Enterprise Planning: Integrating the Strategic Plan with the Annual Budget and Forecast Process

Andrew Starks

Director, Strategic Planning Practice

Edgewater Ranzal

Jeremy Ward

System Director of Financial Planning

St. Luke's Health System

Agenda

- **Enterprise Planning: Why it's Essential**

- **Problems with Typical Budget and LRP Processes**
  – Budget Process shortfalls
  – LRP Process shortfalls
  – Lack of integration between the Budget and LRP

- **Solutions to Integrate the LRP and Budget Processes**
  – Well designed budget and LRP solutions that anticipate integration points
  – Technology that enables seamless integration
  – LRP process should provide targets and guide the annual budget process

- **Case Study: St. Luke's Health System**

- **Demonstration of Integrated Solution**

Association for
Financial Professionals®

Enterprise Planning Defined

- **Enterprise Planning is a methodology (backed up by technology) that assists an organization with creating and linking their strategic, financial, and operational plans into one cohesive system.   The methodology allows organizations to set goals, generate plans guided by those goals, monitor results, and update plans quickly as conditions on the ground change.**

- **Enterprise Planning establishes and links the strategic and operational goals of an enterprise.**

- **Enterprise Planning generally utilizes a Long-Range Plan (LRP) to set the vision and long-term organizational goals and a Budget/Forecast process to provide short-term tactical goals for individual managers that are aligned with the vision and long-term organizational goals.**

Association for
Financial Professionals®

Why Enterprise Planning is Essential

- **It's the only methodology that ensures management and employees are setting goals, making investments and operational decisions that maximize the long-term success of an organization**

- **A Budget on its own or a Long-Range Plan on its own is not sufficient for planning and meeting the long-term goals of an organization**

- **A Budget disconnected from the Long-Range Plan is like a modern day driver disconnected from his GPS. You might know the general direction to go but you are just guessing how to get there.**

A Budget is Not Sufficient

- Most budgets are short term (18 months or less)
- Most strategic decisions have LT cost, revenue and capital implications
- Most budgets are P&L only and ignore Balance Sheet and Cash Flow impacts
- Major decisions and business plans should be evaluated on how they impact an organization's valuation, credit ratings, covenants, and cash flow – all of which require full financial statement detail
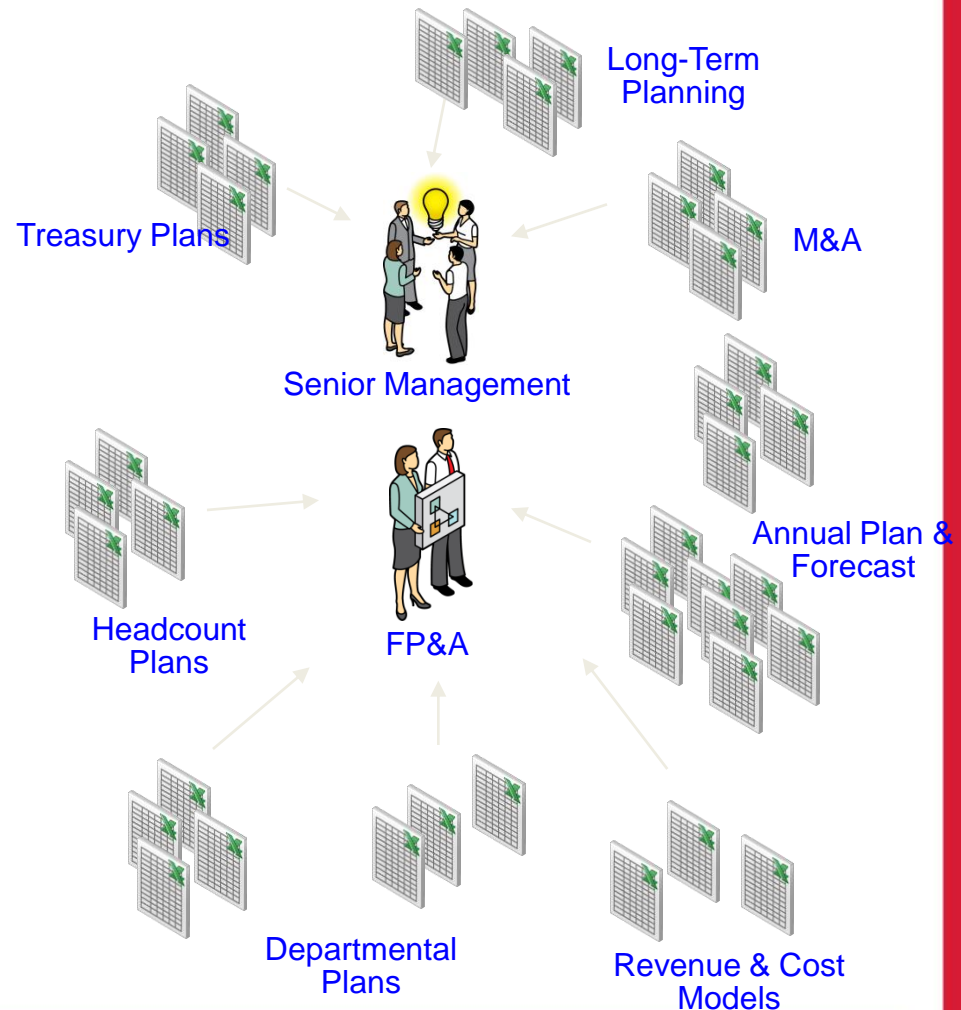
A Long-Range Plan is Not Sufficient

