Building an Effective Cost to Collect Strategy

THE CHARTIS GROUP

The pandemic accelerated how organizations seek efficiency. Every dollar, from a revenue and expense perspective, matters more than ever before. Organizations have quickly adapted their operating models to battle the challenges from the pandemic. Leaders have to evaluate which adaptations become permanent as the industry moves forward.

One area under increased scrutiny after the pandemic is revenue cycle management. Often structured as a shared services entity, the revenue cycle model can be perceived as a candidate for expense reduction due to being viewed as an overhead cost center vs. an engine that drives revenue performance. Before organizations emphasize the elimination or reduction of cost from revenue cycle operations, they should design a strategic, overarching plan to understand the full spectrum of options available to them that will drive improved yield and define the impact that these options may have on their revenue cycle operations.

According to the Healthcare Financial Management Association (HFMA), the cost to collect is defined as the total cost of operating the revenue cycle divided by patient service cash collected.[1] The measurement of this metric and inclusion/exclusion of key variables may vary between organizations, but for those aligning with the HFMA definition, the figure below includes the key parameters to know.

COST TO COLLECT CALCULATION = **TOTAL REVENUE CYCLE COST** ÷ **TOTAL PATIENT SERVICE CASH COLLECTED** *(net of refunds)*

STANDARD INDUSTRY INCLUDED EXPENSES[1]

PATIENT ACCESS
Eligibility and insurance verification
Cashiers
Centralized scheduling
Pre-registration
Admissions/registration
Authorization/pre-certification
Financial clearance
Medicaid eligibility
Financial counseling

HIM
Transcription
Coding
Clinical documentation improvement (CDI)
Chart completion
Document imaging
Release of information
Enterprise master patient index
Patient portal management

PATIENT ACCOUNTING
Billing
Collections
Denials
Customer service
Subscription fees
Collection agency fees
Charge description master
Revenue integrity
Cash application
Payment variances

IMPORTANT, BUT SOMETIMES EXCLUDED EXPENSES

IT “HARD” COSTS
Hardware
Licensing fees
Core HIS and PAS
Servers, and any FTE
that supports these

PHYSICAL SPACE
Lease/rent expenses
Utilities, maintenance, depreciation

SCHEDULING
If performed in the
service departments by
department personnel

The Need for a Broad and Balanced Strategy

A common misperception with the reduction of cost to collect is that you must eliminate expense. Reduction in expense is certainly one tactic to impact cost to collect and optimal productivity should be consistently monitored and evaluated. However, the landscape of services and tools available to drive continued revenue performance improvement has dramatically changed over the last two decades and is continually evolving, often necessitating investment.

Within the revenue cycle, it often takes investments in resources (people, technology, vendors, etc.) to achieve a higher realization in net revenue. In these instances, for example, adding cost can be reframed as a positive, provided the revenue collected outpaces the dollars spent, ultimately decreasing the cost to collect. However, if a reduction also erodes revenue capture and recognition, the "improvement" efforts may ultimately do more harm than good. In a simple illustration, a 1% reduction in cost on the same revenue would not be as favorable as a 1% increase in cost with a 5% revenue increase.

With the above in mind, The Chartis Group advocates that 4 primary opportunity areas be explored fully and concurrently with an organization's leaders to develop a broad and balanced cost to collect strategy. This approach to improving cost to collect will be vital to an organization's long-term sustainable success. Additionally, the strategy and plan should be assessed for how it will support and drive the organization's overarching strategic plan and direction, to ensure alignment and mitigate the potential for counter-purpose priorities. The following graphic demonstrates the four areas, which are briefly delineated in the subsequent text.

VENDOR OPTIMIZATION & AUTOMATION

- Leverage existing tools and vendors to enhance:
  - Patient throughput
  - Provider/Patient satisfaction
  - Cash collections
  - Payor/Provider collaboration
- Identify high volume, repeatable, error-prone activities for Robotic Process Automation and automated intelligence opportunities

WORKFORCE MANAGEMENT & VIRTUALIZATION

- Reduce the capital footprint of the workforce
- Identify opportunities for workforce management solutions:
  - Patient access and scheduling call centers
  - Patient financial services and customer service remote roles
- Evaluate best practice compensation and benefits programs

MARGIN & EFFICIENCY IMPROVEMENT

OUTSOURCING & INSOURCING

- Identify opportunities to outsource not basing decisions solely on cost, but rather performance improvement
  - Reporting and Service Level Agreements
  - Vendor management structure
  - At-risk models and equity partnerships
- Evaluate vendor performance to identify insourcing opportunities for revenue maximization

OPERATIONS & PERFORMANCE

- Ensure consistent productivity measures are in place and monitored
- Identify gaps in performance through KPI evaluation and analysis
- Enhance reporting transparency and inter-departmental communication
- Develop dashboard for revenue cycle and vendor performance

COMMUNICATION & STAKEHOLDER ALIGNMENT

VENDOR OPTIMIZATION AND AUTOMATION

Undertaking a concentrated functional assessment that outlines an organization's usage of core technology and third-party vendors, to emphasize current impact along with the financial and operational benefits that are left on the table, can illuminate an improvement path with meaningful return on investment and minimal cost increases. Assessing previously installed technology to identify optimization areas may increase productivity while reducing cost to collect without a large capital expense. Within the past two decades, the healthcare provider industry has witnessed a strong trend in EHR modernization. However, to reduce the go-live risk, providers have adopted out-of-the-box functionality. While customizing current EHRs may carry maintenance concerns, tactical customizations may reap financial and operational benefits that outweigh any ongoing maintenance concerns.

