

# managing the margin

...strategies for generating new revenue and controlling costs

JUNE 2005

## FEATURED FOCUS

### Boosting Your Bottom Line Through Improved Energy Use

Clark Reed

Seventy-five percent of senior corporate decision-makers believe energy costs are the least controllable category of business costs, according to *CFO Magazine*. Are you one of them?

If so, think again. Today, many healthcare organizations

manage their energy consumption in a way that not only cuts costs, but also improves profit margins and benefits public health. The most energy-efficient healthcare organizations use about 30 percent less energy than their competitors. Research by the U.S.

Environmental Protection Agency suggests that organizations that improve their energy efficiency outperform their competitors by as much as 10 percent in net operating income.

For most hospitals, low-cost measures such as operational

changes can have a big impact on efficiency, with quick returns that can help finance more comprehensive upgrades. Finding smart ways to improve energy efficiency frees up more resources for patient care, reduces exposure to energy price hikes, and demonstrates environmental leadership by reducing greenhouse gas emissions and improving air quality.

## BENCHMARKING IN BRIEF

### Benchmarking Toward National Excellence

As patient safety and healthcare quality improvement initiatives continue to gain momentum, healthcare organizations are recognizing the value of setting expectations at national—rather than regional—levels of excellence. Yet executives and organizational leaders need a way to recognize improvement opportunities to reach such goals.

Using operational and clinical benchmarking is critical in this regard. Credible benchmark data and appropriate comparisons will often reveal areas in which improvement efforts will yield greatest success.

#### MCCG's Story

Medical Center of Central Georgia accepted the challenge of achieving national

excellence. As part of its excellence efforts, MCCG set a goal of being recognized as a Solucient 100 Top Hospital®.

Key was first aligning improvement goals with overall strategic initiatives and defining organizational expectations. Leadership also recognized that multi-year winners of the award had sophisticated benchmarking and performance improvement infrastructures in place.

With these considerations in mind, MCCG set the following goals:

- Implement a robust operational and clinical benchmarking program

Progressive hospitals are discovering the value of developing an energy strategy. What can this mean for you? The EPA estimates that for not-for-profit healthcare organization, \$1 saved in energy performance translates into \$20 in new revenues. For a for-profit healthcare company, a 5 percent reduction in energy use translates into a 1-cent increase in earnings per share.

#### Improving Energy Management

Managing energy involves tracking and balancing

#### Medical Center of Central Georgia

Based in Macon, Ga., MCCG is a teaching hospital and Level I trauma center.

#### Volume:

More than 47, 000 adjusted discharges and 380,000 outpatient registrations per year

#### Licensed, acute beds:

637

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complex technical, regulatory, and market factors. Stakeholders such as investors, shareholders, board members, and customers are learning that the way top executives manage energy use is a good indicator for how well they manage their organization overall.

Organizations that are energy efficient are likely to have a better bottom line, be better managed, and fare better if faced with brownouts or rolling blackouts. Superior energy management also adds value by reducing exposure to energy price fluctuations and enhances an organization's reputation as a socially responsible institution.

ENERGY STAR is a government-backed voluntary program coordinated by the EPA that helps organizations and individuals protect the environment through superior energy efficiency. Research by Innovest Strategic Value Advisors found that companies actively involved in this program were consistent leaders in energy management.

The EPA distills successful practices from leading

program partners into guidelines for superior energy management. A critical first step for many participants is a formal commitment from management to continuous improvement of energy performance. These organizations often hire an energy director, who reports directly to the COO or other senior executive, to create policy in addition to managing the energy teams to implement it. Other key steps hinge on management's answer to a simple question—how does my facility stack up against its peers?

### How Do You Compare?

Just as clinical outcomes cannot be improved unless performance is tracked over time, so too is the case with energy efficiency. Facility managers need to know how their buildings perform to make effective management decisions. And the difference between the best- and worst-performing hospitals is staggering. Regardless of age or technology, high-performing hospitals use as little as one-fourth the energy used by those at the bottom of the performance scale. Identifying

actual energy performance will enable an organization's engineers to confirm their intuition, evaluate maintenance, ensure proper equipment installation, and verify practices that reduce waste and save energy.

For these purposes, the EPA developed a national energy performance rating system for hospitals and other buildings ([www.energystar.gov/benchmark](http://www.energystar.gov/benchmark)) that compares the energy performance of a given facility with that of its peers nationwide. Scores fall along a scale of 1-100, with 50 defined as the industry average. Hospitals rating high on the scale are considered to be better energy performers than those with low ratings. The rating system accounts for the impacts of year-to-year weather variations, as well as size, location, and other operating characteristics. To date, more than 25 percent of acute care hospitals have used this free system to set goals and track energy performance.

As part of its energy strategy, the organization's energy team should measure current energy performance of all

facilities to establish a baseline. The team should then report progress as it takes steps to improve on the baseline. By rating all eligible buildings in the portfolio, leadership will be able to cost-effectively allocate capital, personnel, and other resources toward facilities that will benefit the most from energy performance improvements.

