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Leaders like chief nurses need to be translators. They need to understand other languages in order to translate the story to people who have never been in a clinical setting and don't know this world. Other people grew up with a different mental model. Physicians, nurses, finance – you have to understand them enough to understand their framework.

GAY LANDSTROM, SVP and Chief Nursing Officer, Trinity Health

Collaborating with finance

Introduction

The language of finance

Introduction

In one of the most interesting interviews for this toolkit, Chief Medical Officer for the National Association of Community Health Centers, Ron Yee, MD, MBA, jokingly referred to his most common title being "the C-F-NO." Clinicians and finance executives are regularly on opposing sides of the aisle when it comes to implementing programs for complex populations, a divide often attributable to a lack of understanding of each other's language and objectives. CFOs are charged with managing the finances to keep the doors open so that clinicians can keep doing the important work of healing. As such, they're bombarded by requests for a variety of resources, which is even more challenging in the wake of the COVID-19 pandemic. Conversations that lead with reducing utilization can be disregarded or ignored if the organization is focused on volume of visits to generate revenue.

Your most effective champion for complex care can be your CFO or a financial analyst if you work to understand what matters most to the organization and how you can position your program design to generate the outcomes that enhance both patient and organization success.

“

The workaround that everyone is using is the specter of value-based payment. It's like, ‘Look, this is going to be here, and you don't want to be caught without a plan. I've got a plan for you.’ Even if there is a little bit of a revenue hit, that's why we're here. We need to work with finance to find revenue so we can do what's right by our patients.

DAVE A. CHOKSHI, Health Commissioner of New York City

The language of finance

For an effective collaboration, it’s vital to (1) understand basic concepts in finance and budgets and (2) focus on costs. Healthcare systems often use these terms to describe financial outcomes:

COST

To payers: the amount they pay to providers for services rendered

To patients: the amount they pay out-of-pocket for services

To hospitals: The amount of money it costs to deliver a service.

CHARGE OR PRICE

The amount asked by a provider for a healthcare good or service, which appears on a medical bill

REIMBURSEMENT

Payment made directly, or more typically, by a third party to a provider for services; this may be an amount for every service delivered (fee-for-service), each day in the hospital (per diem), each episode of hospitalization (e.g., diagnosis-related groups, or DRGs), or each patient considered to be under their care (capitation)

There are two different kinds of cost that are important to understand:

FIXED COSTS include basic overhead to keep the organization running including electricity, facility maintenance, major equipment and costs for land.

VARIABLE COSTS include things like employee compensation, costs of supplies, and medications.

Complex care programs impact variable costs by decreasing staff time, readmissions, length of stay, and costs of supplies, and improving appropriate use of medications.

When discussing profitability, you will often hear three terms (below), which vary by organization. Systems also value these metrics differently based on their own culture. Your CFO will be able to provide insight to support the development of your intervention, as well as indicate what level of analysis is possible from your cost accounting system.

OPERATING MARGIN is the revenue that remains after subtracting fixed and variable costs.

CONTRIBUTION MARGIN is the revenue that remains after subtracting variable costs.

EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization.

ADDITIONAL RESOURCES

How Health Care Providers Can Improve Their Profit Margins
What is the difference between operating margin and EBITA?
Contribution Margin: What It Is, How to Calculate It, and Why You Need It
Improving financial and clinical collaboration

SUMMARY | 12 MONTHS BEFORE AND 12 MONTHS AFTER DATE OF INTERVENTION

Evaluating margin is a more sophisticated and complex view of a program's financial impact. This analysis shows significant improvements to both **contribution** and **operating** margin, despite reductions in overall visits and charges. You will need to partner with finance to complete this. Although these concepts may be foreign to clinicians, there's strong value in understanding the basics. The more closely your analysis matches the culture, values, and language of the organization, the stronger case you will be able to make for continued investment in care for your population.

Operating margin →

Contribution margin →

	Total		Total	Per Case		Per Case
	12 Months Before Date of Intervention	12 Months After Date of Intervention	12 Months Before - 12 Months After	12 Months Before Date of Intervention	12 Months After Date of Intervention	12 Months Before - 12 Months After
Sample Size	341	341	0	341	341	0
Total						
Cases	5,052	3,160	(1,892)	5,052	3,160	(1,892)
Gross Charges	13,307,204	7,285,379	(6,021,826)	2,634	2,305	(329)
Net Revenue	4,098,346	2,386,934	(1,711,412)	811	755	(56)
Collection %	31%	33%	2%	31%	33%	2%
Direct Expenses	3,714,001	1,962,198	(1,751,803)	735	621	(114)
Contribution Margin	384,345	424,736	40,391	76	134	58
Contribution Margin %	9%	18%	8%	9%	18%	8%
Indirect Expenses	1,256,622	664,335	(592,287)	249	210	(39)
Operating Margin	(872,276)	(239,599)	632,678	(173)	(76)	97
Operating Margin %	-21%	-10%	11%	-21%	-10%	11%
Inpatient:						
Cases	439	244	(195)	439	244	(195)
Gross Charges	7,040,389	3,998,654	(3,041,735)	16,037	16,388	351
Net Revenue	2,958,776	1,718,350	(1,240,426)	6,740	7,042	303
Collection %	42%	43%	1%	42%	43%	1%
Direct Expenses	2,222,488	1,219,393	(1,003,094)	5,063	4,998	(65)
Contribution Margin	736,288	498,957	(237,332)	1,677	2,045	368
Contribution Margin %	25%	29%	4%	25%	29%	4%
Indirect Expenses	575,358	308,255	(267,103)	1,311	1,263	(47)
Operating Margin	160,930	190,702	29,772	367	782	415
Operating Margin %	5%	11%	6%	5%	11%	6%

FINANCIAL ANALYSIS CHART

Continue with Outpatient and Emergency Cases

Key takeaways

- Meet with your CFO or finance team
- Identify what financial metrics matter most in the organization
- Identify what level of analysis the finance department could provide for your intervention