



Transforming Healthcare Delivery for Financial Resilience

By KC Loder, Prashant Srivastava, and Andy Waldeck

Key Takeaways

- Healthcare leaders are seeking scaled margin improvement techniques after exhausting cost containment efforts.
- A future-back strategy that looks holistically at a system's care model can reveal near-term and long-term opportunities.
- Organizations can use an optimize-reposition-redesign framework to develop financial sustainability strategies.

Many health systems in the U.S. are still struggling to find a path to financial sustainability despite extensive efforts to cut costs and bolster operating margins in the aftermath of the COVID-19 pandemic.

A key reason is the persistence of wage and other cost inflation. When combined with long-term shifts in industry economics undermining revenue growth, elevated costs have compressed margins to well below historical averages. The credit rating agency Fitch Ratings recently warned that unsustainable margins could be a new normal for many U.S.

systems, especially those in regions with aging and slower-growing populations.¹

And while most hospital systems have prioritized cost containment – reducing administrative costs, renegotiating supplier contracts, and optimizing staffing levels – scaled margin improvement has remained elusive. Indeed, many systems are looking in the same places for fewer and fewer sources of savings.

As one large system leader described his organization's experience every year trying to find ways to make up for rising expenses, it is like being

on a treadmill where both the incline and the speed keep increasing.

How can healthcare leaders escape this cycle and achieve a sustainable financial transformation?

By putting innovative cost management and revenue enhancement within a framework that looks holistically at systemic change, including transforming areas previously off limits, such as developing a more innovative healthcare delivery model. This requires rethinking the current model in a way that creates additional operating margin now, while laying the groundwork for future growth and scaled-benefit opportunities.

A Future-Back Approach to Financial Transformation

Our parent company Huron found in a recent [survey](#) of 300 healthcare leaders that they are taking a more comprehensive approach to address financial pressures. It's important for these leaders to start with a vision that looks at where they want their organization to be in the future. This enables them to understand how big the gap they need to fill is and identify the right set of healthcare financial sustainability strategies that reflect their capabilities and aspirations, as well as realities of their markets.

Future-back provides a process for answering the question: what is it that a health system needs to be in the future to thrive?

Organizations can use a “future-back” approach to develop a strategic vision, pushing beyond typical planning and budgeting horizons and defining a future state aligned with the needs of a market. A future-back approach is less constrained by today's realities, enabling leaders to think about

initiatives across a wide time horizon. This helps them identify shared assumptions about the market environment and how short- and long-term changes impact financial sustainability.

Using future-back, organizations assess their capabilities and delve into their market structure, identifying innovative care models with a more balanced and diversified set of services. It helps them develop initiatives that cut across an entire system, impacting the organization in ways different from traditional cost-cutting. These can then be sequenced over time in a roadmap with clear and measurable milestones.

In short, future-back provides a process for answering the question: what is it that a health system needs to be in the future to thrive?

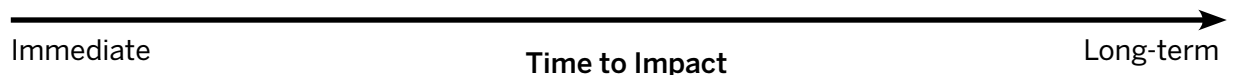
Consider one regional system that took unprecedented steps to close a steep deficit after the pandemic – cutting staff, freezing hiring, and delaying plans to build a new medical center. Even after generating hundreds of millions of dollars in budgetary relief, its projections showed it needed an equal amount, if not more, to compete effectively and deliver high-quality care into the future.

Innosight and Huron helped the regional system use a future-back approach to establish a vision of how it wanted to compete in the market, developing a series of initiatives and reimagining elements of its care model. As shown in Fig. 1, these initiatives looked holistically across a wide time horizon at opportunities to optimize, reposition, and redesign services, maximizing the potential of its current system and preparing for the future.

