



When the going gets tough, the tough need insight

Healthcare performance
management in a weak economy

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Abstract

There are no times like tough times to make the case for performance management software. This white paper reviews the many hurdles faced by healthcare providers and healthcare payers in a down economy and explains how performance management solutions – such as those from IBM – can provide the kind of deep information and insight that decision-makers need to lead their organizations through critical challenges.

Overview

Established healthcare organizations have likely navigated good – and bad – economic conditions. Interestingly, management challenges exist in both environments. Yet, most decision-makers would agree that it takes much greater organizational maturity to weather a negative economic climate.

Think of it this way: In a strong economy, healthcare organizations face considerably less risk from sub-par decisions, under-performing facilities, staffing gaps, inefficient resource utilization, cumbersome supply chain processes, and inefficient back-office operations. In a tightening economy, however, organizations with bloated operating structures tend to be punished in the marketplace.

The global healthcare industry is now in crisis: economic challenges, escalating costs, inconsistent quality, a critical shortage of skilled workers, and an increasing demand for services is causing both providers and payers of care to look for innovative ways to increase operating margins, reduce costs, and improve quality – while increasing access to care.

Without question, weathering a downturn depends, in part, on visionary leadership. But choosing the right strategy is easier when your decision-makers have access to robust insight that paints a complete and accurate picture of organizational performance. Healthcare providers and healthcare payers are expected to survive any economic conditions to continue to provide valuable healthcare services to the community.

To gain this insight, decision-makers must be able to monitor all key financial indicators in real time. So it's essential to understand how IBM Cognos® performance management software and solutions can help you adopt the response strategies that can shield your organization from an economic storm.

Business problems

In the eye of the storm

Decreasing patient volumes. Reduced credit availability. Declining elective admissions. Increases in uncompensated care. Revenue pressure. There's no doubt that today's economic conditions have sparked a range of challenges for healthcare organizations, including compromised cash flows, difficulty managing inventories to meet fluctuating demand, and declining revenues and profits.

For many healthcare organizations, these negative indicators act as a cue to go into bunker mode. Plagued by a form of corporate tunnel vision, they are often tempted to keep doing what worked in the past, in the hope that it will continue to work in the future. For healthcare organizations, if there is no margin, there is no mission. Ensuring the continuity of care is essential to the community, and to do so healthcare organizations must be operationally efficient under any economic conditions.

Both experience and history show that giving in to this temptation can be a fatal mistake for healthcare organizations as well as industrial companies. Consider: In a recent report¹, McKinsey & Company looked back to the recession of 2000-01 to identify which companies faltered and which took advantage of sluggish times to make gains on their competitors. They concluded that "nearly 40 percent of leading US industrial companies toppled from the first quartile in their sectors during the 2000-01 recession, and a third of leading US banks met the same fate."

Business drivers

The need for performance management software

To avoid becoming this kind of statistic, your organization needs access to critical data about how well your institution, your market, your competitors, and your suppliers are responding to today's challenging times.

For that, you need performance management software.

John Hagerty, VP and research fellow at AMR Research, agrees: "A company that has insight into its operations and its customers has an advantage over companies that don't," he says. "That's especially true during times when other indicators might suggest pulling back on technology investment."²

The solution

Finding opportunity amid turmoil

In weak economic conditions, decision-makers need the ability to understand how an organization is performing against its targets. They simply do not have the time to sift through stacks of reports to find out what's right – or wrong. By linking individual and team performance to organizational strategies, scorecards help users understand how their roles drive institutional performance. Similarly, dashboards use gauges, charts, maps, and other graphical elements to translate complex information into a dynamic view of business conditions.

Used in tandem, IBM Cognos 8 Go! Dashboard and scorecards help operational users take faster action in response to concise information they receive at a glance. An interactive and intuitive interface masks back-end complexities to enable users across the organization to create self-service reports that contain the information they most need. That eliminates the need for report writers to aggregate information from multiple data sources and write individual reports. Instead, users across the organization can customize their own dashboards to track performance over time.

