

A woman with voluminous, curly, light-brown hair is smiling warmly. She is wearing a light grey blazer over a blue top and a black lanyard. She holds a blue pen in her right hand and a clipboard with a yellow notepad in her left. She is looking towards another person whose back is to the camera. The background is a blurred office setting. A vertical red bar is on the right side of the image.

BDO PRIMARY HEALTHCARE PULSE

THE PRIMARY HEALTHCARE INDUSTRY IN NEW ZEALAND IS FACING MANY CHALLENGES AND IS NOT IMMUNE TO THE DISRUPTION SEEN ACROSS MANY OTHER INDUSTRIES.

Those that continue to operate the same way as they have in the past may find they will struggle to keep up with what the public (and the Health System) expect of them.

We wanted to know, from those working on the front lines, what issues practitioners are grappling with and how they really feel about the current state of the healthcare system. We look forward to sharing with you in this report the findings.



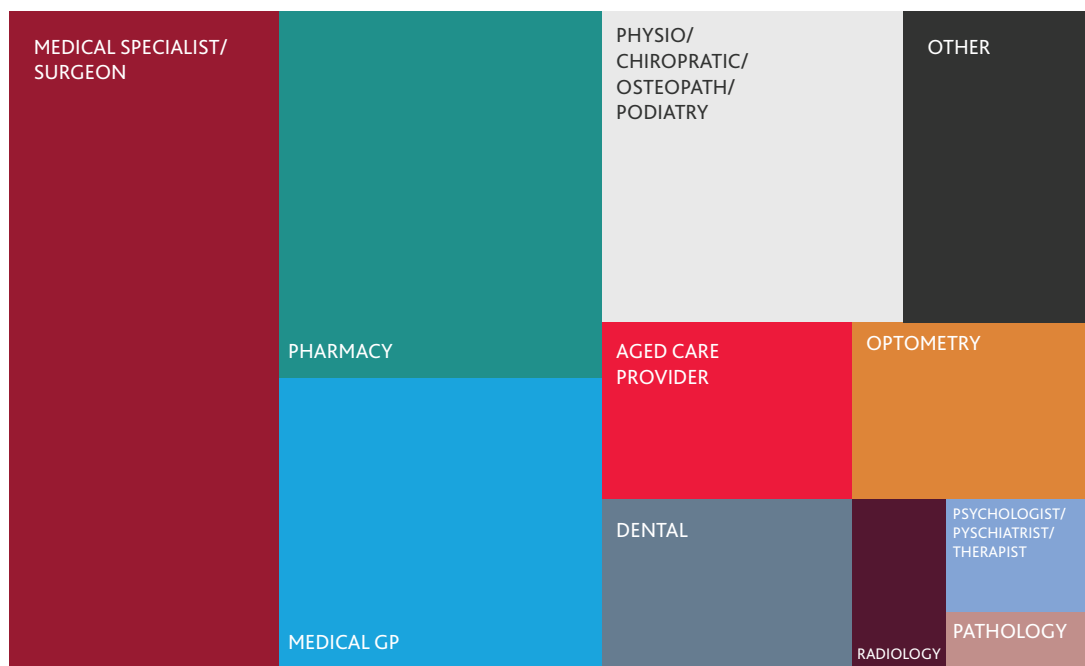
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WHO WE SURVEYED...

There was a good cross section of areas of specialty in those completing the survey as represented by the below graphic, however nearly 70% were GPs, pharmacists, or other medical specialists/surgeons.



- ▶ 73.4% of those surveyed were located in the North Island of New Zealand, with 26.6% located in the South Island. Unsurprisingly, 43.94% of total respondents were located in Auckland
- ▶ 87.7% had business turnover of \$5m or less, with 41.54% having turnover of between \$1m - \$5m
- ▶ 75.81% of respondents had 3 or less owners, indicating the majority of the survey participants were smaller practitioners with 76.01% having 1 – 15 employees.

GOVERNANCE AND REPORTING

As a general observation, those operating within the primary healthcare space tend to be practitioners who have moved into ownership/specialist roles because they are very good at what they do and wanted to be in charge of their own destiny by owning their own business. However, for the vast majority, we would suggest they have not shown the same aptitude or discipline towards running their businesses as they have towards practising.

Many do not have a good level of financial literacy and rely on their advisers or teams to take care of that for them. While this may have worked up until now, we would suggest the business owner of the future (regardless of industry) needs to have a much greater level of financial literacy and understanding of how business works as the pace of business changes. Those that understand what is happening inside their business will be much better equipped to adapt and change, as required, with technology ensuring the pace of everything we do continues to accelerate.

