



ONE EIGHTY

A new perspective for your enterprise performance

May/June, 2012

Health Care Industry

Upcoming Events

- CAM-I Third Quarter Meeting
September 9-12
St Louis
- APQC 2012 Process Conference
October 22-26
Houston

People in the News

- Leila Giuliani.
Happy 3rd Birthday
- Ryan Morthole,
McCook Community Hospital.
Congratulations on the success of your TDABC initiative!

Link

- [Improving Health Care Processes and Quality of Care \(both video and slides\) and Healthcare Reform: Beyond Compliance](#)

In the United States, Health Care is a 2.5 trillion dollar industry comprised of drug manufacturers, hospitals, professional specialists, dental offices, and other related businesses. The industry accounts for 17% of U.S. gross domestic product (GDP)

The companies that serve this industry are very large public companies (i.e. United Health Group, Pfizer), public and privately owned hospitals (Cleveland Clinic, Jackson Memorial), not for profits (Kaleida Health), and thousands of smaller businesses.

An example of a public drug company is Merck, a global supplier of drugs like Afrin and Claritin. In 2011 Merck reported over \$12 billion in revenues and earned a gross operating profit just short of a billion dollars.

An example of a hospital is MD Andersen, ranked #1 in cancer research and treatment in the U.S. In 2011 more than 100,000 people received treatment. Of the hospital's \$3.6 billion in revenue in 2011, 74% was generated by net patient revenue.

Investments in R&D and innovation in this industry are huge. Billions of dollars are spent each year to bring new drugs to the market, develop new surgical practices, and to fund research for finding cures to diseases.

The biggest issue facing this industry is the growing cost of health care. While the United States ranks highest in the cost of health care per capita, it ranks last in the quality of care among six other industrialized nations.

The cost issue in healthcare made it to the September 2011 issue of the Harvard Business Review. In an article, two Harvard professors (Robert Kaplan and Michael Porter) make a case for the lack of good cost and measurement systems being a major factor in understanding why healthcare costs are so high and rising.

The authors recommended *Time Driven Activity-Based Costing (TDABC)*, the methodology of choice for service companies requiring cost, process, profitability, and performance information necessary to run the business.

The article included reference to the MD Anderson Cancer Center in Houston and the results of their TDABC initiative. Another example is Community Hospital at McCook, where they have been able to identify detailed costs and profitability by patient, DRG (Diagnosis Related Group), and type of surgery.

Like food and shelter, health care is important to all of us. The Health Care Industry, through invention, innovation, quality, and affordability can add years to the time each of us are here on earth.

Stay healthy, live long...

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