NAVIGANT

On Healthcare

HEALTHCARE

REVENUE PORTFOLIO REBALANCING

Announcer: Welcome to Navigant On Healthcare, offering insights for healthcare leaders striving for success in an evolving industry.

Host: Welcome to Navigant On Healthcare. I'm your host, Alven Weil, and today we will discuss why it's essential for hospitals and health systems to rebalance their revenue portfolios, and how they can go about doing so.

Joining us today is Navigant Managing Director Bill Hannah. Bill has more than 35 years of experience in the healthcare industry, including more than 20 years as a management consultant. His expertise ranges across multiple areas, including revenue cycle operations, clinical care transformation, business application selection and implementation, managed care negotiations and integration.

Also joining us is Jeff Leibach, a director in Navigant's healthcare value transformation practice. Jeff specializes in supporting providers and payers with managed care negotiations, pricing and reimbursement strategies, and aligning clinical and financial leadership as a way to transition from fee-for-service to value-based care. Named a 2019 rising star of profession by Consulting magazine, Jeff has also overseen development of several of Navigant's proprietary analytic models that create actionable insights from large claims data sets. Bill and Jeff, welcome.

Jeff Leibach: Thanks, Alven. Glad to be here.

Bill Hannah: Thank you, Alven.

Host: We talk about a portfolio mindset with regard to health system revenue management. Please describe the business case for such a mindset, to include the types of questions providers need to answer to achieve this type of outlook.

Bill: Sure, Alven. I think you have to think about really what's happened to healthcare in the last three, five, 10 years, and what we're continuing to see as an evolution in the healthcare industry. So, when we talk about portfolio, we're really talking about more than just portfolio of revenues, we're talking about a portfolio of services that a healthcare system, or a healthcare organization, provides today, which is much more complex and much more diverse than it was, again, three, five, seven years ago.

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About Navigant

Navigant Consulting, Inc. (NYSE: NCI) is a specialized, global professional services firm that helps clients take control of their future. Navigant's professionals apply deep industry knowledge, substantive technical expertise, and an enterprising approach to help clients build, manage, and/or protect their business interests. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, the firm primarily serves clients in the healthcare, energy, and financial services industries. Across a range of advisory, consulting, outsourcing, and technology/analytics services, Navigant's practitioners bring sharp insight that pinpoints opportunities and delivers powerful results. More information about Navigant can be found at navigant.com.

In addition to that, we also have payers and new arrangements with payers that are much more diverse and complicated than they were three, five, seven, 10 years ago. So, when we take this idea that we have a more diverse set of services and offerings, we have a much more complicated payer environment, with much more complexity around those payer arrangements...contracts.

Then, I think you have to start to think about your revenue as it revolves around that portfolio. Our portfolio of services is different. Our portfolio of payer arrangements/contracts are different. We're now into value-based type arrangements, performance-based contracts and arrangements. Many healthcare organizations are in some type of bundled payment arrangement, as an example. So, when you have this diversity, and this complexity, that has evolved in your service offerings, in your payment streams, your methodologies...it really requires you to start thinking about your revenue as a portfolio and managing as a portfolio.

As a portfolio, if you equate this back to your own personal life, everybody has their portfolio of their savings. They have stocks, they have some bonds, they have some real estate. You manage that on a proactive basis, and you manage that, and periodically have to go in and rebalance that portfolio.

You need to make sure that your strategies for how you're being paid, what you're being paid for, is in alignment with the services that you're offering, the services that you're providing, where you're providing those services. So, it really becomes a much more detailed kind of view into what's happening in your organization, because your organization, and what you're doing, and how you're doing it, and how you're being paid for it, is much more complex now than it ever has before.

Jeff, you have anything to add to that?

Jeff: Thanks, Bill. I would just add, I think the biggest reason that we think of this like a portfolio, is that each of those different aspects in your personal portfolio, savings, blue chip stocks, and foreign stocks...they may all have different levels of risk associated with them. Similarly, for our healthcare providers, they're dealing with different asset classes, or financial classes, that they're revenue sources, and those have different levels of risk associated with them as well, whether they're value based care and actually taking on downside risk, or just a risk to their margin, in terms of the overall reimbursement of rates at which those are growing, and how they impact the overall performance of that health system.

So, when we think about the portfolio, in addition to the portfolio of different services that providers offer, it's also we think about them in terms of asset classes, and risk to overall performance. And in that same way, thinking about how rates are set, how prices are set, and rates are negotiated, it's really important to think about that in a wholistic manner, across all of those different financial classes.

