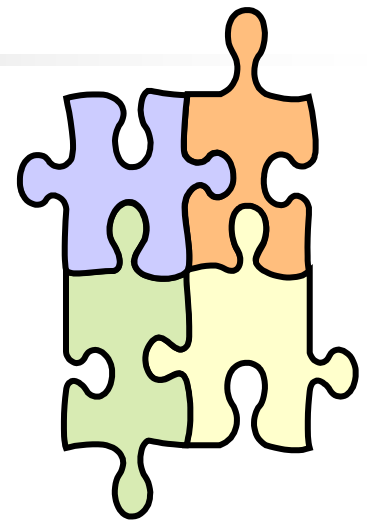




Clinical Service Lines

Presented by
Scott A. Mason, D.P.A., FACHE
to
Health TechNet
Sept. 15, 2008





Purpose of Presentation

- Define clinical service lines as an approach to healthcare strategy
- Discuss implications of clinical service lines
- Stimulate some dialogue regarding clinical service lines and related technology considerations



Qualifications

- Strategy Consultant to healthcare industry for over 25 years. Have been advocating and assisting organizations in implementing such strategies for over 15 years.
- Developed and taught ACHE seminar on Implementing Service Line Management in 1990s



Observations (connecting the dots)

- 40% of all children under 5 in the US are minorities
- HCA goes private; reason? margins are too small to meet investor demands (don't know anymore how to grow the business)
- Hospitals and related healthcare organizations are becoming more diversified and complex; difficult to manage
- Imperative for growth in the face of daunting capital outlays

Coming: A target rich market

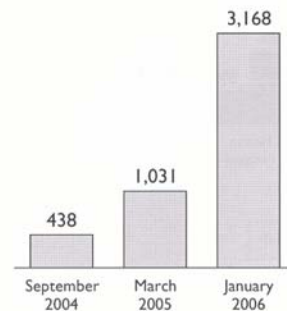


Growth of consumerism and CDHPs.

Promising Rates of Adoption...

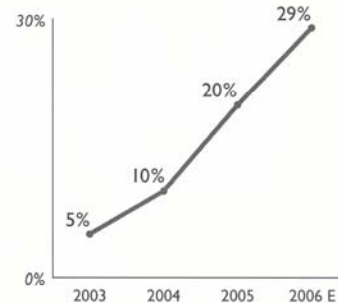
Growth of HSA/HDHP Enrollment

Thousands



Firms that Offer Employees HDHP

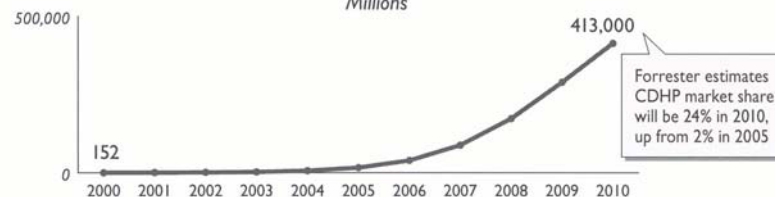
2003–2006 E



Rosy Outlook for Growth

Projected CDHP Premium

Millions



The Advisory Board

Source: America's Health Insurance Plans (AHIP), "HSAs and Account Based Health Plans," available at: <http://www.ahipresearch.org/>, accessed July 26, 2006; Mercer Human Resources Consulting "Beyond the Early Adopters: Consumerism at Work in the Marketplace," available at: <http://www.mercerhr.com/pressrelease/details.jhtml?idContent=1209030>, accessed July 26, 2006.

Why are so many organizations interested in clinical service lines?

Healthcare Strategy alert!
SERVICE LINE STRATEGIES MARCH/APRIL/MAY 2006

Service Line Management: Complicated, but Worth It

Two years ago, *Healthcare Strategy Alert* devoted an issue to the growing interest in service line models as a means to improve patient care and better align the healthcare organization's interests with those of physicians and the external market. Service line models also offer hospitals and healthcare systems a structure for managing the portfolio of services they offer in a way that optimizes resource allocation, profitability, and customer service. So, we expected the interest in service line models to grow, especially in an environment of intense competition, tight margins, and more sophisticated consumers. It has grown, according to industry experts, but with mixed success.

Healthcare organizations that are attempting to reorganize around service lines are finding that it's not easy. The challenges of building and implementing workable models are many, particularly in large, complex organizations. In this issue, executives from hospitals, academic medical centers, and healthcare systems that have been through the process share their insights about the benefits and challenges of a service line structure, and offer advice about how to adapt a model to fit a specific situation.

Can a service line model work in your organization? Certainly, in today's competitive marketplace, the advantage of a service line, or niche, approach should not be overlooked. Read on...and explore the possibilities.

