

A LETTER FROM THE AUTHOR

Reevaluate Strategic Financial Plans Amid Tariff Shifts & Reimbursement Pressures

Dear Reader,

In an era defined by rapid policy shifts and economic uncertainty, the intersection of healthcare and economic trade has never been more critical. Recent headlines highlight escalating tariff disputes under the current administration, with sweeping import duties disrupting global supply chains and sparking concerns across industries. Meanwhile, the healthcare sector grapples with mounting challenges, from reimbursement cuts and labor cost pressures to the looming risk of unfavorable government (both federal and state) funding reforms. These converging crises demand proactive strategies to safeguard financial sustainability and operational resilience. Here's a few examples why:

1 Tariff-Driven Cost Surges

New tariffs threaten supply chain stability and procurement costs. While pharmaceuticals are currently under evaluation, critical devices and components face higher expenses, with a majority of supply chain professionals anticipating major disruptions.

- a. Consider auditing supplier dependencies, secure backup vendors, and, where applicable, leverage group purchasing organizations (GPOs) to lock in pricing.

2 Reimbursement Reductions

Medicare underpayments reached an unprecedented \$100 billion in 2022¹, and upcoming changes in 2025, are set to exacerbate financial strain. Inpatient and outpatient rate increases remain modest and fail to keep pace with the escalating costs of labor, pharmaceuticals, and supplies. This gap between rising costs (labor, drugs, supplies) and stagnant reimbursements pressures margins. Consider evaluating your financial plan by stress-test modeling of reimbursement cuts (e.g., Medicare inpatient rates lagging inflation) and federal funding volatility.

3 Labor Cost Challenges

Labor accounts for over 50% of hospital expenses, yet productivity growth remains stagnant. With tariffs exacerbating staffing pressures, consider the following selected examples:

- a. Utilize flexible staffing models (e.g., short-term travel nurses are only a near-term solution as they carry a high premium in the long-term).
- b. Shift services to provide at the optimal location/site of care.
- c. Evaluate role redesign (e.g., use of APPs, upskilling LPNs for lab tests) to optimize workflows.
- d. Create pipeline programs for future staff through medical schools.
- e. Automation and AI (e.g., EHR documentation, pharmacy robotics) to free clinicians for higher-value tasks.

¹ American Hospital Association (2024). Medicare Significantly Underpays Hospitals for Cost of Patient Care. <https://www.aha.org/system/files/media/file/2024/01/medicare-significantly-underpays-hospitals-for-cost-of-patient-care-infographic.pdf>

4 Capital Pullback & Strategic Shifts

Uncertainty around NIH funding and ACA subsidies necessitates prudent capital allocation. Reevaluate and prioritize investments in the following as an example:

- a. High-margin outpatient and ambulatory strategic projects to diversify sites of care and revenue to offset inpatient reliance.
- b. Technology integration: Automate scheduling/payments to reduce administrative costs and enhance patient throughput.
- c. Resilient supply chains (e.g., domestic sourcing, inventory buffers).

Next Steps

Let us schedule a call to develop and refine your strategic financial plan, stress-test scenarios, and implement targeted mitigation strategies. Proactive adjustments now will safeguard liquidity and operational continuity for the future.

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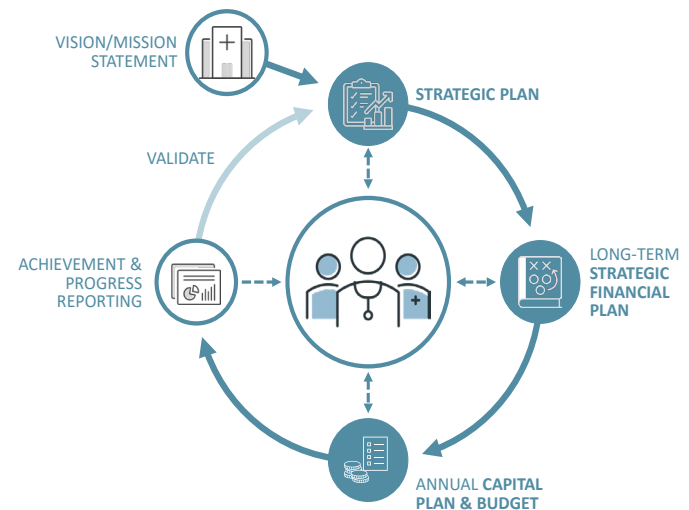
STRATEGIC FINANCIAL & CAPITAL PLANNING

A Critical Engagement for CFOs and Hospital Leadership

INTRODUCTION

Imagine navigating a ship through a storm without a map or radar. Hospitals without a strategic financial plan face similar challenges in today's unpredictable healthcare environment. It is no secret that hospitals and health systems have experienced a period of low profitability, with operating margins averaging in the low single digits in the past five years for many. Near-term pressures and potential headwinds from Washington, including evaporating research funding that could strike academic medical centers particularly hard, and uncertainty about the future of Medicaid and Medicare, have many feeling lost at sea.

