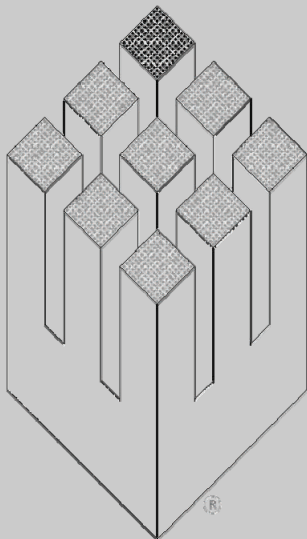


Adapting to the Changing Landscape of Healthcare

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The hospital model today stands in the crosswinds of market and non-market forces. On the market side, there is the overwhelming need to operate at a sustainable margin. On the non-market side, there are a host of regulations to comply with, mission that includes caring for those who can't pay, disproportionate payer bargaining power, and a relative inability to compete on the dimensions of price and quality.

Compounding the problem is the increasing number of freestanding clinics, not subject to the same regulations, able to carve out the most profitable portions of the market for themselves. With newer equipment and lower overhead, they can capture higher margins, and can refer the uninsured and those complex cases that pose the biggest medical and financial risks to the hospital.

Hospitals are left playing catch-up. To stay competitive, they need to upgrade and expand facilities, compete for a shrinking pool of qualified staff, and implement expensive new technology. The ongoing gap between current income and the requirements for continued competitiveness force the assumption of debt, further increasing overhead. Paired with flat or shrinking margins, this typical situation makes for an unsustainable business model. *Something has got to change.*

Needed: A transfusion of fresh thinking

For more than a decade, as payors have increasingly squeezed revenues, much of the industry has defined its strategic response as doing what it's always done, but for less. Hospitals aggregated into systems to maximize their leverage with payers and suppliers and "squeeze back" on reimbursement and supplies. Internally, cost cutting efforts have come and gone, usually with limited long-term impact. The current popularity of LEAN and six-sigma notwithstanding, such efforts have consistently underperformed against expectations. Hobbled by inflated resource requirements, lack of strategic alignment, and implementation that typically fails to make line management accountable, these tactics may capture some savings and process improvement, but offer no guidance toward fixing an outmoded business model.

To get off the "spend and borrow treadmill", hospitals need to redefine the business they are in. While there is no single solution or model that guarantees success, it's clearly time for some "out of the box" thinking.

One opportunity for thinking differently about

healthcare delivery lies in more fully realizing the benefits of size. Most hospital systems have successfully used their aggregated economic power to negotiate better terms with suppliers and payers, but have hardly begun to leverage all of the competitive advantages that scale offers. Outside of healthcare, multidivisional corporate structures look for synergy across operating units – centralizing support functions, integrating sales forces, and specializing manufacturing. Generally, this hasn't happened in healthcare. Systems need to move more decisively to capture operational improvements by specializing within facilities. This will allow more efficient use of assets as volume increases and efficiency efforts become more focused on core processes, and will help to improve the competitiveness of hospitals with smaller clinics.

More radically, hospitals and systems need to more effectively integrate individual practice areas and ancillary treatments into a disease state focus in selective areas. Such integration enables them to capture marketing and expertise synergies, as well as operational efficiencies as fewer core processes are refined and standardized.

Established healthcare delivery organizations also need a more proactive strategy to counter the “cherry picking” of high-margin patients by free-standing clinics. Currently, the most common “strategy” is to joint venture reactively, when possible, which simply mitigates the loss. Hospitals need to consider new models of distribution and capital acquisition that will allow them to preempt such competitive activity.


Reconceptualizing delivery models also means considering innovations like walk-in retail diagnostic and testing clinics in supermarkets or convenience stores – staffed by a nurse practitioner with a consulting physician on call for consultation. Entrepreneurial service companies already have broken this ground; hospitals that don't act soon will find themselves shut out.

At its most basic level, this means a shift in thinking from simply cutting costs to actively seeking growth *by doing business differently*. As a first step, hospitals will need to decide what businesses they won't be in, and they'll need to get out of those businesses. It's that first step that improves margins and frees resources for future growth. They also need to think about how to change their cultures to create an environment in which this kind of entrepreneurial activity can flourish.

Management infrastructure

Hospitals have historically found it difficult to implement new strategy. In part that's a result of their diffuse structure – departments often function as silos, specialization confers power, and resistance to change is high. Too often, line management is not actively engaged by administration in making the case for and supporting change. As a result, change moves slowly or not at all. Paralleling this issue is an even more fundamental one – the management infrastructure in most hospitals is optimized for performing technical tasks, not for meeting strategic business challenges. Managers themselves are usually promoted on the basis of strong technical skills and the ability to execute efficiently within the existing structure, so they are likely to lack the managerial skills that allow them to drive change through the organization, and are often exceptionally resistant to changing the system that worked so well for them.

True managers need an understanding of their role in the organization that goes beyond technical expertise to encompass things like strategy-directed corporate stewardship and fiscal management. They need to understand where the organization is going and what their role will be in getting there. Without redefining the role of management, and providing the training and tools to support it, most current managers will never reach that point. Most healthcare organizations need to give more attention to this “management infrastructure”.

Creating a management infrastructure that supports change is a critical first step for hospitals to remain competitive. This doesn't simply mean putting appropriate IT in place, or training managers to get information from it (though both are necessary). It means ensuring that managers know what to do with the information once they have it, that they have the skills to use it effectively, and that they understand what their larger purpose within the organization is so that they can use it to further that purpose. If organizations in the industry are to successfully adapt to the changing healthcare landscape, leadership needs to put these challenges at the top of their list. 

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