Budgeting Through Volatility

In this webinar recording we break down the purpose and value of practical and tactical budgeting in today's evolving health care environment. We will reimagine the budgeting process and provide suggestions on how to create a budget that allows for various external pressures. In addition, we will showcase digital strategies on how your organization can continuously monitor your budget and make real-time adjustments based on your organization's trajectory.

Find additional resources on our event page: https://www.claconnect.com/en/events/2022/budgeting-through-volatility

Here is a transcription of this session:

Rob Frediani:

Well, good afternoon, everybody. My name is Rob Frediani, with Clifton Larson Allen. I want to thank you for joining us for Budgeting Through Volatility. I'll go through a couple of entry slides here, and you can read these there in the deck that you'll receive. Again, my name is Rob Frediani. I am an Operations Consultant with CLA. I am blessed to be surrounded by a lot of Accountants and things like that, but I am not an Accountant. I know enough about the numbers to participate in the running of multi-site CCRCs, outpatient provider networks, and I have experience in very, very large hospital systems.

But today we're going to talk about the world in which you're living in and how you can judge us as whether or not we've done a good job is if you look at the objectives, we want to hopefully give you an incentive to reimagine your budget and your budget process. We also want to give you some levers, some things you can tweak to move your organization or continue moving your organization for it as a high performing organization. And also give you some tips on creating a process that really follows the historical bottom up budgeting process, but to do that in a strategic fashion, and I'm now going to kick it over to my colleague, Mario McKenzie, and he will take it from there.

Mario McKenzie:

Thanks, Rob. So my name's Mario McKenzie. I'm a partner with the CLA. I work primarily in our advisory side of our business, helping organizations with a lot of forecasting strategy and what I would call forward looking type help. And obviously in that role, we intersect a lot with departments and organizations trying to make sense of the current situation, trying to make sense of the future. And so I want to start off with just a very basic question, which oddly enough, sometimes when you go to basics something like a budget, we sometimes forget some core elements. So what exactly is a budget? And I just wanted to say, look, at the end of the day, it's a forecast of income and expenditures, which really reflects profitability. In other words, it ultimately culminates in an outcome, hopefully an outcome that you planned. The second piece, it's an actual tool for decision making, because ultimately underlying your budget or decisions that you have chosen to plan to make. And so it's really an action plan for what you plan under take that year.

And that should have a big question mark next to it. We'll talk about that in a little bit. And then a tool for monitoring performance. And I think we all get that, but I wanted to highlight that these things relate on profitability, action, and accountability relative to the budget process. So we've been helping clients for years across different industries. And one of the things that we have found that is very challenging is to create a budget that provides meaningful contact to midterm to long term direction. And then this graph, you can see we got higher accuracy, lower accuracy in this time horizon. And so you can imagine the budget should, in theory... And we'll ask really how accurate our budgets, but it should have the highest accuracy level for our planning. And as you would imagine, that covers the shortest time horizon.

Our short term planning, we need the bridge because sometimes a singular budget does not address the change that we're implementing and strategically, I think we would all say we want to get to the long term side of the equation. And the question is how do we journey from budgets to a long term place financially or operationally? And so we created this process called CLA Intuition, and I'm going to give you a little discussion on why we did that, because it's really this idea of linking a series of budgets to strategic decision making. But as we think of budgeting through a process, I want to have you all think of the current environment that you're in. And I suspect that you probably have a variety of factors that are both external and internal. What I would say is that the external factors are the things that you can imagine.

We have significant threat of inflation and actual inflation, huge labor shortages, decreasing margin. So there's environmental factors that usually are the things that take us off budget, if you will. And then we also have internal factors. My experience has been that the internal factors as well can be the items that actually create more havoc within organizations. And what I'm proposing is that you need to really have a good process that's adaptive. You can't be fighting internal battles. You need to put all your energy into adapting to the external factors. And so there's a higher bar on fixing some of the internal factors. And I'm going to go through... You could probably add 20 to these, these was off the top of my head, but I call these the budget slayers. And that's really the things that will take you way off track.

So complacency, that looks something like we're doing as good as we can. The way we've always done it. That's good enough. Board disengagement. Oftentimes we have stewardship groups or governance groups that don't necessarily drive the same level of passion around performance or direction, lack of consensus. We often see at the organizational level where we have a plan, but the people in charge of implementing the plan, don't believe the plan can be implemented. Hope things will always get better. So we don't necessarily create or tackle some of the difficult things that we maybe should tackle. Accountability, which is around execution. Four year benefit created this... I used these 20 years ago. I pulled up that presentation. I can't remember ultimately where this got sourced, so I've modified it, but I don't take credit for the origin of this. But really from what I'm suggesting is that a lot of those internal factors that you have to tackle as part of a successful budgeting process, require these elements and the elements on the left.

