

Healthcare Organizations: [Financial Management Strategies]
August 2008 Newsletter



On Facing Competition
- “Embracing the Future”-

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Do you ever wish for a simpler time when hospitals embraced you, when patients were loyal to your practice, when revenue cycles converged faster and insurers paid - rather than challenged you, or when all stakeholders in healthcare deferred to you? Or, when the competitive landscape was, well, less competitive?

Either quite a few of us have selective memories of how wonderful medicine used to be, or we underestimate the value and virtue of what we now have in modernity. Certainly, our professional and personal lives are much more complicated than they were a decade or two ago; but we still live in the most exciting of times. As Charles Dickens said in the introduction to his historic novel *A Tale of two Cities* [1859], "it was the best of times - it was the worst of times." The world of healthcare delivery is no exception.

Evidence-based-medicine, retail clinics, high-deductible health plans, consumer empowerment and transparency, health information technology, fraud and abuse reviews, specialty and niche providers, certificates-of-need, industry mergers, acquisitions and bankruptcies; and many other new ideas are reshaping the healthcare industrial complex. And, in the Internet cloud, we see the potential for a handful of utility-like technology providers redrawing the boundaries of the physician-patient relationship. Some of us tend to view such competitive innovations, especially those that marginalize skill sets, as threats. Resist that temptation.

No question about it, change-especially the accelerated competition that the industry is experiencing, can be unsettling, frustrating and frightening. If it is any comfort to you, this type of innovative disruption is a fact of life in every industry, from financial services - to media - to academia.

Yet, for all the turbulence, healthcare soars forward. For the enlightened physician, healthcare administrator, CXO, CEO or CFO who embraces change, it will create many more opportunities for enhanced care quality and organizational ROI improvements than ever before. So, instead of recalling the halcyon days of yesterday, determine how you and your organization can become indispensable to your patients, doctors, payers and community. Capital will surely follow those who nobly compete.

Glorifying the past is human nature, but do we really buy this nostalgia? Today's new leaders of the healthcare enterprise - call it Healthcare 2.0 - work harder, are smarter and have more grit and determination than those in our day [the 80s]. We believe the economic future looks bright in their hands.

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The same leaders who lamented the passing of the “golden-age-of medicine [1965-90], are the ones who still pine for unbundled super-bills, fee-for-service payment, paper charts, and time-certain hospital admission and discharges, or other relics that were put out to pasture for competitive economic reasons. And, these formerly self-satisfied executives look upon collaborative healthcare competition with a sneer.

If you find yourself in this camp, let **Healthcare Organizations [Financial Management Strategies]** change your outlook and enhance your knowledge of the competitive healthcare business scene. We will continually remind you why you got into medicine, health economics and medical enterprise administration in the first place. More likely than not, it was because of its challenges; not because it’s safe and straight forward. But rather, as Dickens concluded in his tale of revolution, let your decision remain; “a far, far better thing that I do, than I have ever done.”

And so, as a quarterly subscriber, we trust you will review, communicate, use and profit from this issue of **Healthcare Organizations [Financial Management Strategies]**, as well as the hospital systems trend summary listed below.

PS: Don’t forget to review-read-rave and rant online at our web-blog and communications forum, the *Executive-Post*, and spread the word!

Fraternally,

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HOSPITAL SYSTEMS TREND SUMMARY FOR 2007*

*By Richard Frye; PhD
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- In 2006, 52.4% of the 4,956 short-term, acute-care, nonfederal hospitals in the U.S. were affiliated with multi-hospital systems [MHSs], up from 51.8% of the 4,911 in 2005.
- The average number of hospital days per 1,000 members of HMOs not owned by MHSs grew 6.6% in 2006, to 302.2 from 283.6 in 2005, the fifth consecutive annual increase.
- The average number of prescriptions dispensed to non-Medicare members of MHS-owned HMOs decreased slightly in 2006, to 8.5 from 8.7 the previous year.
- In 2006, total hospital outpatient revenue was \$103.6 million, up 9.9% from \$94.3 million in 2005. As a consequence, the outpatient revenue percentage of total hospital revenue increased to 38.1% from 37.4% the prior year.
- Between 2005 (11,485.8) and 2006 (11,292.9), the average number of admissions fell at hospitals in MHSs that owned HMOs, the first such decline in this measure since 2001 (9,799.7). Between 2005 and 2006, the ratio of FTE registered nurses (RNs) to occupied beds rose both at hospitals in MHSs that owned HMOs (to 2.08 from 2.05) and at hospitals in MHSs that did not own HMOs (to 2.02 from 2.00).
- In 2006, total costs per occupied bed were just over \$1.0 million at hospitals that were part of MHSs that owned HMOs, up 4.7% from \$987,827 in 2005. Since 2001 (\$821,194), these costs have risen by more than one-quarter (26.0%).
- Non-MHS hospitals averaged 164.7 outpatient visits per day, up 5.2% from 156.6 in 2005, the fourth consecutive annual rise.

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- After rising notably between 2004 (60.2%) and 2005 (66.4%), the average intensive care unit (ICU) occupancy rate for MHS hospitals fell slightly in 2006, to 65.3%.
- Pharmaceutical expenses per discharge at hospitals tied to government-run MHSs fell 27.9% in 2006, to \$1,380 from \$1,915 in 2005, reversing two straight years of double-digit growth.

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