4 Hospice Business-Profit & NPR

Why?

Without oxygen, humans do not survive. Money is oxygen's equivalent in the Hospice world. It is important that we value and embrace the idea that it is OK to think about care AND financial balance. On a personal level, if the Hospice stopped paying you for your efforts, your life might become a little more uncomfortable. For most people, this would be more than an inconvenience; it would threaten our ability to continue. The same logic applies to our Hospice. Here are some great reasons to be profitable and build reserves:

- To be able to serve patient more than just a few days
- Medicare Reimbursement Cuts
- Ever-Increasing Competition
- Public Relations (PR) Disasters
- Increasing Costs
- Management Surprises
- Ability to Take Advantage of Business Opportunities
- To Care for Indigent Patients
- To Care for High Cost Patients

Reason to Be Profitable and Build Reserves

- A hospice's level of financial reserves DIRECTLY impacts how long it can keep patients.
- A hospice needs 6-9 months of financial reserves in order to keep long-living patients (patients that live 180+) as these patients will undergo increased scrutiny and payments will be delayed from 6-9 months.
- A hospice with low reserves can only care for "brink of death" patients.

You Were Hired With an Assumption

When a Leader is hired, it is assumed that he or she knows how to run a successful business in terms of effectiveness and profitability. With FP Hospices, this is *normally* understood. With NFP Hospices, this might not be explicitly expressed. However, be assured that any Leader will be displaced if financial losses threaten the organization. In addition, many Hospice leaders and Boards of Directors are confused about the idea of profitability. They often think that NFP means that operational profit is not a good thing and that the organization should spend nearly everything! This type of dangerous thinking needs to be eradicated.

Leaders need to have a deep-rooted certainty about the absolute NEED for profits and proportionally large financial reserves. Profitability is essential to organizational sustainability and capacity.

What is Profitability Really?

What is profitability really? We probably all have our own take on it and view it a bit differently. However, most people would see profitability as essentially advancement. It is moving forward, in a positive direction. It is about where the negative is less than the positive or where the incomings are more than the outgoings.

Definitions of profitability are:

- making money
- producing good or helpful results or effects

I think that if you are alive, you are moving forward period. Time moves forward and we along with it. We are in the process of change constantly (even if we are temporarily behaving badly, the bad example teaches). However, much of our discussion in this program is about profitability in the financial realm.

prof·it

/ˈpräfit/

noun

- A financial gain, the difference between the amount earned and the amount spent in buying, operating, or producing something.

verb

- obtain a financial advantage or benefit

The Profit Reality in Hospice

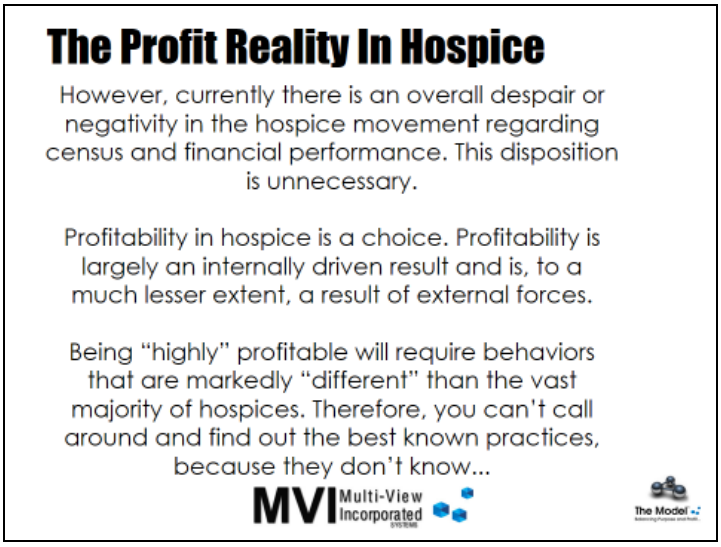
The profitability of a well-run Hospice can be astounding without sacrificing quality. In fact, both can be raised to world-class Standards (the 90th percentile) with deliberate focus. The profit reality in Hospice is that there are Hospices that provide award-winning quality and have profits of 35% of NPR (Net Patient Revenue). I have personally helped create the proprietary Models for many such entities. Of course, this will translate into "doing" things that only outliers and the minority of Hospices do and overcoming the fears with associated such actions.

