VOLUME 21 ISSUE 3

OPEN MINDS

June 2009 The Behavioral Health & Social Service Industry Analyst

Time for Budget Cuts (Or New Business Models?):

Key Strategic Decisions Loom for Industry Management Teams

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My desk is awash in articles on pending health care reform initiatives. There are many questions: Will it happen at all? What will it look like? Who are the likely winners and losers? Health reform is certainly an important issue for our field and for the nation, and with parity in the works, universal coverage is the last leg in getting adequate mental health and addiction treatment benefits for U.S. consumers.

Unfortunately the discussion of future health care reform initiatives is taking up too much of the airtime at conferences and management team meetings. I would like to see a little more attention paid to the here and now, as any health care reform legislation is years away from the service system. The issue that needs attention right now is the 'not-so-glamorous' issue of how the cash-strapped, technology-poor provider organizations with dated services and business models are going to make it through the next few years. Local newspapers are full of the real effects of the economic crisis. Whether it is the service rationing prioritization list for consumers in El Paso, or the shutoff of water at a homeless shelter in Atlanta—these are the real signs of the times.

That said, I think the worst consequences of our current harsh economic times are yet to be felt in the health and human service field. Generally, health care is relatively 'recession-proof'—people need services (at times more services) in times of economic turbulence. Most health and human service organizations are operating on government (federal, state, local) budget years set before the economic downturn—which means next year should be particularly challenging. Employment (and employee benefits) is a leading indicator in economic downturns and recoveries—that means that we'll see unemployment (which increases the number of uninsured) and less generous health benefits for employed persons long after the economy has officially recovered.

We know that this economic downturn is going to bring us a very challenging environmental scenario. I anticipate increasing pressure on rates for services; longer time lags in payment for services; a greater proportion of health care spending paid directly by consumers; growing use of consumer-directed, defined contribution health benefit financing models (vouchers, HSAs, etc.); pressure on provider organizations to accept performance-based and/or risk-based payment methods; more audits by payers to recover previous service payments; and customer-driven acceptance of e-health and tech-enabled service models.

For most management teams looking ahead, the question is how much time and money (i.e. opportunity cost) to invest in 'cutting' historical services to keep them profitable versus creating new business models that will dominate the post-recession, post-health-care-reform environment. For any organization, there is no simple answer to this question. But I am concerned that a combination of tradition, comfort, lack of performance data, and lack of strategic planning will cause many management teams to spend too much effort on keeping dated services with limited futures (in terms of consumer demand and profitability) afloat. This will likely take the form of incremental budget cuts. A recent Hewitt Associates survey of HR execs at large organizations found that—of the health care organizations that responded—83% said they were increasing travel restrictions; a quarter were changing their PTO policy. The survey also found that for health care organizations, 33% had undertaken layoffs; 38 % had instituted salary freezes; and 12% of health care organizations had reduced salaries or wages.

While these are likely necessary responses to the current economic downturn, as a long-term strategy, these types of cost-cutting measures represent the 'death by a thousand cuts.' If we don't believe that the previous health and human service market is going to return, then these strategies are merely shaky life supports for the current cash cows of the field. It also means that management teams in many organizations need to start (now) building future business models that will sustain their organizations.

Many boards of directors and management teams have conveniently put off addressing this question of the new business model for their organization. Part of it is the 'survival fires' of the moment—we need to get past the current economic crisis first and then we will start building our model for the future. Many management teams are waiting for the 'big bang' of recovery—as in the economy will suddenly improve one day. History doesn't support that assumption; the economic malaise will likely linger and recovery will be gradual. At the same time, the clock is ticking on the financial situation of many organizations in the field in and on the profitability and viability of historical services.

The question is where to start in the daunting task of identifying those future new services (and new business models) that are consistent with your organization's mission, build on existing core competencies, and are financially possible. I would recommend a few key rules to add to your planning process:

1. Create a set of internal service performance metrics to use for current management and for predicting the long-term changes in the performance of specific services (for most organizations, this can be done using your current information system).
2. Initiate a planning process based on good external market information that allows you to include future scenarios.
3. Initiate a board and management team session to examine problems of current consumers and payers—and the services and the business models that will likely be demanded by them in the future. Vet hit lists of future solutions against your organization's mission and objectives to create the 'short list' of new services and business models to explore.
4. Set up a timeline to do a formal opportunity analysis of this short list of new services and business models. There are great opportunity analysis models that factor in market demand, likely competitors, internal competencies and gaps in competencies, time to develop, financing requirements, and other issues in the analysis.
5. Following the opportunity analysis, your management team will (hopefully) have a very short list of new services (perhaps only one) to be developed. Put together a formal new service line development plan—and stick to it!
6. Don't be afraid to change directions. What looks good today may not look good tomorrow. Part of entrepreneurship is failure, so don't be shocked if something doesn't work the way you expected.

I think this time of economic stress is the best of times for all organizations to invest in the future. History shows that the organizations that were winners following a time of recession were those that invested heavily in innovation and change. Organizational strategy in these times has much in common with my favorite chess strategy: the best defense is a strong offense.

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