HEALTHLEADERS MEDIA
CFO EXCHANGE

Insights Report

November 2014 | Report 2 of 2

DAVID HARTIG

TIME FOR TOP-LINE GROWTH

Analysis and in-depth discussion from healthcare finance leaders at the HealthLeaders Media CFO Exchange in August 2014

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Analysis

Seeking Revenue Growth in a Time of Constraint

EDWARD PREWITT
Editorial Director
HealthLeaders Media

As they have in the past few years, financial executives at hospitals and health systems continue to seek cost cuts and efficiencies wherever possible while facing declining volume and parlous reimbursements. But the consensus of the 41 financial leaders who gathered at HealthLeaders Media's fourth annual CFO Exchange, held in August 2014 at The Grand Del Mar in San Diego, was that continuous cost-cutting must be complemented with revenue growth.

In small-group sessions titled "The Top Line," CFO Exchange attendees shared their experiences and ideas for revenue growth in a difficult environment. For most of their organizations, low-hanging fruit is no longer to be found. Financial growth requires a keen understanding of changing reimbursements and the impact of value-based payments; smart strategic bets; and financial, operational, and clinical teams who are willing to pull together.

This report on the top-line discussions details three ways in which hospitals and health systems are finding growth. The hottest approach today is outpatient services. In HealthLeaders Media's 2014 Industry Survey, expanded outpatient services was the top choice for fueling financial growth, chosen by 60% of respondents. But the specific opportunities differ for each organization, and there are limits to how many outpatient facilities a market can support.

Some executives seek to capture the benefits associated with the financial risk that their organizations are forced to take, while others shy away. Finally, organizations represented at the CFO Exchange are emphasizing particular service lines where they see opportunity.

Perspective Letter

Exploring the Potential for Top-Line Growth

LYNN WIATROWSKI
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At the HealthLeaders Media CFO Exchange, as a sponsor and participant, Bank of America Merrill Lynch was honored to engage with leading CFOs in the healthcare industry and explore concerns that are top of mind. The conversation was lively, affirming, and illuminating. We are pleased to sponsor this report on top-line strategies, which includes direct insights from Exchange participants.

As providers consider opportunities for top-line growth, the formula is hardly one-size-fits-all. However, three overarching themes for growth emerged at the Exchange, which are consistent with what we're experiencing in the industry:

- **Consolidation and M&A.** Providers are actively involved in horizontal and vertical integration to ensure that they are positioned to provide effective and efficient care across the continuum. A good deal of M&A activity is about bringing cost structures in line with revenues and enhancing clinical integration. However, geographic and care-continuum expansion, as well as getting into the risk side of the equation, also have the potential to provide top-line growth for providers. Everything from telemedicine to private-pay retail services, expanded geographies, and new care settings is being discussed. In all instances, alignment with physicians is of paramount importance.

- **Payment diligence.** Providers are working to ensure that they collect every dollar of reimbursement they are entitled to and are preparing to adapt to a population health management environment. Reimbursement pressures will continue, payment models will shift, and an increasing share of healthcare costs will be borne by the consumer. This means providers need to be focused on everything, including placing specific language in their contracts to get paid what they expect to be paid; marrying their clinical and administrative systems so it is not just about a revenue system and a clinical system, but rather the quality of services provided and collecting payment for those services; and actively coordinating pre-arrival financial discussions with patients to optimize the collection of patient-responsibility payments.

- **New talents and skills.** The shift in focus in revenue growth opportunities, the importance of well-integrated clinical and financial systems, and the *retailization* of healthcare is demanding that providers retool the types of positions and skill sets of the employees in their healthcare organizations.

We continue to work with HealthLeaders Media to bring you insights from around the industry. Be sure to explore all of the information and resources available to you on the Executive Insight Center on the HealthLeaders Media website.

Lynn Wiatrowski

Discussion

Three Avenues to Revenue Growth

EDWARD PREWITT

While most hospitals and health systems are in the midst of significant cost-containment efforts, senior leaders know they can't cut their way to success. "When I look at the income statement five years out, I don't think I can cut costs fast enough to maintain our operating margin. Therefore, revenue growth will continue to be an important factor in our long-term sustainability," says Dale Maxwell, senior vice president and chief financial officer for Presbyterian Healthcare Services in Albuquerque, New Mexico.

Maxwell and his fellow financial leaders who gathered at HealthLeaders Media's fourth annual CFO Exchange shared ideas on where to uncover top-line growth.