Judith S. Neiman, President
Forum for Healthcare Strategists

This issue of *Healthcare Strategy Alert* is produced in cooperation with Coffey Communications, Inc.

Service Line Strategies
Staying Ahead of the Learning Curve

The healthcare industry has seen service line strategies come and go over the past two decades. Current interest in service line models suggests that, despite the problems and failures of the past, healthcare strategists believe that such models, when executed properly, do indeed have something to offer hospitals and health systems. *Healthcare Strategy Alert* convened a panel of senior healthcare executives to discuss what that something is and what it takes to do service lines right. Here are some of their insights.

Healthcare Strategy Alert: Is a service line focus one that can work in healthcare?

Alvis Swinney, Senior Vice President, Marketing and Communications, Meridian Health, Neptune, NJ:
I'm a big devotee of service lines, and am more convinced than ever that service line management is the way to go for large organizations.

Healthcare organizations have got to come up with a way to manage the portfolio of business activities that make up the enterprise.

Healthcare organizations have got to come up with a way to manage the portfolio of business activities that make up the enterprise, especially in

For more information: www.healthleaders.com



Service Line Management: The Essentials Customer Based Marketing Strategies
11th Annual Forum - April 30, 2006
Heidi Aylsworth
Project Director
Swedish Medical Center
Richard K. Keck, Jr.
Founder and President
StratEx





It is about growing by improving the patient experience.

Clinical Service Lines are a way of joining similar services around diseases (e.g. cancer) or other care dimensions (e.g. women's health) in an effort to better connect with key customers and deliver a better-coordinated set of services.



The Problem: Tower of Babel

Clinical Service Lines

Women

Cancer

Stroke

Heart

Facilities

MOBs

ASCs

Hospitals



Definitional confusion has contributed to fits and starts.

Four Service Line Types:

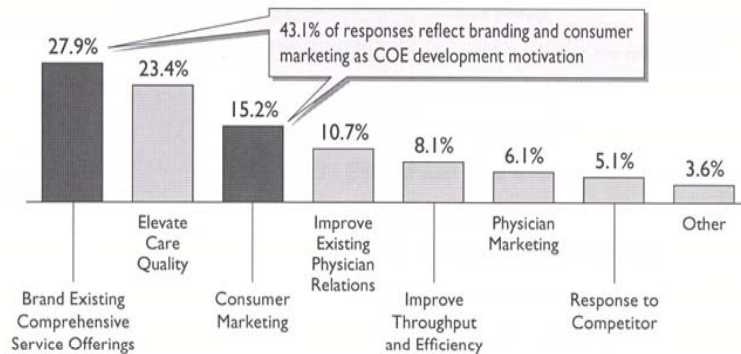
- ❑ Service Line
- ❑ Center of Excellence
- ❑ Marquee Service
- ❑ Focused Factory

Centers of Excellence have been trivialized.

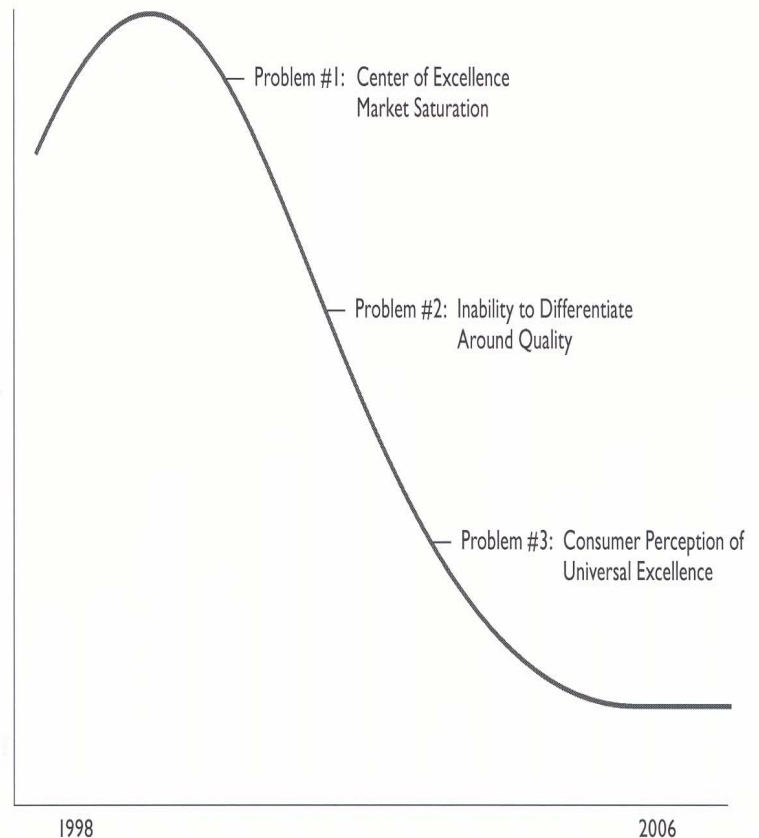
Marketing and Branding Driving COE Development

Percentage of Responses Cited as Driver of COE Development¹

n=74



COE as
Effective
Differentiator





Definition: Service Line

A comprehensive group of services, specified largely by related DRGs and CPT-4 Codes, ranging from prevention through rehabilitation, which:

- Are recognized by the customer
- Have an identifiable external market
- Involve at least two physician sub-specialties
- Constitute a logical planning/management unit



Systems that are ahead of the game...

