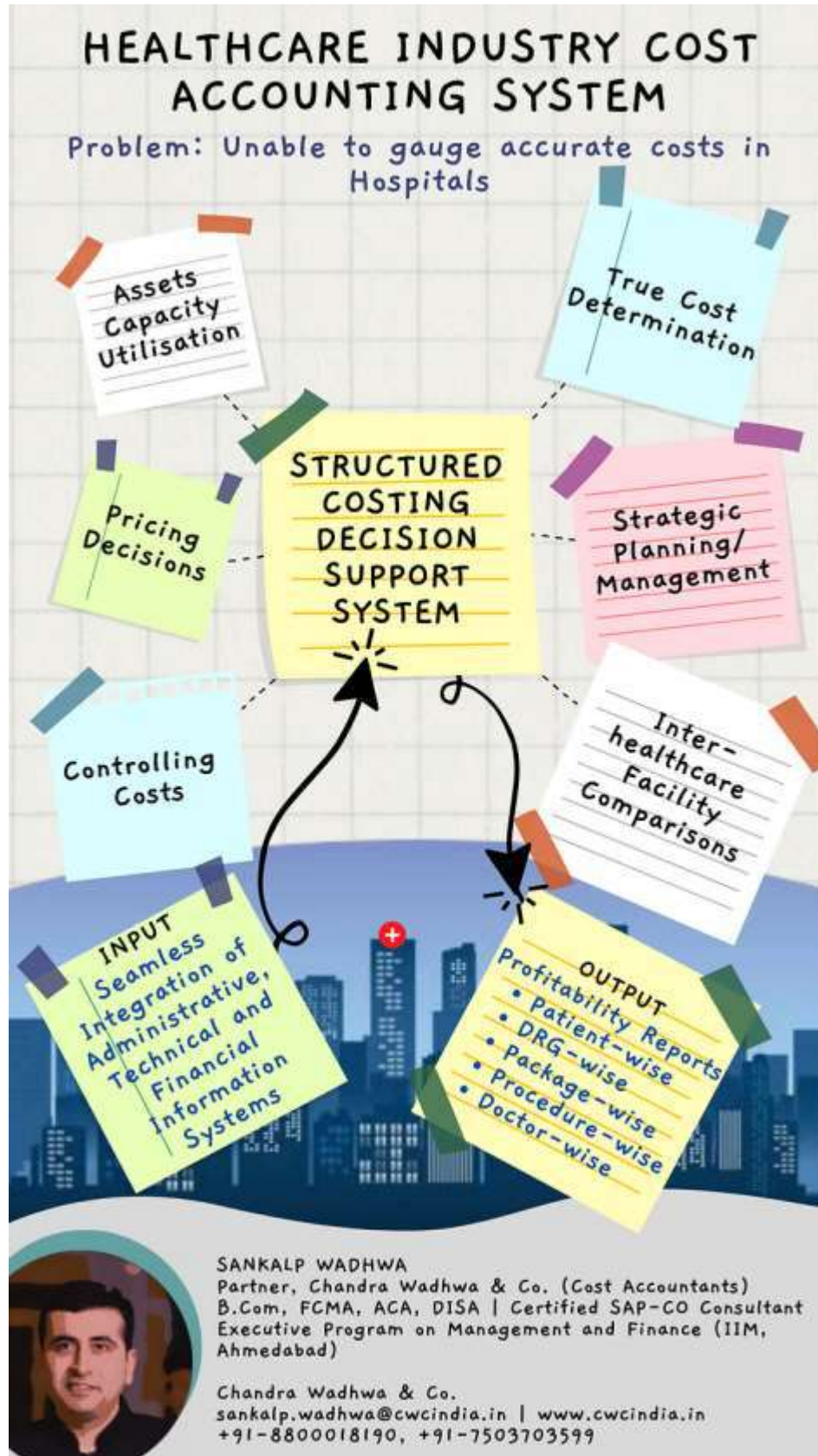


Did you know a structured cost accounting system adds fizz to a healthcare organization's insights?





THE INTRODUCTION:

The company in question is one of India's largest healthcare organisations, listed on NSE and BSE. They offer treatment across all 29 health specialities and operate in homecare and pathology businesses.



THE PROBLEM:

A hospital renders services that are both tangible and intangible, and hence gauging accurate cost against such services becomes a daunting challenge. In addition, a significant portion of the cost chunk in a hospital is indirect (approximately more than 40%). Therefore, accurately assigning costs to various procedures, specialities, patients, etc., becomes cumbersome.



