

Executive Portfolio Management In Time Of A Market Shift – What Programs To Keep And Which To Close

The Coalition for Behavioral Health Business Recovery Initiative



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Agenda

1. Why Portfolio Management Matters In Recovery Strategy
2. Using Data For Portfolio Management Decisions
3. Steps For Performing A Portfolio Analysis



1. Why Portfolio Management Matters In Recovery Strategy

Why Portfolio Management Matters In Recovery Strategy

Four key questions that drive recovery strategy portfolio management:

1. What service lines have a positive margin, or at least break even?
2. What service lines have a deficit and will draw down cash?
3. What service lines will be critical to success after the crisis, and need stabilization and investment?
4. Does your organization have enough cash to survive through the recovery anticipated recovery period?

Portfolio Management Goal #1: Maximize

Conserve cash by maximizing margins and reducing volume of programs that lose money

Portfolio Management Goal #2: Invest

Invest in services with “future” demand from consumers and payers


What Do We Want To Achieve?

For executive teams, a 'marketing' focus has never been more important. . .

1. For each major service line, adjust the market positioning and competitive advantage for the 'new normal' market landscape ahead



2. Expand the use of a service line portfolio management process – monitoring the performance of service lines and being more prompt in making changes to service mix



3. Use a market-focused strategic planning process before developing budgets and investment capital – using that strategy to prioritize organizational resources

The “Big Questions”

1. How will your organization’s mission change, if at all?
2. What is your ‘vision’ for the market position of your organization’s service lines in the post-crisis period?
3. Which will be competitive and margin positive – or not?
4. What is required to assure competitive positioning – merger, technology, contracts, new service model, etc.?
5. What service do you need to add?’
6. What services do you need to terminate?
7. Can your organization ever get back to financial stability at its current scale?

Your vision (and your plan) is likely to change several times over the crisis period...