- Intermountain Healthcare, Salt Lake City
- Providence Health Services, Portland
- Swedish Health Services, Seattle
- Presbyterian Health Services, Albuquerque
- MemorialCare, Anaheim
- Mercy Health Services, Sacramento (part of CHW)



Different definitions apply

Swedish Service Groups

- 1. Orthopedics
- 2. Pediatrics
- 3. Post Acute
- 4. Surgery
- 5. Women & Infants
- 6. Behavioral Medicine
- 7. Cardiovascular
- 8. Cancer
- 9. Emergency
- 10. Medicine
- 11 Neurosciences

Each service group is composed of several service lines (e.g. cancer = hematology + oncology)



Stamford Health System

1. Heart Services
2. Orthopedics & Spine
3. Children's Services
4. Women's Health
5. Cancer Care
6. Neurosciences
7. General Surgery
8. General Medicine
9. Other



The imperative for growth leads to different growth scenarios. There are different risk profiles for different scenarios.

Program-Market Matrix

Programs

Markets

	Existing	New
Existing	Least Risk	Risky
New	Risky	Most Risk



As we look at future growth potential, It is important to note what others forecast.

What the Pundits Forecast Volume Projections 2003 through 2008

	<u>Use Rate Change</u>	<u>Overall Volume Change</u>
Cardiology/EP	55%	70%
Cardiology/Cath	16%	28%
Endocrinology	17%	27%
Nephrology	10%	20%
GI	8%	18%
Neurosurgery	6%	13%
Orthopedics	0%	9%
Vascular Surgery	-13%	5%
Cardiology	-4%	5%
Oncology	-4%	4%
Obstetrics	-1%	2%
Cardiac Surgery	-12%	-2%
Gynecology	-10%	-7%

Source: The Advisory Board

The New Vision is about Managing the Health Experience



As goods and services become commoditized,
the customer experiences that companies
create will matter most.

WELCOME TO THE
EXPERIENCE



Why not Healthcare?



As goods and services become commoditized - think of
distance telephone services sold solely
on price - experiences have emerged as the
next step in what we call the progression of
economic value (see the exhibit "The Pro-
gression of Economic Value.") From now
on, leading-edge companies - whether they
sell to consumers or businesses - will find

Harvard Business School Press in April 1999.
They are the authors of "The Four Faces of Mass
Customization" (HBR January-February 1997)
and can be reached at pine@gilmorebusi-
ness.com.

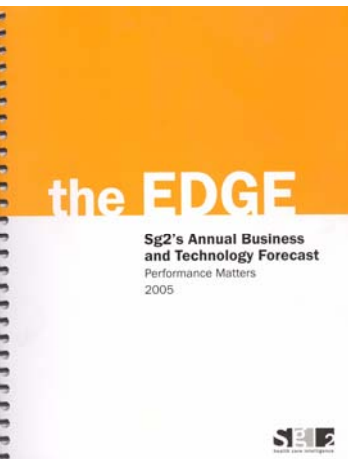
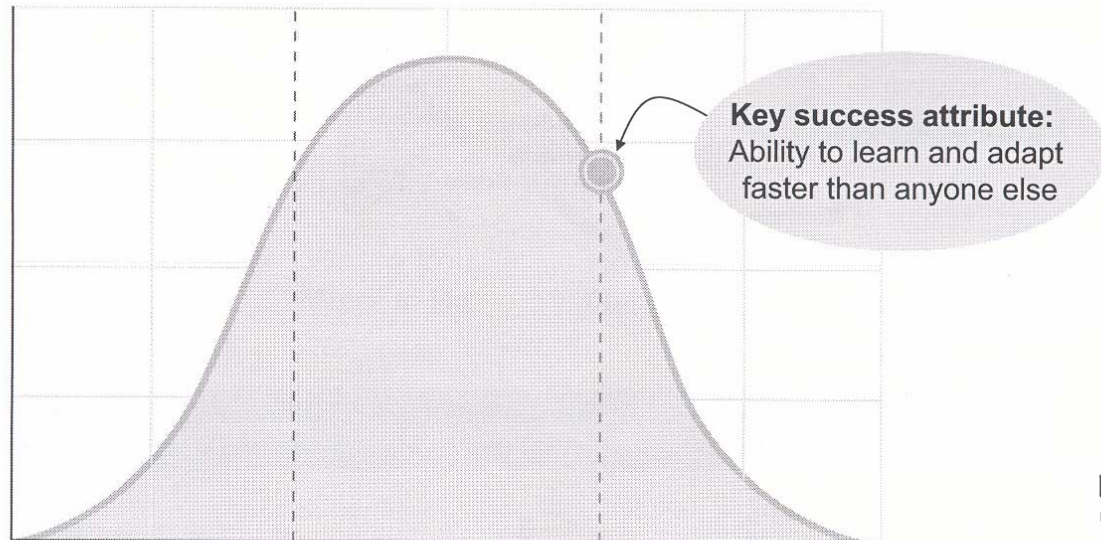
HARVARD BUSINESS REVIEW July-August 1998 Copyright © 1998 by the President and Fellows of Harvard College. All rights reserved.



