



# The ultimate challenge: cutting costs without compromising on care

## *3 strategies for healthcare providers to transform and achieve the best of both worlds*

On one hand, the U.S. healthcare system has never been stronger. Medical providers and supporting organizations are delivering an unprecedented level of care to more patients than ever before. On the other hand, providers across the country are in the midst of a financial struggle, faced with ever-rising costs and operational complexities that threaten their viability and put patients at risk.

"I think most hospital systems and other provider organizations would agree that, from a business perspective, today's healthcare environment is the most

challenging in history," said Ky Chaffin, managing director of healthcare banking at BOK Financial®. "For years, healthcare CFOs have been searching for ways to control their costs so they can continue to offer high-quality and affordable care. But meeting that mandate is increasingly difficult, and healthcare consumers are feeling the effects."

As pressure mounts, providers must continue to streamline and optimize their operations in every way possible, redirecting the savings and efficiency gains toward the primary purpose of patient care. This paper touches on several financial strategies to pursue such improvements and ultimately create a more resilient, sustainable healthcare system.

## A MULTIFACETED PROBLEM

Recent data suggests that while some of America's largest and highest-performing hospital systems are growing and thriving, many hospitals never fully recovered from the downturn of the pandemic and are struggling under the weight of rising costs. According to the National Hospital Flash Report from healthcare consulting firm Kaufman Hall, 40% of American hospitals continue to lose money from operations in 2024.<sup>1</sup>

Identifying the root cause of any problem may be the first step to fixing it, but as healthcare organizations know all too well, that's easier said than done when it comes to cost pressures.

"The healthcare system is a complex interplay between provider organizations, physicians, patients, insurers, medical equipment and technology suppliers, regulators, and many other intermediaries," said Chaffin. "With so many stakeholders involved, costs pile up at every turn—and broader economic challenges only make things harder."

Multiple drivers continue to push higher costs through the healthcare industry, including:

- **General inflation:** Over the past several years, every person and business in America has had their purchasing power eroded by extraordinary price increases for everyday goods and services. Hospitals are no exception.
- **Labor shortages:** A dearth of qualified healthcare workers has required hospitals to raise wages to attract employees or rely on expensive temporary contractors. Meanwhile, understaffed facilities operate less efficiently, further driving up the cost of providing care.
- **Technical innovation:** While advancements in medical equipment, pharmaceuticals and other areas have enabled revolutionary new treatments, providers and patients are bearing the cost of R&D, additional training and other factors.
- **Regulatory compliance:** Federal and state regulations, while necessary for patient safety and quality control, require extensive documentation and record-keeping, driving up administrative costs.

In the face of these unprecedented increases in the cost of delivering care, many healthcare providers have faced the related problem of reimbursements increasing at a slower pace. Healthcare payers (private and public insurance organizations including Medicare and Medicaid) are themselves working to counteract the rising costs of patient care, which has led to more restrictive payments to providers.

This confluence of challenges creates a financial quandary for most hospital systems, especially smaller, local or regional organizations with limited resources and influence.

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## STRATEGIES FOR SAVINGS

For healthcare CFOs across the country, it's clear that something has to change. Provider organizations must identify and seize opportunities to maximize cost efficiencies on the business side of healthcare, while continuing to provide and expand access to the high-quality care their communities depend on.

"The challenge that healthcare leaders face is how to manage costs without sacrificing the quality of care and service that are core to their missions," said Chaffin. "Hospitals are resilient organizations and have a history of adapting to changing conditions. The good news is most organizations still have plenty of ways to improve their financial efficiency away from the bedside."

He outlined strategies that have already proven fruitful for many best-in-class organizations that could be implemented to cut costs or increase income for those organizations needing to maximize efficiencies.

### 1. Shortening the revenue cycle.

Any business, regardless of industry, could benefit from accelerating their receivables, as getting paid in less time supports a healthy cash flow and working capital position. For healthcare providers, however, speeding up collections can be an extremely complex proposition given the sheer number of parties and processes involved. From patient registration through payment posting, claims travel through a gauntlet of data entry, review, approval and collection steps, any of which could be derailed by human error or confusion, resulting in time-consuming follow-up or outright denial of claims.