THE SOLUTION:

To develop a **structured costing decision support system** that seamlessly integrates its Administrative, Technical and Financial Information Systems, enabling the creation of **timely and effective** operational/ financial insights. To this end, the following accurate cost/ profitability reports should be generated on a real-time basis:

1. Patient-wise/ Bill-wise
2. Diagnosis Related Group (DRG)-wise/ Speciality-wise (Neurology, Cardiology, Nephrology, etc.)
3. Package-wise
4. Procedure-wise
5. Doctor-wise
6. Key Infrastructures - Intensive Care Unit (ICU), Operation Theatres (OT), Ward-wise (OPD, IPD, etc.)
7. Lab Testing Services-wise (Radiology, Pathology, Blood Bank, etc.), etc.



THE RESULTS:

After rigorous deliberations and continuous collaboration with the client for over six months, our **Chandra Wadhwa & Co. team implemented a detailed costing decision support system that integrated and generated data from 6 systems**. This helped us not only to derive profitability for the above-mentioned key metrics but also assisted in achieving excellent results in the following domains:



1. Pricing Decisions - DRG-wise contribution analysis facilitates efficiency in determining the recoverability of direct clinical costs and the price points for various specialities.



2. Strategic Planning/ Management – In general, price capping by regulatory authorities plays a significant role in the healthcare industry; for example, price fixation under CGHS treatment, COVID 19 RTPCR testing, etc. In addition, the support system enabled management to effectively plan **cross-subsidisation of services based on various factors, including profitability, market, geography, demography, and industry factors. Refer to Exhibit 1.**

