

# Finance: Focusing on the Bottom Line

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## KEY TERMS

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**Benchmarking**—A process for comparing practices across peer or like organizations to ultimately implement best practices with a focus on efficiency and quality.

**Budget**—A plan for future expenses and revenue, typically over a 12-month period to measure the financial and operational performance over a defined period of time.

**Budget Timeline**—A timeline for budget-related activities due at a specific time.

**Capital Budget**—Capital budget is defined as an asset that costs more than a fixed dollar amount (e.g., \$5,000) per item (or a composite of individual items that comprise a \$5,000 asset) and has a minimum useful life of 3 years.

**Cost Center**—A defined business unit (e.g., inpatient pharmacy) within the department of pharmacy financial summary, which may have direct expenses and revenue specific to that business unit.

**Facility Improvement Project (FIP)**—Large, complex project with an estimated construction cost greater than a fixed dollar amount (e.g., \$200,000).

**Group Purchasing Organization (GPO)**—An organization whose role is to develop purchasing contracts for products and nonlabor services that member hospitals can access. By pooling the purchases, the members of the GPO can negotiate more competitive prices from suppliers and manufacturers.

**Hospital Consumer Assessment of Healthcare Providers and Systems**—A standardized survey for measuring patients' perspectives on hospital care.

**Operating Budget**—A forecast of daily expenses required for a department to operate, including—but not limited to—labor, drugs, and supplies. An operating budget includes the revenue budget and expense budget.

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Note: Parts of this chapter appeared previously in Granko PR, Lamm MH. Promoting pharmacy business through the implementation of a departmental operating review series. *Am J Health-Syst Pharm.* 2015;72(8):610, 612-613.

**Operating Review Series (ORS)**—The framework for pharmacy area-specific presentations that include pharmacy area or service line finances, employee engagement efforts where applicable, clinical practice metrics, and ongoing clinical and operational projects and educational and research initiatives, which affect the overall health of the area or service line.

**Revenue**—Monies received for products or services provided to customers and patients.

**Service Line**—A service line organizes the approach to clinical management of patient care around like patients (e.g., cardiovascular services).

## Introduction

Hospital and health-system leaders face increasing pressures today, and these broad pressures extend to the **service lines** where pharmacy coordinators practice. Specifically, many hospitals and health systems are continuously looking to generate sufficient operating margin for clinical, educational, and research programs for indigent patients. Information system implementations are costly ventures that allow integrated care for our patients and ensure strong clinical sharing, but these ventures must be financed appropriately.

Many executive and service line leaders struggle with the ever-evolving standardization of operating models, clinical integration, and care delivery transformation to stabilize current and new affiliate operations. As experts in medication management across the continuum of care, coordinators must plan for sustained pressure to contain costs, ensure clinical and operational efficiencies, search for new **revenue** sources, and provide marketable value-based care.

## Leading the Business of Pharmacy, Its Areas, and Service Lines Using an Operating Review Series

Business-specific and service line knowledge is essential to the development of competent coordinators. Traditionally, back-end business aspects of pharmacy routinely involve billing and reimbursement. Although those aspects are critical to running a successful area or service line, progressive pharmacy healthcare stressors—

such as increasing medication and practice model cost control—continue to mount. More than ever, coordinators must ensure that the totality of pharmacy business is reviewed and discussed in an all-encompassing manner.

Coordinators should position themselves to effectively market pharmacy services and, more importantly, know how areas or service lines support and contribute to departmental and organizational goals. Because departments of pharmacy and their corresponding areas and service lines manage large revenues and expenses, coordinators must demonstrate a broad and in-depth understanding of—and be able to effectively communicate—the core business value of their areas and service lines. By using departmental data to drive meaningful pharmacy business insight, skilled coordinators can ensure a strong, vibrant, and sustainable platform for the organization.

## Tenets of the Pharmacy Operating Review Series

Given the dynamic, integral, and critical part the department of pharmacy plays in patient care—coupled with the growing complexity and scope of existing business nuances—coordinators are encouraged to institute a framework for the successful deployment of an area or service line **operating review series** (ORS). Functionally, an ORS is an in-depth and objective review of an area within a larger department. The series allows leadership, both internal and external to the host department, to be a useful forum for defining and discussing key areas within that unit.<sup>1</sup> The purpose of creating the ORS was to establish a framework for pharmacy area-specific presentations while ensuring continual area readiness and preparedness for what occurs at most organizations (e.g., a larger, more comprehensive quarterly organizational ORS held with hospital or health-system executive leadership).

Applied to the level of area or service with the pharmacy department, topical ORS agendas should be developed to include pharmacy area or service line finances, employee engagement efforts, clinical practice metrics, ongoing clinical and operational projects, and educational and research initiatives that affect the overall health of the area or service line.