

Leading Your Organization To Post-COVID Success

2 Key Areas of Focus

Progressive Healthcare

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Health systems face the daunting task of reclaiming lost service volumes and revenues, now that easing economic restrictions and financial assistance programs are in place. Successful health systems cannot only survive, but thrive, by focusing on two main areas: Financial Stabilization and Credibility Enhancement.

1. **Financial Stabilization:** Regaining financial health starts with understanding where your system falls on a broad fiscal and strategic continuum. Some organizations have sufficient balance sheet strength, and weaker competitors, to endure their recent quarter's losses. Those on the other end of the spectrum may well need to plan for a viable exit. In between are various stages of operational, service, and facility changes that could lead to a sustainable (albeit transformed) state.
2. **Credibility Enhancement:** While financial viability depends on the return of volumes and revenues, this viability is codependent on these system attributes:
 - a. Demonstration of clinical competency in the COVID-19 environment.
 - b. Operating safely and meeting (or exceeding) relevant guidelines.
 - c. Demonstrating to your community that your organization is safe and viable.

FINANCIAL STABILIZATION

We estimate that a significant percentage of the hospitals in the country may close in the next three years. While COVID-19 is a contributor, these closings are a continuation of a long trend. The differences between thriving, surviving, and closing require a keen understanding of each system's risks, management talents, and the tools available in your system's toolbox.

High performing health systems often generate a 5% to 7% operating margin on the hospital side. However, these gains are typically offset (partially or in whole) by losses on physician employment/PSA agreements. A typical net result has been a system-wide operating margin of 2% to 3%. While these results have been propped up by investment gains, they are not sustainable over the long term. Consider the following scenarios:

Best Case: Hospital volumes rebound to 95% of pre-COVID-19 levels, with volumes and revenues spread evenly across all areas. For every \$100 million in net revenue, the new situation is \$95 million in revenue. This requires a \$5 million reduction in the hospital's operating budget (assuming no changes on the physician expense structure). However, required expense reductions will likely be 1% to 2% higher, as health systems will incur new expenses (e.g., infection control, safety enhancements, etc.). Most systems should be able to make these adjustments within the construct of traditional budgeting, management, and operating models (e.g., staffing and service contract costs). Some outsourcing of non-patient care related services may be necessary, but operations will largely resemble prior normalcy.

Worst Case: Hospital volumes and revenues rebound to <90% of pre-COVID-19 levels. At this point, fixed costs are probably such that you cannot generate a positive margin without substantial changes to the fundamental business models. Likely actions include:

1. Significant changes to physician employment and PSA contracts that rebalance risks and rewards, and which ultimately reduce physician income by up to 20%
2. Rigorous portfolio review of all indirect and direct clinical services, as well as support services, to identify safe and effective outsourcing opportunities. Typical areas for consideration include dietary, housekeeping, lab, security, IT, and revenue cycle. If the system has a specialized service line, consider outsourcing the management and operations of these services.
3. Dropping entire service lines, especially those that are low volume. Examples may include NICU, pediatrics, behavioral health, substance abuse, and obstetrics. Today's environment may be the time to redefine your core competencies and evaluate potential sharing of service delivery with regional allies or even competitors.
4. Radically altering the system's Mission and realigning service delivery models may be necessary. Examples include moving ER services to off-campus free-standing location(s), transforming the core facility to a surgery/procedure-only model, or the transitioning to an ambulatory care only model.
5. Reconfigure your approaches to ambulatory facilities. You will probably not need all the space you currently have, and the space you do have is likely sub-optimal to support safe (but lower volume) visits and/or tele-health initiatives.

The Bottom Line: Life will not be the same for systems where volumes do not return to 90% of more of pre-COVID-19 levels. For these organizations, actively (and accurately) defining the "new normal" becomes a requirement for survival. The *relative* balance sheet strength profoundly influences all the above as do the system's local market dynamics. Size is *not* a panacea; larger organizations simply lose more money. What matters?

1. How the system can mitigate losses.
2. How long the system can endure these losses.
3. The system's ability to rebuild and grow its most profitable services.
4. The system's ability to quickly pick up a failing competitor's volume.

Although no one knows for sure how pent-up consumer demand will materialize, system volumes and revenues are unlikely to return to historical levels (or grow) until the health system restores credibility across three main parameters.

CREDIBILITY ENHANCEMENT

Health systems have navigated massive service delivery disruption during the past few months, with significant alteration of clinical and operational workflows (e.g., marked increases in telehealth use, elective procedure shutdowns, and staff reassignments), as well as downstream credibility perceptions by patients and providers. Clinical, operational, and community credibility

must align for sustainable system performance. This will involve a combination of science – based approaches, visual cues that instill confidence, and effective marketing communications.

Clinical Credibility: While some significant portion of the new growth, workflows, and reimbursements for telemedicine visits and remote monitoring will remain in place, systems that successfully incorporate and leverage them to achieve equal or better clinical outcomes will experience restored or enhanced clinical credibility by patients, family members, and caregivers. These stakeholders will also be more confident about seeking care across the continuum from technology to on-site service, as the successful system can tout its performance against evidence-based outcomes standards.

Operational Credibility: Systems that effectively continue some service changes that were needed during the COVID-19 peak will engender a sense of safety and comfort for patients and caregivers to return to their local community hospital(s), offices/clinics, and system. Infection risk mitigation actions are among the most obvious, including social distancing, meticulous handwashing, use of masks, and alterations in visitation policies. Taking a leadership role to collaborate with other local, regional, and national health systems and associated health departments to drive clinical, service, and financial outcomes will also serve these systems well.

Community Credibility: Recent national surveys by consulting firms and rating agencies indicate that more than 40% of the population (as of May) are unwilling to see a provider in person. Many of those that do access services lack insurance. Consider the following potential steps:

- Develop a coherent but easy to understand communication plan.
- Align with your local public health department (and others) and jointly publicize your collaboration in the quest to stabilize and improve the community's health and safety.
- Work directly with your employer community to educate and support a "return to work safely" campaign.
- Provide visible cues of your efforts wherever possible. Signage, face masks, sanitizers and physical spacing are all fine; you might also consider visibly changing some processes ("curb side check-in" being one example). Adopting existing technologies (such as automated temperature machines) and developing technologies (such as whole body sanitizing systems) may also provide "psychological reassurance" (although the clinical efficacy and cost-benefit results have yet to be demonstrated).

Summary: First, understand your strengths, vulnerabilities, market position and resulting risks. Second, take an active and visible leadership role in your community. Third, meld science and consumer psychology into your operations and overall strategic response.

Our Progressive Healthcare team has extensive experience with all aspects of pandemic management, strategic planning, clinical operations and financial management to help. Please contact your Progressive Healthcare consultant and our website for further information: <https://www.progressivehealthcare.com>.