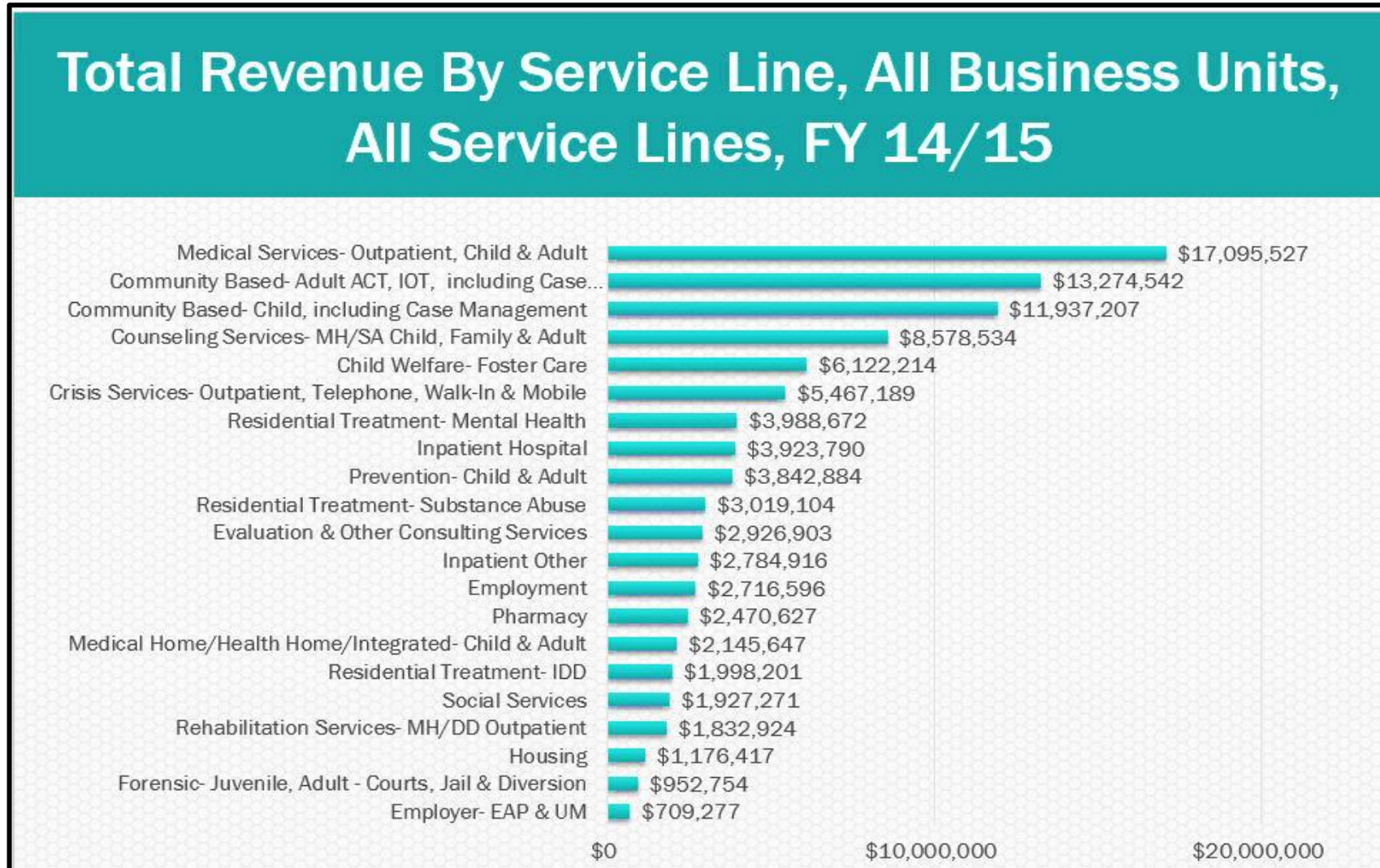


2. Using Data For Portfolio Management Decisions

Data For Decision Making

1. Set up a data management system that can generate useful data
2. Ensure that data is consistently valid and reliable
3. Establish reports based on key performance indicators for financial and service performance
4. Ask for real-time performance reports
5. Make sure that staff know how to read, understand and use the data
6. Use data to drive your business decisions, including decisions about services and programs

Total Revenue, By Service Line



Profit & Loss, By Service Line

	Revenue	Expenses	Other Program Expenses	Profit/Loss Before M & G	M & G Expenses	Profit/Loss	M & G Expense % of Expenses
Outpatient Mental Health	\$8,569,673	\$6,458,648	\$3,377,076	(\$1,266,051)	\$2,027,798	(\$3,293,849)	17%
Residential Services	\$2,885,525	\$2,284,799	\$1,828,403	(\$1,227,677)	\$850,113	(\$2,077,790)	17%
Community-Based Services	\$6,134,152	\$3,917,012	\$1,011,406	\$1,205,733	\$1,016,615	\$189,118.14	17%
Crisis Stabilization	\$636,778	\$967,370	\$80,796.05	(\$411,387)	\$216,651	(\$628,038)	17%
Total for Service Lines	\$18,226,130	\$13,627,830	\$6,297,682	(\$1,699,382)	\$4,111,177	(\$5,810,559)	17%

Business Unit Profitability Comparison

Profitability By Service Line & Business Location

	Service #1	Service #2	Service #3	Service #4	Service #5	Service #6	Service #7
Location #1	\$10,000	(\$10,000)	\$5,000	\$15,000	\$10,000	\$15,000	\$17,000
Location #2	\$15,000	(\$25,000)	(\$25,000)	(\$5,000)	(\$25,000)	(\$5,000)	(\$45,000)
Location #3	\$17,000	(\$35,000)	\$10,000	\$10,000	\$15,000	\$10,000	\$10,000
Location #4	\$20,000	(\$20,000)	\$10,000	\$10,000	(\$5,000)	\$15,000	\$10,000
Overall	\$52,000	(\$90,000)	\$0	\$30,000	\$10,000	\$35,000	(\$8,000)