You need vision, data, resources, priority, execution, and evaluation. If you have all those, so think of your budget as a process. If your budget process includes all these, you're improved your odds of success. And down the bottom is a symptom of what may be missing. So if you lack data, you're shooting from the hip, you're making guesses about things, but you're not really sure if you're making those decisions or ideas on solid data. If we don't have a vision, we don't really understand how the budget ultimately links to some other action. And so I leave these because I think these are helpful. And for me they've always provided a good way of looking at what might be happening from a symptom perspective and saying, what might I need to work on to make sure that, that's taken care of.

The other one is vanity metrics. And the term vanity metric is fundamentally chasing a metric that... Like I always say, it's a little bit like you eat unhealthy food, you feel filled, but you ultimately ask the question, is it healthy? And with the vanity metrics and I use the joke here, we got strong cash liquidity, and we got strong debt coverage. But if you look at your building, it's about to fall apart. And so the ideas, when we chase metrics, we got to make sure that the metrics actually are guiding us towards specific outcomes. And I see budgets with metrics all the time. And so really what I say is, are we chasing vanity metrics that make us feel good about ourselves or are we really transforming it? So it takes a little hard to figure out which metrics are predictive and which are just reactionary.

So I'm going to transition, I think, to the erosion of the net operating margin. And this is probably the one thing that we're probably seeing most out right now. So I'd like this quote, if anybody's a SpongeBob SquarePants fan with kids, the quote was, what is today, but yesterday's tomorrow. And I always think whenever you're in your budget process, this was yesterday's tomorrow. And so we need to be thinking that these budgets are a continuous series of actions headed somewhere and they have proven historically to be the best means to keep you pointed in the right direction. What I want to emphasize though, is the impact of leverage over time, both positive and negative. And I want you to think of leverage of how decisions you make today, whether they're good or bad or leverage by time. And I'm going to give you a quick demo of CLA Intuition, the process that we use. I just want you to focus on the process. Don't worry so much about too many of the specifics around that.

One of the things we've done at CLA to help clients bridge or assist at least in people looking at both the short term and longer term impact of some of these decisions we've created this process called CLA Intuition. Fundamentally it tries to simplify the economics.

And we've tailored the process for the different industries that we serve, but this one's an example for healthcare. And what we do is we try to align with some of the key things and hear the drivers that significantly impact performance are not too complicated. What are we going to charge for things? How many people are we charging things to? Senses. What our consumption costs that provide services, labor, non-labor?

Essentially this relationship between rates up here and costs here. You'll often hear the term the spreads. Essentially we would all argue are in the normal for a healthy business. We'd have positive spreads, really to differential between rate increases and expense increases.

But sort of taking this as an example, I want to talk about the lever of changes and how these changes amplify over time. And if we're just looking at a one year snippet here in 28, you're at 23, for example, or 24, a couple years, it just doesn't get impacted. So we're going to just focus here for the purposes of this example on days cash on hand.

And the first change we're going to run through here is just an example of, Hey, we're out of whack 750 K. Let's say we got labor things, and this represents a step up if you will in our operating cost environment. And you can see when you look at the graph versus the actual obviously has a little more impact up here on some of the leverage ratios and the coverage ratios. But the long term impact on liquidity you can see is not that big. But this small change left untether, as you guys can imagine, amplifies over time.

A more typical scenario might look something like this. Hey, our rates are labor between cost labor and wage increases and agency and all the different things that are happened. Well, let's just say we went into an inflation heavy cycle, 8%. One of the things you're going to see in one of the survey questions we ask you is where do you think inflation will be? And I think the answer is somewhere between 7% and 8%, and you can see that that increase without a compensated rate increase. If you absorb that step up in cost, in perpetuity they really impact you over time.

And you can see here on the liquidity, we go from 330 days cash on hand down to 162. And on the coverage we go from a 2.65 to 1.9 to 2. So that's a pretty significant erosion of our ability to do other things.