As an added advantage, IBM Cognos software solutions automatically reformat reports for a wide variety of environments, including the Web, mobile devices, and common office applications such as Microsoft® Excel®. This allows your users to interact with their reports no matter where they're located, ensuring they always have access to the information they need to respond dynamically to both threats and opportunities.

This capability can translate into a crucial differentiator during times of economic stress for organizations in all industries – including healthcare. “As a non-profit organization, we strive continually to improve the quality of the health care services we offer our members and patients,” says Jeff Guevin, lead business intelligence (BI) administrator at Martin's Point Health Care, a healthcare delivery organization and health plan headquartered in Portland, Maine that serves approximately 88,000 members and patients. “IBM Cognos 8 BI enables us to identify health trends in our member/patient populations, and helps guide our quality improvement processes. With IBM Cognos 8 BI we can literally take our laptop into a meeting with our business users, ask them what they need to see and then drill down to different reports and analyze different aspects. The results are immediate. Questions are answered in a few clicks of the mouse and decisions can be made on the spot.”

Measuring efficiencies

Another way healthcare organizations frequently respond to economic challenges is by shoring up internal operations to ensure the entire organization is running at peak efficiency. Making this determination, however, requires an in-depth understanding of how well the organization is operating relative to its historical trends, its peers, and the overall market. To gain this insight, your decision-makers need the ability to connect operational details to business drivers. In healthcare, this is crucial.

IBM Cognos performance management systems support this analysis by empowering users to track material exceptions triggered by real-time events and trends. Rather than measuring performance in absolutes, your business users can use key performance indicators (KPIs) to gain a comprehensive overview of organizational efficiency.

For instance, instead of using single point measures, such as patients per month, current accounts payable, or revenues per service line, users can track performance relative to market growth, strategic objectives, or peer groups. This type of tracking allows your organization to get answers to complex strategic questions, such as:

- What is our revenue growth relative to market growth?
- Which types of patients are more likely to pay late – and why?
- Which of our service specialties is most likely to outperform?

Armed with this information, management gains the context they need for key decisions. With insight into the state of the market, and your organization's place within it, they can reallocate projects and resources, identify poorly-performing service lines, measure the profitability of multiple facilities, rebalance the organization's service mix, reprioritize expenditures, improve patient payment processes, and ensure staff remains focused on patient service.

At the same time, personal alerts allow users to receive updated versions of scheduled reports via e-mail or be notified whenever a specific watch rule they set is met. In volatile economic conditions, this functionality allows decision-makers to respond proactively to warning signals before they have the opportunity to spiral out of control.

Making the tough calls

As budgets decline and discretionary spending tightens in response to economic challenges, your users must increasingly make difficult decisions regarding resource allocation and initiative prioritization. IBM Cognos performance management and BI software streamlines this decision-making process by enabling users to evaluate financial results between facilities and across the enterprise. With detailed analytic capabilities, decision-makers can assess how results change over time, in different physical locations, and across various service categories. By drilling down to transaction-level detail, or comparing performance for any time period they choose, they can spot trends that allow them to better understand resource requirements and plan accordingly.

In practical terms, this level of insight lets users make tough calls regarding which resources, initiatives, locations, or services may no longer be sustainable. On the flip side, it also allows decision-makers to target marketing efforts, deliver advanced training to high-performing employees, roll out new service lines in key markets, and measurably improve productivity by streamlining workflow and eliminating process inefficiencies.

Given the dangers of a strategic misstep, users rarely make these types of decisions independently. To accommodate this need for enterprise-wide collaboration, IBM Cognos 8 BI features an annotation tool that lets users capture comments and make “notes in the margin” of their reports. IBM Cognos 8 Go! Search lets them find the precise information they’re looking for amid a mass of structured and unstructured data, improving their analytical capabilities. With common data definitions, users can even enter data in their own business language instead of using unfamiliar terms, allowing them to spend less time debating the numbers and more time deciding what to do.

Managing scarce resources

A key way for healthcare providers to consolidate their spending in a downturned economy is by effectively managing human resources and streamlining supply chain management. Understanding the service mix by location and making sure you have the right balance of clinicians and nurses is essential to providing high-quality and cost-efficient patient care.

