

Implement the right business model for service line success

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I hope you enjoy the following excerpt from HealthLeaders Media book, ***Service Line Execution 2.0: Advanced Strategies for Progressive Hospitals***.

Effective service line management is critical to your bottom line

To differentiate your hospital, you need an effective service line business model that defines and drives your position in today's complex market. In the face of rising competition from specialty hospitals, physician centers, retail clinics, and more, you must implement proven techniques to develop, focus, and continually analyze your strongest core lines of business.

Proven tools from subject expert Preston Gee

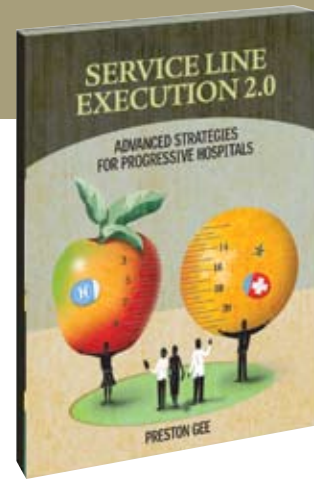
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Assessing perception and market position by service line

The strategic business unit mind-set and the relevance to the new competitors

One of the greatest advantages of a well-organized and well-executed service line design is the ability to position the organization effectively against competition. This is especially relevant in these times when the stiffest competition is likely to come from a new crop of market players. In the past five to 10 years, hospitals and health systems have become more preoccupied (and rightfully so) with the competitive threats they face from specialty hospitals, physician ventures, convenience care clinics, and a wide array of single-service providers. These new entrants are emerging as both agents of change and a serious threat. If they have not yet taken serious hold in your particular market, it is only a matter of time before they do.

These new competitors represent a clear and present danger to existing health-care providers for the following reasons:

- They are singularly focused on one specialty or service line
- They often have financial support and operational input from physicians
- They are easily identified and positioned in the minds of patients
- They are often aggressive and savvy about marketing
- They don't have the same degree of social responsibility as do hospitals and health systems
- They can easily maneuver in a changing market
- They often operate efficiently

This is just a partial list of the differential advantages that specialty players bring to the equation. Larger hospitals and health systems have believed that their strength (and inherently superior model) lay in their depth and breadth. However, what consumers (or patients) and physicians basically have said in many markets is, “Who cares about the girth of an organization? We’re fundamentally interested in the extent to which you are meeting our needs.” The embedded sense of market advantage that health systems once naively assumed would accrue to their benefit has been eroded by the success of these new competitors.

Consequently, as has been mentioned previously, the response to such competitors must be swift and certain, unflinching and pronounced. Too many hospitals or health systems have waffled in their competitive response or sent mixed signals to the doctors and the public about their position. This leaves the window of opportunity wide open for new entrants to establish their

position and achieve an early advantage in the consumer's mind. The great thing about the service line construct is that with the strategic business unit approach, the organization is actually in the best organizational design to deal with these new competitors. Since many of them are focused on a single specialty or service line (i.e., cardiovascular center or an orthopedic hospital), the service line structure—with its emphasis on treating each specialty as its own mini-enterprise—actually is the optimal model and architecture most effective for competing against the niche players or the entrepreneurial ventures.

Southwest case study

One example is worth citing: A rapidly growing and highly attractive market in the Southwest was home to two large health systems. One was an entrenched religious system that had a solid reputation and the leading market position. The other was an investor-owned system that had been formed during the high-merger era of the mid-1990s and was gradually gaining share on the not-for-profit system. Both systems had strong cardiac programs that accounted for a disproportionate share of revenue and margin.

Given the dynamics of the market—two strong systems, heavy managed care, younger than average population, and more than one strong cardiology group—the setting did not look all that favorable for a cardiac hospital to thrive. This market would not seem to be too fertile for the likes of a specialty hospital. Yet, MedCath Corp. (headquartered in Charlotte, NC) opened a facility in the market, and within two years, the facility had assumed the number one position in the market in terms of consumer awareness (as measured

by market research) and taken about one-third of the volume away from the larger, more entrenched systems in the area. In doing so, the smaller, yet more concentrated hospital provided some valuable lessons for all facing similar market dynamics.

In essence, the MedCath facility was able to come into an established market and create a perception among the public that it was the top-of-mind place to go for anything related to the heart, from diagnostic testing to heart surgery—because its singular medical focus (or at least main focus) was the heart. And by capturing the public’s attention and awareness, it also was in a better position to negotiate with managed care companies and work with employers on services ranging from executive physicals to cardiac rehabilitation. There were many lessons to be learned from this particular case study, some of which can be summarized as follows:

- Take all competition seriously, especially entities that threaten the core.
- Never underestimate a new market entrant due to size or experience.
- Never presume what the market wants or how the consumer will respond.
- Strike in a preemptive fashion, not reactively. First to market will usually remain first.
- Structure the competitive response and market position to match that of the competition, or—even better—to one-up the competition.

