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# 12 Reasons Why Cost-Savings Initiatives Fail at Hospitals and Health Systems

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# INTRODUCTION

After nearly twenty years of working with healthcare organizations across every corner of the country, I see structure, sustainability, and strategy as the most critical aspects of a cost improvement or cost transformation initiative. This, however, is no easy challenge.

Virtually every hospital across the United States, and perhaps globally, is currently working on a cost improvement plan or cost reduction initiative. It's simply a must in today's ever-changing healthcare environment.

However, executing these initiatives is no easy task. Many hospitals and healthcare systems struggle to achieve their cost savings goals. In this article, I will share my perspective on why cost savings initiatives fail. From poor implementation and silos to lack of accountability and sacred cows of spending, I will explore the common roadblocks that organizations face when trying to execute cost-related plans. Understanding these reasons for failure can help hospitals and health systems improve.



## *12 Reasons Why Cost-Savings Initiatives Fail at Hospitals and Health Systems:*

### 1) Poor Implementation

The number one reason that cost-reduction or cost-improvement plans fail, or at least fail to get the maximum benefit from their plan, is poor implementation. Whether due to the availability of time or resources, many hospitals end up simply skimming the surface of their overall plan and therefore missing the opportunities for savings.

Poor implementation can include the length of time it takes to implement the savings. In some cases, plans that should take two to three months to execute, can take more like nine to eleven months, possibly even a year, to finally complete. As you can imagine, or have possibly experienced yourself, this gap in execution means you've missed seven or more months of savings in the interim.



## 2) Silos

By their very nature, hospitals are made of different departments and specialties, each with their own needs and, most likely, each working on their own cost improvement or reduction strategies. While those teams are doing great work, their work also impacts other departments within the organization. This can potentially become an even bigger issue if you are talking about different hospitals within the same healthcare system or hospitals or services that have merged. So, this lack of a coordinated and cohesive cost strategy across the organization is another reason why hospitals fail to achieve their full savings potential.







### 3) Accountability

Often, we see that hospitals fail because there is little or no accountability for executing the plan. Successful implementation requires that someone (an individual or a team) is going to be responsible for getting it done. By giving the right people ownership of the implementation, they should be able to look at the opportunity, benchmark it and then set the goal(s) accordingly. More importantly, though, they need to establish deliverables as well as metrics and reporting to stay on top of the project, keep it moving, and identify issues that may need to be addressed along the way.

**Without accountability, goals and plans often get lost in a shuffle of paperwork on someone's desk.**



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## 4) The Sacred Cow of Spending

Perhaps you've heard it. "We need to cut down on spending, but we cannot look to reduce costs from the [insert your department of choice] department."

We hear this all the time. And before we know it, there have been vetoes from making any recommendations on cost improvement from five or six departments – their sacred cows that simply cannot be touched. My experience is that this often accounts for 30% of the overall spending.

The myth here is that by touching certain areas of spending, you're jeopardizing relationships. This couldn't be further from the truth. The reality is that by turning a blind eye to the sacred cows of spending, you are causing more harm than good. It impacts the momentum, the engagement, and the finances on the path to cost savings.

But when framed another way, you can look at marketing spend, for example, and say, "Listen, we're spending about 15% too much and we want to make sure that we're not paying more than we should. Just like our vendors wouldn't pay more than they should for products and services they buy, neither should a hospital."

That shouldn't impact the relationship, it only should make that relationship stronger.



## 5) Resource and Skill Scarcity

Another big reason why implementation of a cost-saving or cost-improvement plan fails is the lack of resources and skills. Too many times, these initiatives are placed at the feet of individuals who are already thinly stretched with competing priorities. To some extent, this also goes back to accountability. If the person who is accountable, or owns the initiative, does not have the time, attention, or resources to get it done, it's simply not going to happen. So, it's important that when you begin to frame the structure of your cost initiative you understand the resources and skills that you're going to allocate to the project.





## 6) Lack of Consistent, Daily Commitment and Long-Term Sustainability

We've all grown up to hear that "practice makes perfect." Just like that old saying, to realize the full potential of your plan, it must be practiced – not weekly, not monthly. Daily.

Cost-reduction and improvement plans often fail because the team assigned to the initiative is not consistently committed to the implementation of it. Sure, the team in charge wants it to happen, but if the plan is not being lived, breathed, and spread throughout the organization daily, it's not going to be achieved. To be successful, the people involved must be consistently committed with times assigned daily to think through the plan, the objectives, the hurdles, and any opportunities.



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## 7) Lack of Objective Status Assessments

Even the best-laid plan does not always go exactly as planned. But, with the healthcare industry being so complex and rapidly changing, your plan should always be subject to an honest, objective assessment to determine how things are going and what may need to change.

