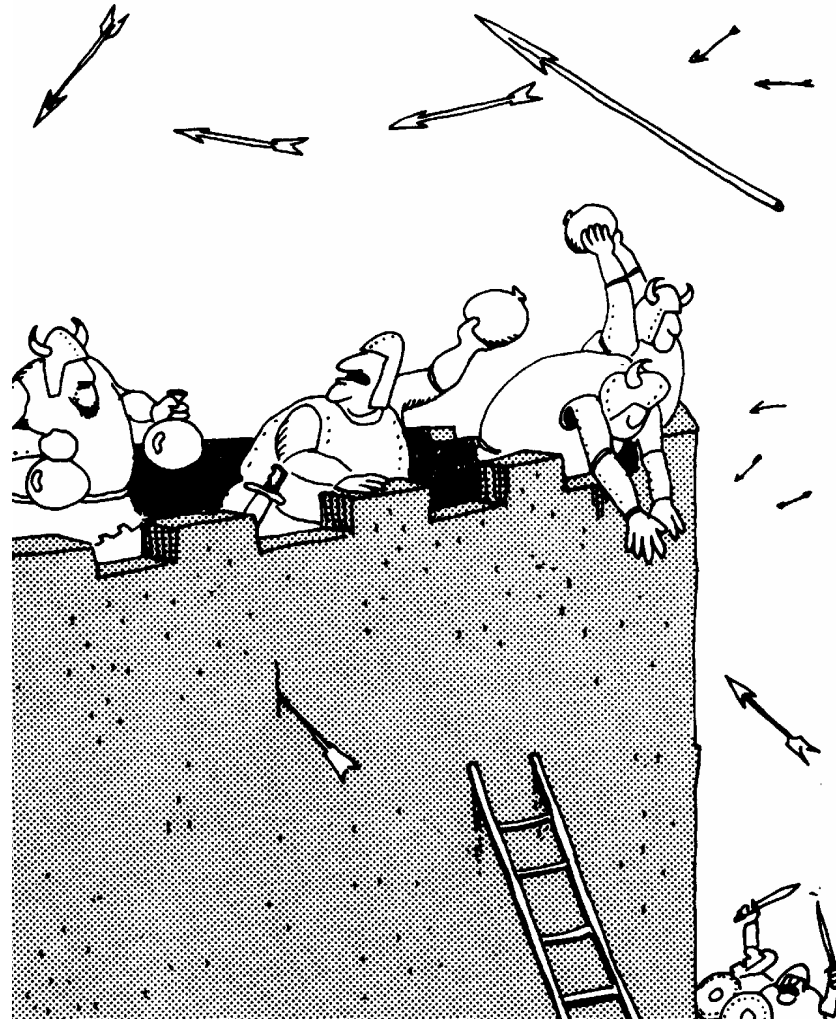


The Snowmass Institute

Service Line Management and Profitability

The Life of a Service Line Manager



“Hot oil! We need hot oil! . . . Forget the water balloons!”

- **Integrate service lines with organizational strategy**
- **Prioritize service lines**
- **Understand service line positioning**
- **Optimize service line pricing and profitability**

- **Market Trends**
- **Service Line Prioritization**
- **Service Line Profitability**
 - ➔ **Branding**
 - ➔ **Volume**
 - ➔ **Pricing**
- **Lessons Learned**
- **Discussion**

- **Service line and organizational strategies should be complementary**
- **An objective framework should be used to prioritize and customize service lines**
- **Service line profitability is a revenue game!**

- **Healthcare remains “commoditized”**
 - ➔ **Both purchasers and providers are having difficulty measuring, quantifying, and differentiating value**
 - ➔ **Providers are not paid for the value they provide**
 - ➔ **Revenue declining**
- **Consumers are playing an increasingly important role**
 - ➔ **Consumers *and* employer coalitions are beginning to make purchasing decisions based on quality**
 - ➔ **Healthcare consumers are 5x more likely to buy from an organization with a strong brand**
 - ➔ **60-70% of the commercial managed care-insured population have a choice regarding their health plans**
 - ➔ **69% choose plans and providers based upon reputation overall and reputation of the services that they need**

Healthcare delivery systems are...