At a moment like this, when the healthcare system is evolving rapidly amidst fluctuating reimbursement models, aging infrastructure, staffing challenges, and a dynamic competitive landscape, previous business models no longer seem sustainable. Forward thinking hospital leaders know that an effective, well-designed strategic financial planning function is fundamental to financial longevity. Balancing short-term demands with long-term sustainability is challenging. The Innova Group sees the strategic financial planning function as the compass, map, and radar that guide hospital leadership to align resources, mitigate risks, and capitalize on opportunities.



THE ROLE OF STRATEGIC FINANCIAL PLANNING

Strategic financial planning is a comprehensive process that integrates five elements: evaluation of current, former, and future financial performances; capital planning; scenario analysis; risk assessment; and performance metrics. Together, these five elements provide a clear map for achieving organizational financial objectives.

Unlike an annual budget, which often focuses on short-term financial goals, strategic financial planning incorporates forward-looking insights and long-term considerations. Smart financial planning identifies times for opportunistic growth endeavors and performance improvement initiatives. A strategic financial plan also enables hospitals to strengthen their financial and operational goals while supporting the organization's strategic and

operational priorities. Strategic financial planning goes beyond maintaining the status quo; it focuses on upgrading financial health by driving growth and bridging operational gaps.

A key output of strategic financial planning is improved performance that provides financial and operational data and tools to address operating gaps, or the shortfall between current financial performance and desired outcomes. This process involves identifying opportunities to streamline operations to achieve lasting financial stability. Examples of performance improvement initiatives might include optimizing service distribution, redesigning care delivery, or enhancing workforce productivity.

Strategic financial planning provides the data and tools necessary to prioritize and execute these initiatives effectively, helping hospitals navigate financial challenges and achieve their desired outcomes.

Growth initiatives, including but not limited to partnerships, are another output of strategic financial planning. These initiatives involve exploring opportunities to increase reach, scale, and/or impact through new products, services, and populations. While partnerships—such as joint ventures, mergers, or affiliations—are one avenue for growth, hospitals might also consider expanding service lines, entering new markets, or developing innovative care delivery models. Regardless of the specific growth initiative chosen, hospital leaders need careful financial planning when evaluating partnership viability, strategic fit, and alignment with long-term goals.

Ultimately, strategic financial planning strengthens decision-making by providing hospital leadership with a comprehensive and data-driven framework

that supports informed decisions about growth opportunities, operational alignment, and risk management. With a solid plan in hand, leaders can confirm that any changes are aligned with the hospital's overarching goals.



THE FIVE ELEMENTS OF STRATEGIC FINANCIAL PLANNING

The first step of strategic financial planning is to evaluate current financial assessments, financial goals, and financial forecasting.

This exercise allows a view into current and historical financial performance (current financial assessment), future plans (financial goal setting), and possible course corrections (financial forecasting). At this stage, hospital leaders chart estimated future revenue, expenses, and margins based on historical performance, market trends, and anticipated regulatory changes. Given all the moving parts, options, and trade-offs, leaders with established and realistic financial targets for key ratios will be better positioned to support their organization's goals and strategic capital investments. This forward-looking component helps hospitals anticipate challenges and identify growth opportunities. Outcomes of this stage of financial planning include early indicators of areas where revenue growth is possible as well as opportunities to reduce costs.

The second element, capital planning, prioritizes investments in facilities, technology, and clinical programs, among other critical areas.

At this stage, leaders articulate business cases for each project, including strategic rationale, pro forma financial impact, and return on investment. Each project can then be viewed within the strategic financial plan for a complete picture of capital projects going forward. By focusing on these capital priorities, hospitals can ensure that their investments maximize resources, budgets, and growth opportunities, and maintain or improve market competitiveness.

The third element of financial planning is scenario analysis, which enables hospitals to evaluate the potential impact of various operational challenges, like shifts in reimbursement models, fluctuations in labor costs, or changes in patient volumes.

Scenario planning allows leadership to prepare for contingencies and remain flexible in their approach to addressing changing business environments. Hospital leaders should take an iterative approach at this stage, revisiting and refining the forecasting techniques and tools that guide their decisions, so they can identify the impact of changes to key assumptions driving the projections.

The fourth element, risk assessment, is another vital component of the financial planning process.

At this phase, hospital leaders evaluate the financial impact of potential uncertainties—such as economic downturns, regulatory changes, or shifts in payer mix—and develop mitigation strategies to counterbalance any downside risk the organization may face. Scenario analysis enables leaders to assess how these changes—ranging from reduced federal healthcare funding to increased costs due to tariffs—might affect operational budgets, supply chains, and long-term financial stability. These risks necessitate robust scenario planning, where hospital leaders evaluate best-case, worst-case, and most-likely outcomes to prepare for financial shortfalls or operational inefficiencies. By quantifying risks and their potential effects, hospitals can make informed decisions and strengthen their financial resilience.