A world-class Hospice has world-class financial results (14% margins and upward). An extraordinarily, well managed enterprise is highly profitable as well as highly effective. Right or wrong, the world measures and recognizes success in financial terms. It is an undeniable FACT that money equates to capacity and sustainability for a business organization. Therefore, why not make your Hospice highly profitable when it is readily doable and the Hospice herd is SO slow? Take advantage of the opportunity and the excellent business climate.

Why should a NFP Hospice be highly profitable?

- A typical NFP can make 14%+ from Hospice operations.
- An NFP receives Community Support in terms of cash inflows.
- An NFP usually receives large amounts of free labor in the form of volunteers.
- An NFP doesn't have to pay taxes. Normally a FP pays 40% of its profits in taxes!

How can we NOT make money with all these factors?



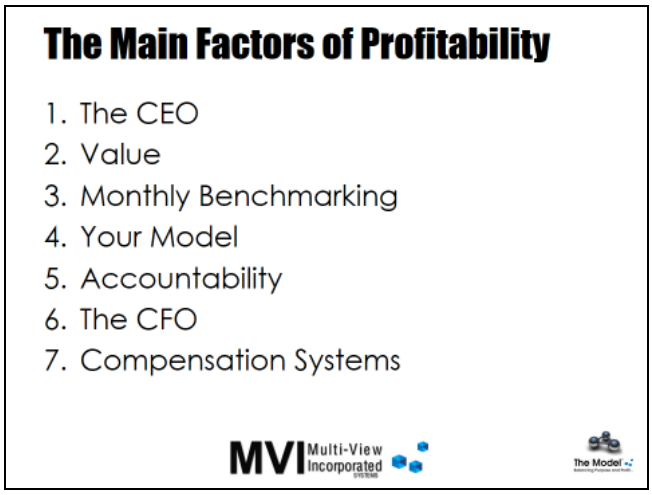
The Primary Factors of Profitability

The primary drivers of profitability (in order of priority) are:

- **The CEO** - The CEO is the Chief Financial Officer that establishes financial Standards and policy. The CEO must firmly set the profit Standard. The CEO must lead financial initiatives by reviewing performance and immediately addressing performance that not to Standard as well as rewarding those that meet the Standard (This establishes the cultural behavior that all other leaders will emulate). The CEO must be able to stand up to the Board of Directors, CFO or any other person that does not "get" the importance of being *highly* profitable. Any indigestion about making money and other outdated NFP mentalities should be dispensed with… Whether stated or not, everyone (Board of Directors, community and staff) expect the CEO to be able to guide the organization to financial success. Otherwise they would not have hired the CEO in the first place.
- **Value** – The value proposition of the organization must be extraordinary. Every patient, every time. The value should be undeniable. If high-value is not created or it is perceived as only "marginally" better than alternatives, the organization will not be highly profitable over the long-term. In EOL care, the Hospice will be replaced by another Hospice entity that uses Model principles in the future. The Model creates value.
- **Monthly Financial Benchmarking** – This objective and frequent perspective is your #1 tool to influence others in a positive direction and tells you if your Hospice is an outlier or is a follower of the mediocre majority. This monthly objective perspective is a must. This is one of your primary financial educational tools. Always benchmark against ALL other Hospices in the database regardless of size, tax status, region of the country, etc. You want a national perspective. To provide a "filtered" perspective is to dumb down your team. Compare yourself with every Hospice in the database as the most data-oriented and sophisticated Hospices gravitate to benchmarking.
- **Your Model** – Your Model is your Standards, both clinical as well as financial. Regarding the topic of profitability, this is your numeric communication of Standards, including profit level. These Standards must be crystal clear and everyone should know them. A large profit should be *expected* (14%+) and should not be a *surprise*. A surprise is when performance exceeds or is less than your Model. Each business segment must have a Model. A Standard is not a goal. It is normal performance. This would include your Hospice's ***Profit Plan***.
- **Accountability** – This ties to your Model. There can be no meaningful conversation about accountability without clear Standards. If a leader cannot meet the Standards, he or she must be removed from the organization, otherwise Standards are meaningless. Standards must be met 100% of the time. No exceptions. This would include accountability time-frame Standards which are measured in weeks and not months following the CEO's leadership example.
- **The CFO** – The CFO is the 2nd most powerful financial position as he or she holds influential financial data. *IF a CFO thinks that an 8% profit is good, you have a problem.*

The extraordinary CFO is a teacher and helps staff create value and adhere to the Model for all the right reasons. He or she also forces out sub-performers efficiently.