- **Defining and communicating distinct market position (e.g., points of differentiation)**
- **Developing distinct products and services to meet unique needs and preferences (e.g., services, not “medical / surgical beds”)**
- **Moving from functional organization to service line or business unit structure (e.g., from cardiac rehab to service line manager)**
 - ➔ **Service line managers bring product to market**
 - ➔ **Service line managers responsible for product growth**

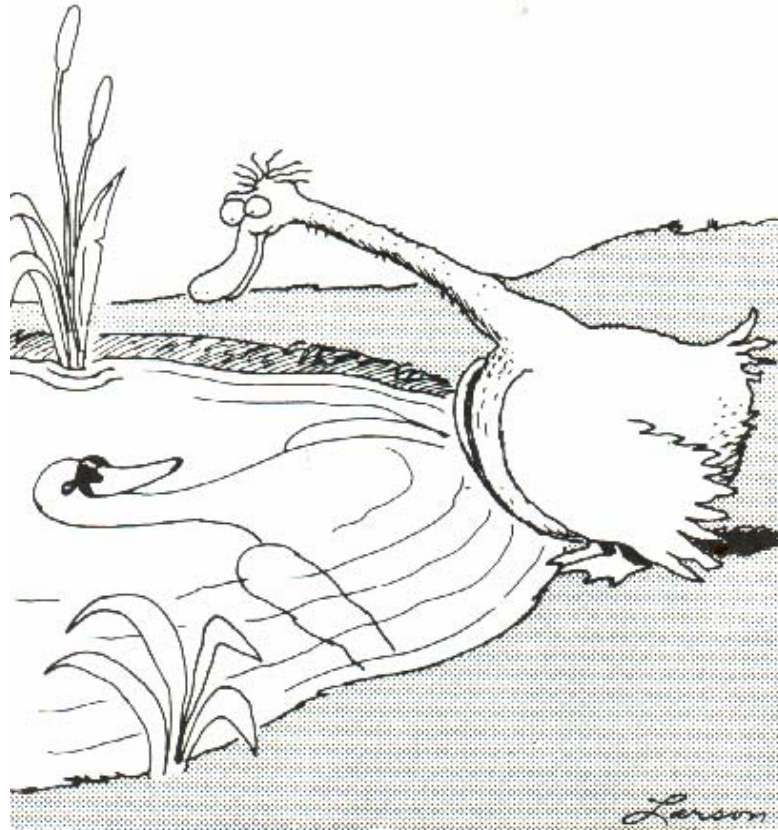
How can healthcare delivery systems enhance their profitability through service line management?

How can service lines enhance their profitability?