- **Execution requires that goals established in the LRP process be operationalized to lower levels of the organization**

- **The level of detail in the LRP is justifiably high-level and not suitable for operational planning**

- **Individual managers and cost center owners must have goals and accountability that is aligned with the long-term direction of the company**

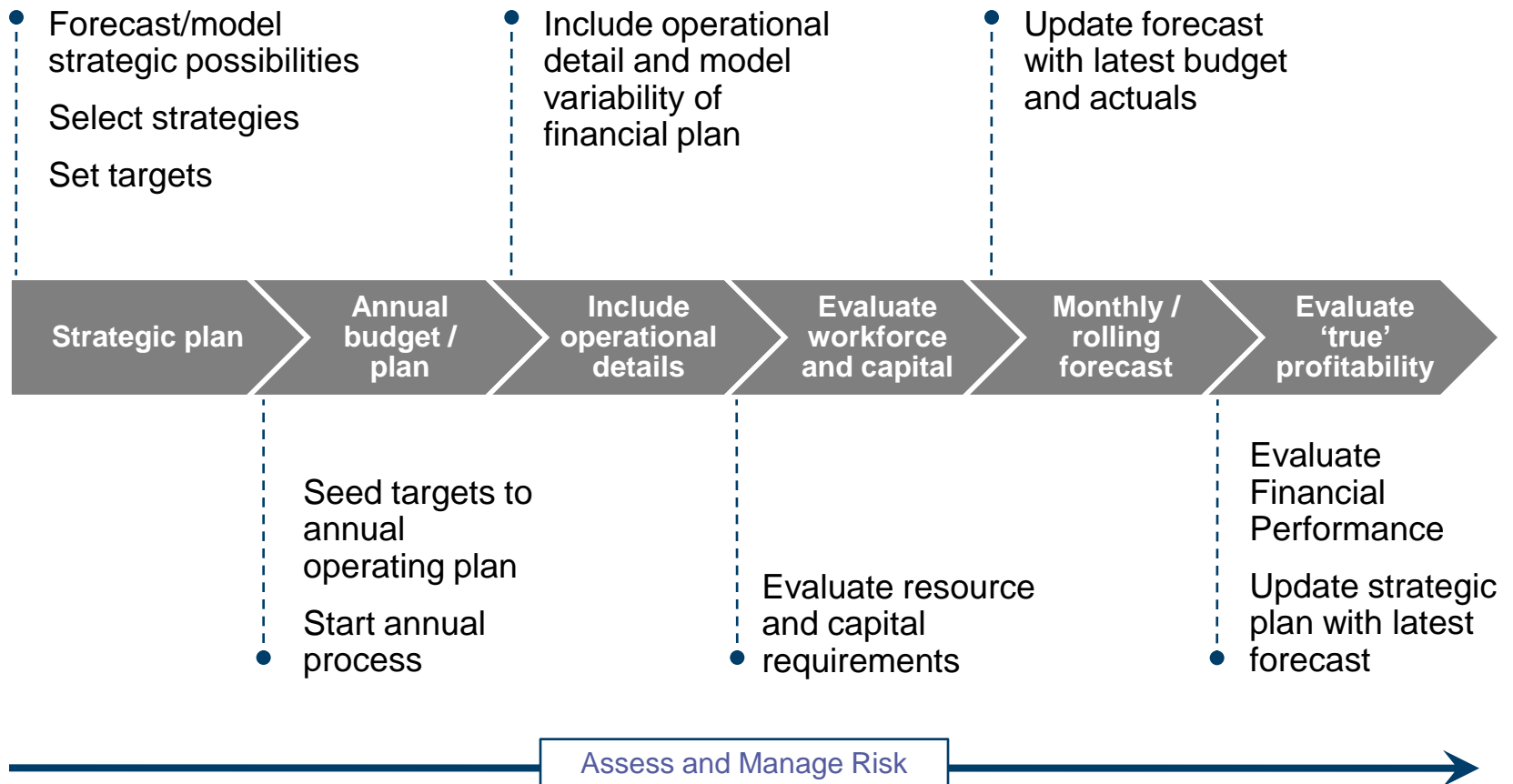# A Budget Disconnected from the LRP is like driving blind

