Hospital Financial Strategies to Survive, and then Thrive

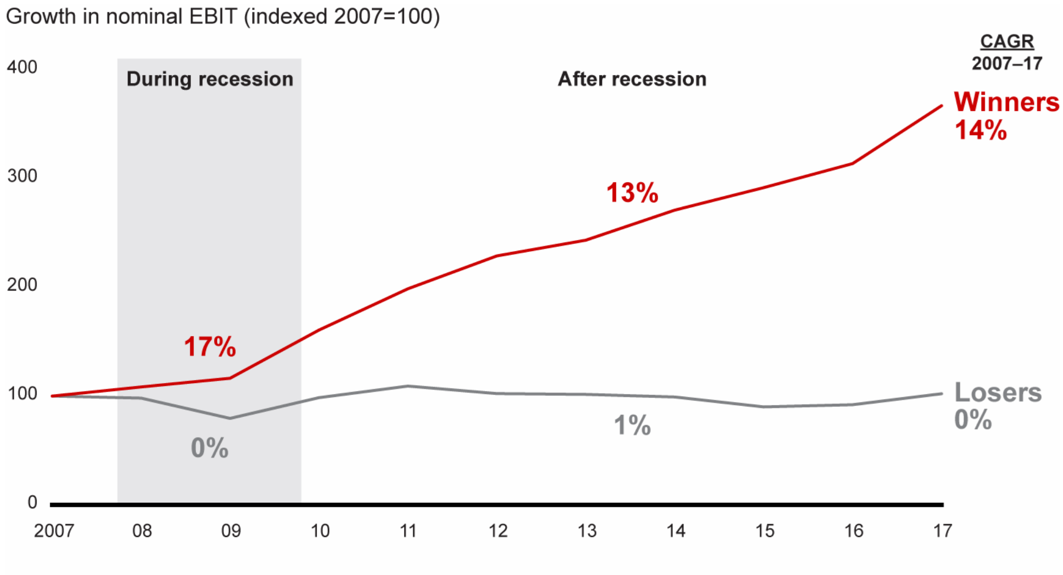
Introduction

In order for strong financial recovery to occur, it needs to begin now, even as we are still in the midst of the pandemic. Hospitals cannot rely solely on governmental intervention. As both the duration of the pandemic and what life after it will look like are still unclear, it's even more important to initiate programs to accelerate cash, reduce costs, and reduce debt. As hospitals begin to emerge from the clutches of the pandemic, leading organizations will not only recover quickly, but also thrive.

Recovering to a Winning Position Post-Pandemic

The recovery process will be complex, composed of a combination of governmental support and internal restructuring. However, hospitals that have properly managed their finances and operations during the crisis will exit the pandemic in a winning position. Even hospitals making financial adjustments mid-crisis or later into the crisis have a significant advantage over those that haven't. Having available capital will allow organizations to make investments that will help them transform and grow.

In a broad study of 3,449 diverse companies, winners emerged after a recessionary period through early initiation of cost restructuring, cost reduction, and financial discipline[i]. These companies were able to use the saved capital to invest in transformative programs that propelled them through the recession and after.



Sources: S&P Capital IQ; Bain Sustained Value Creator analysis, winners (n=415) losers (n=3,449)

2020 Financial Losses Putting Hospitals at Great Risk

While managing the front lines in the fight against COVID-19, many hospitals took a significant financial blow at the height of the pandemic. Revenues plummeted due to reduced elective surgeries and increased volume of uninsured patients, which has resulted from increased unemployment.

At the same time, hospitals experienced a significant increase in costs resulting from surges in hospitalizations and increased need for staff and supplies. The AHA calculates a net financial loss of $202.6B between March to June, and estimates a net financial loss of $323.1B through December 2020[ii].

Source: "Hospitals and Health Systems Continue to Face Unprecedented Financial Challenges due to COVID-19." The American Hospital Association. https://www.aha.org/system/files/media/file/2020/06/aha-covid19-financial-impact-report.pdf. Accessed July 2020.

Although the environment seems dire, hospitals can still take steps to outlast the financial hardships of the pandemic. Strategies to manage cash and reduce costs can help hospitals improve cash position, debt, and operating margin. Marwood posits that if cash, debt, and costs are appropriately managed, hospitals can exit the pandemic in a position to thrive.

Improving Financial Flexibility through Short-Term Strategies to Manage Cash and Debt

Post-pandemic, many hospitals will face a long period of recovery as cash reserves deplete and liabilities mount. As such, short-term strategies need to be established to manage current cash reserves and reduce debt.

Enhanced management of accounts receivables and collections are vital to ensuring steady cash flow. There's often an appropriate focus on larger receivables, but even smaller sums – such as cash from point-of-service collections or smaller patient bills – should not be dismissed.

Analyzing operating and capital expenditures can have the largest financial impact. Often, there are opportunities to postpone or renegotiate non-essential projects. Similarly, hospitals can renegotiate payment terms with vendors. Many hospitals frequently fail to do so, which result in late payments and, at times, penalties and cost increases.

