

Fiducient Advisors, Nonprofit Investment Stewards Podcast Episode 67, January 2, 2024

Improving Performance and Profitability for Healthcare Organizations with Kate Guelich

[00:00:00] Welcome to Nonprofit Investment Stewards with Bob DiMeo and Devon Francis from Fiducient Advisors. Bob and Devon are passionate about helping non-profit organizations prosper. Whether you oversee endowment, foundation or retirement plan investments, this podcast exists to help stewards improve performance, reduce costs, and discover strategies that enable your charitable organization to prosper and advance its mission.

[00:00:26] Now onto the show. Hello, and welcome back to the Nonprofit Investment Stewards podcast. I'm Bob DiMeo, joined by co-host Devon Francis. With all the challenges that nonprofit leaders face, I'm super excited to have today's guest on the show. She's not only an authority advising the healthcare sector, but her insights should prove really helpful for a variety of nonprofits, including higher-ed and beyond.

[00:00:53] Devon, how are things today, and would you be kind enough to introduce our guest? Great, Bob. I'm wonderful as always, [00:01:00] and I am particularly thrilled to have Kate Guelich with us today. Kate is CEO of Kaufman Hall and she's responsible for guiding the firm's strategic growth trajectory. Kate has served as managing director and president of management consulting for Kaufman Hall, and she's also a member of Kaufman Hall's Board of Directors.

[00:01:20] She has expertly advised senior healthcare leaders for more than 20 years and regularly authors publications on key healthcare topics, speaks to leading national healthcare industry groups, so on and so forth. She holds an MBA from the University of Chicago, and I really could go on and on about her very impressive resume.

[00:01:38] But I'd like to pause here, and Kate, welcome to the show. So, Kate, it's great to have you on the show, and I should mention that Kaufman Hall and Fiducient Advisors, we have a number of mutual clients. A month or month and a half ago I was sitting with one of our hospital clients and they've got urban and rural locations, and he was just articulating all of the challenges that they're facing.

[00:01:58] And the light bulb went off for me [00:02:00] where I said, boy, we've gotta have Kate on the show and really talk about the landscape and, and what some of the, not only hospital, but, but nonprofit leaders in general might be thinking about. So, Kate, welcome to the show. Thank you for having me. So maybe what we can do, Kate, is start with your path to being CEO for one of the most prominent management consulting firms.

[00:02:22] Certainly for hospitals, but, but nonprofits in general. Sure. Happy to share. Uh, I joined Kaufman Hall as an assistant vice president and really with a focus on understanding the financial implications of strategies that organizations were contemplating. And so, in that role, one of the areas that I spent a lot of time with was understanding the integration of strategy and finance.

[00:02:43] And this is an area where our firm has spent a great deal of time really educating and supporting our client base on the linkage of these two areas, strategy and finance, and how they evaluate strategic plans and the connection to their near- and longer-term goals. I oversaw this [00:03:00] practice, which was our strategic financial planning practice.

[00:03:03] As a firm, we expanded our capabilities to provide operational support for healthcare organizations as this was really an increasing need for organizations, given the emerging revenue headwinds and increasing cost pressures. We added performance improvement capabilities into our strategic financial planning practice and expanded our ability to support the increasing and growing needs of our clients.

[00:03:26] And as we continue to evolve and, uh, adapt to the needs of the industry and to our, of our clients, we continuously were able to link our other management consulting services, treasury and capital markets, and our M&A practice to connect and help support our clients. And so, after leading our strategic financial planning practice, I served as president of management consulting, really overseeing all of these practices and the connection and the integration to help support our client needs in a comprehensive way.

[00:04:00] And then most recently as the CEO of Kaufman Hall, uh, really continuing to support, uh, continuing to spend a great amount of time understanding our clients and continuing to adapt our services and capability to, capabilities to support them within the ever-changing healthcare landscape. So, Kate, can you share your overall take on healthcare and hospitals in the current environment?

[00:04:23] So we currently have an industry that's undergoing transformation with financial instability and median margins that are at unsustainable levels. Hospitals and health systems are still recovering from the unprecedented challenges of the Covid-19 pandemic, which took a major toll on performance. And if we talk through the journey for a moment, we had the pre-Covid margin pressures that already were being experienced within the industry as the revenue and the expense model of healthcare systems were facing numerous headwinds.

[00:04:51] Then we had the start of the Covid, uh, the Covid pandemic in 2020. And then in 2021, margins were increased due to the CARES Funding Act. And [00:05:00] so we saw margins at higher levels. Then in 2022, operating margins were at the negative levels for the full year as the funding was reduced.

[00:05:09] And this was one of the worst years for hospital performance in recent history. Our flash report, which highlights operating performance monthly, show just how difficult this was and really how elongated these performance challenge, these performance challenges have been. And so now as we look into 2023, we see margins that were greater than they were in 2022, but they're still below pre-pandemic levels.

