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The CFO as architect of healthcare value

How to innovate healthcare financing and the role of healthcare financiers in a VUCA world

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As we start to recover from the global pandemic and continue to face ongoing geopolitical and climate crises, it's difficult to imagine a more VUCA – volatile, uncertain, complex and ambiguous - time in recent history than today. Already challenged by rampant complexity, few sectors are impacted in a VUCA world more than healthcare.

And so as healthcare CFOs start to address the recovery costs and backlogs of COVID-19, wrestle with limited capital, grapple with new IFRS16 legislation alongside pressing transformation challenges, the challenge to look at finance in new ways presents itself as both a challenge and an opportunity.

Drawing on research from the Philips Future Health Index together with on the ground input from Ben Roberts, Associate Director of Finance at the Leeds Teaching Hospitals NHS Trust, and supported by advice and recommendations from Alan Williams, Head of Philips Capital, UKI & Nordics, this feature explores new paradigms for healthcare financing and the ways in which healthcare financiers can turn volatility into vision, uncertainty into understanding, complexity into clarity, and ambiguity into agility.

The common usage of the term VUCA began in the military in the late 1990s, standing for:

V = Volatility.

The nature and dynamics of change, and the nature and speed of change forces and change catalysts.

U = Uncertainty.

The lack of predictability, the prospects for surprise, and the sense of awareness and understanding of issues and events.

C = Complexity.

The multiplex of forces, the confounding of issues and the chaos and confusion that surround an organization.

A = Ambiguity.

The haziness of reality, the potential for misreads, and the mixed meanings of conditions; cause-and-effect confusion.

A new need for innovative financing

Beyond the profound health and economic uncertainty of recent times, World Economic Forum research[1] indicates that catastrophic events are expected to occur more frequently in the future. Certainty isn't going to develop anytime soon and therefore financiers face a challenge – the need to find a way to change their appetite for risk, understanding that: 1) VUCA will get worse in future, 2). VUCA creates both risk and opportunity and so 3). finance leaders must learn new skills in order to plan for the future.

Ben Roberts, Associate Finance Director at Leeds Teaching Hospitals NHS Trust explains: "The role of a CFO in healthcare is changing dramatically. These changes are driven largely by shifting demarcations between capital and revenue and the demand for – and challenges represented by - digital solutions. To be at the forefront of healthcare requires more and more expense - as complexity from an IT and infrastructure perspective creates an extra layer for procurement – but also more and more innovative ways for hospitals to obtain the technology and integrate the services needed to improve patient lives and lower cost of care."

The need for innovation is clear. Finance is no longer just about numbers. Today's Healthcare CFOs have to tread a complex line between being accountant, analyst and "architect of value", coaching their organisations about the benefits – not the cost – of strategic transformation and strategic partnerships within the healthcare industry.

Ben Roberts adds: "Gone are the days when the CFO's focus was solely on the transactional aspects of day-to-day accounting processes. Instead, we have to innovate finance, even in uncertain times and despite all of the constraints we find ourselves working within."

And yet, what can innovative financing look like and how can CFOs become **‘architects of value”?**