SHAREHOLDER/PARTNERSHIP AGREEMENT

While there are still a lot of sole traders/single shareholder owned businesses within the primary healthcare industry (58.49% of survey respondents only had 1 owner), we are seeing many more people going into business together or having some form of shared operation. So it's incredibly important that there are ground rules around how everything should work and what is expected of each owner. Too often we see those that don't adequately have this conversation at the outset then in a very difficult spot when faced with a nonperforming partner, or trying to buy someone out. Or what should happen if one owner can no longer work or dies?

Of those businesses surveyed that had more than 1 owner, only 50% had a comprehensive shareholder/partnership agreement. That implies there are an awful lot of practitioners out there that are exposed to more risk than they need to be when it comes to having some certainty around things like remuneration and dividend policies, management roles, benefits, authorisations, business valuation, and business exit to name but a few.

For an industry where precision and accuracy is important, it seems counter-intuitive that so few would consider this necessary. Why take this risk?



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SUCCESSION PLANNING

Just as important as getting into business, is how you will exit it. New Zealand is one of the easiest places in the world to set up a business but getting out can be a difficult and slow process if you are not adequately prepared.

Having a good succession plan is not something that you should only consider when you're about to retire. If you start thinking about a plan at this point, then you are likely too late and will have missed the boat. The best time to consider selling your business is when you still have the motivation and energy to be fully driving your business. Those that are nearing retirement are often pulling back from the business, or have lost the motivation to fully drive it. As a result, the profitability is often not what it should be and can impact your sale value.

Conversely, those that have a well thought out succession plan and have this in place while they are still actively engaged in the business are more likely to see opportunities and be able to capitalise on these more readily. For example, your succession plan may have identified your

natural successor will need to be groomed by you, so you'll need to have time to find the right person and be on the lookout for them and have these discussions with them early.

So, how did our survey respondents fare in regards to succession planning? Not well. A massive 78.57% of respondents did not yet have or have not yet considered a succession plan.

Is this due to naivety from practitioners expecting a ready market for them to sell their business? Or is it just poor understanding of what it means to sell a business and what they need to do to ensure they give themselves the best opportunity to maximise their sale value?

For an industry that is likely to face an increasing skill shortage as our population ages, we suggest this statistic is very worrying. While one could argue that a skill shortage could indicate more demand for buying into a business, it could also indicate a lack of people available to buy businesses when an owner wants to sell. Therefore, it is critical that succession planning is started early.



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49% of these businesses are not receiving regular accurate reports.

REPORTING

Good accurate reporting is vital to understanding how a business is performing. Even more important is understanding what the numbers mean and being able to identify if something seems out of the ordinary and what action to take as a result. From our observation, this is an area that a lot of businesses struggle to get a handle on and the health industry is no different.

As the majority of our survey respondents had 3 or less owners, we analysed what percentage of these businesses reported receiving regular monthly reports that accurately reflected profit as part of a more detailed set of reports and the result was less than stellar with only 51% saying they do. That means 49% of these businesses are not receiving regular accurate reports.

Most practitioners are fortunate that a large proportion of their income is funded by government

or private health insurers and so cash flow is relatively stable and paid regularly. So, it is perhaps much easier to get away with not being so financially savvy and on top of the numbers. However, a number of practitioners are experiencing pressure from changing funding models and disruption (such as that being experienced by community pharmacy currently) that requires a greater level of financial literacy to understand what is happening and what corrective action needs to be taken to ensure continued profitability into the future.

At the very least, every business should receive a profit or loss report, a balance sheet, and ideally a cash flow statement on a monthly basis with enough detail to be able to review trends and compare to expected results. Hopefully a forecast has been prepared and monthly actual results are being reported against these forecasts, or at the very least, a budget. If you do not have a target or measure to report against then the reports are less meaningful.

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STAFFING

When it comes to finding new staff, only 22.22% of respondents said they have no problem finding the right skilled staff when needed. The remainder found it somewhat or very difficult to find skilled staff. The largest majority of those that say they find it very difficult (57.89%) were in Auckland.

Of those that found it very difficult to find skilled staff, 84.22% had turnover of \$1m or less. Interestingly, though, 75% of those that found they had no problem finding the right skilled staff had turnover of less than \$500k. This is likely to be due to the fact those with turnover of less than \$500k have also reported they don't employ qualified staff.