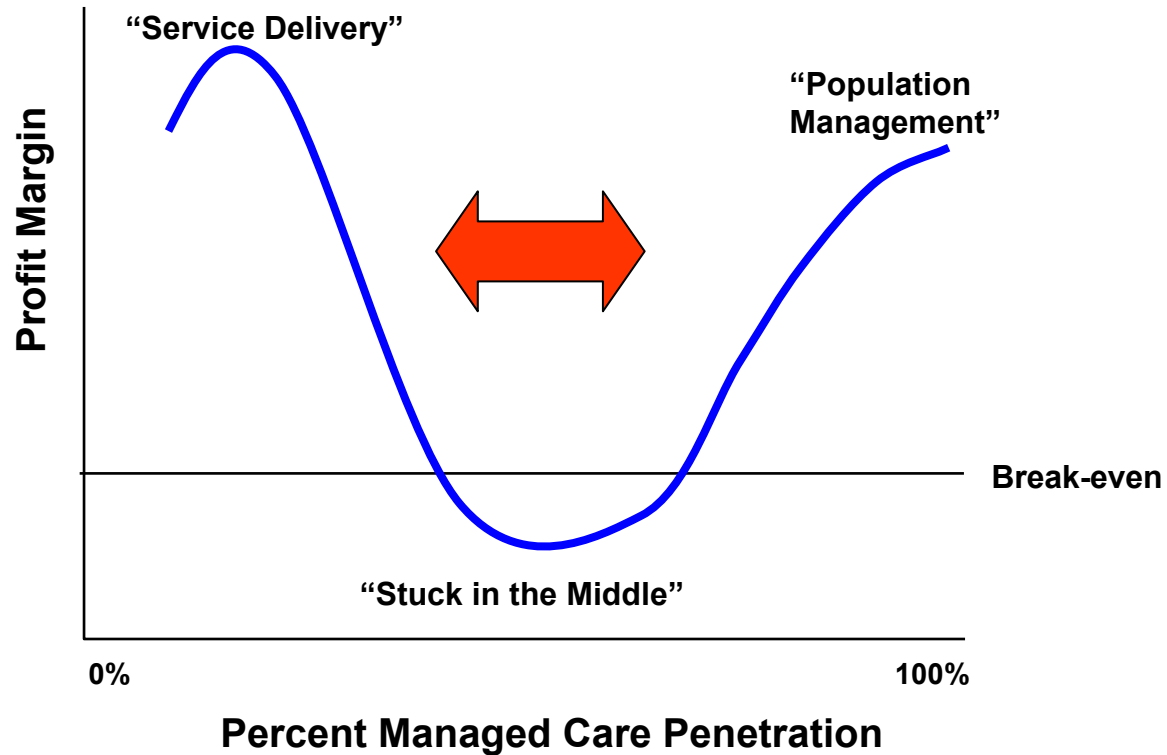
. . . “the bundling and delivery of healthcare services into unique products by aligning the functions and disciplines of a healthcare organization with the healthcare needs of distinct communities”

- **Step 1: System Strategy**
- **Step 2: Service Line Strategy**
 - ➔ **Evaluation**
 - ➔ **Prioritization**
- **Step 3: Performance Improvement**
 - ➔ **Branding**
 - ➔ **Volume**
 - ➔ **Pricing**
 - ➔ **Cost Reduction**

