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Unlocking Higher Margins

The Power of Strategic Decision Impact Analysis

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Introduction

In a world of limited resources available to respond to an endless demand for analytics – and where every percentage point counts – imagine boosting your margin by **5% or more** through one coordinated action: quantifying the *aggregate* impact of separate strategic decisions on financial performance.

As a health care provider organization, **an integrated approach to financial analysis is particularly crucial given the complex decisions one faces that can profoundly influence other aspects of your business.** These decisions could include…

- Strenuous negotiations resulting in a potential out-of-network transition
- Pressure from payers for an increased number of risk contracts
- The impact of emerging, novel competitors with distinct business models
- Harmonizing your proprietary health plan with your provider business
- Managing the escalating inflation costs associated with labor, supplies and pharmaceuticals
- Contending with a dwindling pool of clinicians

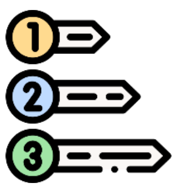
…among many others with wide-reaching, enterprise impacts.

The financial forecasting and evaluation of each strategic option is typically performed by contracting, analytics, and finance teams within a health system. These teams determine the potential implications of strategic decisions, thereby guiding executive decision-making. However, **it is infrequent that these modeling efforts incorporate an evaluation of the trade-offs** and interactions among these decisions. Moreover, **they seldom utilize a comprehensive approach in quantifying the impact of each strategic choice across the entirety of the portfolio, and all business units.**

We advocate for – and have utilized with our health system clients – the adoption of an integrated financial modeling approach, which combines these analyses to show aggregate impact. We strongly believe that executive decision-making is significantly better informed with this type of modeling approach. In our experience, we've seen this capability help level the playing field in contract negotiations and advance long-term strategic goals. Essential to this approach is the ability to quantify the cannibalization of conflicting efforts (such as shifting sites of service), to reinforce return on investment calculations.

Our approach: modeling with purpose and direction.

Constructing a financial model that accurately represents the complex landscape of an entire healthcare system might seem intimidating and intricate. While gain-loss models aim to forecast cash flow and optimize workforce planning, strategic models necessitate a more nuanced approach. Such models should encapsulate the interdependent actions that have implications not only on revenue, but also on cost structures, service volumes, patient lifespan projections, and growth potential. Although the design and development of the model may differ based on factors like health system size, market dynamics, or location, **there are four fundamental principles we advocate for and adhere to in our approach**:

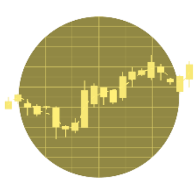


Prioritize your strategic objectives for the upcoming five years.

It is imperative that health system leadership aligns on growth, revenue diversification, and operational objectives with a clearly defined timeline in mind. Examples of such objectives could be expansion into a new geographic market, or development of a direct-to-employer offering. Whatever the goal, executive teams must identify their most important strategic objectives of quantifiable interest. It may seem self-evident to do so, but without the financial quantification to support or justify objectives, many health systems fail to properly identify the best next steps to pursuing them. Our integrated financial model will help quantify these goals and aid in sequencing, structuring, and developing key performance indicators for benchmarking. An absence of this upfront alignment may result in the model components failing to address the key strategic questions of the future.

Determine the appropriate granularity for model projection.

Following the identification of and alignment on strategic objectives, the design and development of modeling levers for financial projection can begin. During this phase of the approach, confirming the precise degree of detail necessary to create alignment across diverse sectors of the organization is crucial. For instance, while service line projection might be vital for operational team planning, chargemasters and revenue cycle reporting may require a different degree of detail. Furthermore, based on the structure of your contracts, an entirely distinct structure may emerge, affecting the specificity of the model. Nevertheless, the process of cross-referencing and aligning different levels of granularity through crosswalks will be critical to ensuring the value of the model. This endeavor will foster the organizational change management necessary to act upon the strategies that are proven to render the highest return on investment.



Develop scenarios to test and project.

We highly recommend the design of these models (in any desired context, format, and program) to swiftly test various scenarios and, as a result, multiple iterations of a strategy. By identifying opportunity ranges, the model can quantify the upper and lower limits, informing sequencing (and level) of efforts required to pursue the strategy.

A distinguishing feature of this modeling lies in the quantification of trade-offs for different business areas. For instance, an immediate increase in managed care rates might seemingly generate the highest revenue for a system. However, under a value-based contract with downside risk, a substantial hike could potentially place cost-of-care metrics in a position that generates losses. Conducting a strategic evaluation of which services drive margins, and aligning this with site of service objectives, could create an alternative that may initially have a lesser impact on revenue. However, in the long run, this approach may be more likely to align with the strategic direction of the organization.

Evolve and enhance – or take action on – your modeling efforts.

We have observed that these modeling initiatives unlock the potential of and inspire the leaders who are tasked with realizing their quantified opportunities. Occasionally, this necessitates more sophisticated and enhanced modeling that incorporates additional granularity, benchmarking, or ties in with other reporting and organizational efforts. For instance, if the most significant opportunity lies in leveraging value-based contracting efforts by tempering fee-for-service rates and focusing on growing your attribution, it could be beneficial to enhance your attribution efforts by offering more detailed insights on regional or provider opportunities. At other times, the modeling serves as the catalyst needed to align executive leadership and foster action planning and execution. Teams then proceed to the subsequent tactical steps to further develop a plan, allocate resources, and hold themselves accountable for the quantified return.

Conclusion

This kind of integrated approach to financial modeling is only becoming more important for finance leaders, who are looking beyond just cost reduction to achieve operating margin targets. In a recent Deloitte survey of more than 60 finance leaders from US health plans and health systems, respondents indicated strategic growth (*increasing reach, scale, and impact through new products, services and populations*) and revenue growth (*improving value capture of existing products, services and populations*) were two high-priority levers to consider in taking a holistic approach to margin improvement. Our integrated financial model represents a tool for unlocking insight into how these various levers interact with each other, to better understand overall impact on system performance.

In our experience developing and utilizing integrated, strategic financial models with health systems, we have observed that these efforts not only stimulate organizational transformation, but also cultivate a culture of responsibility and proactive decision-making that is ultimately the key to realizing the quantified returns. The implementation of data-driven, prescriptive analytics through these modeling initiatives has transcended beyond a mere objective and has become a vital requirement for health systems to responsibly assess decisions and steadfastly advance their goals.

Reach out for a conversation

To learn more about how your organization can explore direct contracting arrangements, please contact:

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