And if you had taken this scenario and said maybe here's where you started, this had shifted to the left. We know there's a lot of organizations right now that have been sort of doing these negative spreads for a number of years. And so just want to leave you with this idea that our net operating margin is probably the most important thing to protect and that these changes happen subtly in short years. But if you do a series of consecutive changes, over time you will be in significant trouble.

So I'm leaving you a little take behind for your printed items from the material, but really the idea was the point of change versus the amplification of that change. And that's what we're trying to prevent. And that's why it's important to always show that journey. Another way that I found has been helpful, and this might be helpful either if you have longer term projections or if you want to go backwards in time, but it's aggregating your operations from a source and uses perspective where in this case, it's a 10 year, but you could do a three year historical and it very quickly helps you understand the key drivers of financial performance and how they accumulate over time. And so that's that spread scenario and you can see that the difference between the baseline, and then the 8% change basically wiped that wiped out the EBITDA. Then that's where I talk about the NAM.

Many of you that participating on this call replied to survey in just a quick announcement in the material that we're going to send, you'll get another link. So if you want to personalize report with the 20 or so questions that were asked, fill it out, put your name in there, and we'll send you a personalized report of the survey. But we wanted to talk about the budget variances. And you can see that this 3 to 5% range is where the vast majority of people said that's a reasonable, whether it be revenue, whether it be occupancy, whether it be operating expenses, labor costs, full-time equivalent costs. So there's a generic general sense that three to five is reasonable. I use the 8% example to just suggest that we just go 5% off whack from normal inflation. And we creates a real challenge if we don't figure out how to offset it.

And then the second question, which I think a lot of people are wondering is whether we anticipating. Now, once again, this is you answering, forward looking, and so your expectations of the future ultimately drives some of the decisions you'll make around budgets, et cetera. So the question was, what level of inflation do you anticipate over the next 12 months? And you can see this is 6% here. This gray is 7% and this one is 8%. And you drop that line here. So somewhere around six and a half, to seven, you can see that we've got the distribution of people hovering around this. That's a pretty good click. And that's what you all anticipated. Leaving you this as road well traveled. And this is for organizations that are actually short liquidity and with margins, as you go around this circle, you go all the way down to bankruptcy. And my suggestion is, don't focus so much on whether these are exact. Just say, if you're doing the budget right now and you're tackling the four on the right, you're probably at high risk of moving into the items on the left.

And so what's a little tougher to do, and for those of you that do have some of the strength, I talked about tackling internal factors, which is really process in the history of really tackling difficult things in the budget cycle. So I'll leave you with an example. If you take a budget and let's just say you had a profitability of 500,000, you should be doing scenarios around that budget. What if some key driver doesn't happen in this case? What if our census was lower and it impacted $300,000? What are you going to do? Are you going to provide marketing incentives? Are you going to move into freezing discretionary expenses? Are you going to go into FD reductions, wage freezes, and all of us at this juncture? This is what our firm has done. Should have a series of contingency plans.

We have them for disaster. We have them for data recovery. And this is so similar, it's the war room where you sit with the data and say, how are we going to go forward if X happens? And the hardest thing is, what do we agree we're going to do? And then what's the trigger. Do you wait till 10% or do you do it at 3%? Start moving into your contingency plan. All right, Rob, you've been in the chair of the CFO doing this for many years, so I'm going to transition to you. Thanks.

Rob Frediani:

Thank you, Mario. Thank you very much. So the takeaway from the beginning there is keep time in mind. And I guess I want to share with you that the focus on the numbers is absolutely important and that's what we just talked about, but the whole story is not just the numbers. So think of your budget as a narrative. Historically... And we'll talk about it in a sec, historically, it's a once a year kind of thing, but really from a strategic budgeting standpoint, your budget is written over the course of your fiscal year. It's the narrative, your organization writes as it's pursuing its visionary objective. So think of this as a novel. Your narrative is your novel. Your NAM, your EBITDA is your visionary objective that you're railing your troops behind and you're trying to get to it. In any story, there's going to be challenges, especially unless you're going to toss the book and that's drama, that's excitement, that's plot twists.

If you look at healthcare, my goodness, we've had a lot of plot twists over the last couple years. So think of it as a narrative telling the whole story. Going back to the survey, I just want to point out that we have a good mix of healthcare professionals on today. We have a very large representation from long term care, which makes perfect sense. If you think about it, it's been a rough couple years for CCRC sniff operators, hospitals and health systems, physicians and other provider organizations than others. We've got a few others. But regardless, almost unanimously, you all have expressed that you have issues with salary and wages, which are then driving your shortfalls. Either driving up your expense, because you're using agency or hiring on folks or affecting your revenue because you just can't get the work done and bill for it.