1 Spotlight on Capital: **What innovative financing can look like**

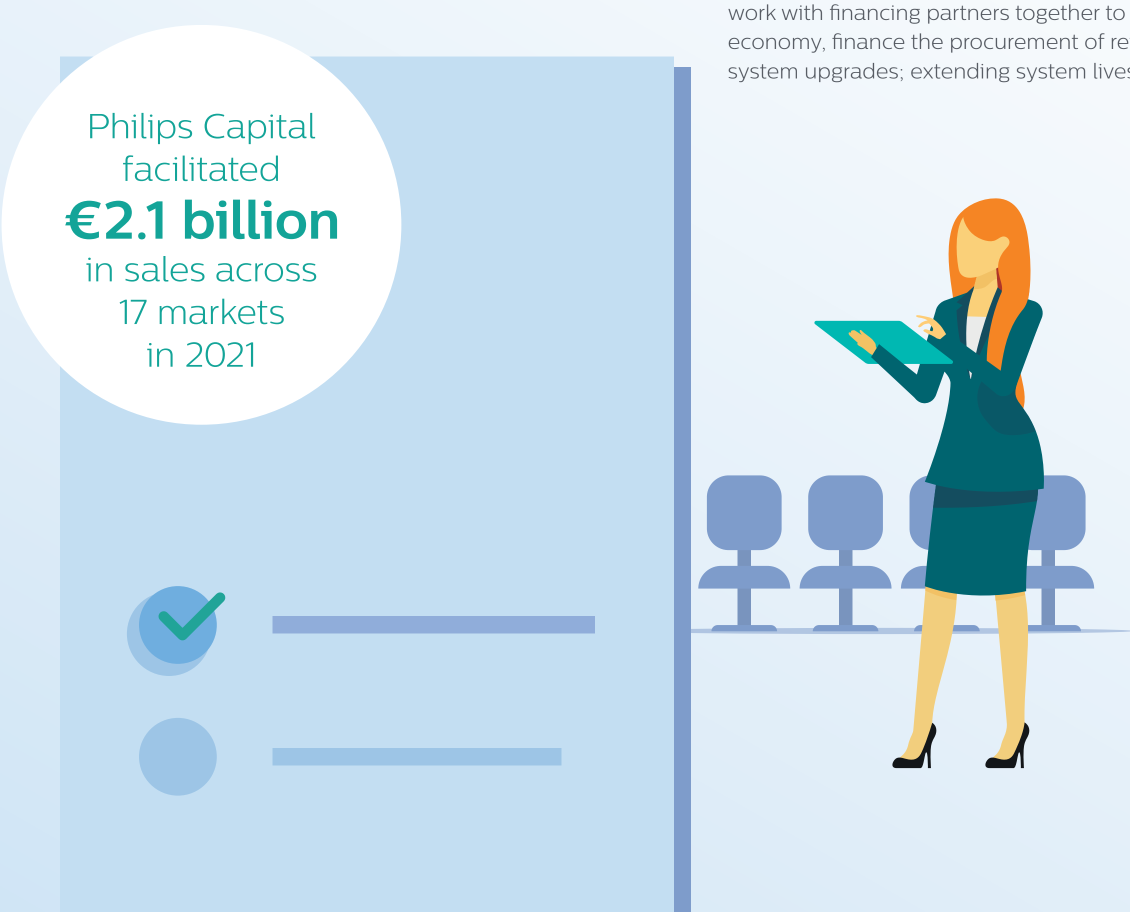
With over 125 years in the healthcare industry, €2.1 billion sales facilitated with financing across 17 markets, Philips Capital is a one stop shop for innovative financing solutions. Alan Williams, Head of Philips Capital, Nordics and UK&I explains some of the options that CFOs can consider:

“In our discussion, CFOs tell us about their multiple challenges, often varied and conflicting. These are big questions such as, ‘How do I respond to the shifting healthcare landscape and address acute healthcare challenges? How can I make sure that all of the technology in the hospital is available and up-to-date without disrupting patient or staff? How do I overcome the backlog in technology investments? How can I control my total healthcare technology budget and improve total cost of ownership (TCO) in such a dynamic landscape? And, most pressing of all, how can I achieve a more predictable cash flow and reduce the amount of capital expenditure while having the flexibility to make changes as and when they’re needed?’

Innovative financing solutions need to improve cash flow, optimize total cost of ownership and be able to respond to change quickly. I tailor financing solutions around the needs and situation of the customer. Considering fast turnaround small ticket financing or long term asset leases to more complex structures such as usage based agreements.”

Alan Williams continues: “Most importantly though, is seeing the need for finance to exist beyond its silo and as part of strategy. Financing works most effectively when viewed as a strategic solution within a partnership. For example, in the UK we see that financing is an integral part of the long-term strategic partnership building blocks and supports the predictability of cashflows for the equipment replacement plan (ERP). By structuring the financing around the ERP, we can gain efficiencies for the customer by avoiding individual financing tenders, the management of multiple lease terms, consolidation and management of financing rates and end of term requirements.

Opening up discussions around financing also enables more innovative solutions. Sustainability is a great example where it is possible to combine sustainable financing options, but also work with financing partners together to enable the circular economy, finance the procurement of refurbished systems and system upgrades; extending system lives.”