STARBUCKS.CO

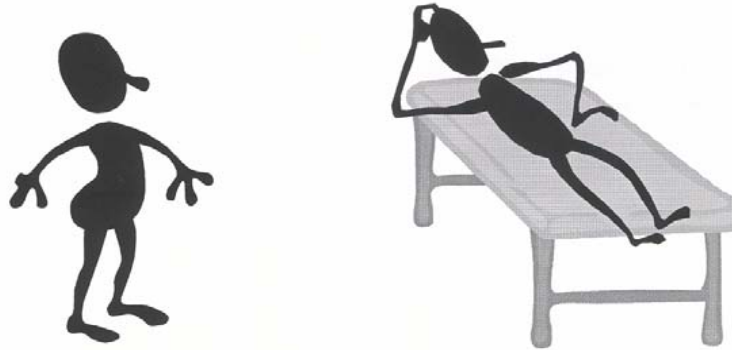
SG2 has developed some related materials

Being Average Is Not Good Enough



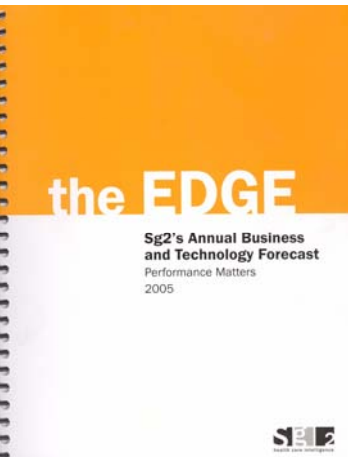
Service lines is about customer and customer perceptions.

Define Consumers and Patients



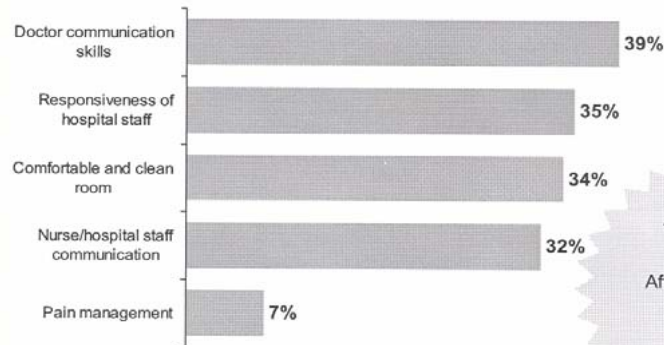
- Consumers care about process; patients care about people.
- Segmentation is still under-utilized in the health care industry. Age and income remain important predictors, but we know surprisingly little about how to differentiate customers based on loyalty, lifestyle, attitudes and behaviors.
- The era of the electronic medical record (EMR) creates opportunities to record, track and access patient-specific information.
- Changing customer interaction behavior is challenging, but it becomes critical to differentiate between those who care about process and those who care about people during a health care encounter.

Performance means different things to different people.



Patients See Performance Differently

What Medicare Hospital Patients Care About Most



Affordability = Quality

Affordability is the most often cited measure (14%) of how Americans judge health care quality.

Source: Centers for Medicare and Medicaid Services, Wall Street Journal.

- Ultimately, performance is in the eye of the beholder. Medicare, Humana, the chief nurse and the attending physician will all measure performance in different ways.
- Patient surveys show that patients evaluate hospital performance based on those dimensions of the experience that they feel most qualified to judge—communication, convenience and comfort. Increasingly, patients also equate affordability with high quality.
- The message is that while providers keep in mind a broad view of performance, they must also be sensitive to the perceptions of different stakeholders.
- Based on which stakeholder you have in mind when you are trying to differentiate your institution at any given moment, the aspects of performance you emphasize will change.





It is important that a new model be introduced into service line development.