So regardless of your industry segment, your plot twists tend to be similar. You just need to start planning for them now. Another point from the survey is that over 50% of the respondents, I don't know if you've probably seen these before where the number of respondents makes the type bigger, but over 50% of you solely pointed out that staffing is your predominant complication, your predominant plot quests. And I'm proposing to you in strategic budgeting, we're now at the point of you need to be asking on why is it still an issue, because supply is not catching up. It's not catching up as fast as we thought it would. So if you can start answering the why around your particular organization's staffing issues, you'll get to some levers that you can start pushing and pulling now. And in order to do that, you got to firmly embrace the qualitative side of the narrative, because your qualitative expertise, your content experts from within the organization will give you context around your numbers.

So having to answer the why questions eliminates and minimizes your budgets layers. So going back to Mario's point, the more you can minimize and get those internal things off your radar and have your trigger points so that you know you're going to take action. The more energy you're going to have to deal nimbly with what's coming down the pike. Again, the survey, focusing on labor, when do you think it's going to be resolved? Well, here's a spread, but 45% of you don't expect any real change in the labor market for at least two years, some up to four. I guess I want to just cautiously ask you what was happening two years ago. And now we're trying to figure out what's going to happen two years from now. My point is that's where the volatility will continue and I guess embrace it. Don't let it get you down.

I generally am a glass half full kind of guy, but the average lifespan of a startup in our country is about two years. So we are talking about no significant change in labor for the lifespan of startup. So just keep that in mind, which basically means that you are coming from a position of strength now because you are in business and you are moving forward. So you can start creating a nimble culture around your strategic budget now. So how you want to do that? Probably hit that too much. Think of your budget as a management tool. Frequency. What I want to get your brain around is that frequency in metrics and who you're going to engage in the process. That's going to be the heavy lifting for at least the foreseeable future, if you're not engaging people across your whole workforce continuum. And you those that responded to the survey, you acknowledge that about 93% of you are working on an annual budget. 7% do it quarterly, but if say, how frequently should your budget be adjusted?

Look at the stats there. 43% of you say quarterly, another 7% of you. So 50% think you should be looking at it and adjusting monthly or any, between quarterly and monthly and really only 50% are still thinking it should be annual. The point there is that, you as the industry... And again, I know it's not a scientific and statistically valid representation, but those that responded, you're already acknowledging that a change needs to happen. You may not have changed yet, if you're in the 93%, but you've already acknowledged it. And that's part of the battle. So here now we wanted to make sure that we gave you the takeaways in the middle of the presentation. So here they are. And again, you can judge us on this as we go forward. But you can read this as well as I.

But here's a reality check and know that we can't see you, but I guess I want you to raise your hand if you're thinking there is no way I'm going to be able to get my organization to a monthly budgeting process or conversation. And there's no way I'm going to be able to get my second shift weekend manager of perhaps reception to talk strategically about reaching my visionary budgetary goal. Which means they need to understand what NAM is or what EBITDA is, so that they can participate in the conversation. If that gives you heartburn, I urge you to embrace it and take a chance, because as we talk about bottom up budgeting, which usually has to do with starting with a clean slate and things like that. What we're advocating here, as well, is that you have to come from a position of strength with the staff you have, you need to engage your staff as close to the line, as you possibly can, to start becoming nimble enough, to transform and adapt to whatever's coming down the pike.

William Blake said that execution is the charity genius. I love that quote. Execution is the charity to genius. But the thing is that the genius doesn't necessarily have to be in the C-suite. And that's where that last bullet point comes in. Insight into solutions to your day to day problems today are going to come closer to the frontline than to your C-suite. And strategic budgeting, as a management tool, will help you engage your whole team in doing that. So those folks specifically on the call, because you're mostly CEOs, CFOs, something with a C on it. It's a big lift and you don't have to do it yourself. Heavy lifting will be transforming your culture and a big way to do that is engage people by starting asking the experts as close to the problem as possible about why. Why are things happening?

Here's good news. You already have the data and the knowledge or a lot of the data and knowledge in your organization. Mario talked a little bit about the intuition model and how we use that, but realize that's information that is already coming from your organization. We just have done a job of figuring out how to use it effectively and quickly. But you have the same information and you have market comparisons available. So technology, using technology, and this comes from the survey as well, is that, people leading your organizations are already using machine learning, you're already learning how to automate your processes. You're already grabbing metrics and data or at least data on a regular basis. It's just start to harness it. So technology can help your team members from your frontline to your C-suite involved, because someone's operating those things. And then an involvement across the ranks will help, again, keep your budget slayers at bay.