Fast financing terms **checklist**

Leases

With leasing, the equipment is supplied for a fixed fee for the duration of the term, which is aligned to the economic life of the equipment, sales tax is paid upon each instalment, ownership is maintained by the leasing provider (lessor) allowing the customer flexibility at the end of the financing term.

Extended payment terms or installed payments

This is where the equipment is purchased over time and held as security for the tenure with a transfer of ownership upon final payment, sales tax is due up front although may also be financed as part of the arrangement; the benefit is acquire now pay later.

Debt financing

This is essentially a money loan and is suitable for soft costs such as building refurbishment works, software, working capital etc.

Export credit agency backed finance

An export credit agency offers trade finance and other services to facilitate domestic companies' international exports. Most countries have ECAs that provide loans, loan guarantees and insurance to help eliminate the uncertainty of exporting to other countries. This can allow the customer to gain financing where either not previously possible or at a lower cost.

Distributor financing

In some countries where there are greater levels of indirect sales, the cashflows of a company's distributors can be financed to allow for extended credit terms and their ability to manage cashflows or hold stock.

Subscription models

Many subscription models do not involve financing - such as providing software licencing, however hybrid models can be set up where there is a component of financing such as an embedded lease or extended payment term.

Performance based solutions

Usage based, outcomes based, gain sharing, device as a service. These solutions in general contain an embedded lease with an alternate risk profile such as variability owing to usage levels.

Configured

Configured solutions, e.g. Philips Managed Equipment Services are bespoke financing solutions that contain a number of financing instruments ranging from the most simple of embedded leases, to debt financing and subscription models.

Tailored

Hybrid public-private, customer partnership funding involve a combination of all the above including equity backed financing.

2 Spotlight on the emerging changemaker: **How CFO can become "architects of value"**

In addition to innovative financing solutions, CFOs can also hone their contributions and capabilities, adopting their mindsets as well as their money management skills to become, as Ben puts it "architects of value" while coping with relentless change and uncertainty. These include:

Fighting for the long-term view despite uncertain times.
Traditional finance has taken a retrospective view but there's an opportunity to move from counting pennies to predicting best value scenarios. And yet it's a shift that is difficult in times of recovery. Balancing an organization's financial sustainability during a crisis and steering toward future success is no small task. CFOs must not lose sight of the future while responding and recovering from today's challenges.

Ben Roberts explains: "Right now, healthcare finance departments are deep in the here and now. It's a challenging environment now, and post pandemic we face a huge patient backlog that we need to address. The government wrote off £13.4billion of loans, yet experts estimate that it will cost £2billion a year to fix the waiting list crisis[2].