Critical Success Factors for Clinical Service Lines:

- Line management structure and responsibilities
- System support at all levels (e.g. service line P&Ls)
- Clinical team orientation
- Clinician outreach and access
- Sales oriented staff
- Adequate budget and dedicated resources
- Effective branding and related promotion
- Community education and outreach
- Adequate facilities and co-location of programs
- Single point of contact

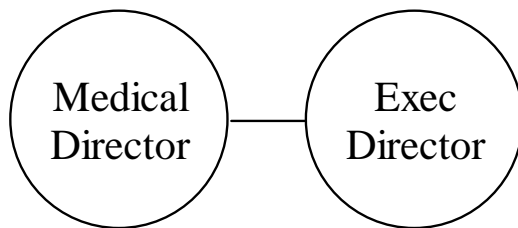


Service line management involves:

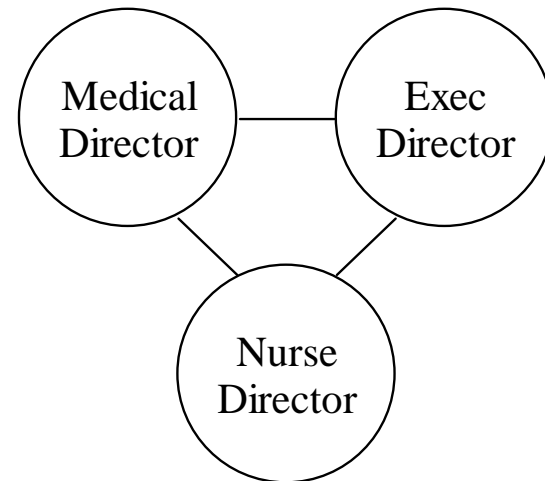
- A full time, dedicated Executive Director
- A part time Medical Director
- A name and brand for major service lines and related programs that are connected to the overall brand and with any affiliated entities (e.g. Human Motion Institute)
- Integration into operations with discrete budgets
- Service lines being positioned as a key internal customers by support areas (e.g. radiology)

Two models have been generally employed successfully.

Service Line Management Models



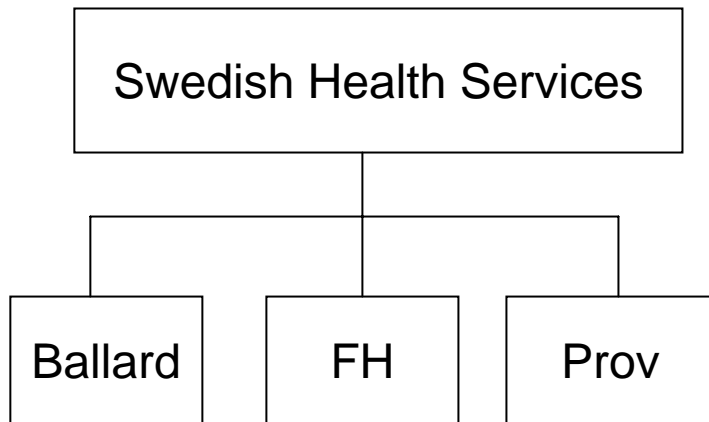
Diad Model



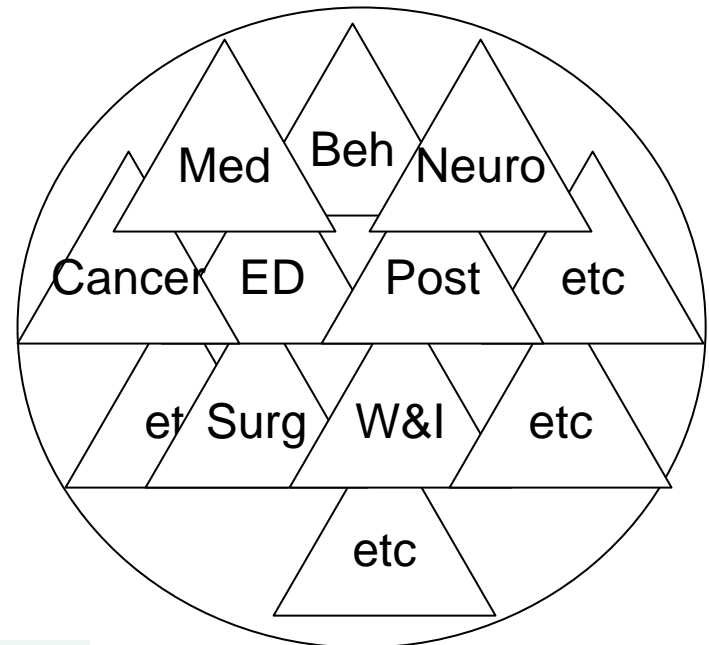
Triad Model

The difference is profound and requires major restructuring of information flow.