That's we there. So then remind you again, because coming back, old budgeting, historical assumptions, new budgeting and strategic budget budgeting, a decision support tool focused on your NAM and your EBITDA. So a big takeaway, if you don't fully understand your EBITDA and your managers, directors and things like that, don't understand that, that's a great, great place to start. Another way to point it out. Because we're going to talk about levers in a minute. Old and new. So heavy weight is a data driven, proactive scenario driven process. I'm going to advocate that you move and start thinking about a nimble process where you can adjust budget assumptions on a monthly basis, but let's just even start with focusing on quarterly, and where do you start? Well, this is a page of... It's tool that we use, as we call it clarity, but identify your areas of greatest impact. In this particular bubble, administrative costs is my biggest bubble on here. So we know that there's a great impact around either revenue or expense positive effects in that bubble.

I'm using this as a picture for you to start thinking about your opportunities is start to identify your bubbles and trust your gut from the beginning. If you know, have a problem area, instead of identifying just the metrics around it, start asking why. Why is that a problem? And you hear me use whys and I'm going to advocate for five why root cause analysis? It's not for everybody, but it's an incredibly effective tool. Start asking why your organization is experiencing something. And you can even use that as a training tool, to get your people involved across the ranks. You identify your areas of greatest impact, tie the impact directly to your EBITDA or your NAM. And then once you get to something that seems like, we can adjust that. I know how to adjust that. I know how to fix that. You've gotten to a lever. A lever that you can push, pull, or do whatever.

If you can't see the size of your bubbles yet, in your head or on paper, take time to identify small actions. Again, trust your gut, start talking with your teams, because sometimes small actions... Think of it in the time of the smallest action that you can get your biggest impact from. And then take that to the why in order to start laying out a plan of action. I get excited after I remember to breathe. Transition from data knowledge through action. So identify your area of greatest opportunity, while you're doing that, empower your organization across the ranks. Start asking why. Now, get micro. When you're thinking about your NAM or your EBITDA, think of it in framing on your per... Well, I'll use long term care because we have a lot of folks on there. Start thinking at the PPD level, the Per Patient Day. As you tweak a lever, it's going to move you and your team and your organization somewhere on the path to your visionary goal. Be prepared and then start asking whys around that.

Because as Mario was talking about, you definitely want a five year plan, absolutely, in a three year and in two year, one year, but now we're talking about day to day operations. How can you adjust, give yourself some stretch within the next month or quarter to keep on a per patient day, a per procedure day, a per census day on how to keep yourself moving toward that profitability goal. Again, so ask why.

Why will add the context. Once you get to that operational why, again, put a pin in it and know that you found a lever and you can read this as well as I, but there's some examples there.

So going back to the intuition model, this is an example of financial levers you can pull that are definitely quantitative, but remember the whole story, isn't just quantitative, but let's talk about labor costs. Where are you? Why are you there? Why? Look at non-labor costs, those things that can drive up or erode your profitability. Mario talked about interest rates in pricing. We put interest rates there because we know time is... It's a compounding element in the external environment, or it's an external factor that is going to affect you internally as it goes. And so just please keep that in mind.

So, quantitative. Now let's talk a little bit about qualitative levers. Qualitative levers are the softer practices that also affect revenue. And I use these example as customer service. I referenced before your second shift supervisor or reception or intake, they can have a huge effect on your NAM and you may not know it. You may not know what's happening. By asking why and getting and empowering your leaders, your managers, your directors, in tapping those folks and getting those folks in the room. Those little things that can change about, hey, maybe rescheduling, high ends on the phone, keeping a customer happy, showing up on time. Situational awareness on how little behaviors affect the profitability of the organization. Those you can find through qualitative conversations and can definitely be linked biometric to your EBITDA and profitability.

So remember, the whole story consists of qualitative and quantitative. So as levers are pushed or pulled, your changes will occur. Those changes will affect your path toward the visionary goal. You got to measure it. If you're not measuring it and I'm sure you've heard this before, if you're on this webinar, you've probably been on other webinars, but if you're not measuring it, you can't change it. And also if you're not measuring it, you can't track your performance over time or even forecast it. So adjust the levers as you go and keep you headed. So just again, watch your metrics.