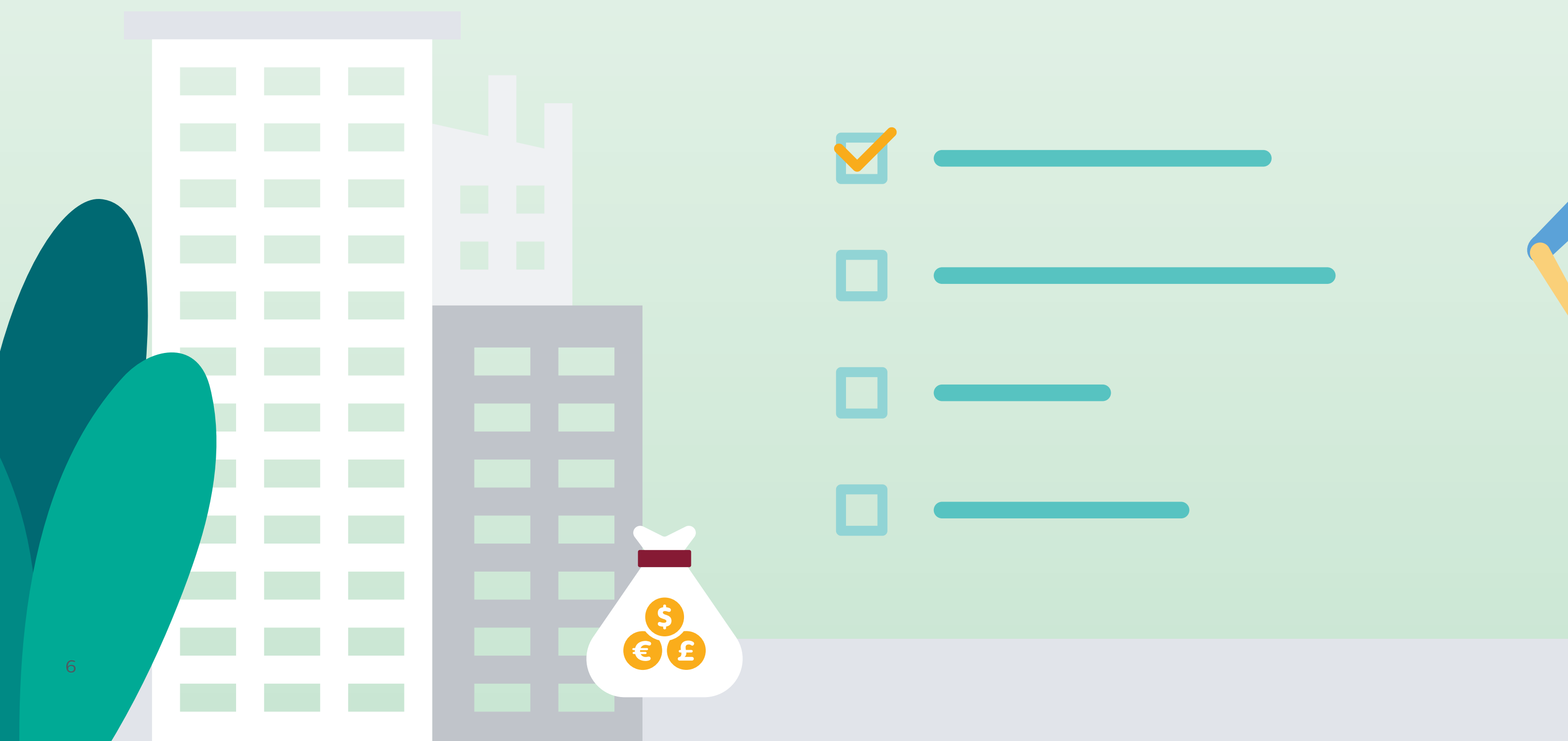
The NHS Long Term Plan is already 3 years old and every day brings with it new challenges. For example, our Leeds Teaching Hospitals NHS Trust gas bill will rise by £14million, steel is hard to access and inflation is uncertain. As we've also seen from the pandemic and the PPE shortages, global supply and demand is precarious and health systems around the world need to recover. At the time of this article, Ukraine is running out of oxygen and there will likely be ramifications across continental Europe. Amongst this immediacy, we need to find ways to get beyond the standard April to March mentality and think beyond traditional 3 – 5 year cycles to plan for the long term. Think eyes on the future not the past."

Building health economics into scenario planning and decision making
According to Ben Roberts, health economics has an important role in enabling long-term decision making and incorporating digital analytics:

"From NICE to the King's Fund and the new Philips Health Economics Market Access division, health economics represents a big opportunity for us to start planning 10-15 years out. To do this requires advanced statistical, digital and actuarial skills. These aren't regularly flexed financial muscles within organisations, but we need to build or buy them in. Health economics is essential for place-based care and our new ICS structure. Incorporating health economics gives us an opportunity to look at population health management outcome with a focus on value through predictive - modelling capabilities that stop us from reacting month to month."

Letting automation and standardization create space for strategy.
As finance and strategy begin to converge, CFOs are taking more of a strategic role in helping their organisations meet new challenges and capitalise on new opportunities, even within the legislative constraints of the NHS. In the move from volume to value and the search for revenues outside of patient care, big bets are being made on population health management and risk-adjusted capitation agreements.

Ben Roberts explains: "Automating manual, repetitive tasks frees up valuable time and helps reduce human error, so the finance team can focus on more strategic initiatives. We're making great strides in day-to-day reporting progress. Systems are taking over more traditional work, leaving more head room for CFOs to focus on the key strategic issues and opportunities. The C-Suite[3] is increasingly seeing our value in being able to develop an investment strategy that informs and enables the business strategy.