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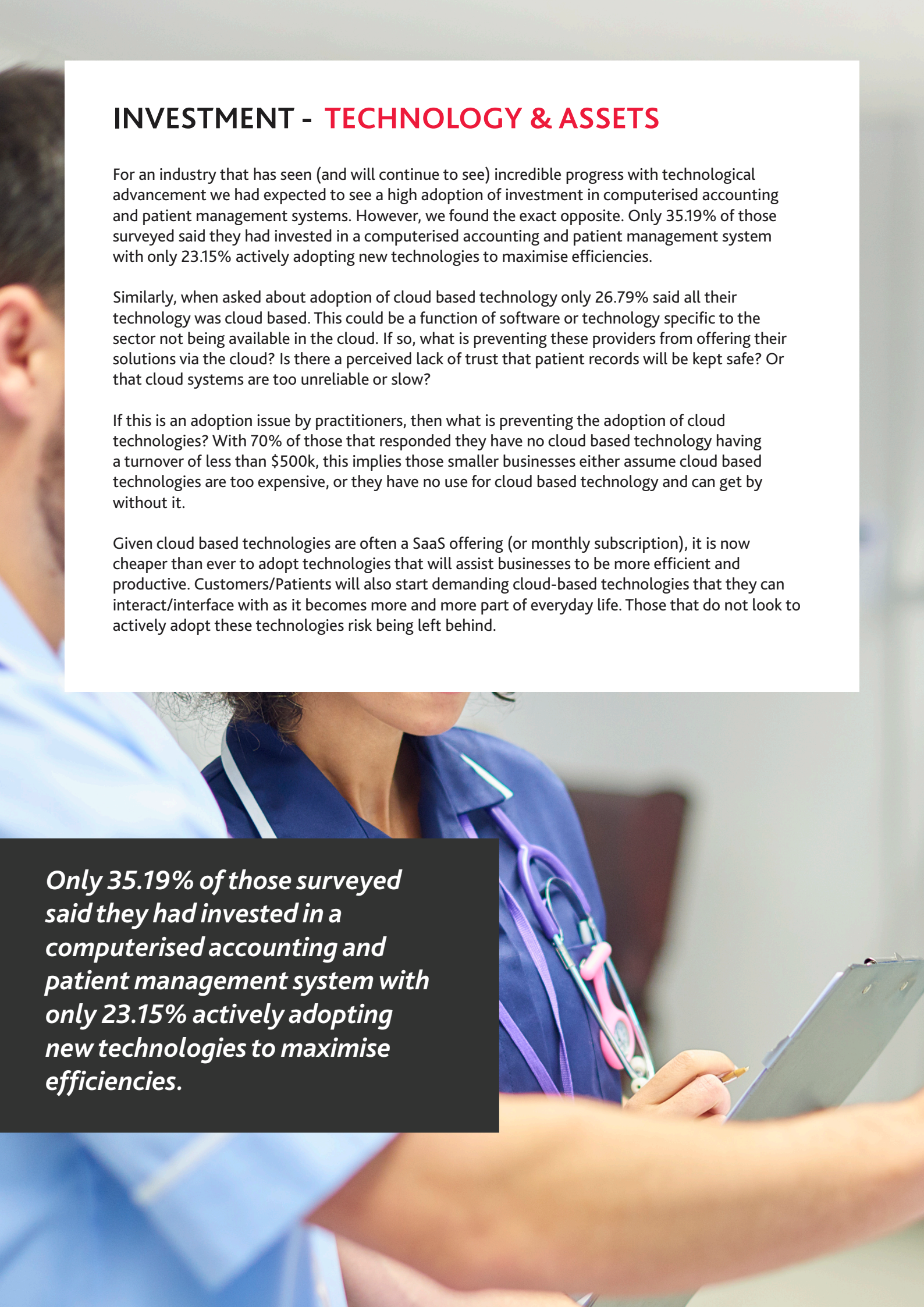
INVESTMENT - TECHNOLOGY & ASSETS

For an industry that has seen (and will continue to see) incredible progress with technological advancement we had expected to see a high adoption of investment in computerised accounting and patient management systems. However, we found the exact opposite. Only 35.19% of those surveyed said they had invested in a computerised accounting and patient management system with only 23.15% actively adopting new technologies to maximise efficiencies.

Similarly, when asked about adoption of cloud based technology only 26.79% said all their technology was cloud based. This could be a function of software or technology specific to the sector not being available in the cloud. If so, what is preventing these providers from offering their solutions via the cloud? Is there a perceived lack of trust that patient records will be kept safe? Or that cloud systems are too unreliable or slow?

If this is an adoption issue by practitioners, then what is preventing the adoption of cloud technologies? With 70% of those that responded they have no cloud based technology having a turnover of less than \$500k, this implies those smaller businesses either assume cloud based technologies are too expensive, or they have no use for cloud based technology and can get by without it.

Given cloud based technologies are often a SaaS offering (or monthly subscription), it is now cheaper than ever to adopt technologies that will assist businesses to be more efficient and productive. Customers/Patients will also start demanding cloud-based technologies that they can interact/interface with as it becomes more and more part of everyday life. Those that do not look to actively adopt these technologies risk being left behind.