So we are urging you to approach your budget as a strategic narrative written over the course of your fiscal year. Not a one time shot that you're just dealing with once a year and you're putting it on a shelf. So in every action you take do root cause analysis on, identify the metric, measure it, do your root cause analysis. High performing organizations check and adjust their assumptions frequently. We are urging you to not... Don't be afraid of adjusting your budget assumptions, but realize when you adjust your budget assumptions, it may affect your path towards your NAM and then see what you can do to control there and control there. Going to the left of your visionary goal over the right of your visionary goal. And again, pull expertise from all levels.

We're going to give you some tangible examples in a minute, but know that levers are similar between organizations but your market and the chemistry of your organization, they're unique. So levers operate differently, market by market, organization by organization. For example, if we're talking about productivity or census and admissions and occupancy, that could be a common issue across your industry segment, but it might be different for you than even for your neighbor or your competitor. For example, you may know that you need more patients, you need more residents, you need more bodies, so to speak, but the ones that you need specifically might be in different places. So you know the lever of occupancy or admissions is something you have to push or pull, but in order for you to get the ones that you want, you're going to have to use it in a different way.

And this is where, if I were encouraging you to take time to talk to folks, as close, using admissions, talk to them, engage them, educate them. They may have insight as to why you are or are not getting a desired patient population that the C-suite or VP level or even the Director level may not have that insight. You have to have a culture of comfort and openness in order to have people comfortable talking about that. But the strategic budgeting process relies on nimble action, nimble action that happens close to the action and that's got to happen closer to the front line.

So what we're doing is, we're asking with bottom up budgeting and strategic budgeting, which is bottom up and then using that bottom up strategic management process of budgeting is where we're asking you to force an awareness and an understanding of EBITDA, in this case, at the department level, that pushing it all the way down, it helps improve specificity of answers around the questions, whether that's expenditures or other outputs or even revenues. And it's also a natural opportunity for your department managers and direct directors to get day to day operational experts involved, because they can be your budgets layers. And we'll get to it in a sec. The difference between a benevolent dictator and a transformational leader is what someone does with the feedback that they're getting. Is it truly feedback or are you relying on the guidance of the folks that can most effectively impact the decision?

So again, involving farther down, managing process that engages your people will improve your accuracy and it'll increase your nimbleness. What we're also finding, as we're measuring it, is it helps with employee retention. And I know we're not really talking about this in this webinar, but truly engaging folks across the organization. The folks that are truly engaged, there's a difference between satisfaction with a job and commitment to a job, or satisfaction with an organization and commitment to an organization. Commitment is stronger and gets you through tougher times and satisfaction, but getting them involved, educating them increases the good types of commitment and it increases morale in motivation and increases your troop strength, when you need to make changes. It also sets up for a compounding effect of both good and bad, a word of warning, there's two sides to it, of when action is taken, it can compound the fact positively or negatively depending upon what's happening and what you're doing with that.

So those reasons alone support the need for frequent engagement and measuring. So pop this one in here. Again, you're sitting there with some frequently asked questions that usually come up when we talk about that, is can you have a bottom up budgeting process and limit the authority of department heads to adapt to changing circumstances? I would love for people to feel comfortable popping something in the chat about this, but I guess what I'm going to tell you is that, you can't limit the authority of department heads to adapt to changing circumstances. That is the difference between the perceived benevolent leader or dictatorial group in an organization and transform remediational empowered strategic leadership at the departmental level. It takes time, but if you can engage them, you as the leader in the C-suite, your VPs, your directors, to some extent, even down to the managers, you become the stewards of the process.

Process has to be refined. So that department heads can make decisions, educated decisions without you micromanaging them. And also know that there's process in place to adapt to unforeseen circumstances. Is there any nurses in the group, the plan do check act, again, ties in with [inaudible 00:41:50] for nursing homes, things like that. A lack of met... Well, I guess we could go on and on about that, but how do you know you're failing? So I put that out there, because that's a question, because people can point to things to say, we know how we're winning or how we're doing, going to Mario's point of cosmetic, bottom up budgeting and cosmetic metrics can show you. Yeah, we're doing great. And you can get those past people, but you know you're failing if someone in the room says you know what? If you remember that picture, that Mario popped up. If you know your structure's going to collapse, but your debt coverage ratio is good, someone's got to be comfortable and the process has to kick in to help. If then you don't have that, you know you're failing.