- **Compensation** – Performance compensation is ***the most reliable and powerful structural tool for influencing healthy organizational behavior***. Every paycheck becomes a report card for individual, team and organizational performance. This is the quickest way out of financial problems. This can only be done if clear operational Standards have been created.



The Profit Outlier

By being highly profitable, you will, by definition, be in the minority. Since money is highly emotional, it will cause you some degree of isolation. Traveling with the minority is a fairly lonely road. However, it is an exciting one as well!

I had to come to grips long ago with the reality that most of the practices that MVI identifies and provides will be ignored and will only be implemented by a few organizations. Some MVI practices are almost universal at this point in time such as Pass-Throughs, the methods of treating Pass-Throughs, Crisis Care, the use of NPR, the fundamental presentation of Hospice financial statements, etc. However, the vast majority of our recommended practices are "interesting reading" and are only seriously considered when crisis looms.

The 90th Percentile

We are **NOT** very interested in what the majority (the huddled masses) are doing. You can call up the hospice next door and find this type of practice information. To become highly profitable, you will have to become an "outlier" and do things that typical hospices are ignorant of or are afraid of doing. It is a lonely but highly satisfying road.

Don't focus on the mediocre majority.

The Heck with the Middle! Become an OUTLIER!

Are you an outlier? Though this term can carry a negative connotation in the reimbursement and regulatory worlds, here we are viewing it positively. It is an interesting topic to contemplate. Secretly, most individuals seek differentiation and want to be recognized, at least according to Maslow and his Hierarchy of Needs. Or we could cite Viktor Frankl in that we all seek meaning and purpose in our lives and would like to accomplish something noble and good. If your organization is not actively becoming an outlier, then I would venture to say that you have an unattractive organization and that it will never be able to attract and retain highly talented people. Thus, the organization will never become world-class *(see the section, How to Build a Team)*. Becoming an outlier is not about being different for the sake of being different, though this is a perfectly fine justification in my mind. Rather, it is about pushing limits to see how far you can advance. You can also become an outlier by sitting around the bus stop when everyone else has left!

All organizations that are doing the Model or have done a Model Workshop have a goal of becoming an outlier, bare none. One subtle but important shift in thinking is that you must choose to be an outlier as an individual before the organization can become an outlier as the organization is shaped by the behaviors of individuals within the enterprise. This especially applies to the CEO. Outlier organizations are usually lead by obsessed and possessed people that are willing to focus uncommon levels of intention towards the fulfillment of a vision or result. They can be crass, tough-driving individuals or they can be highly evolved, soft-spoken spiritual people. However, they are always demanding and are relentless in their pursuits, even if they are completely calm and serene in the process. They usually have high energy levels, great capacities for imagination and have a sense of urgency. To put the urgency characteristic bluntly, outliers change the world…often at a pace that leaves the huddled masses in the dust.

Are you an outlier? It is fairly easy to tell if you're an outlier or not. Look at your numbers. By virtue of your position on a normally distributed bell curve and by definition, an outlier lives in the extremities. Are your numbers radically different from the majority? In the MVI Benchmarking Application (BA) are you around the 90th or 10th percentiles in the areas of your intention? When you go to networking meetings, do you find that the conversations tend to revolve around the same old topics that you have already refined to extraordinary levels? Do people scratch their heads when they see your operations and go "WOW!" Do referrals sources, ACOs and patients/families comment on the extreme quality and consistency of your meticulously designed care experience and comment that it is UNLIKE anything they have ever seen in healthcare? You can also tell if you're an outlier by your level of discomfort from pushing outside the norms and measures of central tendency. An outlier organization subjects itself – willingly - to the discomfort and stress of venturing into unfamiliar and uncharted territory.

