

# FROM THE EDITOR'S DESK

## Greetings!

The Indian healthcare system includes public and private hospitals. Health care service is gradually emerging as one of the largest service sectors in India. It is continuously developing its areas of functions. Most of the healthcare services are provided by the private sector. The increased spending power of the middle class is providing growth opportunities to healthcare providers.

Publicly-funded government hospitals provide basic care only and often lack adequate infrastructure. They can also be crowded and waiting times can be long. Government hospitals are often understaffed, though the cost of care is significantly less at these government hospitals. Private hospitals offer a high standard of care that is at the same level as North American and European countries. Private hospitals are modern and well equipped, and the doctors are highly qualified and often trained abroad, though the cost of care is significantly more at these private hospitals.

India provides low-cost medical facilities that attract a lot of foreign customers. Recently, it has made important contributions to India's GDP. A research study reported that 2011 saw 850,000 medical tourists in India and projected that by 2015 this number would rise to 3,200,000.

Most healthcare organizations continue to struggle with identifying the costs of products and services provided by them, capturing the full cost of products and services, including inter-entity and department costs as part of full costs. Hence they need a sound costing methodology.

Cost Management can be a useful tool for managers to:

- measure performance
- reduce costs
- determine the fees or prices for goods and services
- make decisions
- authorize, modify or discontinue a programme or activity
- manage inventory, etc.

Most medical practitioners are only concerned with overall profit and cannot identify how much profit was made from office visits, ancillary services, hospital work, etc. To run the medical practice business in a business-like manner, a close look at the costs and profits associated with each service is required. Cost Accounting serves this facility with the help of ABC analysis for computing the costs of providing services by considering the time and resources actually consumed.

Cost control and cost reduction are the most challenging issues faced by the healthcare industry. Rising costs cou-

pled with decreased funding from government and other funding agencies, force health programmes to find ways and means to reduce costs. ABC analysis helps to identify the non-profitable areas so that the organization takes decisions to control costs. The project control system also helps organizations get a fair indication of the existence and the extent of such problems. Hospitals often make the painful mistake of buying an application without really knowing what's in store. Once bought, the installation takes months, keeps the key people busy and leads to frustration. Cost accounting solves this problem with the help of inventory management system.

The pricing strategy in healthcare is the most critical component of managing hospitals irrespective of whether they are for-profit or not-for-profit. While a variety of factors influence pricing strategies, it is important to keep the process simple and uncomplicated. Pricing is dependent on a variety of factors like competition, demand for the product in the community, affordability by the community and the need to generate reserve funds. Therefore, the beginning of any pricing process is to understand the cost of the product, including the components. Often, mistakes occur at the time of allocation of indirect costs to a product/service and this has a major impact on profitability. Cost accounting helps to classify costs and provides guidelines on allocation/apportionment of cost to various products and services.

CMAs with the help of their expertise can help healthcare organizations in the following ways:

- Designing and development of appropriate organizational structure
- Managing cash activities
- Designing proper inventory control system
- Admitting and registration of patients
- Designing and developing appropriate internal audit and internal control system
- Departmental Costing
- Product Costing
- Laboratory inspection
- Revenue Management, etc.

We are really overwhelmed by the huge response of our readers on the new look of the journal and its enriched contents. This issue has a few relevant articles on 'Health Sector – Imperatives for CMAs'. We have introduced a new section, 'Letters to the Editor'. We look forward to feedback from our readers on the articles. Please send your mails at [editor@icmai.in](mailto:editor@icmai.in). We are grateful to all the contributors for this important issue. We hope our readers enjoy this issue.