

# Creating Remarkable Value: A Primer For Healthcare Providers (Part 2)

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In the last issue of *SalientValue*, we presented two of the four fundamental ways healthcare business owners can increase value: **increase the growth rate for earnings and explore ways to extend a positive growth cycle**. In this issue, we focus on **how to enhance cash flow** and **how to reduce the cost of capital** as strategies for maximizing value.

## Enhance Cash Flow

Successful healthcare executives understand that the realities of today's reimbursement environment can negatively impact cash flow. In short, an organization can be profitable, but also at death's doorstep if cash flow is poor. Here are a few ways to effectively manage cash flow:

- **Reduce any excess inventory/supplies** and make future purchases only as necessary
- **Refrain from using debt financing** that is not strategically critical
- **Replace/upgrade existing assets with leased assets** and use the saved cash flow to support long-term growth initiatives
- **Terminate poorly performing projects and contracts** and redeploy those resources to higher ROI projects
- **Reduce tax liabilities** by reviewing taxes paid and taking advantage of new strategies.

## Reduce the Cost of Capital

Competent healthcare business owners must carefully study the cost of their business investments, including the cost of any debt used to fuel business operations. You can reduce the cost of capital if you take the following steps:

- **Decrease excess debt**
- **Reduce the ratio** of fixed operating costs to variable operating costs
- **Adopt a disciplined schedule of equipment maintenance and replacement** that matches periods of optimal cash flow
- **Outsource services** that can be provided more cost effectively on a contracted, "on time" basis
- **Seek cash reimbursement** for services/products whenever possible
- **Create barriers to entry** through improvements in quality of care, transparency of pricing, and direct-to-consumer advertising.

Many highly valuable healthcare companies employ one additional strategy: they create a culture where value creation is the responsibility of every employee. This philosophy is becoming increasingly popular for many good reasons, including the complexity of our healthcare marketplace. More than 20 years ago, Jack Stack wrote in *The Great Game of Business* that “people who invest their time in building a business are just as important as the people who invest their money.” Healthcare executives and owners who adopt this mindset are best prepared to build remarkable value in their organization because they maximize the use of all available resources, especially their fellow workers.