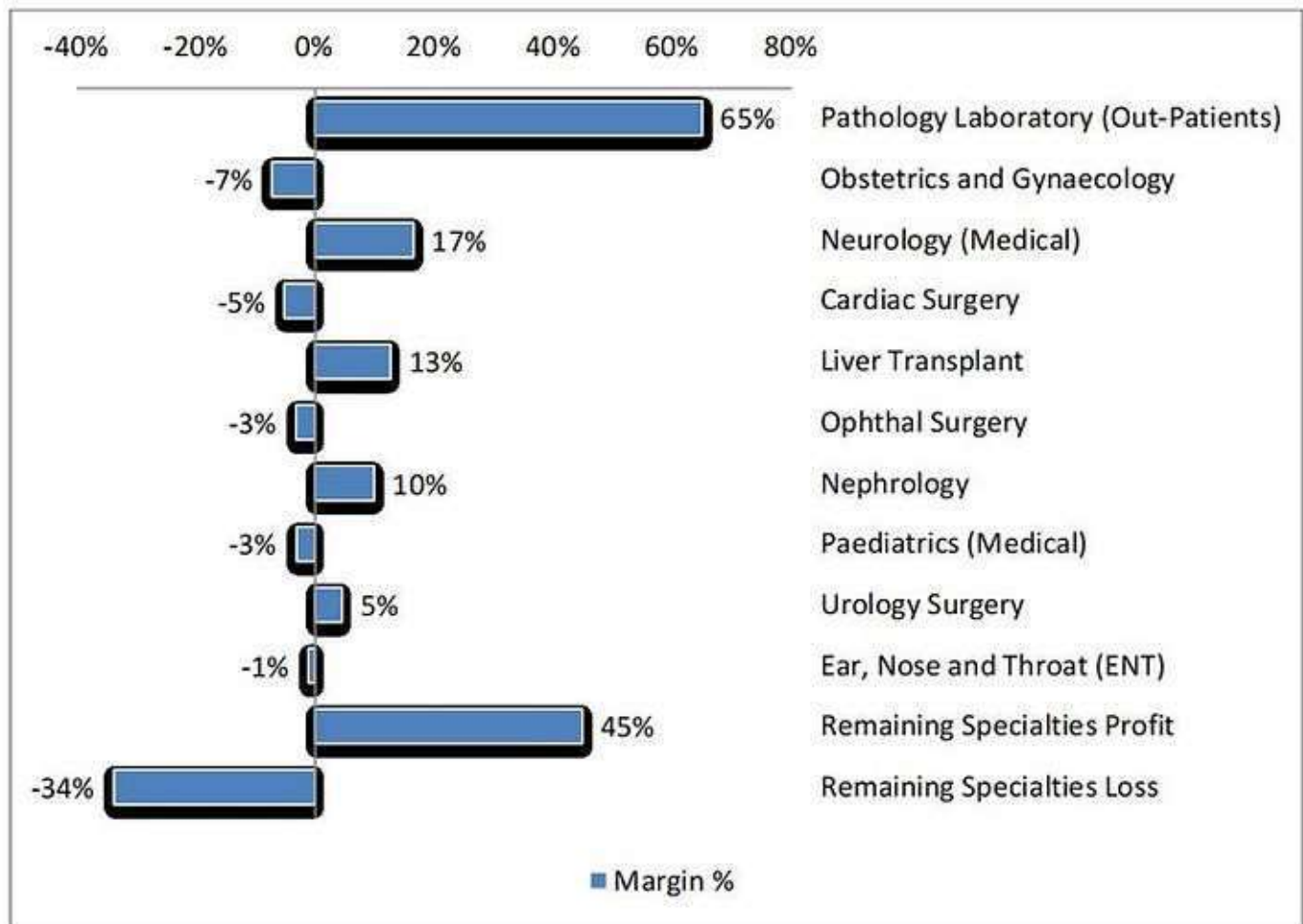


Exhibit 1 Speciality-wise Profitability

In addition, the management could also consciously ensure proper deployment of the right resources/ infrastructure at the right location; for example, the pneumatic tube system (used for transferring samples, medicines, reports, etc.) was not installed in a small bedded capacity hospital.



3. Cost Control - The costs of medical and non-medical support functions could be effectively capped after analysing and eliminating redundant activities existing in those functions. **Savings to the tune of 67% and 20% percentage points were observed in the washing and marketing functions, respectively.**



4. Unabsorbed Costing - In the healthcare industry, approximately 30% of the total cost is incurred towards direct employees, which is **time driven**, like nursing staff, surgeon fixed payout, physician's pay out, other employees payout, etc. Due to this system, the management could **effortlessly identify** discrepancies in actual/ standard hours and pinpoint the medical teams where resources are deployed in excess.



5. True Cost Determination – Out of the total costs, 82% were assigned based on the **cause-and-effect principle**, whereas 18% were allocated **reasonably and scientifically**. This facilitated **judicial decision-making for the company, backed by accurate and frequent data**.



6. Inter-Healthcare Facility Comparisons - Costs amongst different hospitals of the same company were compared, facilitating efficacious decision-making. Examples of some of these parameters are:

- Comparison of profitability/ costs procedure-wise, speciality-wise, patient-wise, etc.
- Comparison of Non-Medical Support function costs like Washing, Marketing, Front Office, House Keeping, Security etc.
- Comparison of Medical Support function costs like Anaesthesia, Path Lab, Radiology, etc.



7. Assets Capacity Utilisation/ Efficiency Analysis - Better insights on utilising the organisation's assets/ equipment (CT-Scan, X-Ray, MRI etc.) enabled **prioritising investment in specific assets to drive revenues**.



FREQUENTLY ASKED QUESTIONS:

Q. What is a structured cost accounting system in healthcare?

A. A structured cost accounting system is a tool that integrates and generates data from multiple systems to derive profitability for various key metrics in healthcare, such as patient-wise, diagnosis-related group (DRG) wise, package-wise, procedure-wise, doctor-wise, and infrastructure-wise.

Q. What are the benefits of implementing a structured cost accounting system in healthcare?

A. The benefits of implementing a structured cost accounting system include improved strategic planning and management, cost control, true cost determination, inter-healthcare facility comparisons, and asset capacity utilisation/efficiency analysis.

Q. What is cost control in healthcare?

A. Cost control in healthcare involves capping the costs of medical and non-medical support functions by analysing and eliminating redundant activities existing in those functions.

Q. How does a structured cost accounting system help in strategic planning and management in healthcare?

A structured cost accounting system helps healthcare management to effectively plan cross-subsidization of services based on various factors, including profitability, market, geography, demography, and industry factors.

Q. What is true cost determination in healthcare?

A. True cost determination in healthcare involves assigning costs based on the cause-and-effect principle and allocating them reasonably and scientifically. This facilitates judicial decision-making for the company, backed by accurate and frequent data.

Q. How does a structured cost accounting system help in inter-healthcare facility comparisons in healthcare?

A structured cost accounting system helps compare the costs and profitability of procedures, specialities, and patients amongst different hospitals of the same company. It also facilitates the comparison of non-medical and medical support function costs.

Q. How does a structured cost accounting system help in healthcare asset capacity utilisation/efficiency analysis?

A: A structured cost accounting system provides better insights into utilising the organisation's assets/equipment, such as CT-Scan, X-Ray, MRI, etc., enabling prioritising investment in specific assets to drive revenues.

Q. What is unabsorbed costing in healthcare?

A. Unabsorbed costing in healthcare involves identifying discrepancies in actual/standard hours and pinpointing the medical teams where resources are deployed in excess. This helps in effective cost control.