- **Budgets tend to be based on prior year results and not based on future goals**

- **Managers and cost center owners aren't aligned with long-term goals**

- **Decision-making tends to be short sighted and aligned with budget rather than long-term goals**
  - Focused on P&L goals and somewhat blinded to impacts on the B/S, CF and long-term value creation.

Association for Financial Professionals®

Disconnected Processes Lead to Inefficiency and Missed Targets

- **Time** – cycles take too long, missed opportunities and obsolete plans

- **Quality** – data integrity, lack of standardization and communication

- **Flexibility** – lack of responsiveness to changes

- **Cost** – many wasted resources, questionable benefits

Long-Term Planning

Treasury Plans

M&A

Senior Management

Headcount Plans

Annual Plan & Forecast

FP&A

Departmental Plans

Revenue & Cost Models

Enterprise Planning Leading Practices

- Forecast/model strategic possibilities
- Select strategies
- Set targets

- Include operational detail and model variability of financial plan

- Update forecast with latest budget and actuals

| Strategic plan | Annual budget / plan | Include operational details | Evaluate workforce and capital | Monthly / rolling forecast | Evaluate 'true' profitability |

- Seed targets to annual operating plan
- Start annual process

- Evaluate resource and capital requirements

- Evaluate Financial Performance
- Update strategic plan with latest forecast

Assess and Manage Risk

Enterprise Planning

Predictive Modeling & Simulation

Long-Term Financial Planning	Workforce Planning	Capital Assets Planning	Project Financial Planning	Operational Revenue & Cost Modeling

Planning, Budgeting & Forecasting

Financial Detail ➞ **Operational Detail**

Association for Financial Professionals®

Enterprise Planning Architecture

Common Reporting & Interaction (Microsoft Office, Crystal Ball, Financial Reporting, etc.)

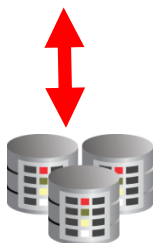| Hyperion Strategic Finance	Hyperion Planning	Capital Asset Planning	Workforce Planning	Profitability & Cost Management