[00:05:31] And so it raises the question of is this the new normal? And if it is, how do organizations support their growth and their strategic plans with reduced levels of cash flow? So, Kate, that's a great summation of the challenges and the environment. And you actually asked a great question.

[00:05:50] So how do hospitals and healthcare systems respond to these challenges? You know, I'd say it's a number of items, uh, many of them, uh, [00:06:00] healthcare leaders are working with every day is really the ability to continue to manage operations overall. Uh, understanding the cost structure, the opportunities to improve overall, uh, that is really table stakes and, and the day-to-day operating philosophy and models of healthcare leaders.

[00:06:16] Understanding consumer preferences and trends and how these link to organizational strategies, really understanding what's embedded in the consumer preference trends for healthcare organizations. A key focus on recruitment strategies and, and the shift from, understanding the shift from inpatient to outpatient.

[00:06:32] All of these pieces which healthcare leaders are, are working through on a day-to-day basis are really important to, to understand where are we currently, where is an organization currently, and then how do you think about that in your go-forward strategy overall? So, wow. Certainly, a challenging environment for hospitals and healthcare systems, um, particularly from a a margin and profitability side.

[00:06:58] Any other [00:07:00] challenges that you haven't touched upon that are also present in the landscape right now? I would just add that healthcare systems are managing a new operating model. It has higher supply and labor costs. Uh, their revenue model through payer and service mix is adjusting. They have a different care delivery model.

[00:07:16] Care is accessed differently, and capital needs continue. And so they're in an environment where all of these, all of these pieces continue to provide incremental headwinds and the access to capital continues to be more costly. And so, the pandemic has accelerated an ongoing shift from healthcare, from inpatient hospital care to outpatient clinics and other sites of care.

[00:07:40] There's nursing and retention areas of focus for organizations that they continue to grapple with. So, healthcare leaders and healthcare systems are facing a confluence of factors, and this is just listing a few of them. And so, what I would say is that while the day-to-day and, and maybe the hour-to-hour pressures of the pandemic have receded a bit, [00:08:00] healthcare leaders are really revisiting their overall strategies in light of a number of different industry and economic challenges that they face on a day-to-day basis.

[00:08:11] Again, no shortage of challenges. If we were to unpack a little bit more on the economic considerations, would you add anything on operating margins, profitability, that side? I would just say that our most recent flash report through October shows performance in the, in approximately 1% range. This has been consistent over the past few months.

[00:08:30] There's still operating challenges overall and 1% is still well below normal margin levels. We recently published our 2023 State of Healthcare Performance Improvement Report, and in this report, we noted that approximately one third of survey respondents thought that their organization encounter covenant challenges in the year ahead.

[00:08:49] And so that, in the context of a high interest rate environment has really created, uh, increased pressure on the, on the profitability side for, for healthcare [00:09:00] systems. Add that to some of the other comments that we've talked about, uh, overall inflation, staffing and, and labor shortages, et cetera. And you, you have a, an operating margin and profitability equation that continues to be very pressured.

[00:09:15] So Kate, I'm curious, is there a significant amount of dispersion between, let's say, large systems and then smaller independent hospitals and healthcare systems, or between urban systems and more rural systems? Do you see dispersion in that space? I would say that all, all organizations are experiencing the financial pressures of the industry.

[00:09:38] Uh, we are certainly seeing that, but we do see the smaller hospitals struggling a bit more, uh, not having the overall base that larger, that larger organizations do, and seeing that impact on the margins a bit more materially. So, while the trends, I think, are similar, the, uh, the impact is, is a bit more, uh, a bit more material with the smaller hospital, uh, uh, and healthcare [00:10:00] organizations.

[00:10:00] So everyone in the healthcare space seems to be talking about performance improvement. Uh, so how is Kaufman Hall working with your clients to help them perform at a higher level? So, we do this through a number of ways. One of them is, at a foundational level, really understanding from a strategic and financial planning perspective, what are the organizational targets to achieve the growth goals of an organization, and, and then taking that in understanding what are the headwinds, many of which we've talked about that are pressures on the, on the current performance of an organization.

[00:10:35] And then what is essentially the gap to get to where we need to be? So we spend time with organizations understanding and quantifying what their, what their gap within, within operations is and, and how initiatives within that area can help support achieving their goals.

[00:10:53] And once identifying and understanding that gap, an area that we're spending time with our clients, is then [00:11:00] assessing what level of opportunity in certain initiatives exist, and then how do we help organizations implement and, and realize those operating improvements to increase overall cash flow.

[00:11:12] And so we do this process, uh, on an iterative basis. One, understanding, understanding the operating gap and the need, understanding where within the organization are there initiatives that can

help support, improving performance overall. And then measuring and seeing how that continues to translate into improved levels of cash flow.