Step 1: System Strategy



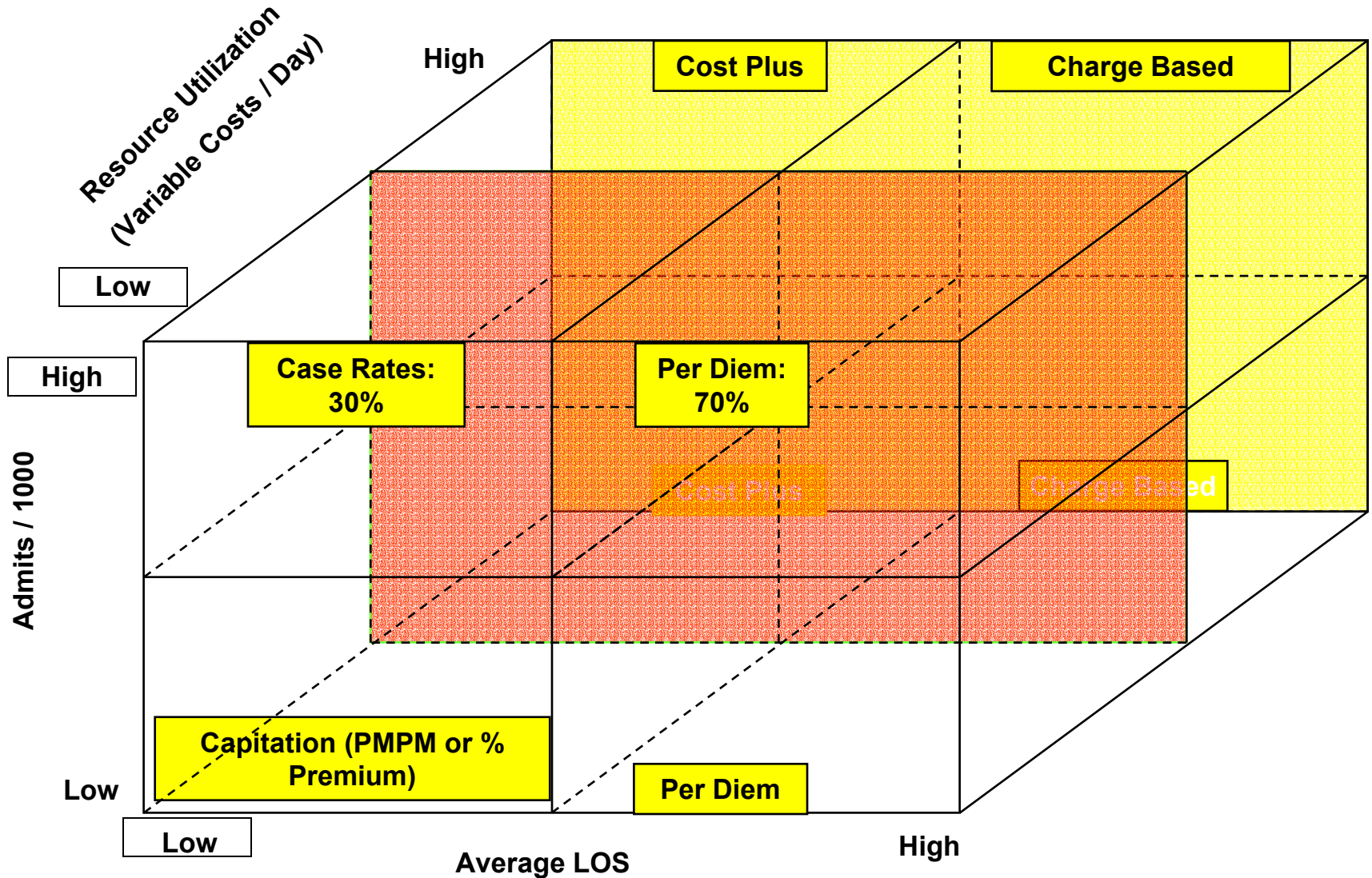
Step 1: System Strategy



Step 1: System Strategy

	<u>Service Delivery</u>	<u>Population Management</u>
<i>Revenue:</i>	Per Unit of Service	Per Covered Life
<i>Efficiency Measure:</i>	Cost Management	Cost Avoidance
<i>Operating Units:</i>	Hospital Services and Service Lines	Continuum of Care
<i>Clinical Focus:</i>	Event Management Disease Management	Disease Management
<i>Risk Assumption:</i>	Intensity	Actuarial
<i>Triage Competency:</i>	Referral Management	Demand Management
<i>Examples:</i>	Cardiovascular Services?	Women's Health?

Step 1: System Strategy



Step 2: Service Line Strategy; New Service Line Evaluation



“Who is our market?”

- **Geographic segmentation**
 - Primary service area
 - Secondary service area
 - By clinical area (e.g., cardiovascular, orthopedic, rehabilitation)
 - By demographic characteristics (e.g., women’s services, senior services)

“What do they want?”

- **Determine service needs**
 - Current needs
 - Needs in the future, based on trends

“Can we provide it?”

