



## HOW HOSPITALS ARE FORGING A PATH TO COST EFFECTIVENESS

# KEEPING HOSPITAL DOORS OPEN TO THE FUTURE

The tense situation in many German hospitals and clinics has long since become chronic: debts rather than profits, administrative shortcomings rather than further development of facilities and services as needed. In extreme cases, closure is just around the corner. Those most affected are public and non-profit hospitals. For them, the realignment process—which is so urgently necessary—poses a particularly difficult challenge. But there are realistic ways to get out of the red.

📄 HENDRIK KRUSCH

**G**ermany's hospital barometer for 2013 painted a gloomy picture: one out of two clinics was in the red. The year before it had been around one out of three. "This means we've hit rock bottom—it's a dramatic deterioration in comparison with the previous year," says Alfred Dänzer, president of the German Hospital Association [Deutsche Krankenhausgesellschaft]. Of the approximately 1,000 hospitals now operating at a loss, it is estimated that 300 of them will have to close because they are not essential for providing comprehensive health care services. The remaining 700 are in urgent need of reorganization: "These hospitals must become capable of meeting ever increasing quality demands for inpatient care. And greater financial resources are needed if they are to succeed in this aim." Professor Bert Rürup, former "economy sage" and government advisor to the Sachverständigenkommission, an independent commission of experts, has long advocated: "The system has to be reinvented. Hospitals need to specialize and stop offering a complete range of services."

The problems faced by hospitals may closely resemble one another, but not the problem-solving approaches, because individual requirements

vary widely. New structures are needed, for example, if hospitals band together to form a hospital network. This was the reason that Regionale Kliniken Holding RKH GmbH in Ludwigsburg (Baden-Württemberg) sought to reorganize its administrative areas. Where does centralization make sense? Where is it not a good idea? Can administrative tasks be outsourced? Where and how can processes be automated? In a project that ran for a mere seven weeks, Porsche Consulting assisted RKH in identifying measures that would increase its earnings before interest and taxes (EBIT). The result: cost reductions of 15 percent in just a few years. As CEO Professor Jörg Martin sums it up: "Porsche Consulting not only handed us a strategy, they also specified the potential and coordinated effective dates and processes with one another and with staff. Their consultation services are realistic, practice-oriented, and tangible."

## NUMEROUS AILMENTS LEAD TO A DIAGNOSIS

Since 2004 Porsche Consulting has advised health care providers—as well as companies in the pharmaceutical and medical technology sectors, wholesale pharmacies, and associations—throughout Europe. →

# OPERATIONAL EXCELLENCE IN HOSPITALS

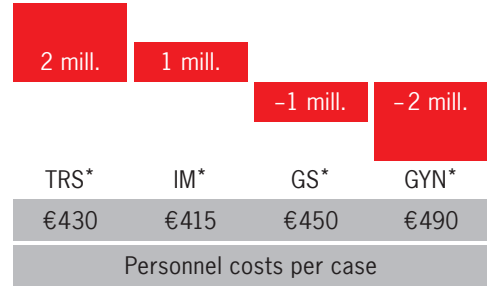
## STEP 1 CREATING TRANSPARENCY

Three tools are used to create a complete overview of hospital performance. They sharpen both internal (Optimize™ and Compare™) and external focuses (Growth™).

### USING OPTIMIZE™ TO ANALYZE INTERNAL PERFORMANCE

Example: Profit margin per hospital [€]

- Data records in accordance with Section 21 of KHEntgG
- Balance sheet, profit and loss account
- Personnel figures
- Reference values from the Institute for the Hospital Remuneration System (InEK)
- Porsche benchmark data

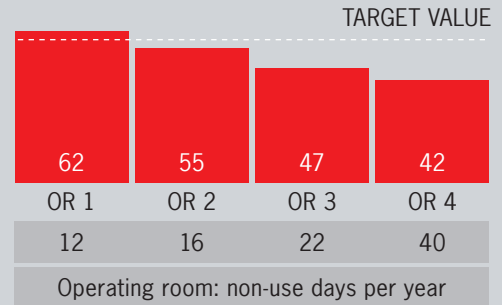


\* TRS = Trauma surgery, IM = Internal medicine, GS = General surgery, GYN = Gynecology

### USING COMPARE™ TO CHECK THE EFFICIENCY OF INTERNAL PROCESSES

Example: Operating-room net capacity per operating room [%]