Host: Why is it essential for health systems to rebalance their revenue portfolios?

Bill: I think it's some of what we just said, but maybe take it a little further is ... Let me go back to the analogy we were just using, and that is how you equate this back to your own personal portfolio of investments, or portfolio of assets, that individuals have from time-to-time. I always like to think of this as, when you're 25, and you're at college, and you're getting married, you're starting a family, you start off with a portfolio that probably has some life insurance in it. Maybe you've got some savings and some other things. And then as your life progresses, over time that portfolio changes, because your needs change, your goals change, your circumstances change, and so periodically you manage that portfolio.

You go in, and you need to rebalance that. You used to have a lot of your money tied up in stocks, and now you need to maybe rebalance that, and put it in something that addresses your current circumstances, the level of risk. Jeff mentioned risk a moment ago, your level of risk that you want to take, you're willing to take, based on where you are. So, I think that has a lot to do with it. I think it's the need to think about your current circumstances, the kind of services you're offering, where you are in the market, what level of risk you're willing to take, what level of risk payers may be asking or requiring you to take. All of that comes with this need to rebalance that portfolio, rebalance that portfolio, or think about it in different ways.

You're moving from a traditional fee-for-service, by and large, payment methodology, to something that's different, something that's more complex. You've got to be willing and able to move with that, and rebalance that portfolio, as your circumstances in the market change, as the industry changes, as payers change. So, I think that's why you need to be thinking of this. Jeff, does that makes sense to you?

Jeff: To me, the necessity for health systems to rebalance their revenue comes from the stagnation of revenue growth they're experiencing. Whether that's coming from a payer mix issue, like baby boomers aging into Medicare in larger numbers, and putting overall margin compression on a health system. Understanding where that revenue growth is coming from, and how it's challenging the health systems' financials, is really important, and so, we're seeing more and more health systems coming to us with lower growth rates of their revenue.

Higher issues, in terms of overall margin, and cost reduction alone, isn't enough to solve the issue. So, understanding what your revenue picture of the future looks like, if I need to achieve 3-5% revenue growth, year over year, what do I need to do, given a set of assumptions, given a set of trends that I might be seeing in my market, or competitive trends that I might be seeing?

This type of rebalancing approach helps me understand, what do we need to do to solve for that gap, or that hurdle, that we might be experiencing, due to other factors that we can't change?

Bill: I agree completely, Jeff. I think the changing circumstances, and we could point to any number of examples in the industry, and in the market, right now, that's happening with healthcare, where the traditional approach, the traditional view, the traditional stance on who the healthcare organization is, what they are, what they offer to the community, what they're being asked to offer to the community, is very different.

It requires that re-look, that rebalancing, that further examination, more detailed examination. I tell folks that it's no longer your father's Oldsmobile. This is something that is very different, and organizations are being asked to react in a different way. They have to manage in a different way, which requires them to take a different view, and a different approach to how they understand their revenue streams, and how they manage those revenue streams, as their place in the market, their circumstances in the market, in the industry, change around them.

Host: That being said, what role can data analytics play in helping identify the root causes of a health system's revenue changes across such areas as collections, or volume, or unit reimbursement?

Jeff: Thanks, Alven, this is Jeff. I think the biggest issue that we see here, is that the old way that health systems looked at their revenue, oftentimes they were looking at metrics like yield. A CFO would look at their yield, which is payments divided by charges, and see how that was trending. In fact, today I was in a client meeting. They looked at a yield report to demonstrate how their overall rates were trending, and to me, that's a lot like looking at something that is… an analog clock, in a digital world.

We have the opportunity to look at this complex world, that Bill was talking about, all the different variables and dimensions that exist, and actually isolate individual variables, and calculate how much impact one factor had on an organization's overall revenue. In this case, we work with our clients to isolate how have their collections changes, to has their overall revenue cycle performance changed over time? How has volume trended over time by payer, by service, and how have their unit reimbursement rates trended over time?

By isolating each of those variables, we're able to paint a really comprehensive picture of what's happening to a health system's revenue, and ultimately what they should do to optimize that for the future.

Bill: Jeff, I agree with you. This is Bill. I agree with you completely. I think that, to maybe summarize that also, we've heard this from a number of our clients, and we have these discussions, it's the need for that single point of truth, that single view of really what is happening. Health systems will have a variety of information or data available to them, not all of it always is directed towards providing that CFO, the single point or single version of the truth.