TAKEAWAYS

- **Outpatient expansion**
- **Embracing risk**
- **Service line success**

Outpatient expansion

Many of the leaders at the CFO Exchange are pursuing outpatient growth aggressively. Although NYU Langone Medical Center is based in Manhattan, "Our strategic expansion plan is focused on ambulatory sites throughout the five boroughs of New York and surrounding region to offer patients a great range of top-notch healthcare options where they live and work," says Michael Burke, senior vice president, vice dean, and corporate chief financial officer. "We have focused on growing our network of multi-specialty physician practices to deliver outpatient-centered care that is fully integrated with a world-class academic medical center and, to date, we've experienced tremendous growth that includes imaging centers, ambulatory surgery centers, large ambulatory infusion centers, walk-in clinics, and multi-specialty practices."

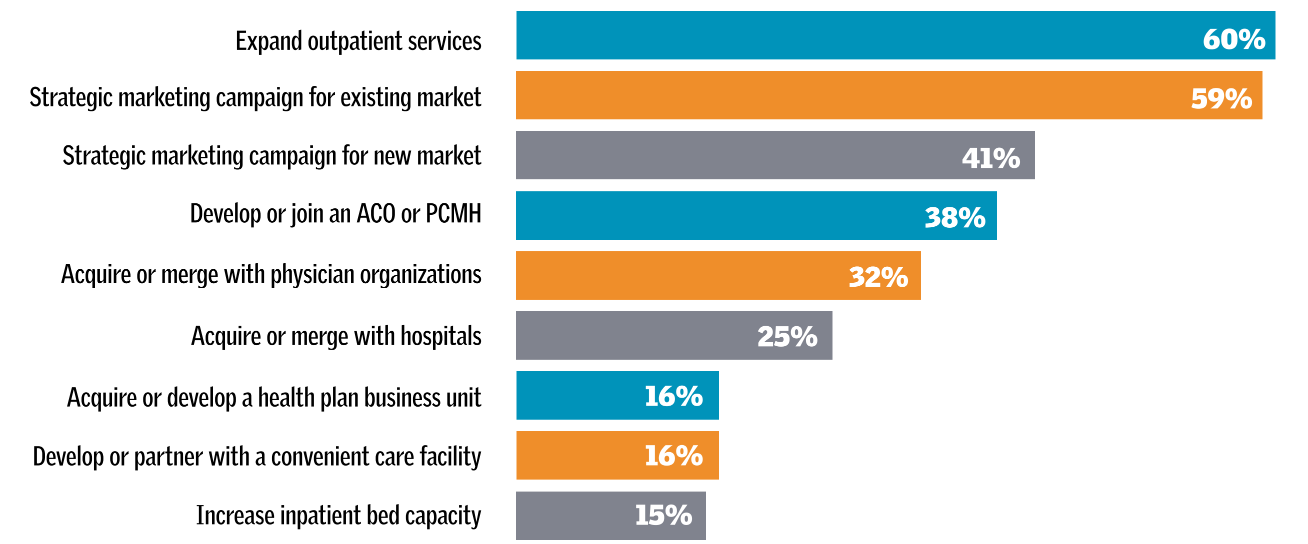
Several health systems are partnering with other organizations to open outpatient facilities. At Jupiter (Florida) Medical Center, says Chief Financial Officer Dale Hocking, CPA, "We keep expanding our outpatient rehab by creating rehab centers in clubhouses within some gated communities. We have invested in D1 Sports Training, which is an athletic facility where we will provide rehab. We're a 40% owner in that D1 location. ... We're opening a detox center in a wing of our skilled nursing facility. We've downsized the skilled nursing component. We are entering this venture because it can be a highly profitable business. We are finding niches to support some of the less profitable services that community nonprofit hospitals provide. We're now opening urgent care centers. We didn't have any a year ago; now we're buying our second one next month."

Co-ownership not only defrays costs but also draws on outside expertise, Hocking says. "[W]e are trying to expand our reach and services, but we don't need, nor want, to run all of these businesses. We believe that hospitals generally do not run nonacute care services as well as those that specialize in those businesses."

The classic business model of using outpatient facilities to act as feeders to primary care and acute care hospitals is working for Columbus (Indiana) Regional Hospital, says Vice President and Chief Financial Officer Marlene A. Weatherwax, CPA. "We opened up a center downtown

FUELING FINANCIAL GROWTH

How will your organization fuel financial growth over the next five years?



Multi-response

HealthLeaders Media Industry Survey 2014: Forging Healthcare's New Financial Foundation, January 2014

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called WellConnect, and the name is really what it implies—a connection strategy. A lot of newcomers to the community aren't sure where to go for general healthcare, especially preventive care, for themselves and their families. We have been able to connect them with a primary care physician because otherwise they wouldn't have one."

