

Resetting your health system in 2023: strategies and tactical considerations

In collaboration with Guidehouse

Volatility and uncertainty have eroded health system margins, and the situation cannot be corrected simply by returning to previously “normal” pre-pandemic approaches.

During Becker’s 10th Annual CEO + CFO Roundtable in a session sponsored by Guidehouse, Tom Zenty, former CEO of Cleveland-based University Hospitals Health System and a Guidehouse national advisor, and David Burik, partner at Guidehouse who leads the firm’s Center for Health Insights, shared insights and examples of how health systems must reset for the future.

Four key takeaways were:

1. Health systems’ fiscal challenges were exacerbated by the pandemic; leadership intervention is now required.

“There were signs of fiscal challenges and economic duress years ago, and all of these things got accentuated during the pandemic,” Mr. Burik said. He explained that while the majority of health systems were very focused on the day-to-day requirements for the last few years, other healthcare and non-healthcare organizations were busy investing in broader strategies. “An army of new entrants have a strategic advantage around things like Medicare Advantage. The question is, how do we restack, create sustainable health systems and find the margin? These things that have changed will not normalize over time; we have to respond in new ways.”

2. Health systems must accept volume changes and identify new revenue drivers.

It’s clear that volumes have shifted pre- and post-pandemic. “I’m convinced they are gone,” Mr. Zenty said. “There are so many new alternatives today, and we are all thinking about getting involved where you don’t have to have human capital expenditures.” Besides establishing a succession planning process, health systems must be prepared to deal with the fact that it’s going to be harder to grow, and that they need to optimize existing revenue channels.

3. A mission-focused perspective must replace a fiduciary-focused one.

Mr. Burik pointed out that sometimes health systems find their mission is in conflict with fiduciary responsibilities. “For example, from a mission perspective, we want to do what’s right for the patient, which often means considering outpatient or home care options,” he said. “At the same time, there’s a fiduciary responsibility in trying to keep your buildings full and hang on to high-margin services.” The movement of orthopedic surgery to ambulatory surgical centers is one example.

4. Innovative strategic and tactical considerations are necessary to survive and succeed in this new normal.

“Respecting the past, accepting the present and preparing for the future is what all of us need to be focused on,” Mr. Zenty said. “First, it’s important to maintain the mission, vision and values of the organization. Second, recognize that many non-traditional competitors have entered and will continue to enter our marketplace. And finally, remember that authentic inspirational leadership is something that I don’t think can ever be underrated.”

Specific focus areas may include:

- *Revenue diversification.* Reduce dependence on Medicare, Medicaid and commercial insurance.
- *Identify and leverage stranded assets.* Monetize stranded assets by growing them, selling them or creating a partnership around them.
- *Establish venture capital and private equity engagement principles.* Engage in this world of investors to be on the leading edge of innovative developments.
- *External partnerships with suppliers, vendors and specialty service providers.* Find ways to collaborate on new products, services and innovations.

- *Examine asset-light alternative delivery models.* Find ways to improve transitions of care through alternative delivery.
- *Focus on philanthropy.* During Mr. Zenty's tenure at University Hospitals, the organization raised more than \$2.5 billion in 3.5 years in one of the most economically distressed cities in the country.

Health systems that are prepared to embrace today's new realities will be better positioned to uncover opportunities that always come with such challenges, Mr. Zenty emphasized.