Service Mix Analysis

% Of Revenues By Service Line & Business Location

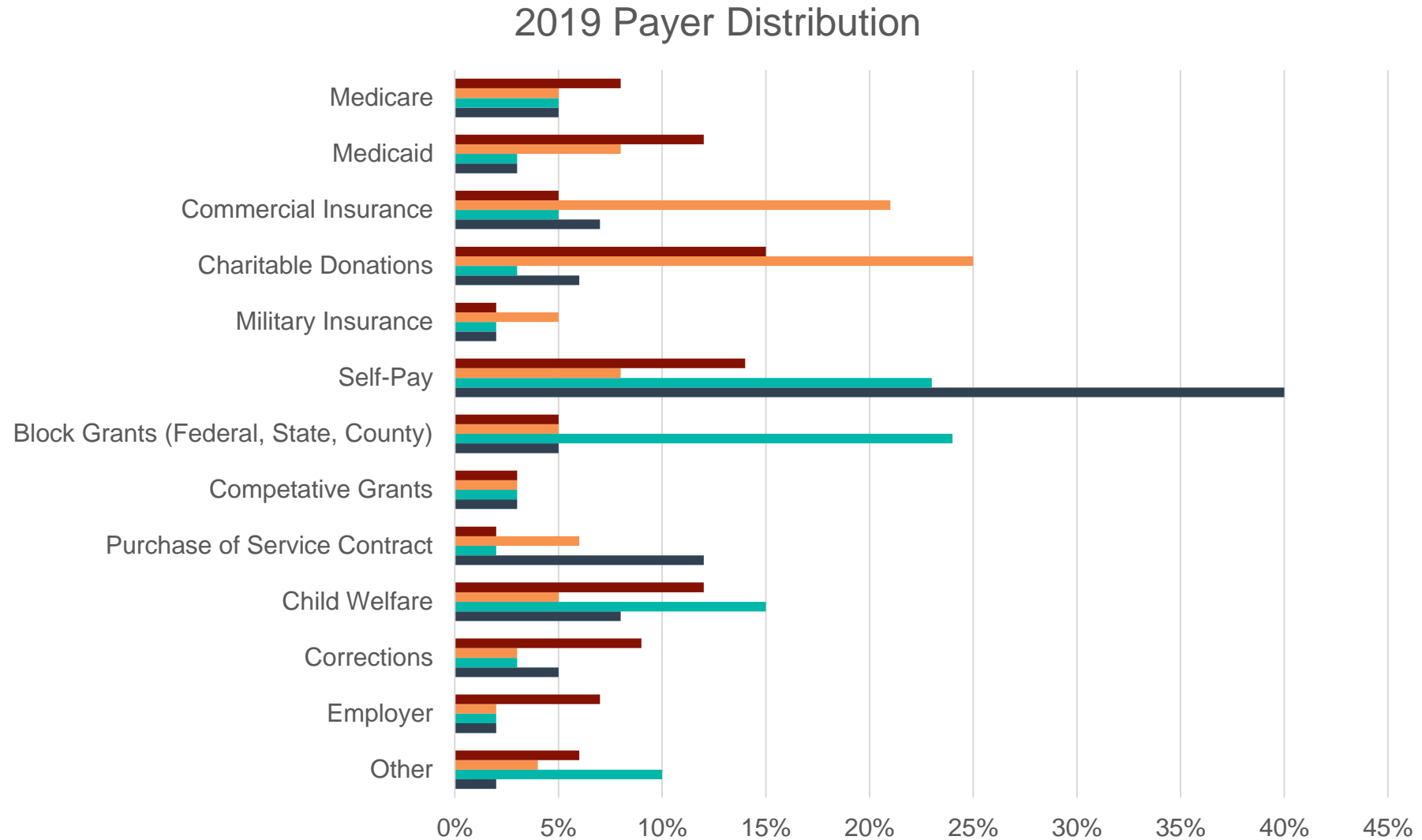
	Service #1	Service #2	Service #3	Service #4	Service #5	Service #6	Service #7
Location #1	10%	20%	10%	5%	5%	40%	10%
Location #2	0%	0%	15%	10%	20%	50%	5%
Location #3	0%	0%	0%	20%	40%	40%	0%
Location #4	10%	0%	0%	5%	20%	55%	10%
Overall	10%	5%	10%	10%	5%	50%	10%

