



NEW TOOL POWERS MAJOR PROJECT DECISIONS



Before proceeding with a major capital project, a leading health care system wanted to better understand this project’s financial and operational impact and community benefit. However, they lacked an in-house tool or resource to adequately capture this information and yield the most optimal answer.

Problem to Solve

In technical fields like meteorology or economics, the ideal answer to a future-oriented question is: It depends. With quality input, forecasting models in these fields can yield a variety of equally optimal answers. The key to predictive success is picking the “optimal answer” with the greatest probability.

Before proceeding with a major capital project, a leading health care system wanted to better understand this project’s financial and operational impact and community benefit. To help make an informed decision about the project, the system’s leaders wanted to factor in multiple financial metrics like cost of capital, payback period, growth rate, earnings before interest, taxes, deductions and amortization, and return on investment. However, they lacked an in-house tool or resource to adequately capture this information and yield the most optimal answer.

The health care system’s leaders turned to Freed Associates (Freed) for the analytical and scenario-planning input and resources they needed to assess their project plans. Freed was chosen for this work based on its familiarity with this particular health care system as well as its extensive experience helping similar organizations conduct intricate long-term financial and operational planning.



Strategy and Tactics

The complexity and multi-million long-term costs of the health care system's proposed capital project pointed to a need for Freed to design and build a proprietary forecasting and planning tool to guide the decision-making process. Dozens of variable inputs and projections about this project – some more subjective than others – meant no off-the-shelf solution would suffice for this client's needs. The client needed a customized tool taking into account its unique financial and operational requirements and its location and patients served.

Through information-gathering sessions with key health care system leaders and subject matter experts in clinical and non-clinical departments, Freed began to assess the possible costs, benefits and operational impacts of the proposed project. The emphasis was on respondents' answers to both initial and more in-depth follow-up questions. For example, "Why do you believe what you're suggesting is necessary?" or "What other viable options might instead be available?"

Armed with respondents' input, including their reasoning and defenses of their positions, Freed and the client began building a customized tool for forecasting a variety of "What if?" scenarios. The emphasis was on making this tool flexible enough to allow for modeling several different types and kinds of scenarios, yet powerful and accurate enough to consistently deliver high-quality input. The system's decision-makers needed a high degree of confidence in their ultimate project decisions.

As Freed and the client began to build this forecasting tool, they realized the need to make it dynamic, accounting for a variety of changeable inputs. For example, changing projected expenses by just a half-percent would make a significant long-term financial impact on this project. The client needed to be able to account for and properly understand such variables.

In the end, the health care system gained a multi-faceted leadership decision-making tool enabling users to confidently forecast a variety of dynamic scenarios based on the proposed project. The tool was tested under a variety of hypothetical scenarios with varying data inputs to ensure its long-term forecasting usefulness.

Results and Conclusion

The health care system's leaders were thrilled with the functionality, adaptability and specificity of their new forecasting tool. They viewed it as precisely the resource they needed to confidently decide about their major capital project. Based on a model allowing for evolving and time-modified inputs and assumptions, the tool gave decision-makers a new, valuable way of looking at different scenarios to gauge a variety of potential project risks and opportunities.

The health care system's leaders used the new forecasting tool to evaluate several scenarios related to its major capital project, and are now more confident in their decision-making. Correspondingly, Freed now has a template for creating an enterprise-specific financial and operational forecasting



tool which other organizations can employ when facing similarly complex capital project decisions.