

Client Value Study

Empire Health Services

Brief Overview

For more than 100 years, the hospitals and clinics of Empire Health Services have provided inpatient and outpatient healthcare in and around Spokane, Washington. Empire's two hospitals, Deaconess Medical Center and Valley Hospital and Medical Center, have 508 licensed acute-care beds. In addition, four urgent-care clinics that treat basic illnesses and injuries and two outreach clinics care for the underserved community.

Empire Health Services is no ordinary provider. Deaconess Medical Center, a leader in cardiac, vascular and GI care, was recognized by HealthGrades as a national leader in each of those areas. It was also named one of the top 100 U.S. heart hospitals by Solucient's *100 Top Hospitals®* study. With 2,600 employees, Empire Health is among Spokane's largest employers and is a prominent and trusted fixture in the community.

Empire Health's financial health, however, did not keep up with its medical reputation. In 2004, its operating loss reached \$34 million on revenues of \$238 million.

Situation

Although Empire Health is a not-for-profit provider, it is not exempt from economic reality. In mid 2004, the company was reeling from fiscal mismanagement, outdated operational

processes and an absence of strong executive leadership. Its 2004 operating loss of \$34 million violated bondholder covenants and prompted its Board of Directors to think about the unthinkable: selling, merging or closing the venerable, century-old health system.

The pain was felt by the entire organization, and it affected financial decisions, daily operations, and organizational culture. "The institution was experiencing continuing and heavy losses," said Mike Taylor, a prominent Spokane business owner who sits on Empire Health's Board of Directors. "The management team was unable—not unwilling, but unable—to bring the situation into steady control and stabilization." Taylor believes Empire Health had failed to overhaul old business practices in reimbursements, collections and other basic operations, leaving the organization vulnerable to a seizure by its creditors. Furthermore, Empire's ability to raise capital was crippled.

To reduce costs, Empire previously resorted to across-the-board wage cuts that sapped employee morale. Worries about the company's financial health led to an exodus of medical staff. With losses mounting and bondholders considering calling their loans, the Board was weighing a bankruptcy filing. As former Board Chairman Chris Marr told a local newspaper: "there were alligators at the door."



SITUATION

Annual operating loss of nearly \$34 million threatens solvency, poses risk that bondholders could call loans, forcing organization into bankruptcy.

TATUM SERVICE

Tatum Restructuring Services: Tatum curtailed losses, improved cash position, restored bondholder confidence and resulted in operating profit of \$4 million within one year.

SITUATION

Poor financial reporting and metrics. Management and Board unable to view information needed to make effective decisions.

TATUM SERVICE

Tatum CFO Services: Tatum developed a clear financial reporting system with online access for Board members and an online executive dashboard for daily information.

SITUATION

No information technology strategy, governance structure or service-level agreements.

TATUM SERVICE

Tatum Business Strategy & IT Alignment: Tatum provided clear assessment of needs and capabilities and developed governance structure and operational implementation plan.

SITUATION

No comprehensive multi-year financial model or strategic market analysis.

TATUM SERVICE

Tatum Healthcare Services: Tatum created a robust ongoing financial model by operating unit and comprehensive market demographics.

"Tatum focused not just on short-term fixes but also on the organization's ability to sustain the improvements." Mike Taylor, Member of Empire HealthServices Board of Directors

Why Tatum

Empire Health's Board of Directors, recognizing the urgency of the crisis, examined outside specialists with experience in turning around distressed operations. Empire chose Tatum for a comprehensive management program to restore the company's financial and operational health. "We needed someone who could come in to make some very quick, drastic changes to improve our situation," says Patty White, Empire Health's Vice President of Leadership and Organizational Development.

A Tatum team consisting of a Chief Executive Officer (CEO), a Chief Financial Officer (CFO) and a Vice President of Business Development was immediately integrated to lead Empire's restructuring. Tatum rapidly assessed critical problems, evaluated the company's immediate cash needs and identified ways to curtail daily operating losses.

Results

Within weeks, Tatum addressed immediate cash-management and collection issues that were bleeding the organization of needed cash. The team wrote-off stale assets and instituted methodical improvements in budgeting, capital and contract approval processes and moved decisively to demand more participation from the Board. Further, Tatum changed Empire's traditional

12-month budget in favor of a six-month budget process that enforced an enterprise-wide sense of urgency.

Additionally, Tatum developed an online executive dashboard of key financial and operating metrics that gave executives and managers instant access to previously buried information about cash, patient census, collection rates and other critical factors.

"Tatum was able to distill the strategic implications of what was happening, giving the Board a better basis of making governance decisions," says Taylor, who was Chairman at the time. Tatum focused not just on short-term fixes but also on the organization's ability to sustain the improvements.

The changes made by Tatum improved cash available and calmed nervous bondholders. With the bleeding arrested, the Tatum team went deeper, implementing changes that would have a longer-term impact. A complicated negotiation with a labor union that had been stalled for more than a year was completed. Tatum's Technology Leadership Practice was engaged to assess Empire's critical information technology systems and recommend strategic improvements, while specialists from Tatum's Healthcare Practice developed a strategic market assessment and a multi-year financial model. Tatum also changed the way employees viewed their jobs, building enthusiasm

for achieving what is now Empire Health's BHAG (Big, Hairy, Audacious Goal). This ten-year goal is to make Empire Health Services the nation's number one healthcare provider in safety and satisfaction.

When it closed the books on 2005, Empire Health Services had swung from a \$34 million loss to a \$4 million profit on revenues of \$263 million in 2005. The company's cash on-hand doubled to nearly \$35 million. Pay cuts were restored and an incentive plan was implemented. Morale climbed. With operations greatly improved, Tatum began advising Empire Health about options for raising fresh capital to support new projects—a course that was unthinkable less than two years before.

"Tatum had a very surgical approach. They didn't just go in wholesale and cut staff and get to a budget number," says Taylor. "They looked at individual aspects of the organization and how they performed, and empowered employees to help themselves."



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