Challenging and explore capital management in a digital world

The hands of NHS CFOs are inevitably tied by government caps on capital, with IFRS16 further impacting balance sheet reporting. And yet there is a need to redefine what capital is and reasonable thresholds in a digital world.

Ben Roberts explains: “We need to redefine what constitutes day to day capital in a digital world but also better mirror the consumer sharing economy. From Netflix to car and phone subscriptions, the way we finance healthcare is changing and offers the opportunity for us to ensure readily available technology and always-on utilisation and support, flexibly. The growing grey area between capital and revenue needs to be reviewed with CFOs as architects of solutions that create value.”

Balancing accounting with empathy

While a base of accounting and finance is always going to be necessary, formal education can’t cover all the changes affecting the industry. To be architects of value, CFOs are embracing the shift from crunching numbers to delivering actionable insights that help providers improve outcomes and sustain growth. This also includes a difficult mindset shift of thinking beyond the number and finding new outcomes-based proof points.

Sharing the fiscal knowledge horizontally, especially value-based finance

It’s time to educate leaders and teams about value-based finance. According to both Alan and Ben, financial stewardship is vital. They predict that CFOs and their teams will increasingly become cross-organisational coaches, helping clinical and operational leaders and their teams to better leverage and utilise their financial data. A key opportunity they also note is for finance teams to better share cost saving strategies with physicians and explain outcomes benefits.

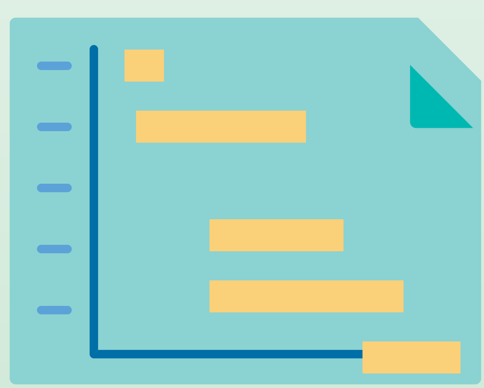
Unlocking the compound benefits of strategic partnerships

While partnerships can take time upfront to structure and embed effectively, there is great value in extending the capabilities of the healthcare team.

Ben Roberts explains: “Our long-term strategic partnership with Philips has resulted in great opportunities and the partnership is very much one of collaboration. It very much tends to be one team where we put the problem in the middle of table and work with the data to envision the right solution that also works within the constraints. The strategic partnership combines the latest innovations in technology for integrated cardiovascular solutions to deliver on the quadruple aim: better outcomes, increased efficiency, and improved patient and staff experience. Service improvement programmes will support the co-design of new patient pathways and workflows, all with the aim of delivering the best care experience for patients.

He continues: “It’s important to note that partnership is not privatisation. Long term strategic partnerships enable the NHS to pioneer cutting edge technology through integrated and managed services and solutions that remain under the full control of the healthcare organisation.”

With the right skills, strategy and technology, healthcare CFOs – with their unique 360-degree view – have the spotlight on them to shift the finance function from counting the costs to unlocking the value. The challenge? Fight the fear in an age of uncertainty and embrace an innovative approach that changes the nature and role of finance in healthcare.



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We'd love to help you apply Operational Intelligence to help solve your key people, process and technology challenges.
For more information, please visit

https://www.philips.com/operational-intelligence

https://www.philips.co.uk/healthcare/medical-products/partnerships

1. The Global Risks Report 2022, 17th edition, World Economic Forum, chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/viewer.html?pdfurl=https%3A%2F%2Fwww3.weforum.org%2Fdocs%2FWEF_The_Global_Risks_Report_2022.pdf&clen=5861385&chunk=true
2. Could NHS waiting lists really reach 13 million? Institute for Fiscal Studies, March 2021, https://ifs.org.uk/publications/15557
3. C-suite, or C-level, is widely-used vernacular describing a cluster of a corporation's most important senior executives. C-suite gets its name from the titles of top senior executives, which tend to start with the letter C, for "chief," as in chief executive officer (CEO), chief financial officer (CFO), chief operating officer (COO), and chief information officer (CIO).

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