Leading through Uncertainty:
Post-Pandemic Preparation

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The State of Play
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In 2020, COVID-19 Pummeled Hospital Performance

At their worst in April 2020, year-over-year hospital volumes, revenues, and margins plummeted:

- Adjusted discharges, OR minutes, and ED visits were down by between 40% and 60%
- Inpatient revenues were down 25%, and outpatient revenues were down 50%
- Median operating margins were down 282%

By December 2020, hospitals were still struggling:

- Adjusted discharges, OR minutes, and ED visits were still down between 17% and 25%
- Inpatient revenue was flat, and outpatient revenues were down 10%
- Without CARES Act funding, median operating margins would have been down 46%

Sources: Kaufman Hall National Hospital Flash Reports, May 2020 and February 2021

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Hospital Financial Challenges Have Continued into 2021

- In January and February of 2021, **adjusted discharges for hospitals across the country were down 17% and ED visits were down 28%** compared with the same period in 2020
- In 2021, **hospital revenue could be down by between $53 billion and $122 billion** compared with pre-pandemic levels, depending on vaccination progress and trajectory of the virus
- In 2021, **median operating margins could decline by 10% or greater** from pre-pandemic levels, again depending on overall pandemic conditions
- By the end of 2021, **one-third to one-half of U.S. hospitals could have negative operating margins**
- Many hospitals are seeing significant **changes in payer mix**

Sources: Kaufman Hall National Hospital Flash Report, March 2021; Kaufman Hall reports *COVID-19 in 2021: The Potential Effect on Hospital Revenues* and *COVID-19 in 2021: Pressure Continues on Hospital Margins*

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Post-COVID, Hospital Boards and Management Teams Face Hard-to-Answer Questions

- Will hospital inpatient, outpatient, and emergency department volumes return to pre-pandemic levels? If not, what levels can be reasonably achieved, and over what period of time will volumes return?
- How will post-COVID America, its economy, and its culture affect the relative strengths of traditional healthcare provider organizations?
- And, with COVID having greatly accelerated the growth of virtual business models, how will COVID affect basic patient care delivery and the encroachment of non-traditional competitors on that traditional delivery system?

Post-COVID answers to these questions are difficult, but what is possible is impeccable organizational preparation.

The Post-Pandemic Preparation Checklist

- **Cost reduction.** Possible permanent changes to volumes and revenues will likely mean that cost structures in many hospitals may require significant modifications.
- **Strategic repositioning.** Assess changes in competitive dynamics and their implications: Have direct competitors been weakened or become more aggressive? Are non-traditional competitors making moves into your marketplace?
- **Organic growth.** Do opportunities for organic growth remain in your market? How might COVID have created new growth opportunities or foreclosed existing opportunities?
- **Inorganic growth.** A competitive marketplace damaged or altered by COVID may offer new and real opportunities for inorganic growth.
- **Telehealth capabilities.** COVID may make telehealth capabilities a new basis for competition, but telehealth is likely a complicated change to the overall delivery system.
- **Innovative partnerships.** The post-COVID environment is creating fertile ground for transformative partnerships. Such partnerships are likely critical to overall growth strategies.

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A closer look at the post-pandemic checklist

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A Different View of Cost Reduction in the Post-Pandemic World

- Given continuing financial headwinds, hospitals cannot wait much longer to recalibrate revenue and costs
- Important questions include: What has been the financial damage? Is there a level of financial damage to the organization that appears to be permanent?
- Any financial damage will have to be addressed: operating results will need to get back, if not to pre-COVID levels, to levels that are acceptable going forward.
- However, much of the low-hanging fruit of cost reduction has been picked using traditional methods
- The next generation of cost reduction will require organizations to accept an increase in perceived operational risk, and a decrease in operational control

Four Steps in Bold Cost Reduction

1. **Update the financial plan.** Identify the gap between the organization's necessary financial state and what the plan shows
2. **Start with corporate overhead.** In the face of continuing pressure on patient-facing staff, executives should focus on corporate overhead and shared services
3. **Address transactional tasks.** Consider using automation, outsourcing, and offshoring
4. **Propose the *full* possible reduction.** This approach says, "This is what we *could* do. Now tell us why we can't."