Where are your opportunities to become an outlier? Most innovation opportunities lie in everyday tasks. They are hidden in mundane work. The innovations that make an organization an outlier come from within as well as from the outside. The key is to be able to recognize an innovation when it is observed AND have a system of incorporating it into practice. This insight is not common or else everyone would be doing it. Can you specifically identify language or a practice that could be used during clinical visits that would decrease On-Call by 50%? Can you get great ideas from John Deer, Apple, Ritz Carlton and Disney or even from horridly run organizations so you know what to do as well as what NOT to do? Also, in the external innovation category, note that some outlier Hospices are EXTREMELY CAREFUL in their selection of conferences and educational events for their staff. Why? It is because they do not want to contaminate their cultures. They are not hiding or are ignorant of the outside world. Rather, they pay close attention to the movement and its trends but are protective of their productive cultures that they have worked hard to create and nurture.

In a competitive Hospice world, the outlier has an enormous competitive advantage. Most Hospices are slow moving freighters that take 30 miles to make a turn. It often takes *years* for an innovation to become common place. A good example is charting at the point-of-care. How many Hospice's still struggle with this situation even though some Hospices have mastered it? If we don't know how to do this, we simply have not been paying attention. This overall glacial speed makes for easy pickings!

It takes guts to be an outlier. It takes confidence to venture into deeper waters. In addition, there is a price for being an outlier. The outlier finds itself alone or with only a few others. Through the course of becoming an outlier, the organization will find itself lost, confused and frustrated at times with occasional failed undertakings. The outlier will be mocked and ridiculed by the huddled masses. However, the wins of the outlier are often big and the talent (people) of the organization is inspired as it leads the "industry" back to a "movement." The outlier will look back one fine day and realize that it is now far removed from the pack. You find the "industry's" conversations bland and strangely bizarre. But such retrospection is short-lived as the organization's intention is again focused on making the intangible tangible. The thrill of progress outweighs the pain and discomfort of being an outlier…and you would not trade it for conformity and the divine feeling of self-actualization as a distinct organizational personality. Do you walk in familiar, well-wore, comfortable paths? That's fine if you want to remain in the middle. However, know that you can choose where you want to be on the bell curve!

A Fat Bank Account is the Most Convincing Evidence of Profitability

The most revealing and convincing *evidence* of profitability is your bank account. It is *objective feedback* regarding the success of your leadership to the external world. A fat bank account is convincing and tangible evidence of financial success. Many Leaders will puff up when current operations are profitable. This is certainly a "start," but it is not proven over the long-term unless the cash or near-cash reserve level is over 6-9 months. A currently-attainable, high margin may simply be the result of working short from a surge in census. It may be something your organization has deliberately or non-deliberately done. The question is "Can you keep doing this over the long-haul?" Cash in the bank from operations is based on past performance…a great indicator of future performance.

Right or Wrong, the World Measures Success in Financial Terms

The world understands the importance of money. It is symbolic of success. It is a measurable gauge that common-izes success to some degree. We apply this measure to individuals, families and organizations.

To be wasteful or to run a sloppy organization does not do anyone any favors. We may be liked as a Leader if we have lax Standards but somehow manage to operate an organization for many years. However, what real legacy have you left if the organization is not in great financial shape? The next Leader, if they are astute, will quickly bring to light your true effectiveness. The leader that starts with a bankrupt organization and leaves it with $40,000,000 has a true legacy.

The world quickly shorts out those with ability from those that don't. In fact, if you find a manager or leader that can make money, you have found a gem, a person that is well-armed for this life of concrete reality.

What are a Leader's Primary Functions?

There are at least 2 essential functions of a Leader, (1) Vision and (2) Resource Allocation.

(1) Vision

A Leader must cast and effectively communicate the Vision. The Leader must cast not only a Vision, but a "captivating Vision" that motives. This Vision must move people to action. It is a continual process of re-enforcement and refinement. This is the only way to effectively build a team.

The most profitable Leaders have very, very clear Visions of what they want to build. The clearer the Vision, the more effective and powerful it will be.

How Do You Build a Team? You Need a Compelling Vision!

Descartes had it figured out. The key is to building a team is to capture people's imaginations. In this case, it is about becoming something special, an outlier…something that each individual personally identifies with and takes pride in!

Forget "team building" exercises where people are asked to catch a brave person as they fall backwards, paintball wars or being beaten with foam bats. These are not productive uses of time.

What motivates people is a vision that captures the imagination! The Vision should stimulate creativity and action. People need to be excited about where they are going! You have to create INTEREST and be INTERESTING!