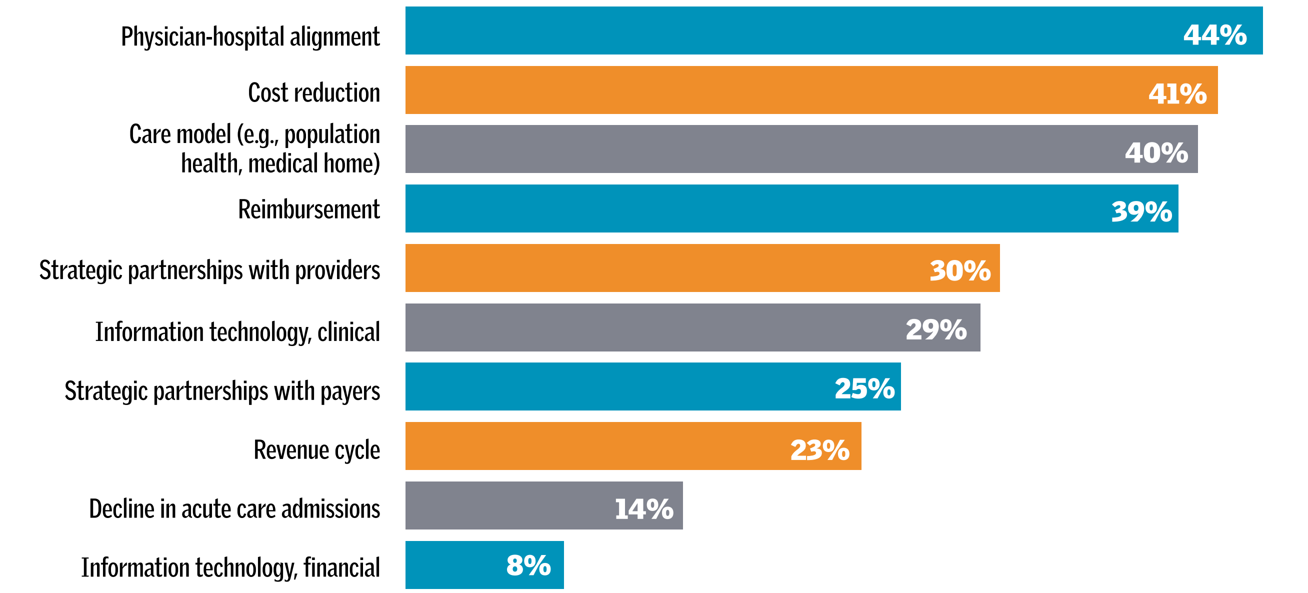
In addition, Weatherwax says, Columbus Regional Hospital seeks to appeal to people who move to the area for two- or three-year jobs with the larger companies in town, such as Cummins, Inc. "They're looking for an inviting place where they can come in and get resources for a variety of needs, whether it be travel medicine or acute care for a cold or cough. At WellConnect, we're offering the gamut of services like that, but we're also helping educate people to understand what is available in the local community, because we have a pretty robust offering."

"A lot of newcomers to the community aren't sure where to go for general healthcare, especially preventive care, for themselves and their families. We have been able to connect them with a primary care physician because otherwise they wouldn't have one."

MARLENE A. WEATHERWAX, CPA, VICE PRESIDENT & CHIEF FINANCIAL OFFICER, COLUMBUS REGIONAL HOSPITAL, COLUMBUS, INDIANA

FOCUS AREAS

Which are the top three areas your organization must improve or address in order to reach your financial targets in the three-year time frame?



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CFO Exchange attendees recognize that acute care hospitals are no longer the main revenue generators in the healthcare industry, and they are eager to make sure their organizations adjust. "The opportunity to provide outstanding care in widespread locations is limited only by one's vision," Burke says.

Embracing risk

Hospitals and health systems are taking on risk as they enter into value-based agreements with payers. Many financial leaders see an opening to win revenue. "MetroHealth has a significant opportunity by moving quickly toward risk-based reimbursement structures. As an organization, we have been taking on risk for years with the patient population that we served; we just haven't been financially rewarded for our utilization management efforts," says Craig S. Richmond, CPA, senior vice president and chief financial officer at The MetroHealth System in Cleveland. "An area of focus over the years has been in the reduction of unnecessary emergency department

> "Our future growth opportunities are within our health plan business."
>
> DALE MAXWELL, SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER, PRESBYTERIAN HEALTHCARE SERVICES, ALBUQUERQUE, NEW MEXICO

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"We do not want to be an insurance company. We have a clearly articulated mission to research, patient care, and medical education."