Unit Cost Comparison

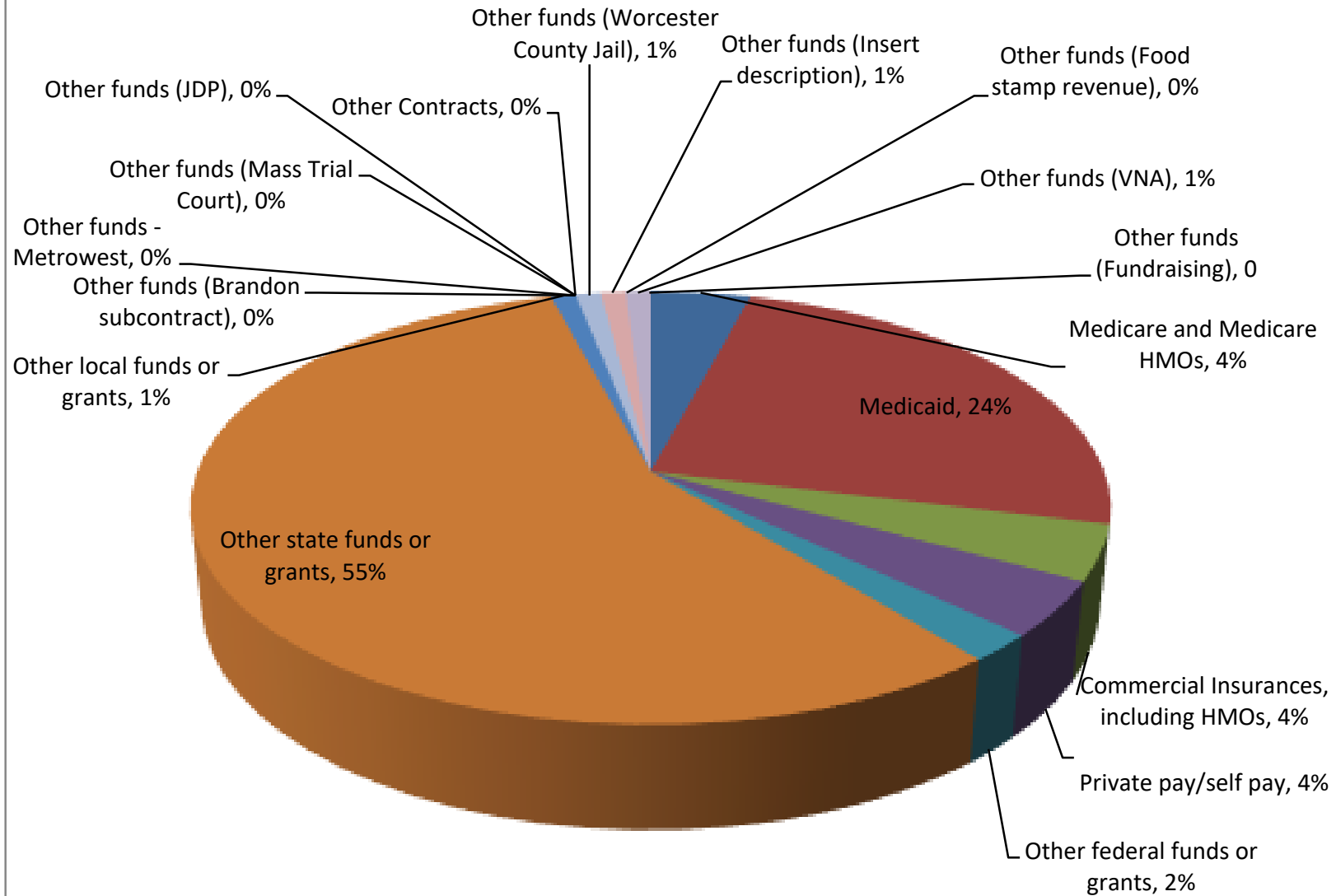
Unit Cost By Service Line & Business Location

	Service #1	Service #2
Location #1	\$75.12	\$132.00
Location #2	\$72.03	\$131.81
Location #3	\$61.02	\$132.14
Overall	\$67.43	\$132.21

Payer Distribution By Service Line



Revenue Mix By Payer, 2012





3. Steps For Performing A Portfolio Analysis

Analyzing & Managing A Portfolio—Three Key Steps

1. Confirm understanding of mission, vision, values and goals
2. Assess the market – business opportunities and threats
3. Collect data for analysis
4. Organize the data for action
5. Implement portfolio options that maximize mission and cash, and create investment in future impact and sustainability

1. Confirm understanding of mission, vision, values and goals

Your formal mission, vision, values and strategic goals will need a thorough review during a more extensive strategic planning process. However, to move forward as soon as possible with portfolio planning, a more focused, short term effort may be needed

- Focus the mission on serving specific populations with needed services based on operational and market conditions
- Focus the vision on how to sustain your role as a service provider for the populations you serve, within your organization's system of values
- Form short term strategic goals, and adjust as conditions change

Service Line & Portfolio Analysis Answers The Question: “Do You Have The Services You Need For Future Sustainability?”

