Hospitals and health systems must react faster to the quickening pace of change in healthcare by innovating and adapting their business model - or they probably won’t survive.

That cautionary note was the overall theme delivered by CFOs from Wake Forest Baptist Medical Center, the University of Virginia Medical Center, and ProMedica during a standing-room only session on “Creating Healthcare’s Future Business Model” moderated by Strata Decision Technology CEO, Dan Michelson, during the Becker’s Hospital Review 8th Annual National Meeting held in April in Chicago.

Panelists contended that the traditional business strategy that health systems have relied upon, centralized on maximizing inpatient revenue streams from a steady stream market of customers, won’t be enough and won’t be around to keep the doors open in the not-so-distant future.

The CFOs zeroed in on four key strategies they believe are essential to incorporate into business models to enable healthcare organizations to thrive:

- Aligning with other healthcare organizations
- Shifting from revenue cycle management to margin and outcomes management
- Developing new revenue streams
- Embracing a consumer-based model

**Aligning with other healthcare organizations**

Although every market offers a different environment for alignment, partnerships enable the disparate organizations to create leverage and capitalize on each other’s strengths, said CFO Michael Browning of Toledo, Ohio-based ProMedica health system. Alignment doesn’t necessarily mean mergers or acquisitions. Browning referred to a partnership between WakeMed Health & Hospitals, Raleigh, N.C., where he previously served as CFO, and Duke University Hospital, Durham, N.C., that combines the organizations’ cardiology service lines into one program, which provides the opportunity to improve quality and service and reduce costs.

“I think that was a very innovative way to look at it,” Browning said. “Organizations have to give up on some of those things that have historically been important to us, like our sole independence, and look at how we can provide the best healthcare while making sure that we’re meeting all the needs of the people in our community.”

Other partnerships may involve consolidating business functions, such as the revenue cycle. “I think those are types of joint ventures that many organizations will be working on in the future,” he said.

Chad Eckes, CFO of Wake Forest Baptist Medical Center, an academic medical center in Winston-Salem, N.C., likened merger and acquisition activity in the healthcare industry to the previous period of mass consolidations in the banking industry. The trend in healthcare, driven by this need for back office improvement, can also be achieved through other forms of partnering, such as outsourcing, he said. Wake Forest Baptist just completed an outsourcing arrangement for physician billing services, which represents the fourth outsourcing arrangement completed since Eckes started with the organization about three years ago.

**Shifting from revenue cycle management to margin and outcomes management**

The participants were unanimous in their belief that the decades long focus on growing the top-line and revenue cycle management had run its course. Each CFO stated that over the next five years they believe that revenue cycle management will give way to margin and outcomes management.

One of the enabling technologies currently leveraged by all the organizations on the panel is advanced cost accounting and financial decision support. With this in place, organizations are able to understand both their true cost and margins, a critical set of data for both negotiating and performing effectively under bundled care contracts.

Leveraging that cost data together with clinical outcomes is central to measuring value, which is increasingly becoming the new currency for these organizations.
Developing new revenue streams

Healthcare delivery organizations are increasingly creating new streams of revenue from new sources, including non-patient services.

As providers become more proficient in population health management, marketing successful wellness programs to other providers can be a way to capitalize on existing expertise, said Nick Mendyka, CFO of the University of Virginia Health System, Charlottesville, VA. “We’re the ones who provide that service, yet we’re contracting with payers to do that work,” Mendyka said. “So we can deliver wellness services in the vein of population health management and we can grow it, scale it, sell it to other smaller providers or employers.”

Embracing a consumer-based model

The panelists agreed that consumerism has changed and will continue to change the way healthcare is delivered and therefore managed. The approach to the market has changed dramatically in the past five years, Eckes said. “Back then, we didn’t worry about consumer behavior, understanding buyer vs. non-buyer decision-making, or impacts of social media” he said. “We worried about referrals from physicians and having convenient ED’s. Our customer is no longer just the patient and the referring physician. Our customer is now the employers, payers, family/friends of patients, and CIN’s [clinically integrated network].” Such changes mean healthcare organizations have to be much more aware of the patient’s desires, competition and patient experience.

“We have to articulate our value story and answer the questions of ‘Why should the patient entrust their care to us? It’s key to reinforce the quality that you should expect from the health system and the total patient experience that you’ll get from us before, during and after’ the clinic or hospital visit,” Eckes said.

Serving the consumer better also means price transparency, which requires healthcare organizations to have a better understanding of their cost structures, Mendyka said. Hospitals must be able to provide consumers with a more accurate estimate of their out-of-pocket costs, he said. “Whether that deductible is $1,000 or $15,000 there’s still a greater likelihood that a patient will pay all or a portion of that bill when they know they’re making the decision, they know what it costs,” Mendyka said.

And, although no organization has yet to be 100 percent successful at this, finance managers have to fully understand their market segment and how patients choose providers. “It changes the equation and how we assess and set strategies,” Mendyka said.

Redefining success

Overall, healthcare organizations, particularly finance departments, will have to redefine how they measure success. No longer will AA bond ratings be the sole determinant, Browning said.

“Ten years from now it’s going to be more about what we do for our community. The quality we deliver, the service we deliver,” he said.

Mendyka concurred. “The way that we’re going to measure our organizations’ or any individual’s contributions is going to be very different in the future,” he said. “It can be about community benefit. There will be new and very different things that we are going to be judged upon. Organizations must get ahead of this or they may not survive” he said.

These new success factors will mean making some tough business decisions, such as turning an acute care hospital into an outpatient center, Browning added. Healthcare leaders sometimes want to push such strategic decisions into the long-term future, but, he said, “The future is right here right now.”