MICHAEL BURKE, SENIOR VICE PRESIDENT & VICE DEAN, CORPORATE CHIEF FINANCIAL OFFICER, NYU LANGONE MEDICAL CENTER, NEW YORK CITY

visits and hospitalizations for the patients assigned to our patient-centered medical home. We have gained the competencies necessary to accept risk for a population of patients, which provides us an opportunity to drive our top-line growth."

The sooner MetroHealth can move toward risk, the better, Richmond says. "One of our strategic goals is to continue developing population health management capabilities and manage the trend from fee-for-service to risk-based revenue streams. We have been managing population of patients now for several years, and our clinical and financial outcomes have been extremely positive as a result of our care delivery model. The current fee-for-service model does not reward our clinically effective and cost-efficient model of care. As such, we need to sprint toward risk-based and shared savings contracts that can result in a positive boost to our overall revenues."

Risk-based reimbursement requires a different operating model, says Maxwell of Presbyterian Healthcare Services, which, as an integrated delivery system, operates its own health plan. "Our future growth opportunities are within our health plan business. Today, 65% of our consolidated revenue is at risk, capitated in some form or fashion. This type of model incentivizes you to eliminate overuse or misuse in the delivery of care to patients. Whenever you're in this model that we have, you think very differently. It's not an easy model to manage, but I think it gives us some opportunities to play different."

Not every health system financial executive wants to set up a health plan, however. NYU Langone's Burke, echoing several other CFO Exchange attendees, says, "We do not want to be an insurance company. We have a clearly articulated mission to research, patient care, and medical education. We don't have any expertise managing an insurance program and don't want to deviate from what we do best. It would be almost the antithesis of what

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our academic center is all about."

Service line success

Financial executives say there remains great value in many of the traditional healthcare service lines. "Our big service lines have new, expanding programs. We're expanding cardiology, [have] recruited two neurosurgeons, and are recruiting additional surgeons, as well, in orthopedics," says Mark Meyer, BS, CPA, executive vice president and chief financial officer at Grady Health System in Atlanta. Grady added a 24-hour STEMI (ST segment elevation myocardial infarction) program for heart attack patients in mid-November. "We've never had that 24-hour coverage before. We turned that on at my last hospital and immediately picked up a new population of patients—typically an older Medicare population, which for Grady is great."

The cardiology service line expansion, in particular, has added to Grady's volume and improved its payer mix, Meyer says. "A lot of those patients were just going elsewhere, going around us since we did not have adequate physician coverage. Atlanta EMS is owned by Grady and so if we provide the service, we know we will have access to the patients ... assuming they want to come [to Grady]. That's probably created the biggest change in our payer mix, by improving our own service line components. ... It's a good payer mix and certainly adds to your case mix as well. A number of those patients will be admitted, so from our standpoint it's well worth it in annualized operating margin."

Jupiter Medical Center also is expanding its orthopedics services. "Since orthopedics is one of the few service lines that is expected to grow in the future, we're building a new specialized bed tower to focus on orthopedics and obstetrics. We created an orthopedic comanagement company with the orthopedic surgeons last year, which is working really well. They manage the orthopedic service line and have a vested interest in growing volume and improving metrics around quality, patient satisfaction, and costs," Hocking says.

DAVID HARTIG

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FISCAL PERFORMANCE

How would you rate your organization's current performance in the following areas?

	Very strong	Strong	Neutral	Weak	Very weak
Financial/business analytics	12%	42%	30%	14%	2%
Fiscal management	15%	49%	25%	10%	1%
Price transparency	7%	28%	40%	20%	6%

SOURCE: *HealthLeaders Media Industry Survey 2014: Forging Healthcare's New Financial Foundation*, January 2014

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Though revenue growth is essential, top-line growth can't by itself preserve a hospital, says CFO Exchange attendee Rich Rothberger, corporate executive vice president and chief financial officer for Scripps Health in San Diego. Other factors come into play, too. "Depending upon where you sit and how the cards have been dealt—whether your payer mix is strong enough to sustain the headwinds and whether your balance sheet is strong enough to get you over the hump—you'll be fine. But the ones who don't have that are going to be looking to be affiliated or acquired in some way, shape, or form."

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"We created an orthopedic comanagement company with the orthopedic surgeons last year, which is working really well."

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Consult Exchange Insights Reports to learn more about the concerns and solutions of senior leaders attending HealthLeaders Media's CEO Exchange, CFO Exchange, and Health IT & Quality Exchange.

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