence rates—was quite simple. It was just a matter of determining what was "left over" after deducting the institution's published Medicare and Medicaid reimbursements from the totals. The analysis was not exacting or perfect, but it was sufficient to identify a considerable gap between the rates System A was being paid and the magnitude of rates the competitor must be being paid—information that was invaluable to the CFO and his organization in its ongoing rate negotiations with health plans.

### 2. Developing New Services

Senior executives at "Hospital B" widely believed the facility was at full capacity and could not accommodate additional patient volumes. Desiring to grow profitability through new service development that would increase inpatient occupancy, they assumed the institution would have to make a significant financial investment to expand—in an unfavorable financial environment.

The hospital's CFO did not accept this conventional wisdom, instead posing a key strategic question: Can we lower length of stay (LOS) enough to free up the capacity we need? With limited resources, the finance team did not have the time or budget to undertake an exhaustive LOS analysis, a critical step in making an educated, data-driven decision. Instead, they turned to a free resource—the Centers for Medicare & Medicaid Services web site—where Hospital B could compare its LOS with national norms by diagnosis-related-group (DRG). An evaluation of its top-20 DRGs was sufficient to convince the hospital's leaders that there were significant opportunities to lower existing occupancy by reducing LOS, thereby creating capacity in support of a profitable new service—and thus avoiding significant capital investment.

### 3. Acquiring a Pharmacy

Senior leaders at “Hospital C” were seriously considering the purchase of a local pharmacy—a move many providers have taken. Neither party to the negotiations wanted to bring in a broker. Valuations based on a discounted cash flow approach as well as a “rules-of-thumb” approach were quickly completed based on seller-provided income statements and potential assumptions. However, the results of these valuations varied widely depending on the discount rate applied and did not address whether the resulting valuations were fair or consistent with what others in the marketplace would pay.

In search of actionable data, the finance team turned to an Internet web site that listed hundreds of pharmacies for sale throughout the United States. The site provided detailed information, including asking prices and historical cash flow from which actual sales multiples could be

inferred. As it turned out, the site’s multiples generated prices that were considerably lower than the valuations the hospital and seller had produced, giving the CFO a strong data-driven position for Hospital C’s ongoing negotiations.

### Using Ingenuity in Difficult Economic Times

In all three cases, finance leaders operated under significant time, money, and data availability constraints. Yet with ingenuity, they found ways to help their institutions make data-driven decisions that were financially sound and strategically smart. This type of creativity and resourcefulness is essential to our nation’s hospitals and health systems as they meet the many challenges of providing high-quality health care in today’s increasingly difficult economic environment. ●

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