Old Model: Collection of Hospitals



New Model: Select Network of Specialties



Source: Richard Keck, StratX

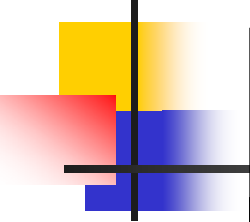


The 10 Tools of profitable revenue growth

1. Revenue growth is everyone's business
2. Hit many singles and doubles, not just home runs.
3. Seek good growth and avoid bad growth
4. Dispel the myths that inhibit both people and organizations from growing.
5. Challenge productivity by increasing revenue productivity.
6. Develop and implement a growth budget.
7. Beef up upstream marketing.
8. Understand how to do effective cross-selling.
9. Create a social engine to accelerate revenue growth.
10. Operationalize innovation by converting ideas into rev growth.

Source: Charan, *Profitable Growth*, 2004

Three System Based Approaches



Characteristics	Approach		
	Packaging/ Segmentation	Site/Program Specific	Service Line*
Examples	Geriatrics	Ambulatory Surgery	Heart Women & Children Bone & Joint Behavioral Health
Management	Marketing Dept.	Varies	Service Line Manager
Financial Link	PR Budget	Venture- Specific	P & L
Emphasis	Packaging	Discrete New Service	Comprehensive
Time to Implementation	3-6 months	12-18 months	24-36 months
Clinical Continuum Integration	None	Partial	Full

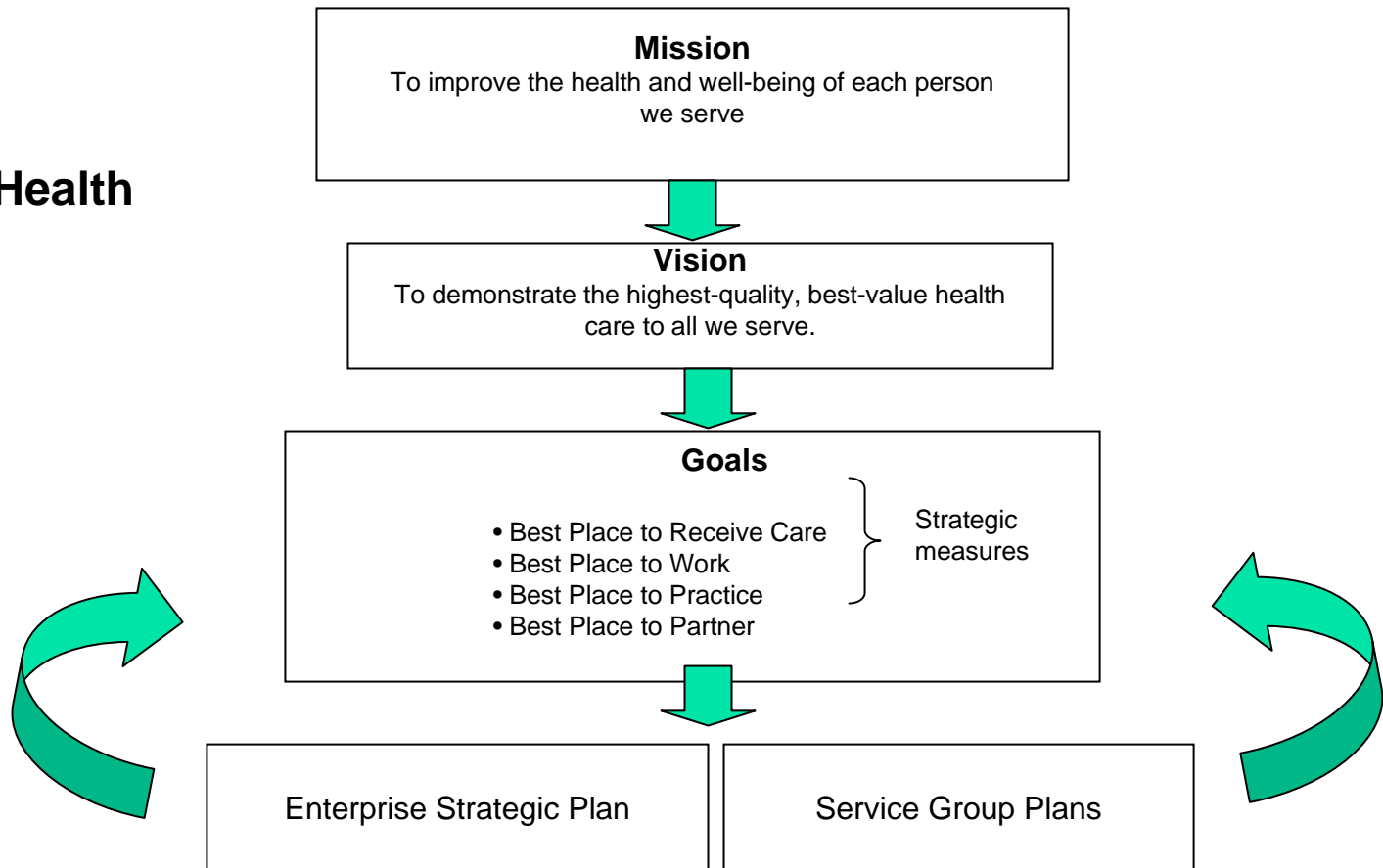
Promotion

Management

Service Line Planning Continuum

Planning for service line is very challenging; it requires significant integration.