[00:11:31] And so we do this over a variety of areas within the operations of an organization, but continue to link it back to achieving goals and longer-term targets for an organization overall. Kate, I wanna ask about capital structure and funding. And I know it's unique to each organization, but perhaps from a big picture perspective, you can share some thoughts?

[00:11:56] Sure, happy to. You know, as you think about the comments that we [00:12:00] discussed, uh, the operating pressures and the, the lower levels of cash flow, the capital needs of, of the healthcare systems and the healthcare model of the future continue. And so what is, uh, what is the right model? What is the, what is.

[00:12:13] What do organizations need in their existing facilities? What are new and emerging technologies? How do we support an increased need to move and become more digital and electronic? All of these are capital investments that organizations are contemplating and they'll need funded. Capital structure strategy is always an important consideration within an organization's overall strategy.

[00:12:35] When you think about that in the context of margins at the 1% level, realizing that that levels in the 3% to 4% range are required to produce more adequate levels of cash flow to support that strategic environment, you, you raise the question of how do you continue to strategically grow in an environment where, where the, the cost of capital is higher?

[00:13:00] Debt issuance, uh, debt issuances by hospitals and health systems have been down significantly over the past year. And so, while we are seeing some signs of some of this, uh, stabilizing, it is a, it is an ongoing question in terms of how do we fund the strategic growth within organizations and how do you do that in light of some of the pressures overall from an income statement and cashflow generation perspective?

[00:13:26] So, Kate, you've shared a lot with us, and clearly you are, uh, an expert and very experienced in the field. What suggestions do you have for leaders overseeing hospitals or frankly other types of nonprofits to help them not only navigate the current environment, but to thrive on a go-forward basis? I'd say a few things.

[00:13:46] You know, one of them is obviously continuing to understand and link the industry pressures, the changes that are going on a day-to-day basis, to the strategic and financial plan of organizations. So where are you performing [00:14:00] now? Where are your goals? What is the strategic investment to help support that.

[00:14:04] And what needs to happen from an operating perspective to continue to adapt to achieve those goals? Understanding and managing operations overall continues to be an important piece. Knowing the cost structure and the opportunities that you have to improve performance is really table stakes in, in terms of day-to-day strategies. Uh, understanding consumer preferences and trends and how these link to organizational growth goals and their strategies is another important piece.

[00:14:33] Understanding the metrics of consumer preference trends, knowing how to evaluate this and knowing how you, you use this to help guide your area of focus in terms of the development of your short-term and longer-term plans, uh, and really understanding the confluence of all of these pieces.

[00:14:49] How do you, how do you think through your current, your current strategy, the future of the consumer trends and how care will be delivered and how you support [00:15:00] that on a go-forward basis? So, I would say understanding the near term understanding the, the areas, uh, of focus within your current, your current priorities, but then how you also continue to parallel those and adapt those to the, to the longer-term growth goals of an organization are really important overall.

[00:15:18] That's great. So, before we wrap up, we always like to learn a little bit more about our guests on a personal front. So, when you step outside of your professional role as CEO of Kaufman Hall, what do you enjoy doing from a personal perspective? I enjoy spending time with my family. Traveling and seeing new places with them is always enjoyable.

[00:15:39] I enjoy skiing a great deal, and we do this as a family and just spending times out, time outdoors, something I do, I do when I'm, when I'm not at work and, and really enjoy. That's great, Kate. And, uh, just for our listeners, how can they learn more about Kaufman Hall and, uh, some of the value and insights that you provide?

[00:15:57] Please visit our [00:16:00] website at kaufmanhall.com where you can find more information about our firm, the support that we provide to our clients, as well as some insights and thought leadership that, that we have on our website. You can also reach us on LinkedIn as well. Well, this was great, Kate. Thank you so much for sharing not only your time, but also your expertise with us.

[00:16:18] We're very appreciative. Thank you very much for having me. Kate, great to have you on the show. And, uh, as always, many thanks to our listeners. It's fair to say that at this time of the year, many nonprofit leaders, they're thinking about improving a lot of things, including their investment portfolios or their retirement plans.

[00:16:36] If you'd wondered about whether your returns are adequate, your risk is reasonable, your fees are in line, feel free to reach out to Devon or to myself. Our team is happy to provide what we call an observations and considerations analysis with insights on performance, on governance, on expenses, and a whole lot more.

[00:16:54] So to all you good stewards, thanks for investing your time to help your nonprofits prosper.

[00:17:00] We'll connect with you soon on the next episode. Thank you for listening to the Nonprofit Investment Stewards podcast. Click the subscribe button below to be notified of new episodes and visit Fiducientadvisors.com for more information.

[00:17:14] The information covered and posted represents the views and opinions of the guest and does not necessarily represent the views or opinions of Fiducient Advisors. Content is made available for informational and educational purposes only and does not represent a specific recommendation. Always seek the advice of qualified professionals familiar with your unique circumstances.