


HealthLeaders *Media* FACT FILE

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Planning for Profitability

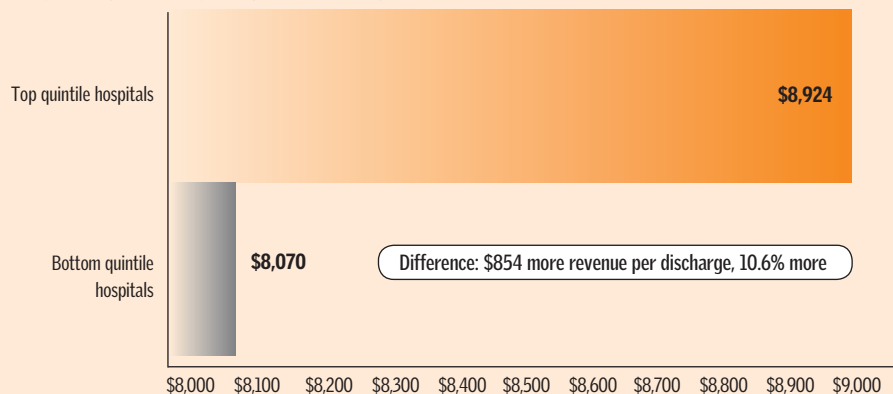
Hospitals need to plan strategically to create revenue growth, and challenging economic times highlight the need for that careful planning. Cost-cutting measures alone cannot lead to profitability. Recent research reveals

that the most profitable hospitals gain more advantage from revenue generation than from expense reduction. And the increase in bad debt and charity care creates additional challenges for revenue growth. 

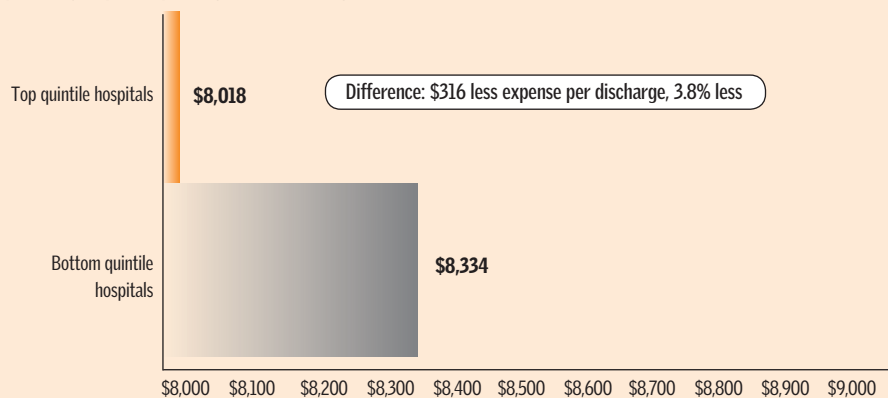
MARGIN ADVANTAGE

The most profitable hospitals in 2008, those in the top quintile (with an operating margin greater than 12%), outperformed those in the bottom quintile (operating margin at -4% or worse) in both net operating revenue and operating expense. But it is the revenue side where the real strength is, as seen in these figures, case mix adjusted.

Net operating revenue per adjusted discharge



Operating expense per adjusted discharge



No Impact

-  Occupancy
-  Case mix
-  Area wage
-  Hospital size
-  Payer mix

As seen above, the top performing hospitals collect more and spend less, contributing to a much healthier margin. And they do this even with less healthy patients; case mix indexes are higher for the most profitable hospitals. Other factors that turn out to have no impact: occupancy rates, area wage index, hospital size, and payer mix.

SOURCE: Thomson Reuters.

Prices Charged

The Producer Price Index measures the average change over time in the selling prices received by domestic producers of goods and services from the perspective of the seller. The monthly price changes have been relatively steady for both physician offices and hospitals. The market for all commodities, by comparison, has seen greater monthly fluctuation.

One month % change	Physician offices ¹	Hospitals ²	All commodities ³
06/2009 ⁴	0.1	0.2	23
05/2009 ⁴	0.0	0.2	0.9
04/2009 ⁴	0.1	0.1	0.4
03/2009 ⁴	0.0	-0.2	-0.7
02/2009	0.0	0.2	-1.1
01/2009	1.2	0.8	0.2
12/2008	0.0	0.2	-3.3
11/2008	0.1	0.0	-5.2
10/2008	0.3	1.2	-5.3
09/2008	0.1	-0.1	-1.1
08/2008	0.1	0.1	-3.2
07/2008	0.2	0.4	2.5
06/2008	0.0	-0.1	2.0
05/2008	0.0	-0.1	3.0
04/2008	-0.1	-0.1	1.6
03/2008	0.0	0.2	2.8
02/2008	0.0	0.2	0.9
01/2008	0.5	0.2	1.3
12/2007	1.1	-0.1	-0.2
11/2007	-1.2	0.4	2.5
10/2007	0.0	2.1	0.7
09/2007	0.6	0.1	0.6
08/2007	0.0	-0.1	-1.5
07/2007	0.0	0.3	0.7
06/2007	0.1	0.1	0.3
05/2007	-0.2	0.0	1.1
04/2007	-0.2	0.1	1.2
03/2007	0.2	-0.1	1.5
02/2007	0.3	0.1	1.7
01/2007	3.3	0.8	-1.0

SOURCE: Bureau of Labor Statistics, www.bls.gov/ppi/#data.

