THE CHARTIS GROUP

Health Systems and Financial Recovery:

Survey Finds a Challenging Balancing Act Ahead

As the COVID-19 pandemic endures,

health systems across the country head into the second half of 2020 with margin improvement as a top priority. The first six months of the year brought the "perfect storm" of financial disruption — loss of elective procedures, reduced patient volumes and increased costs to manage dual systems of care for both COVID and non-COVID patients. Amid the fallout, hospitals face an immediate need to reduce costs by year-end in order to accelerate financial recovery.

In The Chartis Group's recent Financial Recovery Survey, **85% of health system executives surveyed identified cost reduction as one of their top three priorities** for addressing the impact of COVID-19 on their organizations, and they expect to achieve results rapidly: **90% of respondents aim to meet their cost reduction targets in less than 12 months,** and of those, **more than half are pushing even more aggressively to meet their goals in less than six months.**

The urgent need to respond to recent losses, coupled with economic pressure to invest in dual systems of care, creates a complex series of trade-off decisions. Financial improvement strategies that drive results most rapidly may have unintended consequences that threaten the long-term sustainability of clinical and operating models, as well as the organization's agility to respond to future COVID-19 waves. The decisions made by health system executives over the next six months, including which financial improvement levers to pull and how to go about their efforts, have the potential to significantly impact the organization's overall strategic direction.

In this report, we highlight key findings from our Financial Recovery Survey and considerations for healthcare provider organizations as they forge ahead into an uncertain future.

85%

OF HEALTH SYSTEM EXECUTIVES SURVEYED

identified cost reduction as one of their top three priorities for addressing the impact of COVID-19 on their organizations.

90%

OF RESPONDENTS

aim to meet their cost reduction targets in less than 12 months.

Key findings

COST REDUCTION IS CRITICAL TO RECOVERING FROM THE INITIAL SHUTDOWN AND MITIGATING FUTURE UNCERTAINTIES

Providers of all sizes, segments and markets are prioritizing cost reduction efforts to recoup the margin lost from canceled procedures, hedge the continued uncertainty around volume recovery and proactively manage margin in a dual system of care with ongoing fluctuations of COVID-19 cases.

KEY RESULTS FROM THE SURVEY INCLUDE:

40%

expect it to take up to 12 months to see pre-COVID volumes.

Volume recapture alone will not be sufficient to return to prior levels of liquidity, prompting most organizations to pursue cost reduction strategies in parallel, to strengthen the balance sheet.

45%

intend to reduce their expense base by more than 10%.

Cost reduction targets are aggressive, necessitating multi-pronged approaches that focus on traditional improvement strategies, as well as more complex strategies to optimize assets and reduce fixed costs.

90%

aim to achieve cost reduction targets within 12 months; 55% are aiming for <6 months.

Results need to be achieved rapidly, putting additional strain on already burdened resources, potentially creating unintended consequences, threatening long-term sustainability and limiting the degrees of freedom around which improvement strategies can be effectively deployed.

90%

have concerns about internal factors that may derail or delay successful execution.

Internal factors including resource bandwidth, competing priorities and lengthy decision-making processes are top concerns that may delay or derail successful execution, while organizations are simultaneously managing dual systems of care and potential COVID-19 surges.

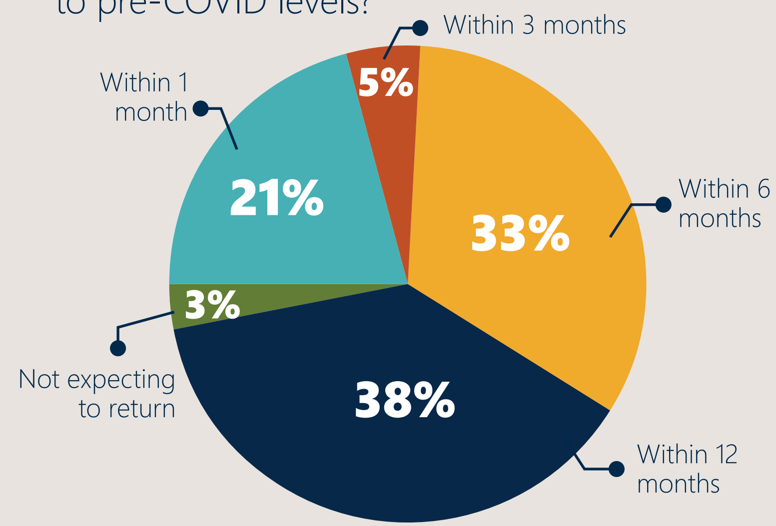
Volume recapture alone will not be sufficient to return to prior levels of liquidity

As health systems have reopened, elective volume and the pace of patients' return to care has varied by region.