A sheer lack of metrics at a level that your empowered troops can understand is another example of whether or not you're failing. And that can be, as you're managing by walking around, ask the key folks a key question and usually you'll know whether or not they get the impact and the importance of what they're doing. So what are other questions that are asked or what pitfalls. True failure becomes cultural. You do this a couple of times. If you end up having... Someone says, well, they say they want my input, but they never listen to what I say. Process can solve that. But if that perception is deep and they don't understand why something they suggested strategically didn't get implemented, that's a failure, that becomes cultural. And then all of a sudden you'll get the, well, they never listened to me anyway, kind thing. And it gets ingrained in your organizational memory. And that's really, really difficult to erase over time. So feedback is different than bottoms up management. I have to make that clear. Feedback without explanations and things like that, can erode trust and harm your ability to be nimble in the future.

All right. Don't be afraid or embarrassed to ask that... I guess I want to put this out there. Use your peer groups, use your leadership, use your professional associations. Heck, use your consultant. Don't be afraid or embarrassed to rely on a third party to be the heavy in some of these situations. I'll use an example, but some of our most successful clients had to made the most transformational changes based on mandates brought down by states or accrediting agencies. So I guess if you need help, it's okay to ask for help, because a lot of people need help.

So things you can do right now. Here we go. Going through my papers here. You can read this list, get to know your NAM, identify your ears of great air impact. Remember the bubble chart that I was talking about, run your war room scenarios. I want to be very tangible about bull that Mario suggested, have three to five scenarios. He's not kidding. Have three to five scenarios. But your visionary goal for strategic budgeting and strategic management is getting to the point where the scenarios are ever changing. And you're actually talking about them on a quarterly and monthly basis, which you got to start somewhere. Figure out those areas of greatest impact and start writing your three scenarios around that and identify which metrics will hit what numbers, so that you know, need to take action. Involve staff from all levels. I think I've beat that point, and get your forecasts out there. Tangible things. Now, I'm going to take it a little bit more. Labor. We talked about labor.

Tangent. How about a 10% pay reduction for everybody versus a 10% cut FTEs as we're talking about right sizing, that's perceived as equitable. Consider it, maybe 10 isn't the right number. But think about it if you haven't. Review your job descriptions and your competencies and maximize the utilities of your existing workforce. I have a great job. I get to go talk lots of organizations about operational issues. And we spend a lot of time looking at job descriptions, accountabilities, and then competencies and how those are used effectively. Look at that stuff, make sure that highest and best use and competency matches where you need to go towards your visionary goal. Shared services. Mario talked a little bit about home and community based services for diversification and revenue streams and things like that. But what about outsourcing your expertise to other services? You could give it a shot or don't be afraid. It might feel like you're paying a little premium, but outsource some of your pain points to another organization. It might be worth the perceived immediate premium to gain more control and reduce the supervisory burden on your organization.

Non-labor things. What can you do? Shared purchasing agreements. Have you truly maximized them? Sure. You can say, well, we talked about those last year. We talked about those last quarter. Keep addressing them. And if you don't have a professional association that you're working with, start one with your peers or non-competitive, light minded individuals, it tangentially related to your industry segment. It's okay. It's a team sport. Value. Focus on value. Talk about service reductions instead of rate increases. What? That's crazy. Well, maybe you can do that. Maybe talk in long term care. Maybe new residents may pay the same amount as everybody else, but get slightly less service.

You have to boost up what they are getting. So they don't perceive it is a loss, but maybe you can save some time there. A la carte, focusing on your high value items, with your new folks. Limit subsidizing everyone. So then what that means is, talk about sliding rate scales, where you can, where you have some control. This is a little harder when hospitals and things like that. And I know you guys have, I know there's some of you on here, but it's not that much different than tiered services and pricing levels. Revisit those. Leverage your opportunities, again, your relationships. This is a relationship business. And now we're even talking peer to peer. Identify your professional association, identify a peer group. Talk about things like your insurance coverage, your provider panels, your shared purchasing and things like that.

Other things you can do, create your visionary goals for your five years. You got to get that on paper. Again, you have these, we can talk about them. I want to make sure we leave some time for questions and answers. So we want to get you to use your budget as a monthly management tool and be prepared to recrack cast quarterly and document what you're doing with your assumptions. So your budget document will contain the whole story at the end of the year. Why don't you start building a knowledge base and with knowledge to management on actions you took, things that happened in the environment. Use your budget document to keep that. And as far as your history goes, know your KPIs, know your metrics. Keep that objective in mind. Be nimble and adjust. I guess with that, we have about eight minutes left. Mario, if you want to say something.