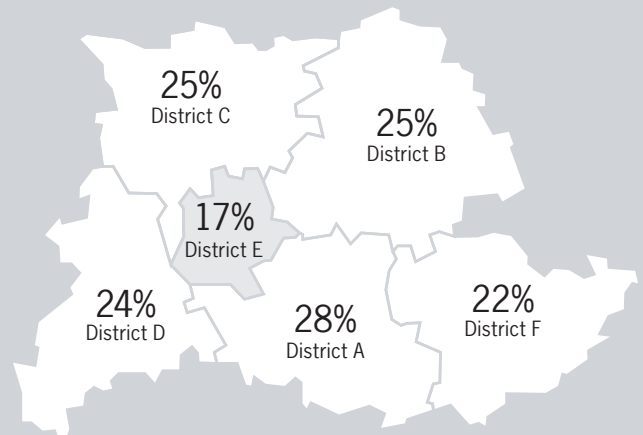
- Process values such as periods of operating-room use
- Porsche benchmark data



### GROWTH™ GIVES TRANSPARENCY TO FUTURE MARKET DEVELOPMENT

Example: Case number development through 2030 [%]

- Catchment area statistics
- Data from the Federal Statistical Office of Germany
- Geography and nearby hospitals



## STEP 2 OPTIMIZATION

Based on the results in Step 1, a selection is made from the following hospital optimization processes: strategy development, reorganization, *and/or* process optimization.

### CHARTING A CLEAR COURSE TO THE FUTURE BY MEANS OF STRATEGY DEVELOPMENT

Example: Strategy development methodology

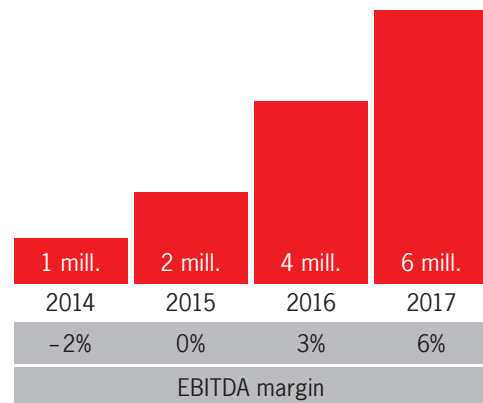
- Using proven Porsche methodology to define the strategy
- Including hospital executive board/management in management workshops

1 > Vision and mission	2 > Strategic objectives	3 > Core competencies	4 Measures
Service portfolio			
Finances			
Patients			
Employees			

### IMPLEMENTING COST AND PROFIT POTENTIAL AS PART OF THE REORGANIZATION PROCESS

Example: Overall potential affecting the basic cost [€]

- Deciding on actions to take for implementation of short-/medium-term cost and profit potential (including insourcing/outourcing in administrative areas)
- Defining “guard rails” with the executive board/management
- Itemization with department heads



### USING PROCESS OPTIMIZATION TO INCREASE OPERATIONAL PERFORMANCE

Example: 20 Porsche best-practice modules

Operating-room optimization	Admission/discharge management	Emergency room optimization
Occupancy management	Functional division organization	Workforce planning
Streamlining documentation	Indicator system structure	etc.

## STEP 3 IMPLEMENTATION AND ESTABLISHMENT



Change management is essential for implementing the strategies and measures agreed upon in Step 2. Porsche Consulting supports long-term efficiency via training and education as well as by institutionalizing operational excellence and monitoring goals.

### INDEPENDENT OPTIMIZATION VIA TRAINING AND EDUCATION

- Leadership development
- Instructing medical and administrative trainers in operational excellence (content and skills)
- Introducing change management and supporting implementation
- On-the-job training



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### USING TRACK™ FOR MEASUREMENT AND ACCELERATION

Example: Management summary rollout

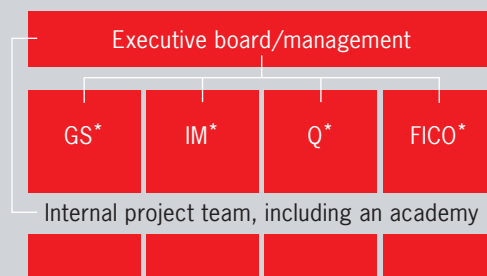
- Project profiles with
  - Potential
  - Responsibilities
  - Target dates
  - Individual measures

No.	Sub-project	Status
1	Centralizing gynecology department	● ● ●
2	Outsourcing laundry services	● ● ●
3	Optimization of neurology department	● ● ●

### ESTABLISHING OPERATIONAL EXCELLENCE VIA INSTITUTIONALIZATION

Example: Organization of operational excellence

- Setting up an in-house department for consistent implementation of operational excellence
- Setting up the hospital's own academy
- Support along the path to independent, continuous improvement



\* GS = General surgery, IM = Internal medicine, Q = Quality, FICO = Finances and controlling

The consultants are impartial observers, looking at the hospital as a whole. “We have already advised more than 70 hospitals with regard to strategic as well as operational issues,” says Dr. Roman Hipp, Principal at Porsche Consulting, referring to the company’s wealth of experience. There are many reasons why Porsche Consulting is called upon, including loss-making operations or the need for strategic redirection, or also limited resources in the face of an increasing number of patients.

