



# The 5 provider strategies to improve profit margins



# A new era for health system margins

As health system leaders look to the future, it is clear they face a different kind of challenge to financial sustainability. Multiple factors like growing Medicare enrollment with marginal rate increases, declining commercial rates and shifting sites of care are converging to usher in a new era of slower revenue growth. And as investment in physician practices, escalating pharmaceutical prices and staffing shortages drive costs higher, it's likely these forces will continue to worsen for years to come.

Despite operating in such a challenging environment, health systems have the opportunity to transform their business model, meet consumer demands and create a far more coordinated care experience across the continuum of care. To succeed, health care leaders must focus their limited investment capacity on those initiatives that accelerate advancement of their mission.



From December 2021 to January 2022, the median hospital operating margin decreased approximately 71% without Coronavirus Aid, Relief and Economic Security (CARES) Act funding. (Kaufman Hall)

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Health leaders looking for areas to improve margins should consider the following strategies:

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# Build a path to financial sustainability

Improving financial performance and operating margins has become one of the most pressing concerns for health system CEOs. To meet future margin targets, leaders will have to bring a new level of focus, resources and structure to achieve deeper cost reductions on a recurring basis. At the same time, this is critical to ensuring that health systems can better serve patients and communities, attract and retain a skilled workforce, expand lines of service and preserve capital.

Experienced executives have likely engaged in short-term campaigns in the past to cut costs swiftly, but future financial sustainability requires a more extensive, lasting approach to cost avoidance and reduction. At Optum® Advisory Services, our seasoned team of health system operators and clinicians brings an industry-wide perspective to help clients uncover and assess both current and emerging opportunities for improved cost performance. We work side by side with health system leaders to develop a comprehensive, customized roadmap of cost strategies.



**69% of health systems** report operating margins below pre-pandemic performance. (Kaufman Hall)

## Clinical efficiency

Eliminate clinical care inefficiencies

- Avoidable utilization
- Coordinated care management
- Optimal coding and documentation
- Service line profitability



## Strategic relationships

Business process outsourcing drives non-hospital value

- Strategic growth
- Service rationalization
- Provider enterprise optimization

## Operational discipline

Implement radical operating discipline

- Labor productivity
- Supply chain efficiency
- Revenue cycle optimization
- Corporate cost control

# 1 Align and equip health system leaders

Achieving and sustaining financial performance across a complex organization begins with a centralized approach in which system-level leadership comes together to play a critical role in planning and guiding prioritized initiatives. Equally important is an infrastructure that supports and enables both leaders and teams to achieve transformational change. At Optum, we partner with our clients to design and implement these systems so that leaders can pinpoint critical margin objectives and successfully deploy and manage teams against them. Key elements of our approach include:

## Coordinated leadership structure

- Senior leadership team accountable for achieving results
- Prioritized set of initiatives with clear objectives and timelines
- Clear processes and decision-making

## Transformation infrastructure

- Comprehensive analytics to monitor progress and results
- Execution support and project management
- Organizational culture alignment



## 2 Reevaluate the basics driving your financial operations

Pressure from workforce shortages and rising labor costs has accumulated over the past decade. As these expenses become unconstrained, organizations are forced into a survival mindset. We see this today across health organizations. According to [Kaufman Hall](#), more than half of health systems ended 2022 with negative margins. Thankfully, the solution to many of these challenges fall within the basics of your financial operating model.

Health systems can transform their core practices to address the growing revenue challenges more directly by combining the transformational and transitional philosophies of financial operations sustainability. This means implementing a radical operating discipline while eliminating clinical care inefficiencies.

The core of your health system operating model should incorporate the following 3 strategies:

- Centralized “systemness” – the desire to act as one organization for better results strategy – and governance, with executive ownership of evolution and performance
- Balance of system and local priorities with aligned leadership structure and incentives across the organization
- Strategic deployment of collective assets and focus on optimizing capital, talent and facilities for system growth



From December 2019 to August 2022, there was a **21%** increase in labor expense, a **14%** increase in supply expense and **11%** increase in drug expense. (Aon)



**> \$130M per \$1B of revenue:**  
Average amount of cumulative cost reduction required to maintain a 4% operating margin through 2024

*Moody's Investors Service. Projections based on national 3-year average growth rates of 5.23% annual revenue growth and 6.03% annual cost growth, plus Optum modeling of typical hospital with 4% margin and \$1 billion in operating revenues.*

### 3 Employ automation to modernize health care operations

According to a study by the [Center for Connected Medicine and KLAS](#), health care executives cited artificial intelligence (AI), predictive analytics, chatbots and automation as the technology solutions most needed to improve revenue cycle management. The need for advanced technology is clearly evident in the revenue cycle. In practice, focusing on process revitalization by embedding clinically aware technology that can inform care decisions is one step in improving your margins.