For these reasons, among others, healthcare organizations are prime candidates for automation technologies. Specifically, Robotic Process Automation (RPA) and artificial intelligence (AI) solutions can help hospitals streamline revenue cycle management by reducing manual taskwork, automatically routing information and minimizing human errors. Common use cases include automated billing and claims processes; advanced clearinghouse services to help ensure accurate and efficient information exchange between providers and payers; and lockbox services, in which a financial partner collects, processes and posts payments on the provider's behalf.

Not only can technical solutions like these help hospitals collect revenue faster, but the efficiency gains can also reduce labor costs.



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## **2. Offloading non-care and non-revenue-generating activities.**

Accelerating the revenue cycle through technology is one area where hospitals can improve financial efficiency, but it's far from the only one. Whether it's automating other repetitive tasks or outsourcing certain functions altogether, hospital administrators are looking for any opportunity to run leaner and focus more intently on their core purpose: delivering high-quality care.

In the 2024 Healthcare CFO survey by Grant Thornton, 71% of respondents said automation was a key focus area to reduce labor costs while improving the patient experience.<sup>2</sup> Accounting solutions such as payments automation are an increasingly common way to meet those goals, as are programs that can automate many tasks related to purchasing and inventory management, regulatory compliance and reporting, human resources, and information technology.

Beyond these technological solutions focused on workforce efficiency, hospitals are also cutting costs by reducing or optimizing the physical facilities in which they operate. As larger healthcare organizations have expanded their footprints over the years to offer many forms of local outpatient facilities, they have also taken on massive responsibilities in terms of real estate management and building maintenance. Thus, an increasingly prevalent strategy is to transfer the burdens of ownership to third party firms.

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“Whether it's outsourcing, automation or divesting of real estate assets, these are complex decisions that can impact the overall culture of an organization and must be undertaken with a long-term, strategic view. In any case, every dollar saved by streamlining or outsourcing non-core functions is a dollar that can be redirected to patient care,” said Chaffin.



### 3. Emphasizing outpatient delivery models.

While some healthcare organizations are working to get out of the business of real estate management, they are continuing to grow outpatient care offerings. This typically includes a variety of satellite facilities beyond the main hospital, such as standalone emergency rooms, storefront clinics, outpatient surgery centers, labs and imaging facilities. Instead of owning and maintaining these facilities, healthcare executives may seek more flexible and cost-conscious lease agreements with real estate partners.

In recent years, scientific and technological advancements have enabled providers to offer more comprehensive services in these smaller, off-campus settings. Meanwhile, patients have embraced the convenience of receiving treatment at a nearby facility and going home the same day. To everyone's benefit, delivering care through this outpatient model is typically far more cost-effective than keeping patients overnight at a hospital.

While some large hospital systems have been growing their presence in this way for years, many smaller organizations are just beginning to recognize and pursue these attractive cost control opportunities.

"Developing relationships with capital partners who understand the healthcare industry—whether it's a bank or a private equity investor—is an important part of this process," said Chaffin. "Access to capital is a necessity as organizations equip new facilities and optimize their existing real estate portfolio."

### ENABLING BETTER OUTCOMES FOR ALL

Every hospital and healthcare facility is an essential thread in the fabric of a vibrant community and a functioning society. But while their primary directive may be compassionate patient care, it can't be effectively delivered without shrewd financial management.

By embracing technological efficiencies and cost-conscious delivery models, healthcare providers have an opportunity to meet both goals at once. With streamlined operations and fewer financial roadblocks, hospitals can empower themselves to not only meet the needs of individual patients, but also contribute to the greater good of a more affordable healthcare system for all Americans.

1. Source: <https://www.kaufmanhall.com/insights/thoughts-ken-kaufman/numbers-behind-national-hospital-flash-report>

2. Source: <https://www.cfo.com/news/healthcare-automation-labor-cost-technology-collaboration/707904/>