Please see the material in the appendix section of this book regarding the Vision Statement for ideas about this topic. However, realize that each function and task at an organization requires casting a vision and capturing the imagination. Help people "see" the end result. You want people's spirits and minds as well as their backs! By casting a vision, establishing Standards and providing an atmosphere that encourages personal development and meaning, you will build a team.

(2) Resource Allocation

The Leader must effectively allocate resources. The direction of capital, people, energy and other assets or resources is the direct responsibility of a Leader. All Leader's own the function of Resource Allocation. The Model (at least the financial NPR%s) is your primary roadmap or tool of Resource Allocation. The Leader deploys assets to create ROI (Return on Investment). This ROI must come in the form of effectiveness/quality returns and/or financial returns.

Your Biggest Profit Moves will come from Movements in Talent and the Compensation of the Talent

Your biggest profit moves will come from movements in talent and the compensation of the talent. Profitability in Hospice is largely about people management. Who do we have on our team (staff and vendors) and how we pay them? We include vendors because the 90th percentile view vendors as a critical part of the value-chain. This is a practice of Baldridge winners. In fact, an organization is only as good as its weakest vendor. A weak vendor breaks your Model.

Right now, if you are not highly profitable, you will need to make moves in the direction of talent, how to compensate talent or a combination of both. With this said, all organizations have talent. Often it simply has not been cultivated. Perhaps you don't have talent or the time to develop the talent. If this is your situation, then it must be brought in from the outside.

Talent – Fulfills a purpose in the organization by creating value which results in increased revenue or a reduction of expense, or both of a seemingly natural origin. A person can be taught knowledge and skills. However, talent is often that something "extra." People that have a "knack" for doing something or pick up quickly are deemed to have talent. However, it is debatable whether talent is learned or is innate. I think it is a combination of both.

The talent you are concerned with in this program is the talent for making money and profit.

A broad "People Classification" scheme might separate people into two groups:

- Creators & Movers
- Maintainers

I think organizations need both. In addition, sometimes people move between these classifications at times. It just seems that people are more inclined to be one or the other predominantly. When becoming profitable and highly profitable, you will need Creators & Movers. There are many more Maintainers than there are Creators & Movers.

Farm Less Ground Well

More and bigger does not always translate into more profitable business. Often, “more” just complicates matters and, if there are efficiency problems, compounds them. If an organization has efficiency problems, growing exasperates problems. While it is true that “high water covers a lot of stumps,” high water will not last for long if quality is not there. This is the quality/efficiency (profit) relationship.

It is better from multiple perspectives to do less well. Less is simpler. Complicated doesn’t work well. Simple does. Less is easier on the mind. Stress levels decrease. Less gives you better focus. As a Leader, I would be more interested in allocating resources to those things that are our core competence or vision than things that are peripheral. Outsource peripheral things, if they are needed at all. Stick to what you know. Bring laser beam focus to your competencies.

The fact is that an organization can have higher profits with less revenue if the organization is managed well. We have Hospices with ADC’s of 50 that have more profit, in dollars, than Hospices with ADC’s of 2,000.

With this said, Wall Street loves big numbers. It is sometimes hard to attract big dollars if the volume is not there. Big numbers impress. However, quality is also impressive. When you are smaller, the vision of scale usually has to be sold. Can the quality you create be replicated on a larger scale? If it can, you have a gold mine.

The Primary Role of the Leader is that of a Teacher

The Leader is a walking billboard of the company’s future. Employees are either thinking “This person is a winner and has horsepower to lead us to success” or “We’re screwed!” People quickly evaluate and judge the capabilities of a person thanks to millions of years of evolution. In fact, people usually form a very accurate picture of a person’s abilities within seconds. So what do people think of you when they meet you?

As a Leader, your role is that of influence. The Leader is influencing policy and practice. The Leader is selling ideas...all the time. In fact, ALL LEADERS ARE IDEA SALES PEOPLE! If you are leading, you are selling the people you lead. The ideas need to be sold in order to replicate. So selling ALWAYS has to be considered. Teaching is directly linked to selling. In fact,

Teaching is the Selling of Ideas.