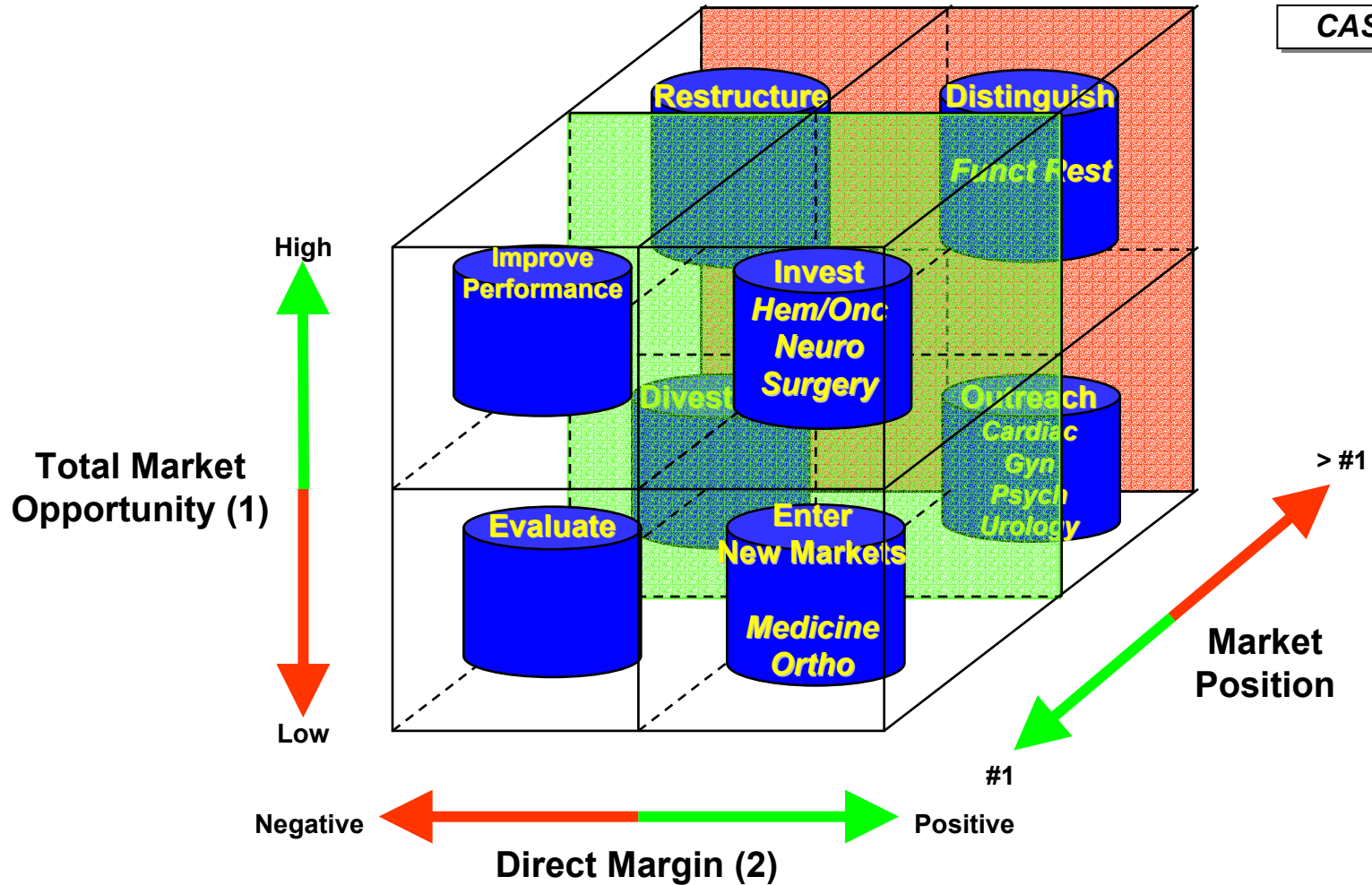
- **Consistency with strategic intent**
 - What is our current / desired position in the market?
 - Are the products / services needed consistent with our brand (attributes and value proposition)?
- **Internal assessment**
 - Management capabilities
 - Clinical expertise
 - Resource requirements

“...In a fiscally sound way?”

- **Given current market realities and positioning, determine products most likely to generate financial return**
- **Drivers of profitability are:**
 - Volume
 - Price
 - Cost

Step 2: Service Line Strategy; Existing Service Line Evaluation

CASE STUDY



(1) Total market opportunity represents Health System market share multiplied by total market size by service line

(2) Direct margin includes direct cost allocations only.

Sources: Market share based on CY 1999 OSHPD, net profit / case based on Health System 6 months YTD 2000 TSI (IP performance)