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REMUNERATION

Of those that responded to this question, 44.64% felt they were not fairly remunerated for what they do.

Of these 78% were GP's, specialists, or pharmacy - with nearly half being pharmacy. This is not a surprising result, given the changes in the funding model for pharmacy and the recent challenges facing the industry.

Given there appears to be a low adoption of computerised systems and cloud based technologies, this could suggest there is some inefficiency that could be contributing to a perception of not being fairly remunerated. Or a lack of adaptation of business models to suit the current funding environment. Whatever the answer, it is likely that additional funding will not miraculously appear from government and so businesses must adapt.

Only 44.64% of respondents felt they were being fairly remunerated.

Only 19% of those surveyed felt they had a good work/life balance or did not feel any stress in their role.

WORK STRESS

Only 19% of those surveyed felt they had a good work/life balance or did not feel any stress in their role. This is not an unsurprising statistic, given qualified staff are often hard to find and there is increasing pressure on an already constrained health system. However, given this is the health industry there should be a clear focus on the health of those working within it.

Of those that said they did feel some level of stress in their role, 67% felt it was manageable or not beyond what was expected. It is perhaps a sign of the times we live in that stress in a role has become so readily accepted.

STATE OF THE HEALTH SYSTEM

LONG TERM CONDITIONS

Given the increasing demands being placed on our health system by Long term conditions (such as heart disease, diabetes, depression, dementia and musculo-skeletal conditions), we asked our respondents how well prepared they felt our NZ Health system was to meet this growing demand. A resounding 77% felt we were only somewhat prepared or not prepared at all.

This sentiment has been echoed in some of the comments made in the interim report issued by the Health and Disability System Review panel in which the panel members acknowledge the system is "facing many challenges and demand pressures are increasing".

CHANGING DEMOGRAPHICS

The demographics of New Zealand society has changed significantly over the past few decades, and continues to change. The demand and need for services is also changing and so must our health system in order to meet this changing demand.

When asked about the impact of changing demand on services, 41.51% of our survey respondents have already had to review and

alter their service offerings with only 13.21% not noticing any change in the way they provide their services. A further 35.85% expect they will need to alter their service offering within the next five years to meet changing demands.

Some specific comments made by respondents indicate the growing population is placing strain on those operating in primary care, with "not enough doctors available". It was also commented that there needs to be more integration across public and private services with adoption of policy and strategy for delivering components of primary healthcare strategy having been slow.

We asked about the level of change required in the NZ health system to cope with changing demographics, and 56.60% felt significant changes were required as our health system is not structured well for our changing demographics.

When analysing the comments made by survey respondents to this question, these largely relate to dissatisfaction with funding models and frustration with administration across the system.

56% felt significant changes were required as our health system is not structured well for our changing demographics



COLLABORATION

Interprofessional collaboration in healthcare is often cited as "ideal" for good healthcare outcomes as it has been shown to improve patient outcomes. But how well has this been working in practice?

47.17% of survey respondents agreed that interprofessional collaboration is key to good health outcomes, but 28.30% say it's been difficult to put into practice. 43.40% of those surveyed have some level of collaboration, but would like more with 33.96% believing more work is required at the system/strategic level to encourage and incentivise collaboration with 30.19% saying funding models do not currently incentivise good interprofessional collaboration.

Could the lack of investment in technology and cloud based technologies be contributing to this lack of collaboration? Practitioners (and indeed those at the system level) should be exploring ways technology could be part of the solution.

HEALTH SYSTEM REVIEW

New Zealand's health and disability system is currently under review, with the first interim report having been issued recently. At the time of conducting our survey, this interim report had not yet been produced.

We asked our respondents how they felt about the upcoming health and disability system review, and while 44% said it was overdue a resounding 51% said they were not confident the outcome would be better than what we currently have. 48% were concerned the review would not address their particular area of healthcare, and 42% were concerned that funding issues would not be addressed. 3.85% of survey respondents were confident of positive change.

There was a lack of confidence that the review will be conducted by the appropriate people or those with the knowledge or experience to bring about the required change of what will actually work. Given our survey was conducted prior to the interim report having been issued, it would be interesting to receive feedback from the industry on the interim report.

From our own analysis of the report, it was pleasing to see an acknowledgement that "the lack of mandatory longer-term integrated planning throughout the system makes it impossible for communities or government to have confidence in the effective performance of the system. Planning needs to be strategic and undertaken within a system-wide framework. Effective strategic planning will require more systematic community and stakeholder engagement both within the health and disability sector and intersectorally."





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