The health system targeted inefficiencies with initiatives that had immediate impact, creating short-term savings to bolster operating margins. It simultaneously identified longer-term opportunities for more substantial change and is

Figure 1: A New Framework for Cost Containment and Revenue Enhancement

What	Optimize: Performance of existing assets to better serve current market	Reposition: Services across existing assets to better serve current and new markets and maximize performance of the system	Redesign: Fundamental shift in the business model of the system to maximize impact
How <i>Example levers activated</i>	<ul style="list-style-type: none"> • Improve access and asset (facility, provider, etc.) productivity • Exit low performing assets or services • Improved throughput and efficiency 	<ul style="list-style-type: none"> • Site / Volume alignment to improve scale & performance (e.g., COEs, hub and spoke) • Supply / Demand matching (growth in high value areas, outsourcing / consolidation non-core services) • Strategic investment in new markets / services 	<ul style="list-style-type: none"> • Revenue diversification to incorporate new, high margin sources of income to the system • Care model transformation with material shifts in costs and outcomes of care delivery • Risk and population health management designed at the right pace and target for your market and populations
Focus <i>What is impacted</i>	Individual Service Line / Facility	System as a Whole	Business Model



pursuing these at a pace based on its capacity for new investment and risk tolerance. These changes are creating a system mindset through greater alignment and collaboration while embracing disruptive innovations to be more consumer and patient centric.

Let's dive deeper into the benefits of optimize, reposition, and redesign.

Optimize for Short-Term Savings

Health systems target improvements to their core delivery services with optimize initiatives, designed to be accomplished quickly, with rapid implementation and immediate impact. Many of these focus on the workforce, given that labor on average accounts for more than half of a typical system's cost structure, as well as on eliminating

barriers for patient care and optimizing care service line performance and clinical effectiveness.

Optimize also helps systems lay a foundation for transforming a care model, freeing up dry powder for longer-term investments and better positioning an organization to compete. These initiatives impact individual service lines or facilities with efforts tied to goals like reducing acute patient length of stay and creating ease of access with scheduling improvements and flexible staffing models.

The aspiration is to drive marginal performance improvement through levers such as: increased productivity, consolidated low-performing services, better throughput and efficiency, and improved network integrity. We helped the regional health system seeking significant margin relief by identifying several short-term productivity enhancements. These included:

Relieving staffing bottlenecks. The system had a bottleneck in providing cardiovascular care because of shortages in specialist surgical nurses, also known as tech scrubs. Taking a page from academic medical centers, it launched a program to cross-train physician assistants to upgrade their skills so they could also work as tech scrubs, creating a more flexible staffing model.

Repurposing infusion sites. The system's oncology infusion sites were being underutilized. It implemented an initiative to cross-train staff and alter back-end operational practices so these sites could be used to administer infusions that treated other conditions like autoimmune disorders, multiple sclerosis, and arthritis.

Reposition to Better Compete

Hospital systems can shift to reposition initiatives by identifying high-margin, high-growth services and building those out strategically. Successful repositioning will deploy a set of levers that align

an organization's resources and capabilities with its long-term vision, recognizing realities such as the cost basis that a system can fundamentally support over time. It will also enable a system to consolidate assets that don't serve the economic model or community needs, such as excess inpatient capacity.

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The regional health system we advised wanted to balance cost-containment efforts with strategic growth, pursuing an aggressive transformation while maintaining core elements essential to its success. We helped it explore and analyze several initiatives to try to achieve this dual goal, tying together efforts to optimize assets such as operating room and surgical capacity while better managing the services it provides.

For example, the system recognized that by changing the financial clearance policy for some procedures, it could eliminate a bottleneck. Specifically, procedures like spine surgeries required no less than seven days advance notice to provide time to confirm a patient's insurance coverage. By working to reduce the requirement to three days, it optimized its operating rooms while increasing availability for high-margin spine surgeries and better competing for other specialty procedures in its regional market.

Similarly, it revamped how it manages so-called flip rooms that surgeons use to manage multiple procedures while also accelerating efforts to shift surgery cases to ambulatory surgery centers in its network when they are deemed medically appropriate. These initiatives contributed to efficiency and through-put gains while

repositioning the organization to compete for new patients and procedures.