Process automation simplifies manual tasks and improves accessibility. By supporting patient status decisions with clinical evidence and risk factors that are collected automatically, the staff is not burdened by labor-intensive analysis. The result is greater utilization review efficiency, accuracy and alignment of clinical resources.

In addition, self-service functions improve efficiency by letting people serve themselves. These experiences allow your hospital to offer faster, more efficient and more cost-effective support for your community while also removing tedious tasks that take staff focus away from patient care.

AI-based solutions embedded in applications supporting coding, clinical documentation improvement, clinical validation review and medical necessity determinations are ideal for the middle revenue cycle. This is where clinical and financial data merge so these solutions are crucial to ensure accurate billing, reduce denials and improve cash flow.



While most health systems want to lower costs, [41% of hospitals](#) remain in the planning stage of an enterprise-wide automation strategy, with just 25% in the implementation phase. (Olive)

## 4 Establish consistent analytics for improvement and reporting

The health care industry produces a tremendous volume of data. When used effectively, this data can provide insights into how to enhance operational efficiencies and improve patient outcomes. With the right tools, data analytics can aid organizations in predicting risks, identifying and prioritizing resources, and improving revenue. Yet even as analytic tools become increasingly essential for providers, many organizations have fallen behind. As the industry continues its shift to value-based care, providers must find effective methods to improve the quality of care they deliver and improve their reimbursement.

Analytics help you invest in the right products, target the right patients and optimize your organization for improved revenue and better margins. At Optum, we aim to gain new insight into operations and profitability to improve your cost system and reach your business goals. The benefits are realized in several areas including:

- **Supporting treatment decisions** from health professionals
- **Improving accuracy and reducing time** spent on identifying high-risk patients
- **Providing accurate documentation** in electronic health records
- **Improving efficiency** across the care continuum leading to reduced costs
- **Identifying future risks** sooner so resources can be allocated sooner



Despite revenue increases, the median hospital operating margin heading into 2022 was slim, at 2.5%, compared to pre-pandemic baselines, and current hospital operating margins are 40% lower than in 2021. (Kaufman Hall)

## 5 Consider partnerships to push strategic pursuits forward

As health systems look to improve quality and access to health care, they must find new solutions to address the financial and operational constraints that limit their capacity to invest to increase profitability, modernize operations and establish a more integrated model for managing care.

While it's clear that innovation is fundamental to revenue cycle success, most organizations face considerable barriers. Historically, health systems have chosen between 2 options: the first, to go it alone and attempt to enable performance and strategy with a best of breed model; or second, merge with other health systems in pursuit of the scale necessary to achieve operating and strategic objectives.

Hoping that one of these legacy approaches can address each pain point comes with increasing risk. But a partnership with the right organization could be a viable alternative for accelerating your performance and strategy.

Partnerships allow health systems to remain sustainably independent. This independence puts a health system's local community at the front of every decision and safeguards that quality of care and life for patients and staff remains top of mind.

Furthermore, scale is essential in addressing the challenges that health systems face. A partnership model with Optum enables health systems to tap into our scale, broad capabilities, workforce and capacity to invest and innovate. Optum manages health care operations at the largest scale in the industry, which enables us to invest in the technology and talent necessary to accelerate the health system agenda.



Providence, a 52-hospital system, said higher wages, increased agency staffing costs and overtime pushed its labor costs 10% higher year over year. (Becker's)





# Client successes

## John Muir Health

**50%**

reduction in outdated hardware and software

**\$250K**

quarterly savings from online scheduling implementation

**567**

employees transitioned to Optum – 99% of employees accepted their new positions with Optum in phase 1 and 100% in phase 2

**11%**

increase in net revenue yield through improved patient collections

**\$12M**

in non-labor savings

## SUNY Downstate

**12%**

improvement in average CDI assessment score

**3.7:1**

annualized ROI

**\$11.2M**

improved financial standing across 4-year history

**\$6.9M**

in labor savings



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Eric Young is a vice president in the Optum® Health System Performance Improvement (HSPI) consulting practice. In this role, Young has developed a financial forecast model for a potential merger of 2 health systems. He has assisted in a system-wide, high-level cost analysis to identify more than \$34 million of cost savings, as well as a system-wide cost analysis for a \$350 million health system.

Prior to joining Optum, Young was system chief financial officer for a large health system. He managed turnaround that doubled revenues and liquidity, achieving a 4% margin. He financed more than \$200 million in capital to support the organization's strategic plan. He centralized many of the financial functions across the health system, resulting in standardized reporting and increased efficiency, and redesigned financial and statistical reports for the board to provide more transparency.

Young is a CPA and is a Fellow of the Healthcare Financial Management Association (HFMA).



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