While some organizations have recently reported volumes returning to 80% to 90% of pre-COVID levels, data would suggest these trends are, in part, related to backlog from cancellations and that an additional dip is on the horizon. In other regions, particularly those located near hot spots, volumes are not expected to return to pre-COVID levels for several more months, with **40% of respondents expecting it to take up to 12 months to see pre-COVID volumes.**

This is consistent with our data on demand recovery, which shows patient visit volumes down nationally by 28% through mid-May versus pre-COVID levels, with certain specialties (such as pediatrics) and geographies even harder hit. Given the uncertainty of when patients will return to care and the potential impact of future waves of COVID-19, cost reduction has become key to financial viability.

How quickly do you expect to see your non-COVID ambulatory and elective procedural volume return to pre-COVID levels?



Key Takeaways

- Do not assume all volume will return quickly or equally; understand patterns by service/ modality and new versus established patients — who is coming back and who is not.
- Initiate proactive, direct contact with referral channels and patients — make it easy for patients to return both in-person and virtually.
- Develop contingency plans in case of slower volume return, including cost reduction strategies and sustained demand recapture and service line reactivation attack plans.

Cost reduction targets are aggressive, necessitating multi-pronged strategies

Almost half of survey respondents are aiming for cost reduction targets greater than 10%.

In our experience, up to 10% improvement can be achieved through traditional operating strategies such as labor/workforce management, supply chain and others, with the balance requiring more complex strategies involving optimizing asset utilization and reducing fixed costs. Survey respondents noted cost reduction strategies across all dimensions, with traditional strategies most prevalent in current plans.

Organizations with targets in excess of 10% or that have already shored up foundational operations should prepare to take on the more complex strategies to meet their goals. Doing so will require revisiting strategic decisions such as program development, geographic expansion or practice acquisition, and an objective cost vs. benefit review. Strong leadership, clear accountabilities, stakeholder engagement and robust communications will be essential to de-politicize and streamline these decisions.

What are you targeting as your total cost reduction opportunity as a percent of expenses?

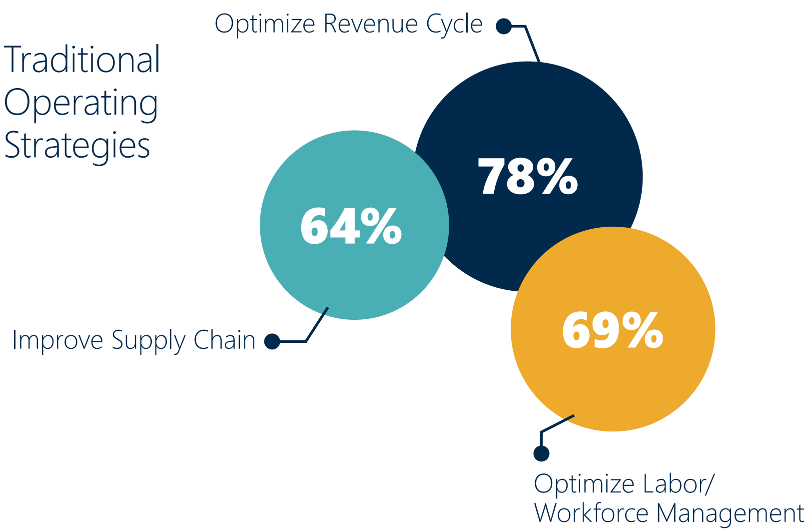
1-5%	**14%**
5-10%	**38%**
10-15%	**36%**
15-20%	**9%**
Unsure	**3%**

Key Takeaways

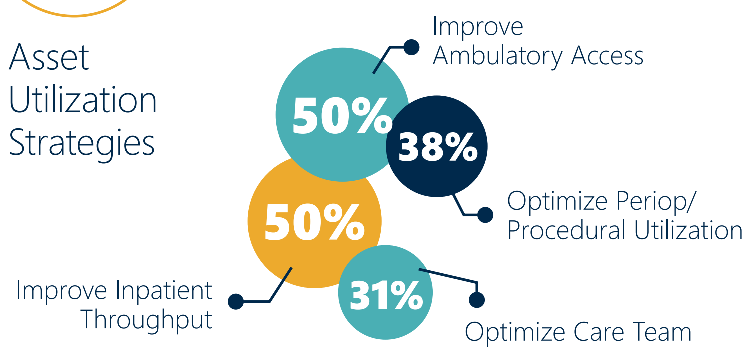
- Drive optimization across all key processes throughout the enterprise, i.e., workforce, revenue cycle, supply chain, access.
- Aggressively pursue opportunities to restructure fixed costs and optimize assets, such as management structure, corporate overhead, and resizing the ambulatory footprint, as examples.
- Challenge investments in clinical programs/services and make difficult decisions where needed.
- Realign physician enterprise costs to be proportional to revenue expectations.
- Actively engage stakeholder support, all the way to the board level.