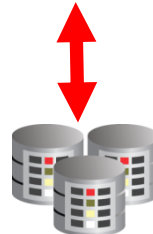**Essbase (EPM Platform)**

Financial Data Quality Management and Master Data Management
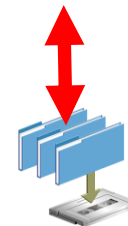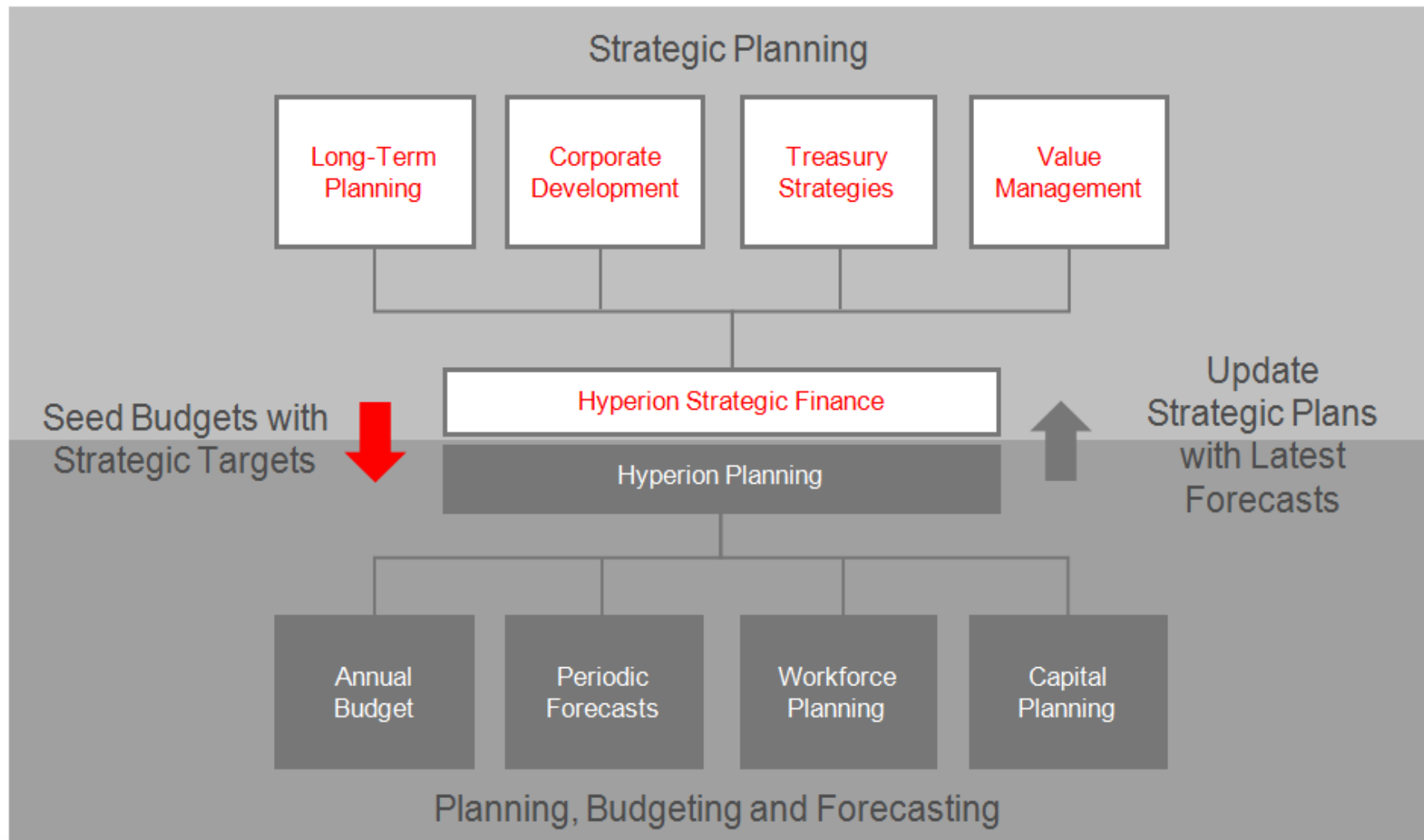
Oracle

Data Warehouse Data Mart (BW)

SAP

Excel XML

Business Process

Integrate and Align ST and LT Planning

Right Tool for the Right Job

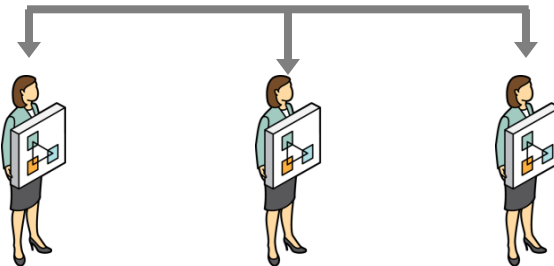| Hyperion Strategic Finance	Hyperion Planning
Modeling And Long Range Forecasts	Bottom Up Plans and Budgets
Finance Focused: 5-10 Users; Credit Analysts in Banks	Diverse Planners Across Enterprise
On The Fly Impact Analysis & Forecast Modeling	Process And Controls Oriented
Long Range Focused (2-10 Years)	Short Range Focused (3-24 Month)
Corporate HQ & Business Unit – High Level	Cost Center / Department Level - Detailed
Closes Loop for EPM-BI Based Processes	Closes Loop for Transaction Based Processes
Driver Based Modeling	Controlled Planning Process

Improved Accuracy, Flexibility and Costs

- **Increase planning and forecasting accuracy**

- **Flexibility to respond to market changes timely**

- **Allocate resources to the most important opportunities**

- **Make better, <u>high impact</u> decisions**

Senior Management

FP&A

Long-Term Planning

Annual Plan & Forecast

Revenue & Cost Models

Association for Financial Professionals®

Case Study

- **Enterprise Planning at St. Luke's Health System**

Who are we?

St Luke's operates medical centers, critical access hospitals and clinics throughout Idaho, northern Nevada and eastern Oregon

- **Idaho's only not-for-profit health system**
- **Ranked in the top 5% of American Hospitals by HealthGrades, among many other awards**
- **8000 employees, plus contracted physicians and other healthcare providers**
- **Strong focus on providing exceptional healthcare and demonstrating effective use of philanthropic support**

What do we do?