Definitions & Terms

Here are some definitions that MUST be mastered to understand the business of Hospice:

- **Net Patient Revenue** – Revenue earned for the provision of services to patients from sources such as Medicare, Medicaid, Commercial Insurance and Private Pay. It is less contractual allowances and bad debt. It does NOT include pass-through income such as: Nursing Home Room & Board, Contracted IP, Contracted Respite or Consulting Physician Services. It also DOES NOT include Community Support or Fundraising. It is very important that you have a clear understanding of this term because most comparison data is based on a percentage of Net Patient Revenue.
- **Direct Labor** - Labor expense that is directly involved with the provision of care such as RNs, LPNs, CNAs, SWs, Chaplains and visiting physicians. It does NOT include supervisors or managers even if they perform occasional visits. Bereavement, Volunteer, Triage, Admissions and On-Call areas are also considered Direct Labor. The staff of these areas provides direct care. All other labor costs are considered Indirect Labor.
- **Patient-Related Costs** – Costs such as Medications, Medical Supplies, Therapies, DME, etc. Sometimes they are referred to as Ancillary Costs. Other Patient-Related costs are: Ambulance, Bio-Hazardous Waste, Clinical Mobile Phones, Clinical Pagers, Lab, Outpatient, Mileage, etc.
- **Indirect Costs** – Are all costs other than Direct Labor and Patient-Related costs. There are also 3 sub-categories of Indirect Costs:
    - **Indirect Labor** – All labor that is NOT Direct Labor: the CEO, CFO, Clinical Managers, Medical Director, QI, Education, Medical Records, HR, Finance, IT, Housekeeping, Maintenance, etc.
    - **Facility-Related** – Costs related to your building or structure from which your organization coordinates or provides services. It includes: Rent, Utilities, Building Maintenance, Building Depreciation, Property Taxes, Building Loan Interest, etc.
    - **Operating Expense** – This category of Indirect Costs includes all costs that are not Facility-Related or Indirect Labor. These costs would include: Answering Service, Bank Service Changes, Audit Costs, Office Supplies, Printing, Postage, Telephone, Marketing Supplies, Continuing Education, Dues & Subscriptions, Computer Support, Computer Expense, etc.
- **Contribution Margin** – The amount a team or business unit is “contributing” to Indirect Costs and Profit. It is the segment’s Direct Revenue less Direct or Traceable expenses. A Hospice homecare team needs to be providing a 40% Contribution.
- **Development** – The area that is responsible for garnering Community Support. This would include: Fundraising, Contributions, Memorials, etc. A Development Department has both revenue and expense. Both revenue and expense for Development is segregated from all other segments in our analysis of Hospice business.

The Use of Net Patient Revenue (NPR)

MVI encourages the use of Percentages of Net Patient Revenue rather than Patient-Day costs for Hospice financial measurement. This deviates from traditional Hospice practice and the explanation will follow.

An Example of How to Compute Net Patient Revenue Measurement

Medication costs are $25,000 for the month. Net Patient Revenue is $300,000.

To compute Medication costs as a Percentage of Net Patient Revenue, you would divide $25,000 by $300,000.

$25,000 divided by $300,000 = .083 (rounded)

Convert .083 to a percentage (multiply by 100) and you get 8.3%.

Medication costs in this example are 8.3% of Net Patient Revenue.

Why should have Hospice use Percentages of Net Patient Revenue rather than Patient-Day costs for Hospice financial measurement?

- **Comparability** – Percentages are comparable with other Hospice programs to help us gain perspective (The difference between Professional versus Amateur Hospice leader). Patient-Day amounts are OK for a few areas, like Patient-Related. They fall apart when comparing differing areas of the country, especially anything that relates to salaries and wages. Salaries and wages can vary widely throughout the country. These differences; however, are often off-set by reimbursement that takes these labor factors into account such as CBSA codes for Medicare. Thus, the Percentages of Net Patient Revenue would be more similar while Patient-Day amounts would vary greatly.
- **Creation of a Model** – Percentages are better suited for the creation of a Model. Percentages are "scaleable," meaning they can be used by any size of Hospice. In addition, when rate changes occur, percentages easily translate to operational measures.
- **People Understand Percentages** – Most people can conceptualize percentages pretty well. If everyone knows that the pie is 90% (10% set aside for profit), they can understand that if something is increased something else has to decrease.