Automation now enables us to take the human element out of simple, repeatable tasks to further reduce costs and/or redirect staff from tedious, necessary work to higher-impact, more complex tasks. Robotic Process Automation (RPA) has become a common strategy within the revenue cycle to increase efficiency and reduce costs. Find more detailed considerations around development of a revenue cycle automation strategy in "Launching a Revenue Cycle Automation Strategy."

WORKFORCE MANAGEMENT AND VIRTUALIZATION

The pandemic forced the migration of many revenue cycle staff virtually, with many organizations intending to sustain virtual work. As noted in HFMA's Healthcare 2030 "Workforce of the Future" piece, UMass Memorial shifted most of its 1,000 staff members virtually in March of 2020 with the expectation that they will not return to the office.[2]

While some may question if their staff can be as effective working from home rather than in an office setting, organizations have been migrating staff toward a remote work environment in an effort to increase effectiveness and efficiencies, even prior to the pandemic. For example, the Cleveland Clinic found a work-from-home program improved employee productivity and engagement while reducing turnover and absenteeism.[3] In industries that focus more on project-based work, productivity is measured by milestones and project accomplishment. In a revenue cycle environment in which productivity is measured by daily output, productivity reporting is vital to establish before moving to a remote environment. Incorporating productivity standards into informal and formal performance review processes will allow management to evaluate the effectiveness of a virtual work environment. Read more insights on the development of a virtual workforce management strategy in "What Makes a Revenue Cycle Virtual Workforce a Top Performer? 4 Critical Areas of Change."

OUTSOURCING AND INSOURCING

In evaluating cost to collect performance, the use of external vendors to outsource work should always be assessed. Would consolidating the number of vendors performing the work result in a reduced contract price? Are there opportunities to outsource work not based solely on cost, but on performance improvement and reallocation of resources to work on other high-value tasks? When starting with a new vendor or renegotiating an existing contract, consider "at-risk" fee structures or other types of partnerships that assure your outsourced receivables get the appropriate level of attention.

Using external vendors does not mitigate the need to manage the work and results. A vendor management structure with defined reporting, dashboards and targets using service level agreements (SLA) will keep goals and expectations top-of-mind for your company and the vendor. The SLA should include expectations regarding customer service, turnaround timelines, meeting, and reporting frequency.

Concurrently, organizations should evaluate whether or not insourcing receivables can achieve the same or better results at a lower cost. Current vendor results and staff availability need to be analyzed to determine whether bringing outsourced receivables in-house is a viable option. Adding staff or redeploying staff from other areas as opposed to outsourcing work can also reduce costs. Factors to consider include the availability of experienced staff in your locale, the training needed and space available in your current location.

OPERATIONS AND PERFORMANCE

Revenue and cash can often be improved by focusing on operations and performance in current departments. “You can’t change what you don’t measure” is a phrase referring to the need to set targets, review performance and hold people accountable for outcomes.