During the pandemic, hospitals have furloughed staff, but this can be counter-productive if not carefully executed, as it may hinder the hospital's capacity to manage financial and operational improvement initiatives.

Reducing Costs through Long-Term Strategies to Reduce Operating and Overhead Expenses

A strategy for long-term financial recovery and cost reduction should be developed alongside a short-term strategy.

An analysis of the spend and operational landscape will identify specific opportunities for cost reduction and operational improvement. In this exercise, non-essential projects should be evaluated for postponement or closure. Procurement and contracting initiatives should be evaluated for long-term cost reduction opportunities – such as pricing reduction, product or service conversions – and utilization and waste management.

As organizations plan initiatives, it's important to structure decision-making and prioritization. Factors to consider include potential impact, work effort, implementation team, subject matter expertise, organizational risk, governance structure, and timeline.

Rethinking Patient Care

Telehealth services for patient care has grown exponentially during the pandemic. The Centers for Medicare and Medicaid Services (CMS) waived numerous telehealth requirements and expanded the types of telehealth services that are now reimbursed by CMS.

Between April 2019 and April 2020, telehealth claims increased 8,336%[iii]. Today, many hospitals are rethinking all aspects of patient care, short-term and permanent solutions, competition, and the financial ability to start new programs.

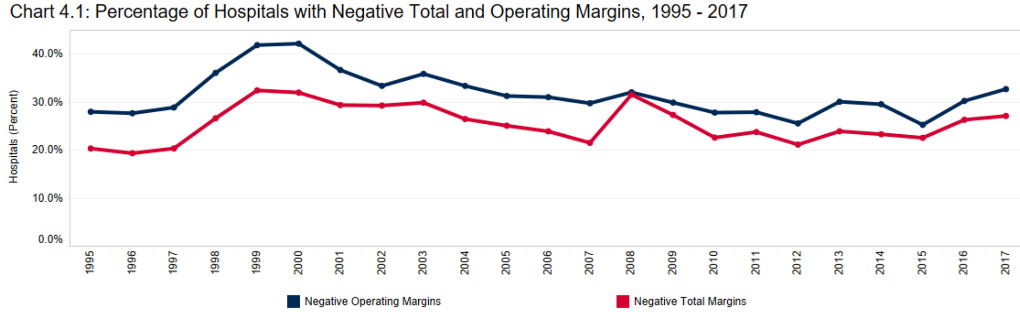
Retooling Hospital Operations

As hospitals expand into new vehicles for patient care, it's equally important to retool hospital operations to support the new models of care. Clinical care, testing, real estate, support services, and supply chain all need to be evaluated in a future context.

Conclusion

Prior to the COVID-19 pandemic, many hospitals were already struggling financially. Declining reimbursement, increasing costs, growing competition, and a continuing transition to outpatient care have driven many hospitals to financial instability. A survey by the American Hospital Association (AHA) estimates 32% of hospitals operate with a negative operating margin[iv].

Chart 4.1: Percentage of Hospitals with Negative Total and Operating Margins, 1995 - 2017



Source: Analysis of American Hospital Association Annual Survey data, 2017, for community hospitals.
(1) Total Hospital Margin is calculated as the difference between total net revenue and total expenses divided by total net revenue.
(2) Operating Margin is calculated as the difference between operating revenue and total expenses divided by operating revenue

American Hospital Association
Advancing Health in America

In 2019, a record setting 19 hospitals were forced to close. Still, this wasn't a far cry from the 15 closures in 2018[v]. Pre-pandemic, hospitals had already faced intense financial pressure, and yet, as the Morton Salt Company once famously campaigned, "when it rains, it pours."

Drawing on the expertise of seasoned professionals from healthcare operations, strategic consulting, investment banking and government, Marwood advises clients on key issues and considerations affecting the healthcare industry landscape. With experts in financial improvement, revenue cycle, and cost containment, Marwood has a strong track record of helping healthcare organizations optimize revenues and reduce costs.

About the Author

This article was prepared by Marwood Group Advisory Services. Drawing on the collective expertise of its seasoned healthcare professionals, Marwood leverages the team's 100+ years of combined experience in in healthcare services and policy to inform multi-dimensional analyses of a wide range of health care sectors, for investors and corporate strategists.

Perry Sham is a **Director** with Marwood responsible for leading Marwood's Performance Improvement solutions for healthcare providers. Prior to Marwood, Mr. Sham managed and led a national consulting group focused on financial and operational performance improvement. Over the past 15 years, Mr. Sham has helped healthcare providers improve financial performance by over $100M annually. He has supported mergers, acquisitions, and affiliations for IDNs, academic medical centers, hospitals, long term care facilities, and rehab facilities; and has helped organizations develop target operating models, integrate technologies, and transition operations. Mr. Sham holds a B.A. in Biology from Baruch College.

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