

Cost Reduction Strategies: Part 2

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In today's business environment, labor cost is the largest percentage of the expense in the operating budget. To control these costs, you must develop effective strategies and tactics. Is your plan for managing labor cost reactionary or strategic; focused on cost or service; well articulated and visible; or vague and unfamiliar? Applying a focused and proactive approach to your labor management program can help you ensure that you have the right answers to these questions.

A plan to manage labor costs is not just a cost reduction opportunity, but also includes mechanisms to continually ensure that the organization has the right amount of direct labor resources to provide the necessary levels of service. The key to success under PPS is more than achieving good outcomes with fewer visits. The plan must be flexible to adjust administrative labor expenses when warranted, due to changes made to direct labor staffing levels.

Take a strategic view of labor costs to ensure that all aspects of labor management are taken into account; including patient service levels and satisfaction, internal service levels, and employee satisfaction and retention. Because labor represents such a large percentage of the cost of operating an agency, improving labor efficiency through productivity management offers a significant opportunity for profit improvement.

Understand Objectives

Establish realistic productivity standards for **all** departments. This can foster long-term productivity gains while protecting quality patient care. Make sure that clear, understandable objectives are determined at the start of implementing productivity standards. Home care organizations need to incorporate a balanced approach, and not just focus on the cost aspect, in order to generate results that are sustainable.

Timely Analysis Is a Necessity

In order to continually manage productivity, home care organizations must be able to review standards and cost figures on a timely basis. The review must reach every level: by department; team; discipline; or individual. Develop a process to gather, analyze and distribute labor cost information in a timely manner. A Microsoft Excel spreadsheet works well for this visible and timely review.

Make Competition a Factor

Internal benchmarking and comparisons can be very powerful. Once staff members recognize that their achievements will be compared to their peers, and included in performance measurements, they will look for more opportunities for improvement. Use a balanced set of performance metrics that encompasses not only cost measurements, but also patient and employee satisfaction ratings.

Skill Assessments and Effective Training

Staff mastery of the required skill sets is a critical and necessary factor in the effectiveness and efficiency of your labor force. Identify the competencies that are required for each job, then design and implement the needed training programs to improve the skills of administrative and direct care staff.

Let Them Know

It is imperative that executives solidly support the standards and the real consequences of not meeting those standards. Support and buy-in from operations is especially crucial. While instituting productivity standards can be viewed as a negative by employees, it is actually quite the opposite. Employees gain knowledge with clear expectations. The improved financial viability of the organization will promote increased job security and an opportunity for staff to participate in the rewards.

For many home care organizations the development of an effective labor management program is an untapped opportunity to improve profitability, patient care and employee satisfaction. So why wait? Take the first steps in initiating productivity standards and begin enjoying the benefits sooner rather than not at all.

This is Part 2 of a series of 3 articles on Cost Reduction Strategies.