### Next Steps

Once leadership knows how the facilities perform, the next step is to calculate the financial impacts of improving energy performance by 10, 20, or even 30 points. ENERGY STAR's online financial value calculator can perform a customized analysis of the effects of improved energy

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## NYPH

New York-Presbyterian Hospital, the 2005 ENERGY STAR award winner, comprises four hospitals as well as medical office buildings. NYPH delivers comprehensive medical services to residents of New York City and surrounding areas, with more than 100,000 discharges and 850,000 outpatient visits each year.

Under the leadership of a full-time energy program manager, NYPH benchmarked its entire portfolio and set a goal of achieving and maintaining ENERGY STAR status for both hospitals and medical office buildings in 2005. NYPH is well on its way toward accomplishing these goals, having already been recognized

as an ENERGY STAR Leader for achieving a 10-point portfolio-wide improvement from the first round of energy saving capital projects. To maintain continuous improvement, NYPH sponsors energy-related events throughout the year and created a conservation hotline to submit ideas for energy savings. Employees are recognized with the "Service Star," an award for contributions that improve energy savings.

*Estimated savings:* NYPH's combined savings in energy is equivalent to generating more than \$18 million in new business.

performance. The financial value calculator analysis returns standard financial metrics such as internal rate of return, net present value, and impacts on shareholder value for public companies. ENERGY STAR participants use the financial value calculator to establish financial goals that coincide with energy performance objectives. The analysis often is compelling, revealing that the hospital could drastically improve energy performance while simultaneously reducing energy costs.

After leadership has a clear understanding of the portfolio's performance and has quantified the financial value of improving energy performance, the next step is to develop an energy

improvement plan. A recent EPA study reveals that there is not just one path to top performance. However, common elements include a commitment to continuous improvement from senior staff, sufficient budget allocations, and use of best practices and proven technologies.

### Communicating Your Results

Stakeholders will want to know of the organization's commitment to hospital energy efficiency. Periodic communication to them about improvement efforts can help sustain momentum. Because various stakeholder groups will have different perceptions about the benefits of the energy

program, you may consider targeting messages to each:

**Employees.** A well-structured environmental policy that engages employees at all levels to reduce energy use can motivate employees to live up to their ideals of environmental consciousness and help them achieve greater satisfaction from efficiency efforts.

### Financial stakeholders.

Energy management reduces exposure to future price hikes. It can increase labor productivity by improving worker comfort from either energy optimization projects involving air conditioning or by improving lighting quality to reduce eyestrain and vision-related errors. Energy efficiency upgrades are low-risk high-return investments that can have a positive impact on an organization's bottom line and provide a foundation for creating a corporatewide social and environmental policy.

**Local community.** Energy performance upgrades will improve patient comfort, the environment, and public health.

### Recognizing Achievements

A hospital's primary mission is to heal. Thus, it makes sense for these institutions

to seek to minimize health hazards to the communities they serve.

There is perhaps no other sector better suited for environmental leadership than health care. Leading hospitals are beginning to understand this, and many are looking for ways to demonstrate quality management and community stewardship.

More than 7,000 organizations, including 500 hospitals, have joined the EPA's ENERGY STAR program to improve energy efficiency and gain federal recognition for environmental achievements.

Hospitals rating in the top 25 percent of the EPA's system, can earn the ENERGY STAR label for superior energy performance. Today, the ENERGY STAR label is found on more than 2,000 commercial buildings in the United States.

### Achieving Operational Excellence

Contrary to popular belief, energy is one of the most controllable costs of doing business. But don't just do the numbers to evaluate your case. Recognize energy performance investments for what they really are—opportunities to increase competitiveness by enhancing your hospital's profit margins, employee retention, productivity, and environmental reputation. It's an investment that will show healthy dividends on many fronts. ■

Clark Reed is the national health-care manager for ENERGY STAR at the U.S. EPA. Questions or comments about this article may be sent to him at [reed.clark@epa.gov](mailto:reed.clark@epa.gov).

### Simple Savings Ideas

- Replacing a 100-watt incandescent bulb with a 32-watt compact fluorescent light bulb can save you at least \$30 in energy costs over the life of the bulb. What's more, the bulb will last up to 10 times longer, reducing lighting maintenance efforts.
- Exit signs that have earned the ENERGY STAR operate on five watts or less per sign, compared with standard signs, which use as much as 40 watts per sign. One sign alone can save about \$10 annually on electricity costs and can last up to 10 years without a lamp replacement. When installed throughout a building, qualified exist signs can save hundreds or even thousands of dollars in energy and maintenance costs.
- An ENERGY STAR-qualified vending machine is 35 percent more energy-efficient than standard new machines—saving building owners 1300 kWh/year per machine, or \$90 annually on utility bills.

## Providence Health System

The 2004 ENERGY STAR award winner was Providence Health System. Providence serves Alaska, Washington, Oregon, and Southern California. When the system joined the program in 1999, Providence's president and CEO challenged energy managers to uphold the organization's core value of environmental stewardship by using ENERGY STAR to save energy and reduce air emissions. Engineers regularly track and manage facility energy

performance, set goals, and rank facilities by their energy intensity to prioritize improvement plans. Senior executives continually highlight opportunities for energy savings and provide incentives for achievements.

*Estimated savings:* Providence's combined savings in energy is equivalent to more than \$28 million in new business.