Which cost reduction strategies are included in plans moving forward?

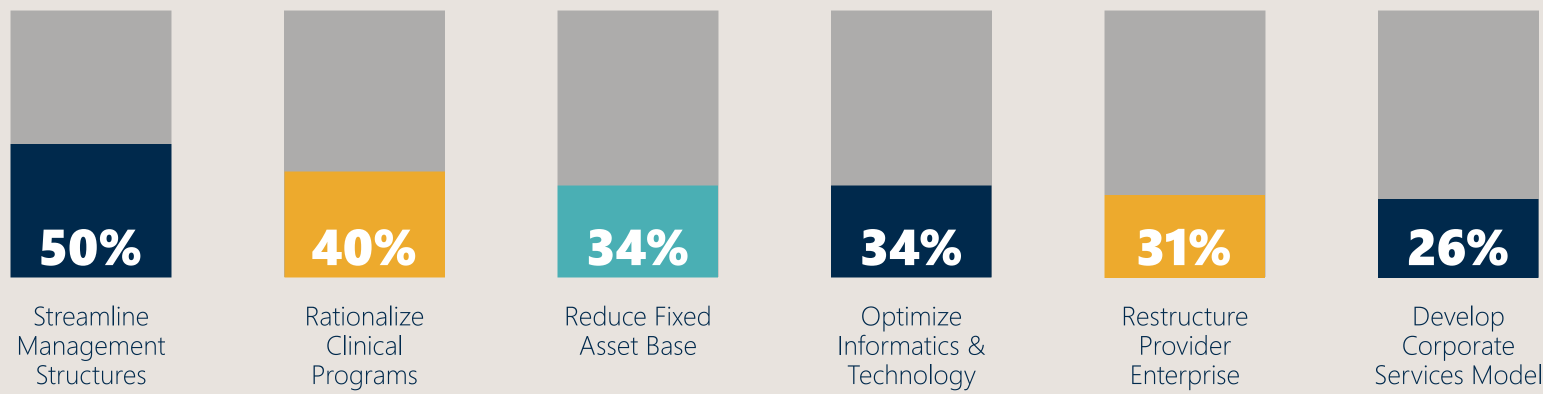
Traditional Operating Strategies



Asset Utilization Strategies



Fixed Cost Reduction

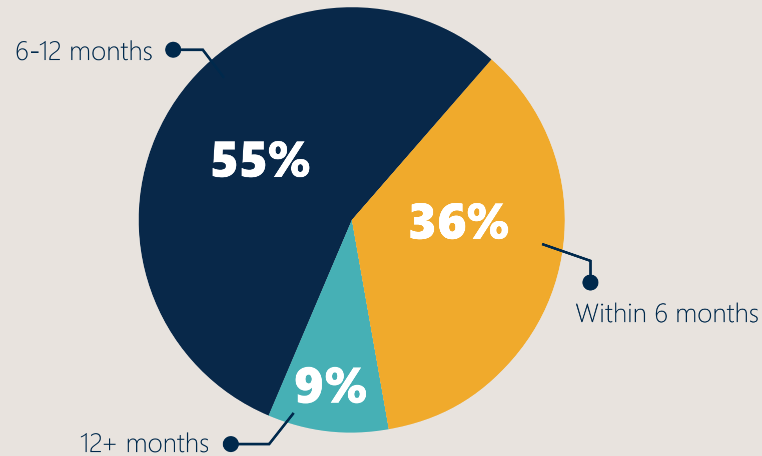


Rapid improvement time frames limit degrees of freedom and risk unintended consequences

Ninety percent of survey respondents aim to achieve cost reduction targets within 12 months, and more than half seek to achieve their targets in less than six months.

Such an ambitious pace requires active mitigation of potential unintended consequences, which often accompany rapid cost reduction efforts. Unless care model redesign is done concurrently with staff reductions, the organization's ability to manage the dual clinical systems required of COVID could result in unacceptable levels of quality, safety and experience, and/or lower productivity levels than pre-pandemic. As volumes return and organizations bring back furloughed staff, new staffing models will be required to deliver the same level of service at lower costs.

How quickly are you aiming to meet your target?