It's understandable, again, when you think about the fact that systems and technology has traditionally been built to view and manage revenue in that traditional manner. This complexity now, and all these things that we've talked about, relative to change and circumstances, that are…these hospitals and health systems are now dealing with, requires this different view. That requires a different methodology and approach to analyzing the data, and providing that CFO with that single version of the truth, when they asked the question, what's happening to my margin? That's really what this boils down to, I think.

Host: Why do current health system approaches to reporting and revenue analysis falls short?

Jeff: This kind of ties into Bill's comment about the single source of truth. A lot of times, a hospital may have three or four different systems, one for revenue cycle management and journal entries, one for long range financial planning and cost management. Another for contract modeling, not to mention their EMR system, that captures all the clinical data that drops bills. So, you may have three or four different systems, all pulling in different directions, and it often creates confusion or challenges among an executive team, to identify and reconcile that single source of truth, or that set of financial information, to report up to the CFO on what's actually happening within an organization.

This only becomes more complex, and more challenging, as an organization gets larger, and different legacy systems are piled on, or different migrations have occurred. So, we've found that we've worked with a number of CFOs at large systems, multi-regional systems, or national systems, where their challenge is getting a reliable set of reports and information, that they can believe in, from all of their different departments all at once.

Oftentimes, there's process metrics and not outcome metrics, so as we work through our revenue rebalancing process, one of the things that we've found really critical, is getting multiple different sources of this data. One set of data from the EMR, so we know what's happening clinically, and in the claims data, but also something from the financial planning and reporting systems, so we understand how it ties to the financial statements. Then, another set of information that would come from the revenue cycle systems, so that we understand denials and other reporting. Then, we do our work to synthesize and bring it together.

Overall, the biggest challenge we're finding, that CFOs are often bearing that tension between the different reporting systems, and trying to understand which is the right one to believe.

One additional comment I'll make, is that revenue rebalancing is an analysis and an approach. It's not a tool. So, when we think about why this solution is a little different, we're not proposing to add a fifth system to these clients, but rather help reconcile, and understand the interactions and intersections between these systems, and where they can be improved, where better assumptions can be made, and where those analysis can help solve problems that CFOs are seeing.

Bill: I think the other thing that I would add to that is, so it's not a tool, we're talking about a process here that is, while based on a historical view of what has happened and what is happening, the real value of this becomes, how do you use this information in the story that this tells, relative to your revenue portfolio, to think about your portfolio of services? How do you use this new knowledge or this new view of the world, and understanding of your historical trends, to be able to plan more effectively, or what you're going to be doing, what you should be doing in the future, relative to a portfolio of services, a portfolio of geographies where you may provide those services.

So, this historical view, this historical look, again, as we come through that analysis part, it's not really the tool. It's the outcome of that, and it's how you use that, and how you apply that now, on really a go-forward basis, as you deal with these market complexities, and payer complexities that you're facing.

Host: So, final question for you. How did Navigant come up with its approach?

Jeff:	Alven, I think this is a really interesting one. A couple of years ago, we were approached by a CFO from a really large national health system, and they were dealing with obvious financial challenges, different reports from their different departments. Revenue cycle was telling them where they thought the problem was, managed care was issuing another set of reports, and there were different outcomes from different regions, in different departments. Ultimately, the CFO came to us, and asked, "Navigant, help us break down what's happening with our revenue. We just don't understand why it's as bad as it is." So, we worked with them to come up with a quantitative objective approach, where we could look at how revenue's changing, independent of other factors. How is volume changing, independent of payer mix? How is collections changing, independent of volume and unit reimbursement? That way, we could objectively provide the CFO with the context he needed, to make sense of the different reports he was getting from his department heads. So, ultimately it came from a client need, and what we've found is, over the last couple years, more and more CFOs are asking that same question, what's happening to my revenue? We think this is an approach that can help them better answer that question, and think about how they plan for the future.
Host:	Bill and Jeff, thanks so much for joining us today.
Bill:	Thank you Alven, pleasure.
Jeff:	Thank you.
Announcer:	That concludes today's episode. Be sure to check in with us for future installments on the Navigant On Healthcare podcast series on navigant.com/healthcarepodcast. Navigant On Healthcare is a podcast series produced by Navigant's healthcare practice. If you enjoyed this episode, please share it with friends and colleagues on social media. Learn more at navigant.com.