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Ten Steps to Survive the Imperfect Storm in Healthcare

February 17, 2009



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1. Viewer Window

2. Control Panel

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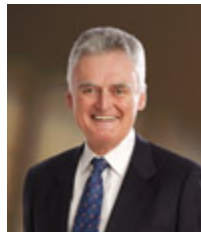


10 Steps to Survive the Imperfect Storm in Healthcare

Panelists include:



**John
Tiscornia,
Managing
Director**



**Robert
Wilson,
Managing
Director**



**James
Martin,
Managing
Director**



**Gary
Dowling,
Managing
Director**



**Paul
Osborne,
Managing
Director**



**Fawn
Lopez,
Moderator**

Objective: *Learn practical tactics to employ now in order to improve profitability, cash flow and liquidity, in the face of turbulent economic times.*

State of the Healthcare Environment Today



John Tiscornia
Managing Director

- Most challenging in decades
- Traditional revenue constraint and cost management persist and increase
- Capital market and financial market crisis
 - Cost of capital
 - Frozen access
- Reduced liquidity due to investment portfolio value declines and anemic or non-existent operating margins
- Impact of deep and potentially prolonged economic recession
 - Decline and/or delay in use of health services
 - Increasing self-pay (bad debts and charity)

Managing the Revenue Cycle



James Martin
Managing Director

- Focus on the Core – Trail Balance
 - Detailed AR strategy – identify and assign resources (internal and external)
 - Perform analytics on a recurring basis to determine opportunity areas
 - Reinforce AR strategy with clear and controlled work flow
 - Monitor and measure quality and productivity

- Comprehensive self-pay strategy
 - Must include pre-service activities
 - Up front cash collections – co-payments and deductibles
 - Strong financial counseling
 - Integration of Case Management
 - Self-pay follow up strategy
 - Opportunity analytics
 - Letter series
 - Phone calls
 - Vendor support

Managing the Revenue Cycle *cont.*

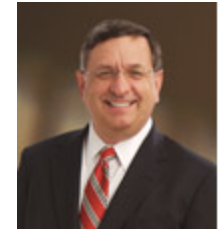


James Martin
Managing Director

- Other opportunities
 - Outpatient charge capture
 - Inpatient clinical documentation
 - Payer contracts
 - Strategic pricing
 - Patient Progression

- Patient Progression
 - Improve effective capacity
 - Optimize and align resources to demand
 - Avoid or delay capital costs
 - Reduce labor cost
 - Reduce surgical cost
 - Reduce cost per case

Managing Non-Labor Costs



Gary Dowling
Managing Director

- Focus on full spectrum of non-labor costs: supplies, pharmaceuticals, food and environmental services, lab, energy and utilities, purchased services and HR
- Non-labor costs comprise 40-45% of total operating expenses
- Price – 10-15% of total value harvest
- Standardization – 20-25% of savings
- Utilization – 60-70% of cost reduction benefits
- Link cost improvement tactics within the context of total functional spend
- Synchronize non-labor and labor costs

Managing Labor Costs



Paul Osborne
Managing Director

- Understand where and how much opportunity exists
 - Understand how your labor utilization compares to peers
 - FTE / AOB, salary as percent of revenue, etc.
 - Perform department level benchmark analysis. Make sure it is done correctly
 - Large sample size
 - Correct compare group
 - Departments mapped correctly
 - Units of service counted correctly
 - Results are only directional
 - Don't forget about departments that may not have readily available benchmarks. Can be more than 20% of the FTEs
 - Look at internal historical FTE trends
 - Premium hours (overtime, agency) utilization may be too high

Managing Labor Costs *cont.*



Paul Osborne
Managing Director

- Set appropriate departmental targets
 - Targets should be achievable based upon benchmarking and operational conditions
- Decide on methodology to achieve savings
 - External assistance vs. in-house approach
 - Layoffs vs. attrition or some combination
 - Organizations situation drives approach
 - Financial distress vs. “good to great”
- Monitor actual performance to targets
 - Biweekly basis at a minimum
 - Address performance issues
 - Require action plans for departments not meeting targets
- Ensure accountability at all levels



Audience Questions

Additional Tactics



- Rigorous cash monitoring and cash flow forecasting
- Disciplined capital expenditure decision-making
- Monetize non-liquid, non-core assets
- Evaluate programs and services against well-defined criteria
- Bond covenants and creditor actions- communicate early and often



Robert Wilson
Managing Director



Final Q & A

Thank You



Download Financial Vulnerability Dashboard Now:

www.huronconsultinggroup.com/wellspringpartners

Authors: Robert E. Wilson, Managing Director and John F. Tiscornia, Managing Director, Wellspring Partners

The economics of providing healthcare services have always in an industry that is dependent on revenues from budget-tight and powerful insurance companies and pay (charity care) and those who are unwilling to pay (to keep pace with the rapidly rising cost of delivering healthcare seen in large part to labor shortages, strong unions and expensive mix

On top of the heightened cost of care, healthcare financing is trending downward and the pervasive risk of the national credit and financial crisis has intensified the strain on hospitals. A new level of financial difficulty and distress has now permeated a broader cross-section of hospitals and health systems in the United States.

The impact of the financial crisis is a double-edged sword. On the one hand it has diminished or in many cases eliminated, the ability of health systems to access bond and capital markets to fund physical asset replacements and expansions. On the other, it has devalued the value of investment portfolios and diminished liquidity to levels that

Financial Vulnerability Dashboard (Fig. 1)

(Most recent full year historical and current year-to-date, if available)

| | Performing Well | At-Risk | High-Risk |
|---|-----------------|--------------|------------|
| Operating Performance | | | |
| Operating Margin | >5% | >1% & <5% | <1% |
| Operating Cash Flow Margin | >5% | >0% & <5% | <0% |
| Net Collections as % of Net Patient Service Revenue (Excludes Patient Bad Debt Expense) | >100% | 95% & <100% | <95% |
| Liquidity | | | |
| Days Cash and Unrestricted Investments on Hand | >100 | >60 & <100 | <60 |
| Cash to Debt Ratio | >100% | >70% & <100% | <70% |
| Net Accounts Receivable Days | <50 | >60 & <70 | > 80 |
| Capital Structure | | | |
| Long-Term Debt to Total Capitalization Ratio | <50% | >50% & <70% | >70% |
| Current Debt Coverage Ratio | >1 | >0.8 & <1 | <0.8 |
| Average Age of Plant | <8 | >8 & <12 | > 12 |
| Operating Statistics | | | |
| Volume of Admissions | Increasing | Flat | Decreasing |
| Adjusted Admissions | ↑ | ↔ | ↓ |
| Surgeries | ↑ | ↔ | ↓ |
| Costs (O-IV) Trend | Decreasing | Flat | Increasing |
| Supplies as a % of Total Patient Service Revenue | ↓ | ↔ | ↑ |
| Salaries, Wages and Benefits as % of Net Patient Service Revenue | ↓ | ↔ | ↑ |

Download Webinar Replay:

www.modernhealthcare.com/wellspringpartners



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