- ¹ Excludes mental health
- ² General medical and surgical
- ³ Not seasonally adjusted
- ⁴ Preliminary data, subject to revision

Upcoming Topic:
» Financial Trends

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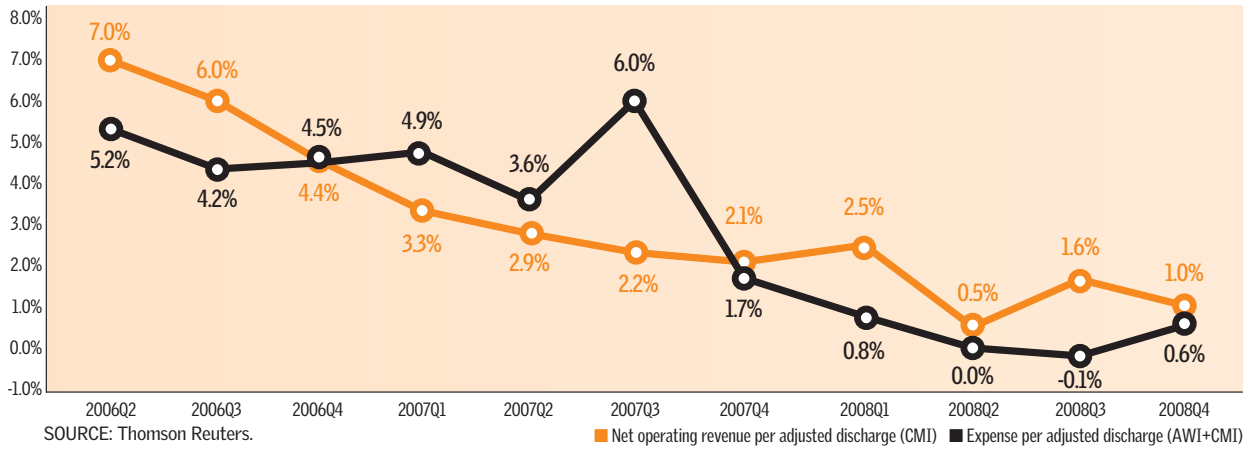
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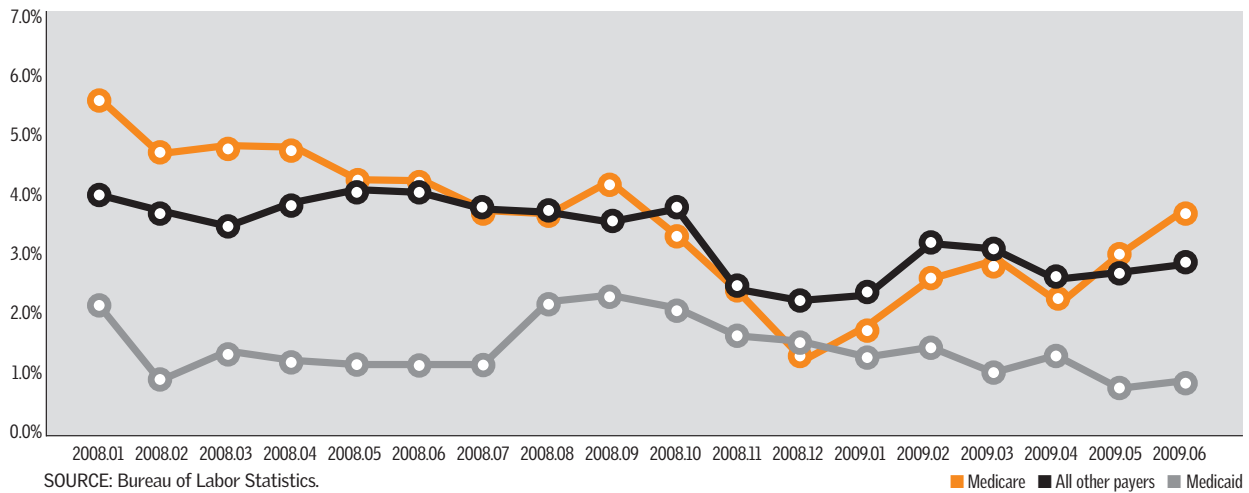
GROWTH RATES SLOW

While high-performing hospitals have substantial revenue advantages, the current recession has placed pressure on hospital price increases. More effort will be required to grow revenue. While year-over-year increases (wage index and case mix adjusted) in hospital expenses have come down from about 5.2% in 2006Q2 to just 0.6% in 2008Q4, revenue increases, too, have fallen sharply, from 7% to 1% over the same time period.



REIMBURSEMENT INCREASES DOWN

The compression in revenue growth is seen in public sources, such as the hospital producer price index. Year-over-year changes by three payer types—Medicare, Medicaid, and all other payers—reveal downward trends in hospital price increases that are below historic levels.



BAD DEBT, CHARITY CARE RISING

Adding to the financial strain, bad debt and charity care are increasing as a percentage of revenue, adding to hospital top line pressures. Thomson Reuters analysts believe the increase in charity care expenses is due in part to better documentation and compliance activities.

