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Financial planning: The key to a successful strategic plan

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A strategic plan identifies where you want your healthcare organization to go — and then maps out the steps to get there. Financial planning plays an important role in the strategic plan, allowing your organization to evaluate the impact of a particular initiative and then prioritize strategies. This is essential today when there is limited time and resources to implement initiatives.

For example, if you have a rural health clinic and you plan to expand services over the next three years, you need to understand the demand for those services and the resources needed to fund the expanded operations. Will this expansion have an immediate return, allowing for investment in other initiatives that may have a longer ramp-up time?

If a strategic plan is the roadmap for your organization, the financial plan is both the fuel and the guardrails. It outlines not only how you will allocate your resources to achieve the goals but also how those goals will affect your organization's long-term financial well-being.

A strategic financial plan will serve functions such as these:

- Informing capital and investment decisions with scenario testing
- Informing and prioritizing operational goals
- Aligning operational plans with available resources
- Managing financial vulnerabilities
- Maintaining good credit and access to capital

6 steps to build your strategic financial plan

Strategic financial planning recognizes that the company's goals and its financial functions do not exist as silos. This process combines traditional strategy formulation with financial planning in a hybrid approach.

It can look a bit different than traditional strategic planning, with time built into the process to conduct scenario testing and cost benefit analysis — before leadership commits to targets.

Here's what the process can look like, in six steps:

1. Identify the team and stakeholders

Strategic financial plans can't be crafted in a vacuum. Certain stakeholders may have greater insight into the external environment, including the political, demographic, technological and competitive forces in the market.

Other stakeholders are better positioned for internal introspection, identifying the organization's strengths and shortcomings. Your finance team can help gather business intelligence and will have its own perspective on the organization's financial future.

Once you've identified your planning team, establish key roles. That includes identifying expectations and determining how decisions will be made. One best practice is to develop a charter for your leadership group. Quantify and allocate shared resources and agree on the planning process to be followed.

2. Develop a common fact base

Identify what you need to know to develop your strategic financial plan. For example, a critical access hospital may start with defining its market and client base. Specifically, determining what geographic area most of its patients come from and the ages of their clients. This information, paired with existing volumes (current state) and projected volumes (future state), inform the needs of a physician/provider complement.

Once you know the staff, equipment, resources and technology to meet market needs (status quo), you can then create a financial forecast to pressure-test strategic initiatives by looking at the resulting changes in operating performance, liquidity and capital metrics.

3. Identify objectives and opportunities

The central part of any strategic plan is identifying what you want to accomplish. Are you looking at revenue goals? Profitability goals? These are objectives.

Develop a list of available opportunities. External benchmarks and internal data can be useful in identifying financial and operational opportunities for improvement. Look for gaps in comparative key performance indicators around revenue, volume, collections, profitability, etc.

Other signals may be less apparent but equally important. For example, difficulty developing, recruiting and/or retaining certain staff and/or technical skills can be a sign that changes should be considered.

4. Determine strategy and prioritize

You have limited resources, so where do you start? As a group, you'll need to develop a prioritization framework. Use both quantitative and qualitative criteria and recognize that financial impact likely won't be the only factor when it comes to making decisions.

Your framework might look something like the table below. Other criteria could include complexity or effort required.

Quantitative		**Qualitative**	
Return on investment	**Overall financial impact**	**Need**	**Urgency**
• 5%+ • 0–5% • Negative ROI	• Significant+ • Neutral • Negative (i.e., costs more than it brings in)	• Essential for operations • Mission/larger organizational strategy • Competitive advantage • Optional/want	• Immediate decision/need required • Must do, but can wait 1-2 years • Optional, can wait 3+ years

5. Quantify financial impact

Your strategic financial plan grounds your plans in reality. Estimate the project costs, understand the potential revenue stream and then estimate and compare the overall cost to benefit. Test every goal for cost-effectiveness. Until you do that, the strategic plan is just a list of opportunities that are not properly vetted.

Consider the impact of any initiative against metrics such as these:

- Profitability (operating/total margin; earnings before interest, depreciation and amortization)
- Liquidity (days cash on hand, cash-to-debt ratio)
- Capital structure (long-term debt-to-capitalization ratio, debt-service coverage ratio)
- Patient satisfaction
- Denials (avoidable write-offs)
- Market share

6. Implement, measure, monitor and improve

As you implement, set a regular cadence for check-ins and leadership updates against the plan. This should be a standing agenda item at the board of directors' meetings. Cascade plans and the progress on those plans down through the organization. Have the discipline to communicate successes and challenges across leadership, employees and your stakeholder group.

When the business fails to meet certain goals, ask yourself:

- Has the business been managing the plan effectively?
- Has data been measured accurately?
- Was the goal realistic given the organizational resources?

Remember, there are very few flawless implementation plans. Be nimble and adjust regularly.

How Wipfli can help

Strategic financial planning requires a complex knowledge of financial projections, scenario testing, working capital management and more. The process can also be time intensive, putting significant demand on CFOs and financial teams who may already be stretched thin.

Wipfli can provide you with dedicated project assistance, offering data collection and responsive financial analysis to your strategic planning team. This allows you to keep the process moving forward efficiently, while informing your plan with a solid financial foundation.