Swedish Health Services



Planning...

Eight Essential Rules for Service Line Success

1. Define the lines
2. Measure what matters
3. Narrow down to 2 or 3
4. Create the optimal organizational design
5. Assess market position by service line
6. Develop appropriate business plans
7. Compete aggressively and strategically
8. Apply the model throughout the organization

Service Line Success: Eight Essential Rules (E. Preston Gee, 2004)

Implementation...

As challenging as planning is, implementation is worse.

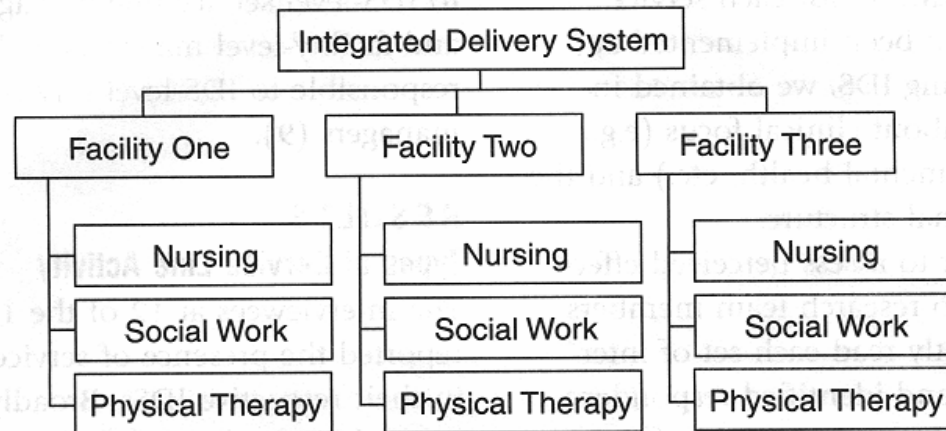
	Medicine	Ob-Gyn	Pediatrics	Psychiatry	Cardiac Surgery	Rehab	Surgery	Orthopedics	Hand	Subacute	CNHC	Total
Gross Revenue												
Inpatient Revenue	\$30,065,425	6,643,767	-	3,246,804	18,480,700	2,502,404	21,125,376	10,278,868	1,007,013	3,638,201	-	96,988,538
Ambulatory Surgery Revenue	2,483,014	489,276	-	-	35,716	-	3,148,661	1,701,567	1,810,453	-	-	9,668,687
All Other Revenue	12,388,244	1,676,343	-	960,256	-	-	783,962	1,583,895	2,128,863	-	4,329,512	23,851,075
Total Gross Revenue	44,936,683	8,809,386	-	4,207,060	18,516,416	2,502,404	25,057,999	13,564,330	4,946,329	3,638,201	4,329,512	130,508,320
Gross Revenue - %	34.4%	6.8%	-	3.2%	14.2%	1.9%	19.2%	10.4%	3.8%	2.8%	3.3%	
IP/OP Multiplier	1.49	1.33	-	1.30	1.00	1.00	1.19	1.32	4.91	1.00	-	1.35
Deductions												
Contractual Allowances	2,870,852	574,641	-	243,057	1,304,987	176,580	1,691,614	925,898	331,392	116,022	238,734	8,473,777
Bad Debt Expense & Charity Care	4,630,863	754,177	-	767,327	324,317	41,003	1,404,578	627,974	310,012	48,328	754,333	9,662,912
Total Deductions	7,501,715	1,328,818	-	1,010,384	1,629,304	217,583	3,096,192	1,553,872	641,404	164,350	993,067	18,136,689
Net Revenue	37,434,968	7,480,568	-	3,196,676	16,887,112	2,284,821	21,961,807	12,010,458	4,304,925	3,473,851	3,336,445	112,371,631
Operating Expenses												
Direct Expense	11,857,047	2,619,977	-	1,961,416	7,463,059	1,527,408	6,727,236	2,929,905	1,058,402	1,197,517	433,939	37,775,906
Nearly Direct Expense	6,246,965	1,097,241	-	433,648	5,706,988	290,699	6,663,577	2,907,562	402,755	-	405,853	24,155,288
Physician Expense	4,432,561	1,754,947	-	456,691	685,883	144,805	1,156,855	1,375,081	419,022	-	-	10,425,844
Risk Management Expense	732,074	4,643,516	-	68,538	301,655	40,767	408,226	220,980	80,582	59,271	70,533	6,626,142
Total Operating Expense	23,268,647	10,115,681	-	2,920,293	14,157,585	2,003,679	14,955,894	7,433,527	1,960,760	1,256,788	910,326	78,983,181
Net Operating Profit/(Loss)	\$14,166,321	(2,635,113)	-	276,383	2,729,526	281,142	7,005,913	4,576,931	2,344,165	2,217,063	2,426,120	33,388,450

