

THE CHALLENGE OF MAINTAINING MARGIN

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The most important business metric to monitor on a frequent, ongoing basis is gross margin. With the general emphasis on revenue growth and profit, often the importance of gross margin gets lost.

It is not that revenue and profit are not important to the management of healthcare nor is it my intention to downplay the importance of controlling expenses. In fact, discussion of these topics will be included in this article. However, the position of gross margin – between revenue and profit – is a clear indication of cash available to cover business expenses and generate desired profit. Consequently, it is the gross margin dollars and gross margin as a percentage of revenue which are the measurements that require monitoring on a day to day basis if your business is going to be successful.

How do you protect your gross margin in periods of intense pressure to lower prices and erode margin? The best approach is to initially look at the traditional components of product marketing: Product, Price, Place and Promotion and the addition of a fifth component, People.

PRODUCT:

- Margin stability depends on product mix. You must manage the composition of your “book of business”, the individual product lines as well as the resulting gross margin average for all product lines combined.
- Subtle shifts in the proportion of higher margin business can significantly impact your overall gross margin.
- Seek out high margin, specialty business which will differentiate you in the market place and positively impact gross margin.
- Seek to provide services in early stages of development because margins are highest in the beginning of a product life cycle.
- New product introduction is most successful when the services are customized and specifically meet needs identified by the potential client/payer.
- Differentiate your services by identifying your services’ unique features.
- Keep innovating and improving your service offerings. Well informed consumers and fast moving competition make sure that services that were once unique have lost their value.

- Consider “bundling” some of your services together. Group high and low margin services and sell them as an integrated package which can be a source of differentiation and profitability.

#### PRICE:

- Unless you actively manage your product pricing, your gross margin will erode.
- Limit the ability of local providers to deeply discount product offerings without discussion of minimal gross margin expectations and strategies to offset any margin decline.

#### PLACE

- Gross margins are impacted by where the services are provided. Rural services are more expensive to provide than urban services based on smaller patient census, reduced productivity and longer travel time. Adjust pricing accordingly.

#### PROMOTION

- Avoid frequent promotional discounting to consumers as it ultimately erodes pricing power.
- Discounting diminishes consumer perception of a service brand.
- Discounting to payer sources needs to be carefully monitored and approved only for long term contracts that meet a minimum gross margin requirement.
- Use advertising and public relations activities to build awareness of your product’s availability.
- Place high emphasis on personal selling to explain
  - how your services are different from other providers,
  - why your specific services will benefit those who will use the service and
  - what the value proposition is to those who will pay for the service.

#### PEOPLE

- People are the most important element of any service.
- The quality of your services is measured by the client’s perception of the quality of service they received. Without a high perception of your product quality, you will not be able to price at a higher level.
- Training all employees in customer service techniques supports business efforts to differentiate your company from all other providers.

#### CONTROLLING EXPENSES

- Cost of labor is the single largest expense in providing healthcare services. Controlling labor costs as well as auxiliary expenses such as medical supplies and mileage reimbursement are key to maintain a healthy gross margin.
- Because there are significant projections of a shortfall of workers available for healthcare positions as “baby boomers” retire, the result will be an increasingly competitive environment to recruit and retain well-trained, competent caregivers.
- Managing cost of labor is a top priority for businesses.

- Employers will need to consider individual needs as opposed to providing a one-size fits all approach to compensation, benefits and work environment.
- In addition, maximizing caregiver productivity is also an imperative in order to control expenses. Setting productivity standards and expectations as well as designing compensation programs that reward the more productive employees are top priorities.
- Increased use of technology is necessary to provide efficient services and create value for referral/payer sources. Measure everything! Quantify costs, outcomes, resources and alternatives to your services. Outsource when it makes sense.

## GROW REVENUE

- Develop alliances with hospitals, physicians, and social service organizations.
- Measure, measure, measure. And then tell everyone how you have improved the outcomes, the quality of lives of your patients. This will set you apart from the competition and make you the logical choice for delivering the desired services.
- Understand your referral sources' dissatisfactions and frustrations. See the business opportunity which comes from listening to your referral sources. Dedicate your organization to actively listening and meeting referral sources needs.

In order to be successful in today's demanding healthcare environment and protect your gross margin from erosion, you must be in sync with dominant trends in improved patient outcomes, better resource use and more cost effective solutions. Continually reinvent your products to satisfy the health care needs of patients.

While the traditional way to address margin erosion by management may be to "re-engineer", to "streamline", to "right size", it is, in fact, the right time for a company to consider investments in customer service capability, re-setting the services offering of the company at a more specialized service offering level, and upgrade technology.

**ABOUT THE AUTHOR:** Beth Carpenter is the President of Beth Carpenter and Associates, a consulting firm which provides real-world expertise to improve the performance and results of home care, hospice and private duty clients. The firm has earned a reputation as a company that has deep industry experience and one that works closely with its clients to identify solutions that meet their business goals and strategic objectives. Beth can be reached at [bcarpenter@bethcarpenterandassociates.com](mailto:bcarpenter@bethcarpenterandassociates.com).