Redesign Healthcare Services for Sustainability

With redesign, health systems look to identify opportunities to transform how care is delivered and the market reach of a system, for instance pushing into low-cost, convenient channels such as digital or virtual care or enabling significant changes to the ambulatory versus in-hospital footprint. Organizations use strategic partnerships to revamp and expand their care models, working with other systems to create larger networks or with vendors and specialists to offer services like home care.

Diversification may also play a role as health systems move beyond traditional services into new models, industries, or technologies. These include joint ventures and partnerships as well as investments in healthcare technology startups; the creation of innovation incubators; and the commercialization of data and AI capabilities to change the nature of competition and the key margin drivers within a system's economic engine.

As with optimize and reposition, initial efforts to improve productivity create opportunities for longer-term improvements. An example comes from the regional health system we advised. The system wanted to better manage its assets, ensuring its flagship hospital was being used primarily for the most complex care. We helped it use admittance data and factors like geography, need, and relative capacity to develop a data-driven strategy for better allocating patients, which also helped it rethink elements of its business model.

By using algorithms to analyze admittance data across its network, the organization created efficiencies and cost savings by ensuring that lower acuity patient volumes were directed to secondary facilities when appropriate. This had the knock-on

effect of repositioning its flagship hospital as a higher-acuity destination for care, bolstering its reputation in the region and level of expertise in some complex specialties. As the system is looking to redesign its business model, it is exploring partnerships related to these specialties.

The pacing and ambitions of optimize, reposition, and redesign efforts depend on many factors, including operating performance, market dynamics, and the strength of an organization's balance sheet. Hospital systems in higher growth regions may find that optimize and reposition are sufficient to deliver efficiency gains. Others in weaker competitive positions may need to fundamentally change their business model, redesigning services to fill gaps they've identified.



Also, as service lines are repositioned and redesigned, organizations need to put in place several critical enablers to sustain their transformation. These include developing the right operating model with service lines that are team focused, consumer-centric, and designed for a value-based reimbursement model. New care models often require revising processes and structures and how some people do their jobs.

Health systems invariably encounter systemic and cultural blockers when they reinvent their organizations. Both employees and leaders can be resistant to change, reflecting legitimate concerns

around patient outcomes, staff workloads, and compliance. Surfacing these blockers and then developing a robust **change enablement** plan is critical for a successful transformation, providing a clear communication strategy to align all stakeholders around a shared vision emphasizing the benefits for patient care.

Questions for Leadership

As leaders think about their journey to financial sustainability and the degree to which they should employ optimize, reposition, and redesign levers, here are some key questions to consider:

Performance. Does the organization understand what its market and performance is telling it? For instance, what makes money, what doesn't make money, and where is the hospital system differentiated from competitors in terms of services? How will these things change over time in the markets it serves?

Impact and Alignment. Does the whole spectrum of initiatives achieve the scale and breadth of impact that the system needs to achieve for a sustainable

financial future? How big is the gap between today's reality and the vision of the future?

Culture and Change Management. Has the health system taken steps to begin developing behaviors within the organization that will enable it to complete the transformation, training leaders and the workforce to support change? Does the organization have a deep understanding of the systemic and behavioral blockers that inhibit successful transformations? Has the system created the right enabling systems to communicate the change and equip leaders and the broader organization to navigate it?

As the industry's financial difficulties show, hospitals need a strategy that delivers short-term wins while establishing the conditions for sustainable financial transformation. By focusing on identifying a custom, market-targeted set of initiatives, systems can navigate the challenges ahead and design their performance improvement programs to put them on a path to new growth and financial sustainability.

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ABOUT INNOUGHT

Innosight helps organizations navigate disruptive change and manage strategic transformation. As the strategy and innovation consulting business of Huron, we work with leaders to create new growth strategies, accelerate innovation, and build future-ready organizations. Discover how we can help your company own the future, instead of being disrupted by it. www.innosight.com.

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ENDNOTES

“Low operating margins will be new normal for some nonprofit hospitals: Fitch,” HealthcareDive, Jan. 20, 2024