By carefully reviewing your supply base, your sourcing strategy, and your procurement processes, your decision-makers can also gain the insight they need to negotiate with suppliers to receive more favorable terms, costs, discounts, service, lead times, and quality. While effective supply chain management is critical in all market conditions, in a slow economy it can spell the difference between long-term success and failure. Fortunately, IBM Cognos performance management solutions can help you:

- Identify key metrics and receive alerts when supplier performance is off-track so you can make immediate corrections.
- Take pre-emptive action to prevent inventory slowdowns or over-stocking in response to shifting demand.
- Gain insight into cause-and-effect relationships to understand the impact of decisions up and down the line.
- Share best practices across your supply chain.
- Reassess and optimize the service line mix.
- Monitor supply chain performance in terms of efficiency, utilization, quality, cost, and throughput.
- Identify variances in material usage, downtime, labor, and overhead by shift, procedure, and supplier.
- Create and monitor KPIs, such as shipment performance, supply chain cycle time, inventory, quality, cost-to-serve, and supplier responsiveness.

By carefully managing scarce resources and the supply chain in turbulent economic times, your organization can do more than reduce the potential for unforeseen shifts in demand, supply disruptions, price swings, volatility in the medical device market, and quality problems. You can also identify areas where cash may be unnecessarily tied up in working capital, freeing up your resources for more productive deployment.

Laying the foundation for future growth

Despite the tendency to retrench in times of economic turmoil, healthcare organizations cannot afford to stand still and wait for the storm clouds to pass them by. At the same time you are taking steps to cut costs, improve efficiencies, reallocate your resources, and streamline your supply chain, your organization must also lay the foundation for future growth.

This requires a commitment to swap out inefficient processes in favor of new systems capable of driving ongoing performance. For instance, rather than setting targets at specific numbers, your decision-makers may want to begin tying performance targets to events, trends, and risk factors. Rather than engaging in planning on an annual basis, they might consider adopting shorter planning cycles focused on the achievement of specific tactics and initiatives. It is becoming increasingly important to align financial forecasting with the business cycles that prevail in your key markets.

By replacing rigid annual budgeting with continuous planning – on a monthly, weekly, or even daily basis – IBM Cognos performance management software can position your organization to achieve higher performance in both good times and bad. With real-time visibility into up-to-date data, your decision-makers can create rolling forecasts that take a broad range of potential future scenarios into account.

Using predictive analysis, managers can develop action plans for variable future outcomes, increasing organizational agility and responsiveness. For instance, by understanding how patients are most likely to respond to economic stress, your organization can increase the probability for a successful service line launch or marketing campaign. This type of insight can provide you with a differentiator that could potentially springboard your organization beyond those competitors who are less prepared to address economic uncertainty.

Conclusion

IBM Cognos supports healthcare providers and healthcare delivery organizations across the entire continuum of care in achieving their administrative, clinical, and mission objectives. We also support health plan and payer executives focused on achieving administrative, financial, and risk objectives in an increasingly competitive industry. In tough times, healthcare decision-makers must detect trends, changes, and exceptions – and respond accordingly. They must track organizational performance across departments and facilities. They need to understand how well individual efforts align with corporate strategies. And they need this information delivered to them no matter where they're located, no matter what device they're using, and regardless of what language they speak.

IBM Cognos performance management and BI software deliver precisely this insight. By empowering your users to transform raw data into business intelligence, these solutions allow them to make the crucial decisions that can shield your organization against the current downturn while ensuring you continue to provide high-quality care to the communities you serve. By accruing directly to the bottom line, the results of these decisions can give your organization the impetus it needs to successfully navigate challenging economic times. They can also deliver a strong business case to support your investment in performance management applications.



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Endnotes

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- 2 Judith Lamont, BI, in good times and bad, August 31, 2008, KMWorld, <http://www.kmworld.com/Articles/Editorial/Feature/BI,-@ingood-times-and-bad-50457.aspx> (accessed@September 25, 2008).