The final element of financial planning is establishing performance metrics to measure

financial health and progress toward strategic goals within an integrated budget and capital planning process.

By tracking key performance indicators (KPIs) specific to their organization and goals, hospitals can monitor their performance and make data-driven adjustments as necessary.

Strategic financial planning provides the foundation for hospitals and health systems to navigate complex operational challenges and achieve long-term stability. The five elements of strategic financial planning—evaluating current financial assessments and goals, capital planning, scenario analysis, risk assessment, and establishing performance metrics—work in harmony to create a robust framework for decision-making. Among these, capital planning emerges as a critical pillar, bridging the gap between financial strategy and operational execution.

CAPITAL STRATEGY: THE INTEGRATION OF CAPITAL PLANNING AND BUDGET CYCLES

Strategic financial planning plays a key role in capital strategy, particularly in capital planning and annual budget processes. A well-defined long-term capital strategy, backed by a strong financial plan, ensures that capital expenditures and short-term budgets are aligned with strategic priorities.

The core purpose of capital planning is to fully understand the hospital's asset portfolio so that leaders can put forward an aligned and effective plan that can achieve near and long-term goals. Capital planning is geared toward long-term strategy rather than day-to-day operating costs and expenditures. Capital planning also takes into consideration operational goals and infrastructure needs and aligns them with projected resources over several years. It creates effective fiduciary processes and allows senior leaders to estimate where to invest to achieve the greatest long-term value in facility management and expansion.

Parts of the capital planning process overlap with capital budgeting, including resource allocation, strategic alignment with financial feasibility, and prioritization.

Capital budgeting focuses on the financial details required to implement specific projects and initiatives identified in the capital plan. While capital planning defines strategic priorities, capital budgeting allocates the funds to bring those priorities to life. This process involves assessing cash flows, calculating potential returns on investment, and identifying the costs and benefits of individual projects. During budget development, hospital leaders translate high-level objectives into actionable financial plans. These plans include clear revenue and expense targets, ensuring that operational activities are financially sustainable and strategically aligned.

A final piece in the capital budgeting process is continued performance monitoring against financial forecasts to help identify deviations from plans so that hospital leaders can make timely adjustments. This iterative process helps organizations remain on course, even as new challenges or opportunities arise.

CONCLUDING THOUGHTS

A robust financial planning process translates complex financial topics into reporting dashboards that are easy to understand, highlighting risks and opportunities. It boosts stakeholder confidence and strengthens relationships so the hospital can secure funding for future initiatives. Internal stakeholders, such as board members and department leaders, as well as external stakeholders, such as lenders and philanthropic donors, find enormous value in a well-articulated financial strategy.

Strategic financial planning is a cornerstone of effective leadership in today's healthcare environment. For CFOs and hospital executives, strategic financial planning is a business imperative that drives organizational success. With a clear vision, actionable insights, and a commitment to aligning resources with priorities, hospitals can steer towards calmer seas and financial stability to deliver value-driven care, sustain financial health, and thrive in an increasingly complex landscape.

ABOUT THE INNOVA GROUP

The Innova Group is a national healthcare consultancy that specializes in strategic, operational, financial, and facility planning. Since 1995, health systems and medical groups have sought our advice on their most difficult strategic and facility planning challenges. More information about our team of professionals and consulting services can be found at www.theinnovagroup.com.

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Mr. Kinn is a seasoned healthcare executive and strategic financial consultant with extensive experience in financial advisory, corporate strategy and mergers & acquisitions. He has a proven track record of leading high-impact projects, developing client relationships, and driving business growth. A visionary leader who thrives in dynamic environments; adept at executing strategies that maximizes an organization's potential.

Prior to joining The Innova Group he was a Senior Vice President at Kaufman Hall. In this capacity he focused on strategic financial planning, partnerships, and service line facility planning, to name a few. Prior to joining Kaufman Hall, Mr. Kinn was on the Strategy and Corporate Development Team for 3M in Minneapolis, and prior to that an experienced professional in private equity and mergers & acquisitions investment banking in Chicago.



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Dan is a strategic financial consultant with over a decade of healthcare corporate strategy and mergers & acquisitions experience, particularly in non-profit environments. In his roles he has advised senior healthcare leaders and demonstrates a proven track record in leading cross-functional teams to align organizational goals with financial objectives to propel transformation and growth for his clients.

Prior to The Innova Group, Dan was a senior management consultant at Kaufman Hall in their Mergers & Acquisitions practice. In this capacity he focused on transaction, financial and strategic advisory. Experience includes executing and facilitating the evaluation, structuring, and negotiation of partnerships, acquisitions, joint ventures, and other partnership transactions. Dan holds an M.B.A. from the University of Chicago Booth School of Business.