

# Marketing of health care

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Texas, Kansas, Iowa, and others. Lessons from Successful Critical Access Hospital Turnarounds The early warning signs of financial/operational distress are markedly different for a Critical Access Hospital (CASH) than for urban and suburban hospitals. This paper examines the symptoms of distress that every CASH board member needs to recognize, along with a roadman for a successful turnaround. Wwww. Intenslveresourcegroup. Com 888. 766. 2799 105 Continental Place Breadroot, TN 37207 October 2010 Limitations of the Board Negative Community Perception No Strategic Plan hospital maintains tight financial controls.

They also need to carefully monitor any significant changes to the cost structure. Turning around a CASH often Involves greater alignment of physician and hospital Interests, especially as health reform compels greater hospital-physician integration. When a physician expresses interest in being employed or having his/her practice purchased, the board often turns to local legal counsel. Those attorneys may not have a comprehensive understanding of the compliance requirements of physician contracting - or how to attain the most favorable structures for the hospital. Increased Competition Declining Inpatient/ Outpatient Volume

A Major Surprise CEO Turnover Cost Structure Changes Staff Reduction/  
Perceived Drop in Quality Federally Qualified Health Centers (FCC)

ELEMENTS OF DISTRESS FOR CRITICAL ACCESS HOSPITALS Given that Cash are key community assets, the composition of most CASH boards is primarily local leaders such as bankers, businessmen, and politicians. Consequently, these boards often lack an essential level of healthcare expertise. Without the fundamental financial and operational knowledge to provide effective

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oversight, these boards usually depend on the hospital management team for the success or allure of these hospitals.

Yet most Cash have very limited management resources - and the administrative team often consists of only the CEO, SCOFF and CON. CASH board members often lack a necessary understanding of hospital finance, compliance, quality, and industry best practices. Especially in this era of health reform, board members need to dedicate more time to Board Development so that they understand their fiduciary responsibilities and have enough information to strategically address the challenges their hospitals are facing. Although Medicare reimburses qualified

Cash at 101% of cost, some of these facilities still barely break even. Board members with an understanding of healthcare financial can review key financial indicators on a monthly basis, including days cash on hand, collection rates, and debt service coverage ratios, to assure that the A not-for-profit hospital depends on community trust, and its board members are the public face of the organization. Because the hospital is such an integral part of the community, the local media will focus on your hospital during troubled times. It is a huge mistake to pretend that there's no problem or to hide from the media.

Communication and transparency with the community and media are essential - especially during financial downturns. The board's first communication should be internal, making sure all employees and medical staff members understand the hospital's situation and the role they need to play in a turnaround. The external message to the community should be

consistent - Don't paint a grim picture on Monday and a rosy one on Friday. This is not the time for "spin." Most troubled CASH are not following an actionable, measurable strategic plan.

Because the margin for error is razor-thin for small hospitals, it's imperative for the road to work closely with management and staff to create a strategic plan - and to communicate that plan clearly throughout the organization. Increased Competition not unusual for a CASH to lose patients to that facility, even if it is an hour's drive away. Employed or not, physicians are willing to refer patients page 2 to competing facilities if quality service isn't available locally. Moreover, many large metropolitan hospitals are now opening outpatient clinics in areas served by Critical Access Hospitals, in an effort to grow their own referrals.

Cash & Cash Flow Deterioration Almost any adverse event can push a CASH over the edge when it has less than 90 days' cash on hand. Most boards are not adept at monitoring cash flow. They're not coached to look at earnings before interest, depreciation and taxes. Without adequate cash on hand, the hospital's turnaround strategies become more limited. Small hospitals are especially vulnerable to unexpected disruptions, such as the loss of a key physician or a mass layoff by a large employer. When the largest employer in a Northeastern town closed in 2003, more than 1,300 workers found themselves without jobs or health insurance.

It was a huge blow to the CASH, but the board quickly reached out to turnaround experts. Their prompt action helped save the hospital and restore its profitability. L Staff Reduction / Perceived Drop in Quality When a

hospital's cash flow worsens, the board's first impulse in many cases is to reduce staff size. While a careful, one-time staff reduction may be warranted, wholesale staff reductions often do more harm than good. The cuts don't remedy the underlying problems, so more staff reductions follow.