Which services
do we
eliminate,
invest in, or
improve?

Do we have
the right mix of
services?

How do we
allocate money
and people
among
services?

How do we
optimize use of
resources to
achieve
strategic
objectives

2. Assess the market – business opportunities and threats

1. Assess relationships with payers as customers and partners
2. Identify service gaps for potential growth of existing or new services (with input from payers and other stakeholders)
3. Prioritize services that are becoming more highly competitive
4. Assess what's involved in maintaining or growing an existing service
5. Explore models of virtual service delivery provided by others, even outside your market,
6. Consider how to diversify a service skill set you already have to expand geographically or to develop another similar service

Developing Opportunities Post COVID-19 Crisis

The primary care market for consumers with complex needs exists now – big needs, closing U.S. primary care practices

The needs of consumers with chronic conditions and complex needs will not diminish – but advantage will go to the organizations that develop integrated models (medical, behavioral, social) that harness new technologies and can use performance-based reimbursement

Less nursing home capacity (and an aging and increasingly disabled U.S. population) will bring opportunities for a wide array of home-based services

The housing crisis will worsen in the economic recession brought on by the pandemic crisis

Future advantage will go to organizations with a focus on customer convenience, transparent costs, and demonstrated quality outcomes

3. Collect data for analysis

Must reflect pre- and post-pandemic performance

- Organize your data collection based on how you manage your services at this time—either discreet services or programs
- Consider your services and programs as business units
- Organize your data based on these common tools for analysis:
 - Business unit profitability analysis
 - Unit cost comparison
 - Payer distribution by service line
 - Revenue by payer, service line, and site
- Adapt your data collection and analysis to the radically changed business environment over the last four months

COVID-19 Crisis: Confounding Data Analysis

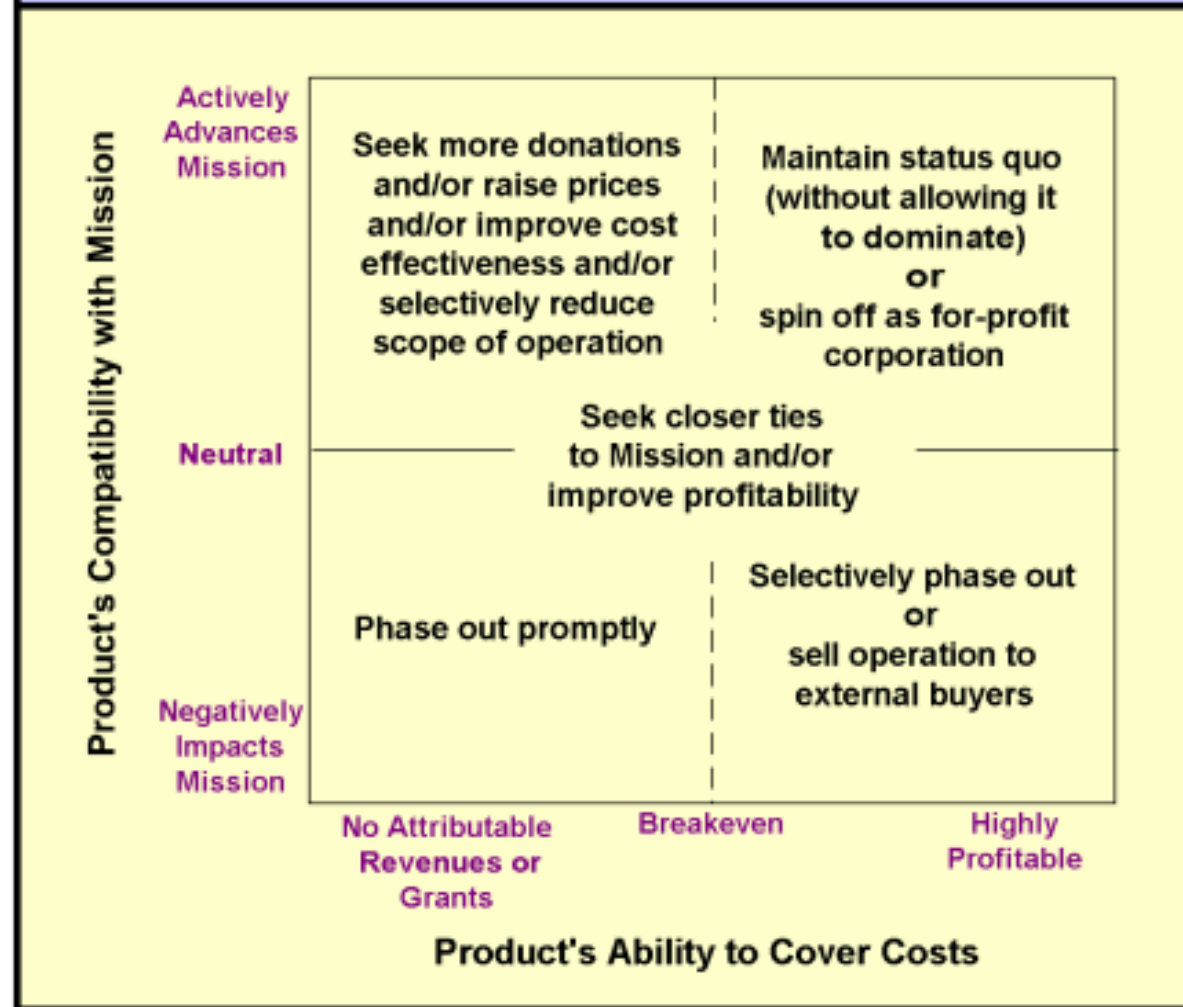
1. Look at data from the past 2-3 years for trends—collect that same data up to the crisis closures to understand historical performance
2. Collect data on the performance of your current system since the crisis began using these same tools
3. Look for trends in service line growth in both sets of data
4. Compare revenue and margins between similar service lines before and after the crisis
5. Compare revenue and margins between similar payers before and after the crisis
6. Analyze those service areas that may have the most growth potential, based on market information