Mario McKenzie:

Yeah, Rob. Thanks. I have been trying to monitor some of the questions, a number of good questions. One, I think relates to a comment that we made, which was this idea that people think... Oh, not think. But a good number of respondents said that perhaps the budget ought to be recasted quarterly. And the question was, well, do we, every quarter, we go to the board for re-casting and my feedback was essentially boards get a little skeptic of management if you keep changing things, but I'm making an argument that the environment that we're in right now probably requires that level of adaptation. And what I would say it would be harmful to recast the budget only to better predict the downward fall. In other words, if what we don't want to do is say our variance is really bad, so we're going to adjust our budget. So we no longer have a variance, but that budget still leads you to where that negative variance would be.

That's probably not ideal. I think it would be important for your financial forecasting to do that because you do really want to know the implication of that cumulative effect of changes. But I think it is important that if you think that what you're really doing with that budget is creating a whole new series of actions that management is going to take to essentially adjust or adapt to a major event. And those things could be cuts, could be wage freezes, could be a variety of different things. Then yeah, absolutely. I think it's important that you recast it and get consensus from leadership. And by that, I mean the board, that these changes are warranted, because sometimes we do have to act pretty quickly. And then another comment, I think you addressed this, but the comment was fundamentally that very often time the people that can solve problems, the people at the lines do offer solutions, but they get ignored by the management team. And that's a dangerous situation. I understand how it can happen.

We spent a little time, Rob, talking about what exactly is a budget and you and I spent hours on different topics and this could be a full day philosophical thing, but to a certain extent, any process involves systems. And typically if people are not in processes, they tend to work pretty well. But the moment you put people into a process, planes were fully automated, probably not that many accidents, but you put in a human, all of a sudden you get accidents. And so people are different. And so I have a couple questions, much of what we're talking about is behavior. And everybody here who's tried to do culture change or behavior change knows that, that's really hard to get this stick, but ultimately behind your process, and I talked about those internal factors, has to be this journey of trust and this journey of rolling the sleeves up together and everybody working together towards an outcome. The other one that I posted...

Rob Frediani:

Can I jump in on that one for just...

Mario McKenzie:

Absolutely. Yeah.

Rob Frediani:

For you skeptics out there on getting folks involved, think of strategic budgeting and getting them involved, what you're doing is you're just reinforcing expectations of accountability and competence. Think of it from a process standpoint. Accountability, competence. You are responsible to make sure that they have access to it. People are still responsible for their bad behaviors, but the hard part is being consistent there. But by engaging them, your high performers or people that are committed to your organization, they'll learn, they'll do their best, and they'll actually start relieving you of some of the pressure. That's the hard part. So again, it's reinforcing accountability and competence, and having process to support that across the whole organization.

Mario McKenzie:

Yeah. Thanks, Rob. And without really delving into this, one of the challenges in this environment is I think, and we see this in nursing homes going out of business around the country. A lot of business have shut down. And part of that shutdown is obviously a lack of liquidity, the weather through the storm. So we may come out okay three years to now, but if I don't have the run rate of resources to get to year three, it doesn't much matter. It's like a hollow victory. Great, things improve four years from now, I'm not around the benefit from that improvement. So business pivots, your budget may be saying this business model we're in is not viable. That's a really tough one. It's like the businesses that go bankrupt, they're the worst ones because you keep putting resources in them, but there's never a turnaround. And that's how... What's the old saying? It happened, but it happened suddenly, right? So the idea is, things happen and then immediately they happen very fast.

So I encourage everybody. I know we're out of time here. Thanks for having us. Again, just final thing. There's tons of data in that survey that just is really good for you guys to gather around and look at what some of your peers think about a number of issues. So again, we're going to send a link. If you want to fill out the survey, we're going to send you personalized results. We'll probably keep it open for two more weeks. We don't need the data. I think that's really more for the benefit of you all. Those participated you'll get your report, but for those that are interested in having the data from the survey, just fill it out. I think the average time it took to fill was 20 minutes. So it's not a particularly long survey. All right, with that said, thank you. Please feel free to reach out to Rob or me, with any additional questions or if there's anything we can do to help you on your journeys. And we thank you for our time together.

Rob Frediani:

Thank you.