That sets the stage for the calculated departure of key staff and physicians and creates a community-wide reception that quality is declining.

Appropriate analysis can show where effective, long-term benefits can occur from staff reductions - that don't adversely affect patient quality. A Coo's sudden departure is a challenge for any hospital, and especially for a CASH. It's been estimated that the aggregate direct dollar costs of replacing a CEO can equal three times the executive's annual salary - a financial hit that can cause real problems for a CASH. And recruiting a CEO to a rural community takes time - often a year or more.

The number of Fuchs in the United States - and the comprehensiveness of services they provide - are on the rise and should skyrocket in the next five years as \$1.1 billion in new federal funding is included in the health reform package. The FCC care healthcare, while reducing patient loads on hospital emergency rooms. While new and improved Fuchs will help provide access and services to millions of citizens in our nation's undeserved areas, they are likely to challenge the role and services of rural and critical access hospitals. Cash will be forced to compete in small markets where many have traditionally been sole providers.

Cash will have the ongoing accessibility for inpatient and emergency services, but potentially lose other revenue producing services, such as

outpatient diagnostics. Some CASH services may be nearly identical to those provided by Fuchs, but without the grant support, medical liability coverage and recruiting leverage that comes with the FCC designation. Declining Inpatient/Outpatient Volume This should be a " Code Red" for any board. Like retail chains that analyze " same store" data, the hospital board should compare volumes in the current quarter with those from the same quarter a year ago.

It's important to get prompt explanations ND corrective plans from the management team for any negative swings in volume. Unique to Critical Access Hospitals is the impact of the Cost Report - and even board members who are financially astute might have difficulty understanding the complexities of the Cost Report. Without an effective model for monitoring the cost structure, any negative adjustment to the Cost Report can quickly deteriorate days cash on hand. Page 3 Here are the clinical and non-clinical services Fuchs are required to provide: Primary care Diagnostic x-ray and lab Health screenings and immunization

Emergency medical services BOB/GUN services, including prenatal and perinatal and well child Preventive dental Pharmacy Mental health, substance abuse and specialty services, via referral Case management and counseling Follow-up and discharge planning Support for Medicaid enrollment Health education Transportation, translation and outreach A CASH in the Northwest launched its turnaround effort by hiring a CEO who believed that small hospitals can deliver quality and service rivaling large metropolitan ones. Within a few years, this CASH was operating a Level III

trauma center and winning cantonal awards for customer service. Create a Strategic Plan The CASH strategic plan should feature the input of all stakeholders: hospital management, medical staff, nursing, quality/compliance committees and the community. It's essential that employees at all levels understand their roles in achieving the plan. And the board should monitor progress toward achieving the Leverage Community Support Communities have a vested interest in keeping Critical Access Hospitals healthy, both to retain local access to acute healthcare, and to protect local employment, since the

CASH is often one of the largest employers in the area. And a community without a local hospital struggles to grow and attract new employers to the area. Boards must continuously reach out to the political and business leaders in the community with courage and candor. A CASH cannot thrive without community trust and support. Your Hospital's Crisis Point Because it takes 180 days minimum - and usually longer - to properly assess, stabilize and begin turning around an ailing hospital, board members need to act swiftly to save the facility.

This may require bringing in outside consulting support ND/or strong interim leadership. There's no time for delay and finger-pointing.

**STRAIGHTFORWARDNESS** Many hospitals, both large and small, often fail to acknowledge that they're in distress -and wait until there's a significant drop in patient volumes or a significant, unexpected dip in days cash on hand. In short, hospitals delay rather than take decisive action, causing a crisis to

worsen and accelerate. When acting early in a crisis, turnaround experts can get better results - faster.

Many Cash are waiting to see whether health reform will provide financial relief. But experts stress that those infinite may be two years away - valuable time that shouldn't be squandered. Reduce Costs Turnaround specialists have helped pull many small hospitals back from the brink of bankruptcy or closure by quickly and astutely cutting their costs. They view all costs as controllable and every cost is evaluated. For example, turnaround experts often analyze physician contracts.

In addition, hospitals can dramatically lower supply chain costs by closely examining and enforcing existing purchasing contracts. Cash can also enjoy savings by closely examining other existing vendor contracts. In one case, a Critical Access Hospital saved nearly \$500, 000 in GPO savings in one year from a recent review of contracts. 3 Find Dynamic Leadership A turnaround begins with energetic leadership, decisive action, and a team effort to rally community support. Develop Revenue Opportunities In most cases, a hospital can't simply cut its way to a sustainable turnaround.