Service line structure helps thwart competition

As noted earlier in the book, a service line management (SLM) structure actually provides one of the best, if not the best, operating and organizational structures to anticipate specialized competition. If an SLM structure is in place and a manager assigned to the core lines, you can bet that the manager and his or her service line team will be among the first to know about any potential competitive threats. Part of that manager's job (as well as that of the team) is to keep abreast of market dynamics. To do that, he or she will be in constant contact with the key stakeholders pertaining to the service line. This obviously would include physicians—both those loyal to the facility as well as those loyal to the competition.

One reason why legacy hospitals and health systems have taken such a pronounced hit by the specialty players is that far too often they haven't had dedicated individuals or teams assigned to monitor the market. Consequently, in many instances, by the time they get word of a physician uprising, a competitive inroad, or a major defection, it is too late—a *fait accompli* for that market. As such, attempts to salvage the situation too often are stop-gap or reactive. All one has to do to validate this premise is to look at what has happened in many of the markets where new competitors have entered. The responses have been anything but calculated and the subsequent success far from stellar.

Market reconnaissance on a focused basis and the need for preemptive strategy

The best time to develop strategy is early in the process when several variables still are in play and multiple options are available. When strategy is planned at the 11th hour, with very few options available, the execution is usually short-sighted, overly expensive, and predictably reactive. It is just the nature of the planning process. As with so many things, timing may not be everything, but it is critical. One of the greatest benefits of SLM is that if it is well organized, high profile, and ultimately accountable, it buys time—time not only for planning counterstrategy but perhaps even for preempting competitive threats in the first place.

This is something that healthcare leaders have been either remiss in or unable to grasp: the notion that highly effective, dedicated service line managers will earn their salaries several times over just by having a focus on market dynamics and competitive activity—existing and potential. Unfortunately, too many senior executives mistakenly believe that this kind of reconnaissance is the purview and prerogative of marketing directors or department managers. Granted, some organizations do have individuals in these kinds of roles who consider it part of their responsibility to keep their finger on the pulse—and achieve admirable success in so doing. However, there is always the dilution and distraction factor for most individuals whose role is either so widespread (e.g., marketing director) or so operationally in-depth (e.g., department director). Whatever the reason or the distraction, the fact remains that the traditional hospital organizational structure is not well suited for anticipating competitive

threats or for successfully countering such threats once they become a reality in the market.

Service line managers and the role of market intelligence

Consequently, an organization that has a functioning service line structure should position itself to take advantage of its more conducive orientation. Service line managers should provide regular reports on competitor initiatives, marketing thrusts, and forays—either formally through business plan updates or informally through some type of periodic review. This structured system for reporting gives senior management a more accurate picture of what is occurring in their market, as well as what they might anticipate. This type of reconnaissance and review gives senior executives invaluable guidance and framework for their strategic planning and capital allocation decisions. Without it, the consequence often is reactive strategy (which is really not strategy at all) or suboptimal execution because it is done in haste and without proper lead time, market research, and stakeholder input.

Many of the pitfalls of faulty initiatives and flawed strategy could have been avoided if the process and structure existed for periodic reports from the field. Yet to this day, there are not many organizations that institute a competitive assessment update. Surprisingly, many organizations do not even have a formalized strategic planning process (as has been mentioned earlier), including some of the larger and more financially viable for-profit organizations. This begs the question then: “Well, if the large for-profit companies and their hospitals do not have structured and rigorous planning as part of their regimen,

why should organizations bother?” The answer can be found in the roller-coaster history of investor-owned and not-for-profit hospitals and health systems. Look at most of the well-known firms—whether not-for-profit or for-profit—and you will see a disturbing trend of peak-and-valley financial performance. This is to be expected, given the nature of the industry and the unpredictability of many of the variables that affect healthcare. Yet, the counter argument to that notion is that an industry that has more volatility should actually prompt even greater efforts at planning. This concept is far too rare in healthcare, but suffice it to say that the benefits of tracking the competition and anticipating competitive strategy are one of the more compelling reasons for pronounced and pervasive SLM orientation.

How to gather intelligence on competitors

A good SLM will become as familiar with the competition as those who work there. In the consumer goods industry, product or brand managers spend a great deal of time studying the moves and motives of their key competitors. They keep tabs on what they are doing from both an operational and marketing sense so they can not only anticipate the impact on the market but they can be prepared to respond in a way that will effectively neutralize the competition’s efforts.

In healthcare, of course, this often takes the look or feel of me-too initiatives. We have earned a reputation for being an industry of lemmings that follow the competitor across the street or the seemingly successful hospital across the country. Again, to emphasize, this type of reaction often is just that—a

reaction—that is not grounded in thoughtful process or carefully planned execution. The value of a service line orientation when it comes to competing—especially against smaller and more nimble players—is that it subdivides the organization into units that can more effectively compete because they are given the authority and the accountability to track competitor movement and then to respond (not react) accordingly. Of course, they keep the senior management informed on both competitor movement as well as the recommended strategy to counter and contend with the competition, but this is an integral part of their job function—not something that is left to chance or serendipity. In essence, a service line structure gives managers a more acute awareness that they are not responsible only for their own line but for the competitor, as well—because what the competition does will have a direct impact on their business. This concept of managing the competition is not a notion that is very prevalent in the hospital field, but it is in other industries, and it will pay valuable dividends for those organizations that understand and practice it. As the old line goes, “Keep your friends close, and your enemies closer.”