Rapid cost reduction by itself limits the degrees of freedom around which financial improvement levers can be pulled. More complex strategies, such as those focused on optimizing asset utilization and reducing fixed costs, inherently require longer decision-making processes and lead times, yet are critical for long-term sustainability. Health systems seeking to thrive in the long run must strike a balance between rapid timeframes and longer-term, more impactful solutions.

Key Takeaways

- Develop and communicate realistic expectations about goals including timing and measures of success.
- Assess execution risk for planned changes; engage front-line leaders and staff wherever possible.
- Engage providers in planning and execution from the outset.
- Have a detailed Human Resources plan in place.
- Ensure information technology systems are enablers, not obstacles.
- Don't let optics hold you back — plan communications accordingly.

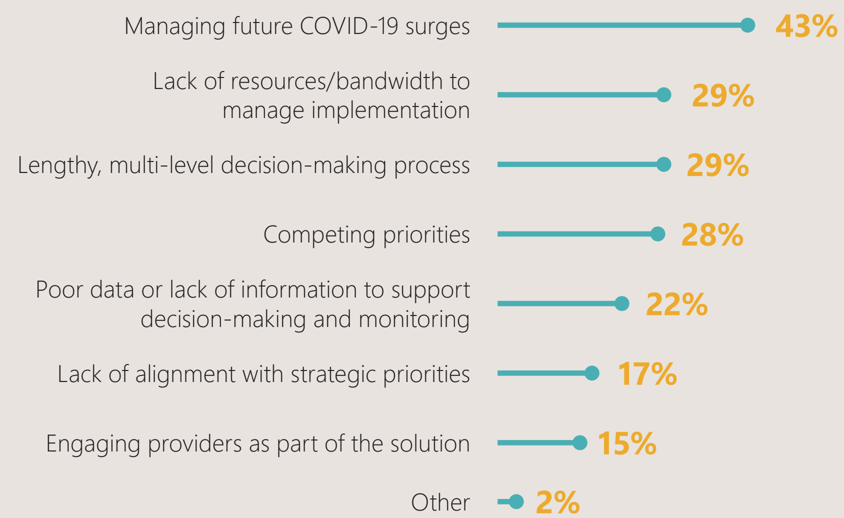
Internal factors may delay or derail execution while organizations simultaneously manage dual systems of care and potential COVID-19 surges

As with any critical endeavor, health system leaders are concerned about execution risk.

In addition to concerns managing future COVID-19 surges, respondents cited lack of resources/bandwidth, competing priorities and lengthy, multi-level decision-making processes as potential barriers.

Deploying a robust change management and execution approach to mobilize the recovery effort can help mitigate these obstacles. Critical elements include active leadership engagement, unification around a common vision and set of performance objectives, a process that engages physicians and other stakeholders, a structured communications approach, performance measurement and monitoring infrastructure, and strong program and project management.

Factors with the greatest potential to delay or derail successful execution



Key Takeaways

- Apply the intensity, focus and discipline reflective of critical initiatives (e.g., incident command) to the project management of margin improvement efforts.
- Prioritize resources based on financial impact, speed to results, organizational capabilities, and longer-term enterprise goals and strategic position.
- Harness your executive leadership team and get key stakeholders on board.
- Clearly demonstrate and reinforce leadership's commitment and focus on execution.

Key considerations

BALANCING THE TENSION INHERENT IN THE ROAD AHEAD WILL BE CRITICAL FOR SURVIVAL AND SUCCESS

The road ahead for health systems is strewn with tension....between recovery and ongoing financial viability in a dual system of care, between aggressive targets and rapid timeframes, and between immediate action and long-term sustainability.

Every decision made and approach taken has implications for other improvement tactics and potential unintended consequences for the future of the organization. The next six months will be defining for health system leadership and taxing on an already stressed workforce.

THE FOLLOWING CONSIDERATIONS ARE CRITICAL TO MEETING THE COMPLEXITY OF THIS MOMENT:

You will be managing in a dual system of care for the foreseeable future; ensure your financial improvement plans are not just focused on near-term recovery, but also on ongoing viability in the current environment.

Rapid cost reduction should be pursued in the context of the broader impact of such decisions; identify up front the potential implications on clinical and operating models to ensure long-term sustainability of improvements.

Sacrifices may need to be made to ensure your legacy of care and service to your community can endure; structure decision-making processes through that lens to bring objectivity, balance and "realism" to a highly charged, emotional environment.