Contribution Margin												
After Direct Expense	68.3%	65.0%	-	38.6%	55.8%	33.1%	69.4%	75.6%	75.4%	65.5%	87.0%	66.4%
After Nearly Direct Expense	51.6%	50.3%	-	25.1%	22.0%	20.4%	39.0%	51.4%	66.1%	63.5%	74.8%	44.9%
After Physician Expense	39.8%	26.8%	-	10.8%	17.9%	14.1%	33.8%	39.9%	56.3%	63.5%	74.8%	35.6%
After Risk Management	37.8%	-35.2%	-	8.6%	16.2%	12.3%	31.9%	38.1%	54.5%	63.8%	72.7%	29.7%

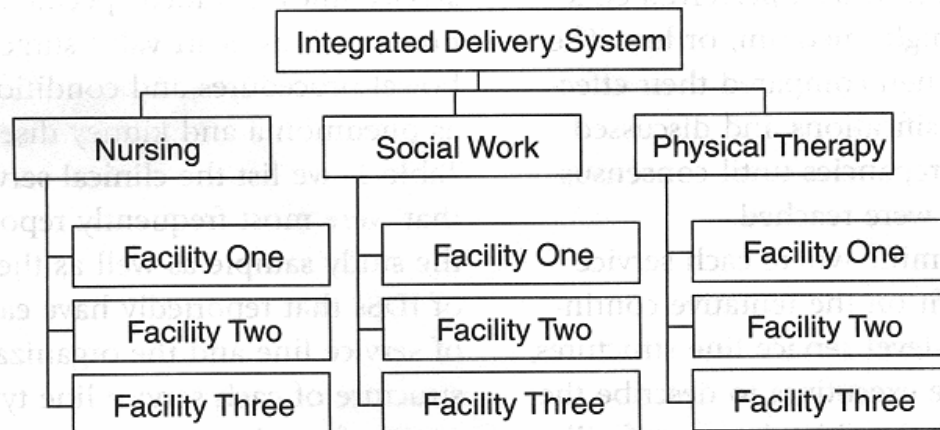
Implementation...

Structurally, it can be transformational.

Traditional IDS Organization



IDS Organized by Service Lines





Implementation...

Service Line Manager Functions

<u>Function</u>	<u>Control</u>
Business Plan	Yes
Marketing -- Budget	Yes
Marketing -- Personnel	Matrix
Utilization Accountability	Yes
P&L	Yes
Budgets	Yes
Expense Accountability	Varies
Line Authority	
-- Discrete Depts./Units	Yes
-- Shared Depts./Units	No

Implementation...

Changing Internal Customers

Support Services (internal)	Service Lines (external)		
	A	B	C
Lab	X		X
Imaging	X	X	X
Food Service		X	
Ambulatory	X	X	X
Surgical Services		X	



Measure What Matters

- Financial - Net revenue, contribution margin, net income, payer mix
- Volume and market share trends
- Patient origin trend
- CMI, use rate and ALOS trends
- Quality indicators
- Patient, employee, physician satisfaction
- Market research

Implementation...



Which is the more actionable statement?

**Increase overall market
share in admissions**

or

**Increase the number of joint
procedures done at Regional
Medical Center by Dr. Smith**

Implementation...

Cliff Notes: Service Line Priority Screens

	Top Markets				
Criteria	Heart	Women & Children	Bone & Joint	Cancer	Behavioral Health
Size					
Revenue					
Contribution Margin					
Carve Out					
Clinical Excellence					
MD Leadership					
Competitive Opportunities					
Market Influence					
Other					

Getting to “real time” information systems is a critical transformation

- Hospitals are ahead of the game if they know how each physician did in each service line last year; and market share going back 2 years
- Do you think Wal-Mart has more control knowing how much of item XXX they sold from all stores an hour ago and can compare it to the same stores on the same dates a year ago?
- Which organization would you bet on?



Case Study Takeaways

Intermountain Healthcare	It took 2 years to develop service line P&Ls; infrastructure is key
Providence Health Services	Maintain priorities even if it means postponing a donation
Swedish Health Services	A portfolio approach can support a growth culture
MemorialCare	A quality approach can raise all boats
Presbyterian Health Services	Physician leadership can be developed
Mercy Health Services	Competing at a service line level is demanding but rewarding