Not that competitors are enemies, nor should they be regarded as such. In fact, one of the outcomes of monitoring actions by competitors may be to offer a strategy involving collaboration. The concept of coopetition, cooperating or collaborating while still competing, is beginning to take greater hold in this industry. For example, the idea of time-share operating rooms, a concept tested by Tenet and other organizations, is an excellent example of innovative coopetition.

The model has worked very well in other industries, especially high tech. In that industry, the design and development of SemaTech as an industrywide organization that could assist the American tech companies to compete against their foreign counterparts is regarded as a very successful model.

Correspondingly, there may be opportunities for competing hospitals or health systems to find common ground, mutual interest, and economic benefit to pursuing collaborative ventures. Studies have shown that collaborative ventures between competitors—although difficult to design and execute—prove to have good financial results. Careful tracking of competitor movement may provide advance notice to pursue beneficial collaborative arrangements.

Example of creative positioning tactics

An example of this comes into play with possible joint venture between members of the medical staff. As physicians experience declining practice incomes and yet greater demands on their time, they are seeking to gain more control over their lives and their economic future. Consequently, many are splintering off and developing enterprises that directly compete with the hospitals or health systems that have provided them a venue to practice their profession for decades.

Although some healthcare executives view this as a kind of treason, or at the least a competitive threat, savvy executives will anticipate the interests and needs of key members of their medical staff and begin evaluating opportunities for partnership with the doctors on ventures that are mutually beneficial and

legally permissible. These kinds of ventures offer all parties the option to collaborate rather than compete outright, and whereas the ultimate outcome may not be as economically attractive for the hospital or health system, it may prove to be better than losing the large share of business that would migrate away from the hospital to the physician's office. And such an arrangement may even produce synergistic opportunities for both parties.

Furthermore, the hospital or health system that incorporates the notion of frequently and faithfully monitoring and managing the competition will find that its overall strategy will likely improve. This should occur as the organization undertakes a more structured and calculated approach to assessing and analyzing the strategy of its competition. Again, in many industries, competitor analysis is fundamental. In healthcare, it too often is limited to the annual (or even less frequent) review of the market as part of the environmental assessment. However, if such assessment and analysis occurs only on an infrequent and limited basis, the significant moves of competitors—either existing or possible—will not be detected in a timely fashion.

One major hospital system in central Texas determined that rather than risk the loss of more volume migrating to imaging centers, it would partner with the largest radiology group in the area. Although some executives feel that to give up a section of the market, or a sizable piece of the pie, is untenable, many are realizing that it is better to retain a segment of the high-margin imaging market (by partnering with physicians) than risk losing the major percentage of the imaging business.

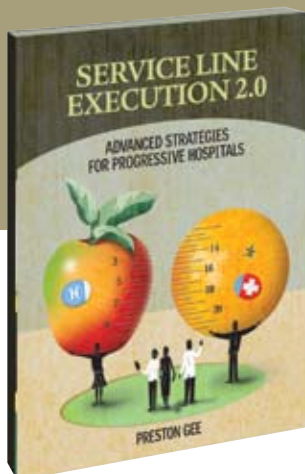
In the case of the system in the Southwest, their gambit paid off. Not only were they able to retain a fairly significant segment of the market, the radiologists favored the initial arrangement so much they invited the large system to participate in more such ventures. They valued the managerial expertise and marketing savvy that the large system brought to the joint enterprise. Consequently, the venture was a win-win-win, with eventual satisfaction and success for the physicians, the hospital system, and area patients, who received more convenient service at a lower cost and in a more expedited fashion.

As with so many components of service line structure, the service line manager and his or her colleagues bring great value to the organization in terms of the information they provide and all the discipline they exhibit. If the service line structure is adequately and accurately functioning, the competitive response—ranging from aggressive competition to possible collaboration—will be more readily identified and more easily achieved.

Conclusion

The notion of competition in the American healthcare system is as entrenched as it is productive. SLM offers an excellent framework for assessing an organization's competitive position and then determining the optimal strategy. In an era of emerging competitors who offer single-service emphasis—known as niche competitors—a service line strategy can help transform a larger, inflexible, and lethargic organization into a responsive and focused entity that can compete more effectively.

Additionally, a dedicated service line manager, supported by a multidisciplinary team, can more readily anticipate market needs and more successfully preempt or respond to competitive threats. One such response platform may be along the line of cooperation, where the hospital or health system chooses to partner with a specialty player or enterprising physicians. Whatever the selected mechanism or model for competitive response, a service line structure is an excellent organizational framework for matching the resources of the organization to the needs (and demands) of the market.



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