I've seen best-in-class organizations take a real, objective assessment of where they are every two or three years. I'm not talking about an internal assessment, but one that's done from outside the organization that will show where your organization is excelling and where there are areas for improvement. Fresh eyes give you a fresh view to, perhaps, see areas where you may be missing out on cost-saving opportunities.

Sure, getting that kind of honest review, especially on an initiative that your organization has devoted so much time and energy to can be scary. After all, no one wants to admit they missed an opportunity, but plans tend to fail when opportunities - even if discovered from the outside - are ignored. Plans succeed when we learn from new opportunities and act upon them for the best possible outcome.



## 8) Inaccurately Measuring Results

I cannot stress enough the importance of measuring results and doing so accurately and regularly. Often, we'll see organizations create a generalized scorecard for their savings. For example, a hospital may say, "We finished the spine initiative and we saved \$320,000." The check goes in the box to say it's been done and then it's never looked at again. This is a big mistake – because not only does success depend on having the right measures in place, but they must also be revisited regularly.

Measuring results, particularly in the first few months after an initiative has been launched, also means asking questions like:

- Did I get everything that was promised to me?
- Did we miss something?
- Is there some kind of new variation or utilization in spend that is apparent only now that the new pricing has been put into place?

Without the right measures, hospitals don't truly have a litmus test for what is working and what is not. It may also mean that you're not reaching certain goals from the original plan or missing new opportunities that may surface as a result.



## 9) No Strategy

This may seem obvious, but you would be surprised at how many organizations fall victim to not having an actual strategy and therefore fail to save any money. It's critical to have an overall strategy in place to successfully reach your cost-saving or cost-improvement goals. I'm talking about developing a two- or three-year plan that includes strategic initiatives and objectives.



## 6) Not Engaging Front-line People

For any cost-saving or improvement plan to succeed, the people with the boots on the ground need to be engaged – not just aware, but actively involved. This means more than just ideas from employees. It requires an open, ongoing, and collaborative dialog with employees, patients, families, and vendors that allow you to see what you might be missing.

By asking better questions and putting them in environments where they can really stretch their creative thinking and innovation, you can find problem-solving opportunities. You can ask employees and team member, for example, “What did you see that went wrong and would like to change?” or “Are there things that happened during your week that you’d like to improve?” And you can similarly engage patients, families and vendors.







## 11) Underestimating The Pricing War

About six or seven years ago, I started to notice a difference in language structures when it came to pricing and contracts. With the advent of negotiation companies that focused on medical health care vendors, hospital supply vendors suddenly have been growing more skilled in their negotiation tactics. The new contracts marginalize the supply chain, empower the departments, utilize the influencers in other departments and really try to manipulate the supply chain in their efforts.

This is only going to get harder for hospitals because this is just the tipping point. Hospitals really need to become experts in pricing and experts in pushing back on negotiation tactics, pricing, value tactics and all the other strategies they'll be faced with moving forward. The investment to build up your supply chain team must be equal if not greater.



## 12) Overlooking Key Relationships

Have the tough conversations! Never overlook the importance of building and maintaining relationships. Communicating effectively across departments and specialties, understanding others' motivations, and acknowledging the efforts of other people are crucial to the success of any cost initiative.

In the healthcare industry, politics can often come into play, and people want to feel included and heard. Ignoring these aspects can result in resistance to change, lack of engagement, and potential failure of your initiative. Failing to build strong relationships and not recognizing the impact of politics can lead to missed opportunities for cost savings and compromised patient care.

**Therefore, it is essential to never overlook the importance of relationships in any cost-saving initiative.**



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

To overcome the many 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. To track progress, scorecards should be created to monitor weekly financial progress during the initiative. Progress should be regularly reported to senior management and adjustments should be made, as needed, to ensure the initiative stays on track.

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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 is, 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 system. 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.







## Can SpendMend Help?

With over 150 current health system clients comprising 3,200 hospitals and facilities, SpendMend has leveraged their 30 years of experience to develop an expert methodology for ensuring that customers consistently achieve their cost savings goals.

Aided by our proprietary technology, the SpendMend solution is easy to get started and very simple to support. Our best-in-class deliverables include the creation of a strategic plan, the application of advanced analytics and data management tools, the development of custom scorecards, ongoing progress reports to senior management and much more. With a focus on insight, visibility, and cost containment, SpendMend will ensure that your organization improves its financial performance and overall operations.





# About The Author

## Lisa Miller, MHA



Lisa Miller, managing director and founder of VIE Healthcare Consulting, a Spend Mend company. Since founding VIE in 1999, she and her team have achieved over \$1 Billion in non-salary cost savings and margin improvements. Lisa 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 \$10 billion.

For more than 23 years, Lisa and her team have provided cost reduction services and have worked closely with the executive leadership. Lisa has been hands on with analyzing and negotiating agreements, improving revenue operations and providing front line insights to healthcare leaders.



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