### THE GOAL: HOLISTIC OPTIMIZATION

The Porsche consultants have three tools on tap when they diagnose those areas of a hospital in need of optimization: Optimize™, Compare™, and Growth™. In three phases (see the section on methods), the strategic and tactical approach is determined. These instruments help provide an overview of the overall level of performance throughout the hospital.

The Optimize™ instrument is used to gauge internal performance. Standardized hospital data records (including information in accordance with Section 21 of KHEntgG [Hospital Remuneration Act] concerning remuneration for inpatient and outpatient follow-up services), key figures from the profit and loss statement, and balance sheet figures are all included in the assessment. It sheds light on fields of action and quickly and easily identifies overarching starting points on the road to holistic optimization. Individual benchmarks from the Porsche database and reference values from the Institut für das Entgeltssystem im Krankenhaus (InEK) [Institute for the Hospital Remuneration System] as well as Porsche Consulting experience are used to assign monetary potential to the identified starting points.

Compare™ demonstrates the actual fitness of a hospital’s processes. Procedures and processes are analyzed on site. Data (e. g. operating-room shift times) and a comparison with the best possible results make the potential transparent. This transparency also makes it possible to better coordinate those processes at the interfaces between departments.

Growth™ is used to determine what opportunities hospitals have at their disposal in competition with other hospitals. By means of the data records collected from a hospital, the competitive situation, and data from the Federal Statistical Office of Germany, an individual market strategy for a hospital or hospital network can be defined. Is the issue one of growth or of consolidation? “In the process, we take a close look at individual hospitals,” Dr. Hipp explains. A market strategy based on objective market data can then be drawn up for the hospital. This takes into consideration such factors as market developments through 2030 up to the level of diagnosis-related groups (DRGs), anticipated future bed capacity requirements, and necessary resources such as operating-room capacities.

### CHOOSING THE RIGHT THERAPY

As Dr. Hipp explains, the top priority is to take action where it is needed (effectiveness) and to take the right action (efficiency). The entire hospital takes center stage: the primary sector of medical care,

the secondary sector of support services, and the tertiary sector of administration. But how does that work in practice?

One example of process optimization in the primary medical sector can be found at the Klinik für Neurologie und Neurologische Intensivmedizin, Sächsisches Krankenhaus Arnsdorf, a neurology clinic and intensive care facility at a hospital in Arnsdorf in Saxony. Here, workforce planning was examined to determine the efficiency of the department. It took very little time to optimize case/discharge management and to adopt a centralized patient admission process, as well as management of durations of stay. The potential added up to 500,000 euros, with a welcome side effect: shorter waits meant happier patients. Professor Tobias Back, neurologist and head physician at the Sächsisches Krankenhaus Arnsdorf, takes stock: “We particularly appreciated the fact that Porsche Consulting didn’t offer advice in opposition to our staff, but rather worked together with them.” The low-key mediation between the management team and the medical departments as well as the resulting objectivity meant that solutions could be implemented with ease.

Other hospital projects presented the consultants with different issues to be resolved: what potential could be realized by strategically realigning the clinics? Could efficiency be optimized by increasing the occupancy rate? What other actions could be taken to achieve a balanced operating result? In this situation, hospitals benefit from the consultants’ broad wealth of experience—including experience gleaned from industries beyond the health care sector. Over the past years, more than 20 Porsche best-practice modules have been designed specifically for hospital optimization. These modules are then applied to typical spheres of activity such as operating-room optimization or admission/discharge/bed management. As Dr. Hipp notes, “This ensures efficient project execution while at the same time enabling every facility in the sector to benefit from these benchmarks.”

But how can change processes be implemented over the long term in hospital operations? The Inselspital, the University Hospital of Bern (Switzerland), is a model of the sustainability of Porsche methods. These days, an independent team is in charge of process optimization: “Now that we’ve implemented leaner processes in our day-to-day operations and are specifically using our employees’ expertise, we are considerably closer to our hospital’s aim of operational excellence,” says Ulrich von Allmen, Director of Care/MTT at Inselspital, speaking on behalf of management.

The measurable successes in the more than 70 different projects are significant: if overall housekeeping costs fall by 15 percent, the purchasing department saves 7 percent, the length of patient stays falls by 20 percent, operating-room capacity increases by 25 percent, the number of outpatient cases rises by 12 percent, and patient satisfaction increases by 18 percent, then the hospital itself is well on the road to recovery—which is all the better for its patients. ←