

# Cutting costs, costs more than you think

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Blog post



## 1 Cutting costs, costs more than you think

In an environment where medical costs are rising faster than revenues and the affordability of healthcare is under increasing scrutiny, it is not unusual for management to seek cost reductions. There are some cost reductions which effectively address waste associated with purchased items, such as drugs that are unused or power and utilities that are poorly controlled.



However, activities seeking to reduce costs by aligning capacity with demand cause a series of unintended negative outcomes that only unfold as the cost reductions are implemented. A sudden and dramatic increase in 'wandering bottlenecks' occurs, where the point of crisis wildly moves from one part of the system to another. Unexpectedly, length of stay grows, delays to patient care increases, and quality of care suffers further. Management attention is then splintered into addressing these latest crises and quick-fix solutions are implemented on the run and capacity is replaced to former or even higher levels. The transition is non-linear. Often it results in extended recovery periods before the system becomes stable again. Unfortunately it is not long before the increasing pressure to improve productivity by reducing costs starts the whole cycle again.

## 2 Is there a better way?

The first step is to review the assumptions upon which our decisions and actions are based. The core assumption to challenge is that balancing capacity with demand is a good thing. It is a flawed assumption. It drives the decision that cost reductions can be achieved wherever capacity is, or is suspected to be, greater than demand.

But not all resources are equal. In any goal-oriented system there are relatively few constraints. These constraints determine the performance of the whole system. In order for flow to be maintained or improved there is a need for certain areas to have sufficient 'protective capacity'. This protective capacity soaks up the daily variation in demand that is inevitable with changes in volume and patient mix throughout the day and day-by-day. Ignore the need for this protective capacity at your peril.

Many industries have realised that rather than balancing capacity with demand, improving flow through the system is key. In a healthcare environment this means all productivity improvement efforts should be driven by the following principles:

- Improving patient flow is the primary objective.
- This primary objective must be translated into a practical mechanism that drives all-improvement efforts and helps managers establish the answer to the simple question:

*'Of all the places I could improve which will improve the performance of the system overall'*

and by default establish which areas require the all important protective capacity to maintain patient flow.

- Local productivity measures must also be abolished.

This will also avoid the far too common situation of improvement efforts deteriorating into lip service.