4. Organize the data for action

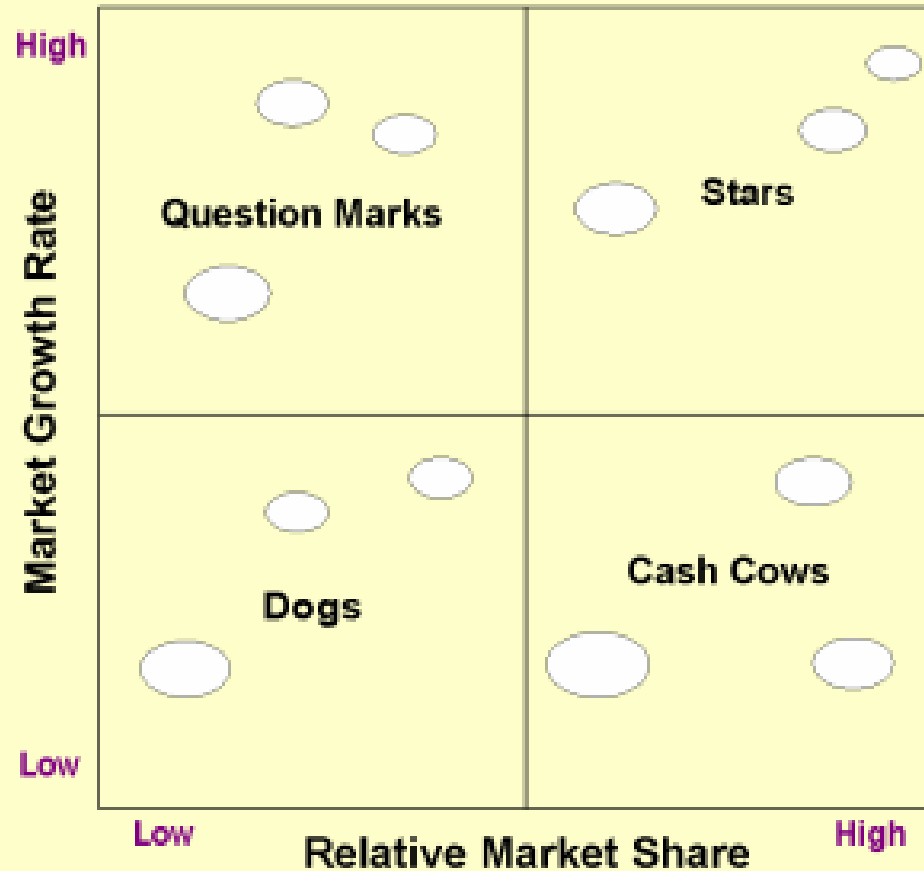
Organize the analysis in a framework for an implementation plan