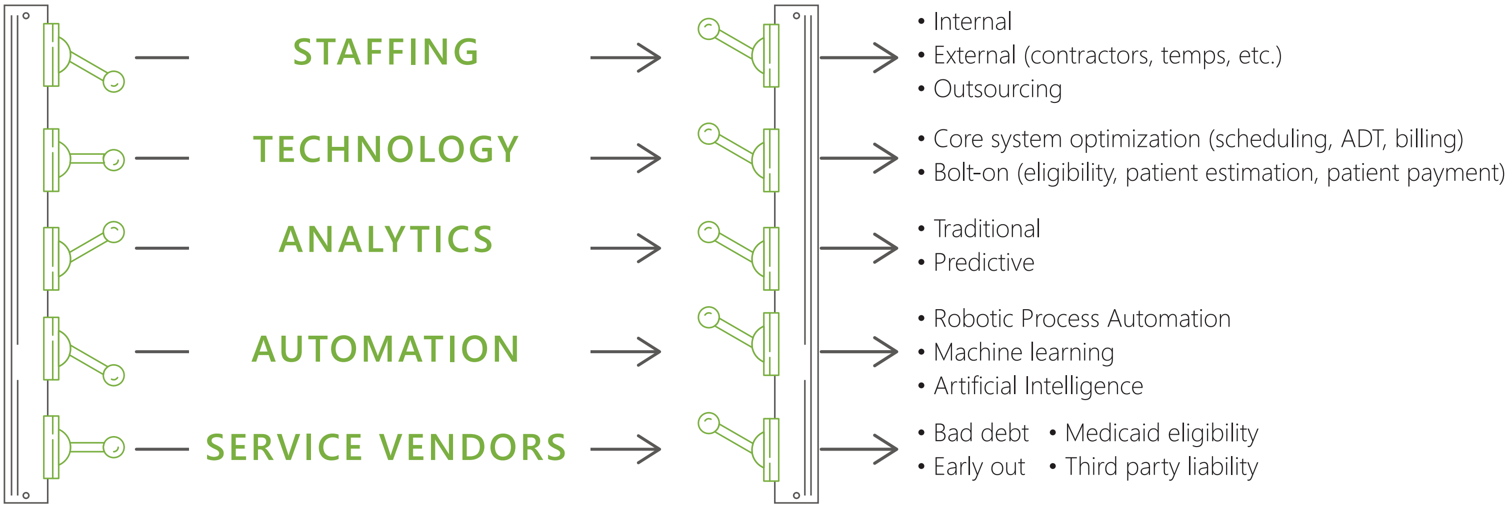
The first step is to identify KPIs in the industry that most closely align with your unique operations structure, with definitions and benchmarks often flexing with whether or not you are a teaching institution, part of an integrated delivery system or a large medical practice. KPIs can also vary based upon the type of services you provide. By measuring your performance against those benchmarks, identified gaps will further guide the organization toward areas of improvement.

At the highest level, monthly or quarterly reporting of targets and results over time holds management and staff accountable and promotes transparency and problem solving. If a target is not performing to plan, leadership may be able to help remove roadblocks. Dashboards that show goals and performance are an easy way to communicate to leadership as well as other constituents that impact revenue and accounts receivable.

Staff accountability at an individual level can be realized by developing productivity standards for each position and measuring performance against those productivity targets. For staff members that are not familiar with how their jobs impact revenue and accounts receivable, the first step may be general information about the revenue cycle, benchmarks and KPIs.

Additional options outside of those outlined can exist, and more will continue to manifest in the future. Procuring these services or tools in the absence of a sound strategy can lead to misuse, poor adoption, and additional costs. Understanding the various operational needs of the organization will help revenue cycle leaders shape the strategy and guide what options and services could have the greatest impact both individually and together. This strategy also supports better budgeting and financial planning.

A well thought-out strategy will create alignment across key levers, maximizing revenue and controlling costs.



Where to Begin?

Building an effective cost to collect improvement strategy starts with understanding the critical issues the organization is facing overall, with a focus on revenue cycle. It is imperative that the strategy ties into the organization's overarching strategic plan as well as their specific goals for the revenue cycle. Defining and engaging key constituents and stakeholders supported by the revenue cycle will ensure that the resulting infrastructure (people, process, and technology) aligns with the broader revenue cycle model. Outside of the core revenue cycle functions, one may consider stakeholders within clinical operations, care management, ancillary services, partnerships/joint ventures, etc., and include them in developing and vetting this strategy.

As previously outlined, there are an abundance of options available to manage the revenue cycle in a cost-effective manner. However, starting with a simple model and building from that will help create a sustainable platform that can be both scalable and nimble. It is important to build upon existing internal resources first and maximize their capacity. This includes both staff and technology. From there, the organization can incrementally add people, services, and tools when needs present and there is a positive ROI.

Additionally, revenue cycle leaders should leverage resources and research available to help them understand the market for all of these options and the best way to deploy them. This means proactively engaging with peers to understand what is working for them, having a good handle on the market landscape for each of the various options, and spending time on a diligence phase prior to putting pen to paper and creating the approach. Through the engagement of key stakeholders within the revenue cycle, along with others in the organization, plus a good command of what the market has to offer and what has been effective, you can start developing your cost to collect strategy.

Moving Forward

The pandemic accelerated how organizations re-evaluate cost drivers. Revenue cycle leaders have an abundance of options available to them to help manage their operations in a more cost-effective manner, while driving the most value for the organization. Managing the cost to collect metric does not mean forgoing the latest technology or services that are offered in the market that have the promise of an ROI, nor does it mean inevitably reducing cost by consolidating resources and operations. The most efficacious way to manage the cost to collect is to start with a **broad and balanced strategic approach**, followed by being methodical and tactical in executing that strategy. The traditional trap is to skip that first step, and that step is the most critical component in helping manage the cost to collect. Spending time in a focused manner on developing your strategic approach will pay dividends in the long run, leading to an improved cost to collect ratio and, more importantly, an improved yield.

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3. Heidi Peris, "Virtual Work Drives Productivity at Cleveland Clinic," HFMA, October 31, 2017, https://www.hfma.org/topics/article/56637.html (Accessed February 6, 2020).

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