For sustainable success, it's page 4 Access Hospital can collaborate with a nearby tertiary system to start or enhance a cardiology service line so that local residents won't need to drive an hour or more for retirement/rehab that could be provided locally, while creating a feeder of referrals for more specialized services. For a CASH with no existing FCC in the county or primary service area, the most important tactic moving forward is to focus



on exceptional customer service in outpatient services, especially ERE, lab, imaging and outpatient surgery.

While Fuchs may be perceived by some as nothing more than a competitive threat, Cash with an eye toward the future will understand that Fuchs can also provide myriad opportunities for friendly and/or collaborative relationships. These relationships can improve access to primary care; support physician recruiting and retention efforts; serve as a platform for primary care physician employment; reduce medical malpractice coverage costs and liability; provide access to grants and loans to support program and facility expansion; and mitigate future competition in financially critical outpatient services.

The board should consider the following strategies to manage FCC competition: A FCC can own and operate a CASH City/ county/hospital district public hospitals may own a FCC, if FCC governance requirements are achieved, I. E. He " Public Entity Model" Non-public, state-owned or independent coca Cash may own a FCC, if the governing body (Board of Directors) is reconstituted to meet the governance requirements of a FCC. Cash can develop and own a Rural Health Clinic (RICH), but a CASH cannot convert the RICH to a FCC and maintain control unless the Cash's governing body is reconstituted to meet the governance requirements of a FCC.

A coca may operate a CASH and develop a FCC to control the respective " system" by reconstituting the Board to meet the governance requirements of a FCC. (For example: Minnie Hamilton Health System, Greensville ND Gallinule, WV) Improve Revenue Cycle Management This is an area where

outside experts can have an immediate impact by helping the CASH identify areas for improvement, such as clinical documentation, billing & coding, and case management. They can also provide training to strengthen hospital employees' skills.

The result can be a dramatic drop in accounts receivable days and improved cash flow. Improve Quality and Customer Satisfaction Once the CASH is financially stabilized, it's time to grow the organization and push toward excellence. A uncontrolled Southeastern CASH completed its turnaround by obtaining funding for two sleep study suites, an expanded DEED, and a neurologist's center. 4 Reduce Staff Turnover No turnaround can be deemed a complete success if employee turnover is high and a high cost: lost revenue, recruitment expenses, new hire training, etc.

It's possible to implement innovative programs that can reduce a runaway turnover rate (20% or higher) to 4% or lower - and lower your costs. 5 Promote Physician/Hospital Alignment CASH board members should never underestimate the long-term strategic importance of physician/hospital alignment and Joint ventures. It's prudent for the board to seek outside expertise on how to cultivate relationships with area physicians. When one CASH and surgery group jointly financed an ambulatory surgery center instead of competing, both surgical volumes and hospital market share increased. CONCLUSION Because of the ongoing impact of the 2008 financial crisis, many Critical Access Hospitals are still in danger of slipping into financial insolvency. It's imperative for page 5 board members to recognize the early stages of hospital distress so solutions can be found as soon as

possible. The longer a board waits, the worse the damage is to the lance sheet - and the longer and more difficult the Journey to turnaround the organization becomes. With swift intervention, the hospital can continue to serve the community - and potentially reduce risk for financial stakeholders.

Board members should seek advice from turnaround experts immediately if:  
Accessing capital is extremely difficult  
The hospital is approaching bond covenant default  
The organization is unable to fund new facilities and service lines  
The hospital cannot achieve operating margins of 1 to 3 percent  
Physician recruitment is increasingly difficult  
CHAR Intensive Resources provides short-term, hygienists support to capitals and health systems at every point on the distress spectrum discussed in this paper.

Our experts can help refine the board's strategic plan and improve financial/operational oversight. We also help hospitals deal with the later stages of distress: bond covenant default, loss of accreditation, sale/merger issues, and bankruptcy. CHAR Intensive Resources is a wholly owned subsidiary of Quorum Health Resources (CHAR), the seventh largest healthcare management consulting firm in the U. S. And the market leader in hospital management, serving about 150 nonprofit hospital clients across the nation.