1. Key performance measures
 - Trends toward a growing demand and margin
 - Trends by geographic areas
 - Trends in revenue from specific payers
2. Key factors for success
 - Market information that identifies opportunities
 - Service performance results that reflect positive outcomes and customer satisfaction
 - The ability to measure and report value
 - The organizational capacity to quickly mobilize around service growth
3. Tools to organize analysis results
 - Contrasting margin vs. mission
 - Contrasting market growth vs. market share

Mission vs. Profitability Matrix



Market Growth vs. Market Share Matrix



Decisions Made In Service Line Portfolio Management

1. New markets to balance the portfolio
 - Identify strongly performing services for potential expansion in a new geographic market
 - Seek additional payers for a strongly performing service
2. New or restructured services for current or new markets
 - To increase revenues
 - To help develop new business opportunities
3. Closure or phase-out of current services
 - Eliminate a service that does not bring value to consumers or the organization

5. Implementing Desired Options

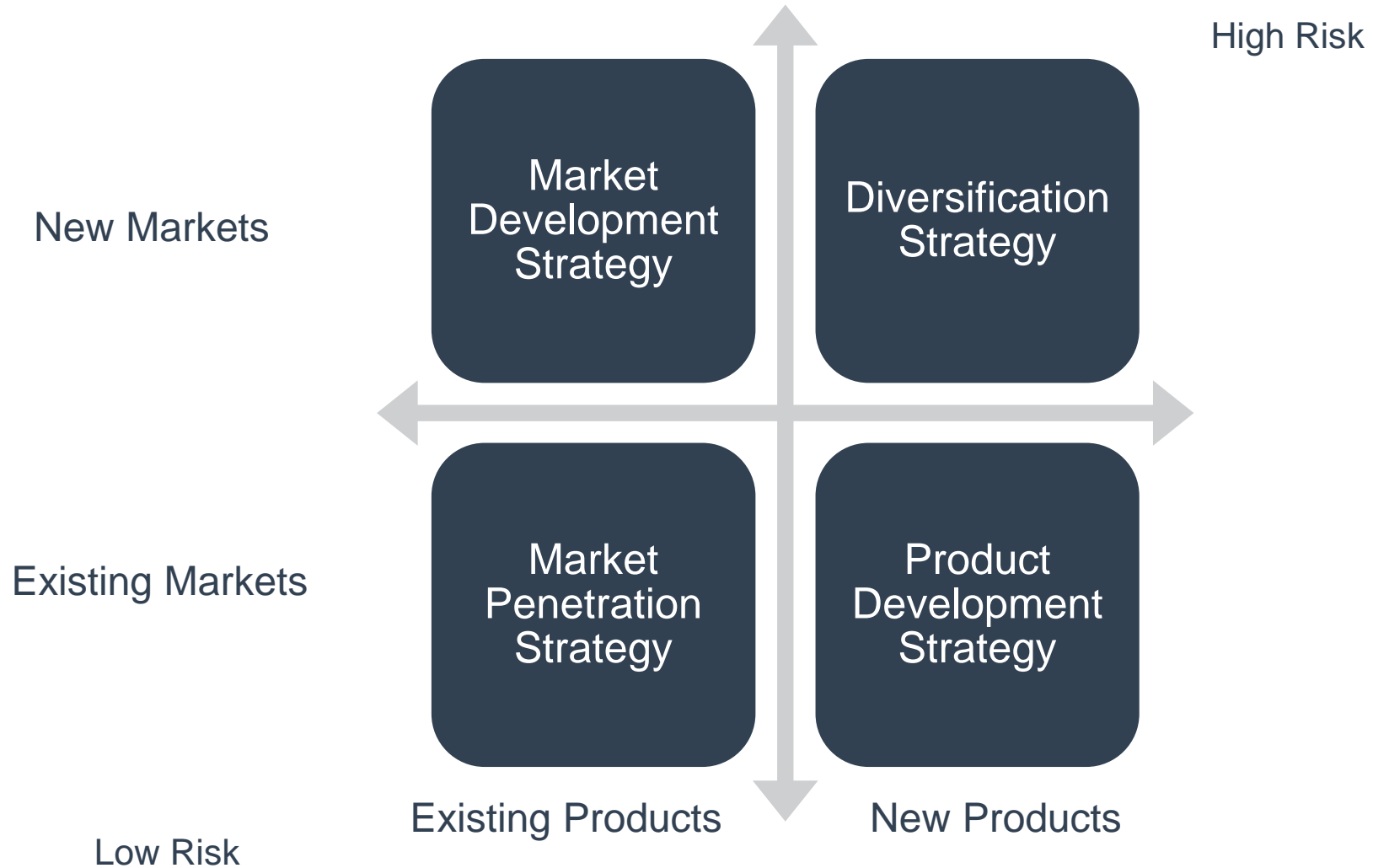
Five strategies to implement a growth plan