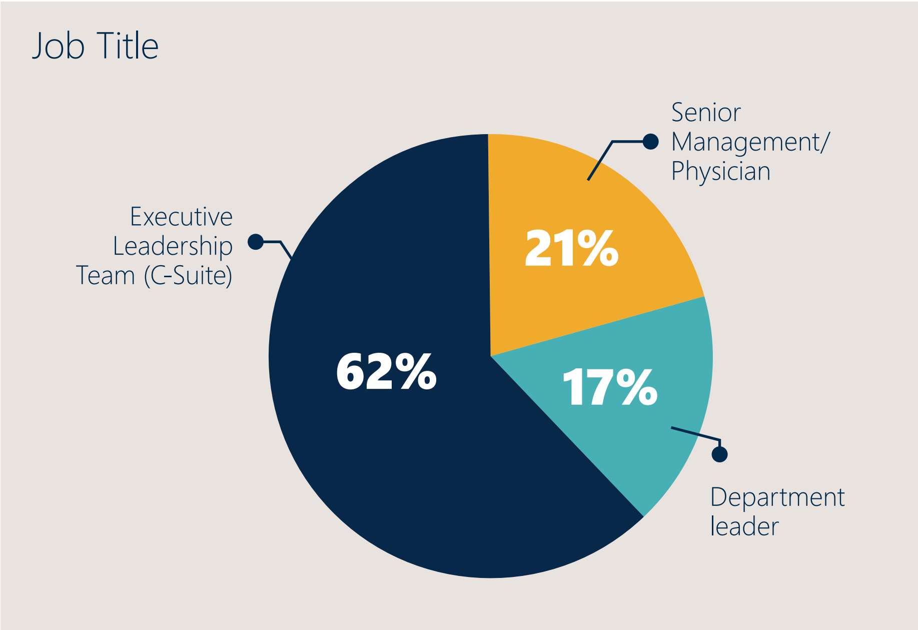
Leadership can make (or break) the organization during this time; empower the right leaders and deploy governance, management systems and streamlined decision-making to de-politicize the environment.

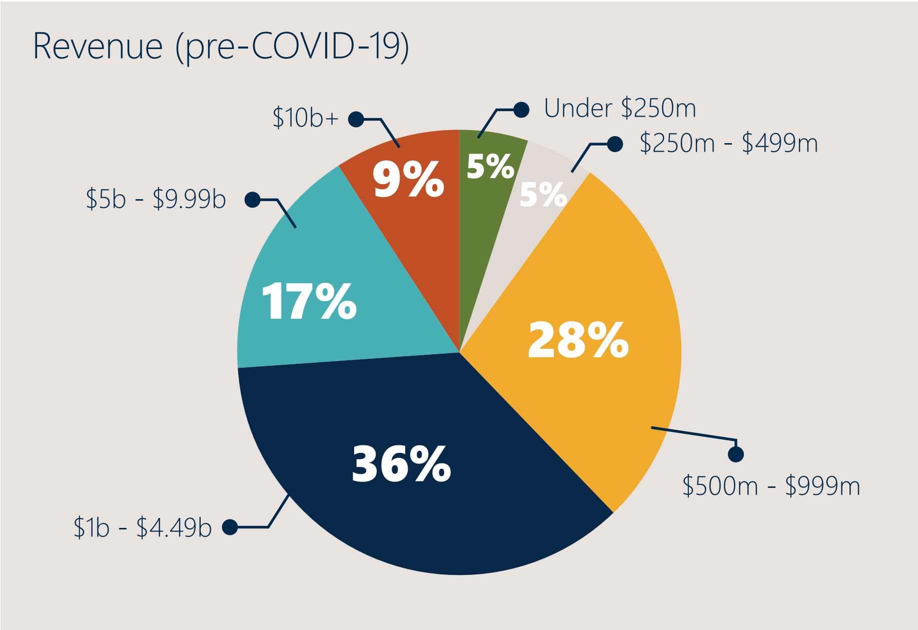
All stakeholders must know the mission and know their role in preserving the mission; improve frequency and clarity of communications to strengthen morale and sense of purpose and ensure low morale does not lead to poor patient experience.

Successful execution requires great attention to detail, accountability and infrastructure; take a data-driven approach to tackling tough decisions and commit the resources to bring rigorous structure, process and monitoring to ensure results are achieved and sustained.

Demographics

Our Financial Recovery survey report presents results of an online survey completed in June 2020 by health system leadership. Respondents were predominately a part of the C-suite/senior executive leadership team (62%), with 48% representing Finance and Operations leadership. Nearly 60 individuals participated in the survey.





AUTHORS

Pam Damsky
Director, Performance
pdamsky@chartis.com

Rob Gamble
Director, Performance
rgamble@chartis.com

Stephanie Hines
VP, Practice Operations
shines@chartis.com

Our recent report provides further insight on a sustainable approach to margin improvement

Building Back the Balance Sheet in the Age of COVID-19

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About The Chartis Group

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