St Luke's

Major Medical Centers	Critical Access Hospitals	Cancer Research and Treatment	Children's Hospital

Major Medical Centers
- Boise Medical Center – Idaho's largest hospital, founded 1902
- Meridian Medical Center – opened 2001
- Magic Valley Medical Center (Twin Falls ID) – joined St Luke's in 2006, rebuilt in 2011
- Wood River Medical Center, opened 1999

Critical Access Hospitals
- Primary care and inpatient services at
  - Jerome, ID
  - McCall, ID

Cancer Research and Treatment
- Mountain States Tumor Institute
  - Largest provider of cancer services in the region
  - Nationally-recognized in cancer research
  - Established 1971
  - 6 locations

Children's Hospital
- Idaho's only Children's hospital
- Caring for over 50,000 children annually
- Over 140 physicians, and over 400 nurses and other caregivers

Association for Financial Professionals®

St. Luke's Financial Planning Prior to Hyperion

- **LRP had a heavy reliance on linked Excel spreadsheets and manual data entry**
- **Budget relied on an outdated Business Objects SRC solution**
  - No integration between the Budget/Forecast and LRP processes
  - Inflexible – e.g., no way to update revenue plan after first pass
  - Couldn't easily run scenarios and analyze impacts

Association for
Financial Professionals®

St. Luke's Enterprise Planning Project Requirements

- Provide an integrated technological solution that encompassed Budget, Forecast, LRP, Project Analysis, and Capital Plan

- Reduce reliance on Excel and other unstructured and ad hoc solutions

- Detailed modeling of revenues, expenses, and workforce productivity across the Health System
  - Segment P&Ls by service line and site, using volume trends
  - Workforce expenses modeled on volumes, productivity targets, and job grade drivers

- Understand the impact on Credit Ratings, Covenants, Valuation, and important KPI's

- Automate the Board Package and other reporting requirements through the use of SmartView and other Hyperion reporting tools.

Association for
Financial Professionals®

Key Objectives

Model Revenue and Costs

- ✓ Per-procedure revenue projection based on volume trends and prices
- ✓ Workforce budget based on Volumes, Productivity Targets and Job Grade / Activity Code drivers
- ✓ Replacing legacy system which had limited support for reforecasting

Strategic Planning

- ✓ Long Range Forecasting (5 – 10 year plans)
- ✓ Balance Sheet and Cash Flow modeling
- ✓ Capital Planning and Capital Allocation decision-making
- ✓ Scenario-based approach to understand full range of outcomes on Credit Ratings, Covenants, and Liquidity

Reporting

- ✓ Provide operational Revenue, Cost, Productivity and Workforce reports to 400+ department managers, directors and VPs
- ✓ Automate preparation of monthly board packs and other financial reports

Association for Financial Professionals®

Healthcare Challenges

- **Productivity-based Workforce Budget:**
  - Uses Hyperion **Workforce Planning** option
    - **Added Job Code and Pay Code detail**
    - **Added option to plan by Employee or by Job Code**
  - Hours/dollars model based on
    - **Historical productivity by Job Code**
    - **Expressed in terms of each unit's volume driver (# of procedures, # of patients)**

- **CPT-level Revenue Forecasting:**
  - Allows reporting volume by CPT code (industry-wide standard), CDM code (St Luke's coding), and/or Revenue code (Medicare standard)
  - Detailed modeling of volume and price changes
    - **Global, or by department**

St. Luke's Project Benefits

Integrated Business Processes	• Import of monthly Budget/Forecast to HSF to recast the LRP • Export of HSF LRP outputs to seed the budget in Planning • Integrated financials from Lawson ERP, and workforce productivity metrics from Lawson Payroll, and Epic
Scalability	• Productivity and responsibility reporting to 400+ dept. managers, directors and VPs throughout the organization • Ability to plan at lower level of detail (Service Line)
Improved Reporting Capabilities	• Actual, Budget, Forecast, LRP, and Capital Plan data in one repository allows for easy reporting and variance analysis • Ability to slice and dice and update reports by dimension • Automate Excel and PowerPoint updates
Modeling flexibility	• Ability to run scenarios on volumes, payer mix, deductions • Plan at differing level of detail and change forecast methods

Questions

Andrew Starks
+1 (952) 212-7584
astarks@ranzal.com