1. Close or significantly limit a service or program
2. Market Penetration Strategy: Growing an existing service within your existing market—lower risk
3. Market Development Strategy: Taking a current service and expanding into a new market—slightly higher risk
4. Product Development Strategy: Developing a new service in your existing market—higher risk
5. Diversification Strategy: Developing a new service in a new market—the highest risk

Closing Services & Programs

- Current financial viability and limited connection to the mission and strategic goals
- Clear market trends that reflect a significant decline in viability
- Limited financial and mission value with a more viable alternative for customers in the community
- The need for financial and staff resources to grow more promising programs and services

Service Market Expansion Grid



Market Penetration Strategy

Market existing services within the same market by increasing market share. Market penetration can include:

- Price adjustment (increase or decrease)
- Augmented promotion
- Widening of network
- Service quality improvements

Examples

- Improving payer contract rates and/or financial methodologies
- Repositioning of organizational brand – “expert, deep history of experience, trusted provider, value for my health care dollar, complex care”
- Increasing online inquiries and referrals for services
- Expanding commercial/third party payers or contracts

Market Development Strategy

Focus on expansion by developing current services into a new market. Approaches include:

- New or underutilized geographic areas
- New distribution channels or methods of delivering services to current or new consumers

Examples

- Geographic expansion of current services into a new geographic area
- Expansion into new geographic areas by leveraging technology like telehealth
- Identification of payer strategies to expand service lines to new geographic areas

Product Development Strategy

Focus on expansion by developing new service lines in the current market. Approaches include:

- Adding new to features to enhance services
- Implementing new innovative services

Examples

- Implementation of new value-based service options
- Modification of current services to increase their value (transition from traditional residential services to crisis residential with wrap-around services)
- Implementation of evidence-based practices
- Integration of current services with physical health or social services

Diversification Strategy

Focus on expansion by providing new services in new markets. This strategy has the highest cost and risk. Competencies needed include:

- Ability to acquire new skills and develop new initiatives
- Feasibility studies, financial resources, time

Examples

- Initiate a new service line
- Identification of another provider that enhances service line in a new market
- Partnering with a payer for expansion of a new service in your market and statewide

Final Thoughts

Tips for implementing service portfolio changes in a rapidly changing market

1. Your organization has moved from constantly resolving crises, to a stage of establishing a new normal for your business
2. A key to moving forward will be analyzing your current services and determining a new business plan
3. Business planning will be challenging with a newly developed and growing virtual environment in addition to those services that have been traditionally been provided in-person
4. All decision making will need to be flexible and contingent on changing scenarios
5. All decisions are hypotheses that will be proven over time, sometimes a hypothesis will not be proven correct
6. Learn from all your decisions, building not just information-driven decision-making but knowledge-driven decision making

RESOURCES

- *Private LinkedIn Discussion Group:*
 - <https://www.linkedin.com/groups/12422327/>
- *Toll-Free Phone for Technical Assistance*
 - 833-888-0219
 - *Pro-bono, one-hour consultations available for Coalition and ASAP members*

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