Strategic Options Favor Strong Organizations

- Strategic repositioning for the post-pandemic environment favors organizations with strong balance sheets, a broader scope of services, and greater scale
- Scale tends to be correlated with greater financial strength and improved capital capacity
- Greater financial strength provides needed flexibility in an uncertain time
- Scale and scope allow for a more diversified business model
- Business scope and geography create market relevance and essentiality among all customer segments

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Organic Growth Is an Important Strategic Option

- Organic growth is a particular area of focus for organizations in geographically limited markets
- Options include:
  - Launching new programs to bring additional volume and enhanced services
  - Enhancing service lines in order to penetrate new markets in areas where participation has been limited
- Financial resources help create opportunities for growing market share within areas served

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COVID Is Creating New Opportunities for Inorganic Growth

- A competitive marketplace damaged by COVID may offer new and real opportunities for inorganic growth. Some (many) organizations will need to seek a port in the storm.
- Historically, organizations of scale and perseverance have done well with inorganic growth.
- Organizational growth is a journey; organizations move constantly to higher and more important levels of scale; each level brings a new perspective.
- Organizations that have done that consistently include Northwestern Memorial HealthCare, Advocate Aurora Health, Ohio Health, Atrium Health, and Ochsner Health, just as a few examples.

Telehealth Will Have to Move to the Next Level

- Too often, video visits are isolated encounters rather than part of a care plan with measurable goals and steps
- Too often, a video visit concludes simply by scheduling an in-person visit
- Telehealth will only succeed if it takes advantage of the clinical and cost breakthroughs possible through creating a **fully integrated digital health platform** including:
  - Care in the home
  - Connected and cognitive devices
  - Artificial Intelligence that enhances diagnosis, improves predictive interventions and optimizes clinical productivity

Source: Siddhartha Mukherjee, MD, DPhil, Kaufman Hall Healthcare Leadership Conference, 2020

Innovative Partnerships Could Reshape the Healthcare Landscape

- The post-COVID environment will likely generate and require an era of transformative partnerships
- Such partners can help develop, test, and scale new ideas and capabilities
- These new ideas can help enhance quality, accessibility, affordability, and growth
- Such partnerships are likely to create competitive differentiation

Examples of Recent Innovative Partnerships

Partnerships are getting more varied, more a-traditional, and more dependent on relationships between not-for-profit and for-profit organizations

- Geisinger and Acadia Healthcare formed a joint venture to build two behavioral health facilities
- Baystate Health and Kindred Healthcare are forming a joint venture to build a behavioral health hospital in western Massachusetts
- Intermountain Healthcare, Ascension, and Amazon Care became founding members of a new healthcare coalition to expand home-based clinical care
- Trinity Health acquired urgent-care company Premier Health
- Anthem plans to acquire myNEXUS, a comprehensive home-based nursing management company
- HCA is acquiring the hospice/home health business of Brookdale Senior Living
- Quest will acquire the outreach lab services of Mercy, which includes 29 hospital laboratories in the Midwest
- Orlando Health formed a joint venture for home care services with LHC Group and recently expanded the relationship by adding Bayfront Home Health Services to the portfolio

The principles of not-for-profit healthcare management are fundamentally changing

Historic Principles Are Being Challenged

Three historical principles are generally and widely embraced by boards and executive teams:

- Maintain organizational control
- Minimize enterprise risk
- Maximize operating flexibility

However, the economic problem of the moment makes these principles problematic:

- It is very expensive to assert continuous control
- You have to pay up to minimize risk
- And ultimate flexibility has to be bought

As a result:

- These historical principles come with persistently high operating costs
- They value a hospital organization's perceived needs over the consumer's needs
- They are out of step with the rapidly changing American economic model

The Organizational Principles Going Forward Are Different

- Accept less control, take more risk, and accept less operating flexibility in order to reduce costs materially.
- Take a consumer-first attitude and mean it.
- Understand that the changing American economic model is now fluid (not static), is fast changing, and is highly dependent on technical competency and accumulated intellectual capital. You can make, buy or rent these competencies, but your organization must be open and experimental about the economic relationships required going forward to accomplish these capabilities.

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For more than forty years, Ken Kaufman has been one of the leading thinkers on the future of healthcare. He is the Chair of Kaufman Hall, a management consulting and software firm that he founded in 1985. Ken has helped healthcare organizations of all sizes with their most critical strategic challenges. He is also the author of seven books and hundreds of articles, and he has delivered more than 400 speeches, most recently focusing on healthcare disruption. In 2019, he received the Richard L. Clarke Board of Directors Award from the Healthcare Financial Management Association for lifetime contribution to healthcare.