Step 2: Service Line Strategy; Existing Service Line Evaluation

CASE STUDY

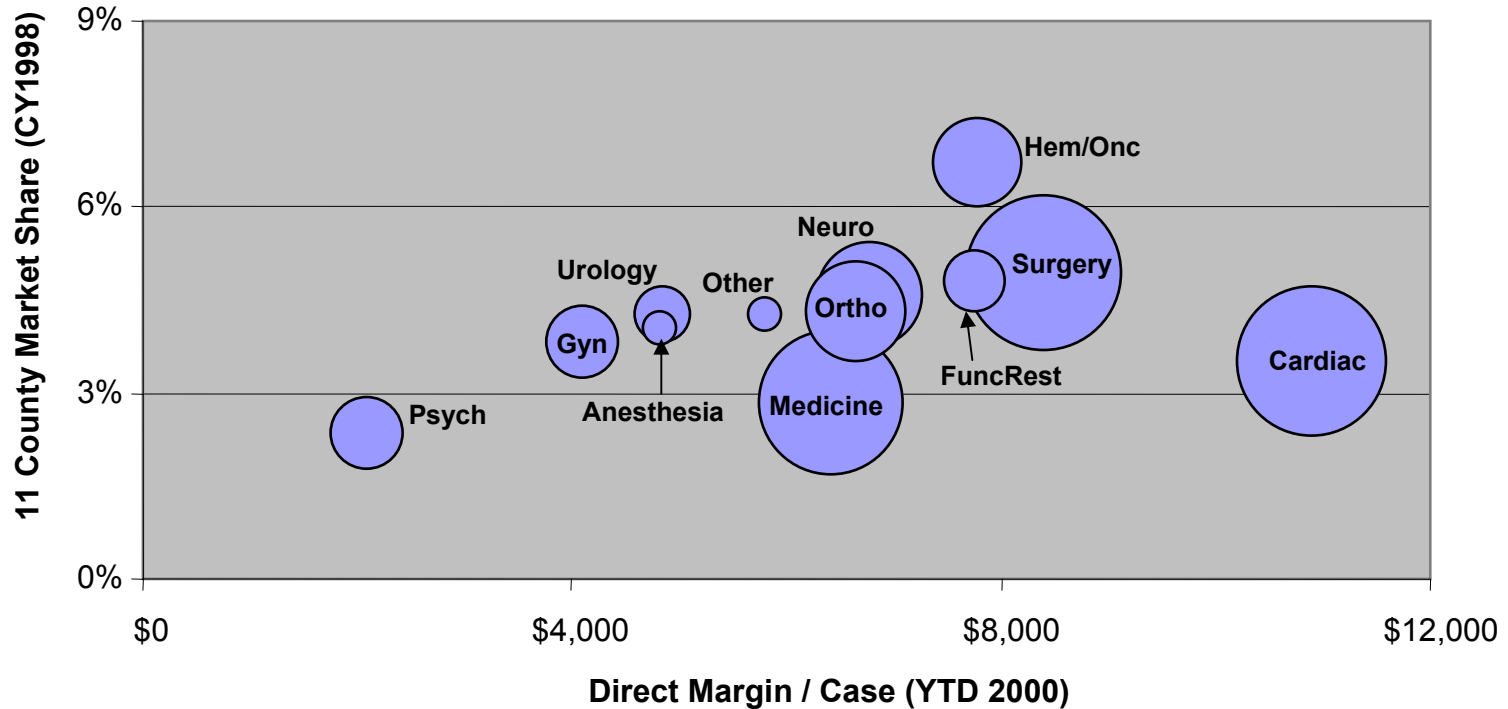
SHC Service Lines	Total Market Cases	Health System Rank (1 = high)	Health System Market Share	Market Leader	Market Leader Share
MEDICINE	139,149	1	3%	Health System	3%
SURGERY	72,559	1	5%	Health System	5%
NEURO	35,931	1	5%	Health System	5%
ORTHO	29,956	1	4%	Health System	4%
HEM/ONC	12,368	1	7%	Health System	7%
ANES	4,712	1	4%	Health System	4%
UROLOGY	8,671	2	4%	Competitor A	4%
FUNC REST	9,769	3	5%	Competitor B	6%
CARDIAC	89,470	4	4%	Competitor C	4%
OTHER	1,451	5	4%	Competitor D	7%
GYN	17,565	6	4%	Competitor E	7%
PSYCH	34,549	15	2%	Competitor F	9%

Notes: IP only cases, total 11-county market area represents 87% of total Health System IP cases.

Source: DRG groupings applied to CY 1998 OSHPD patient origin discharge data set; n = 456,150, excluding OB

Step 2: Service Line Strategy; Existing Service Line Evaluation

CASE STUDY

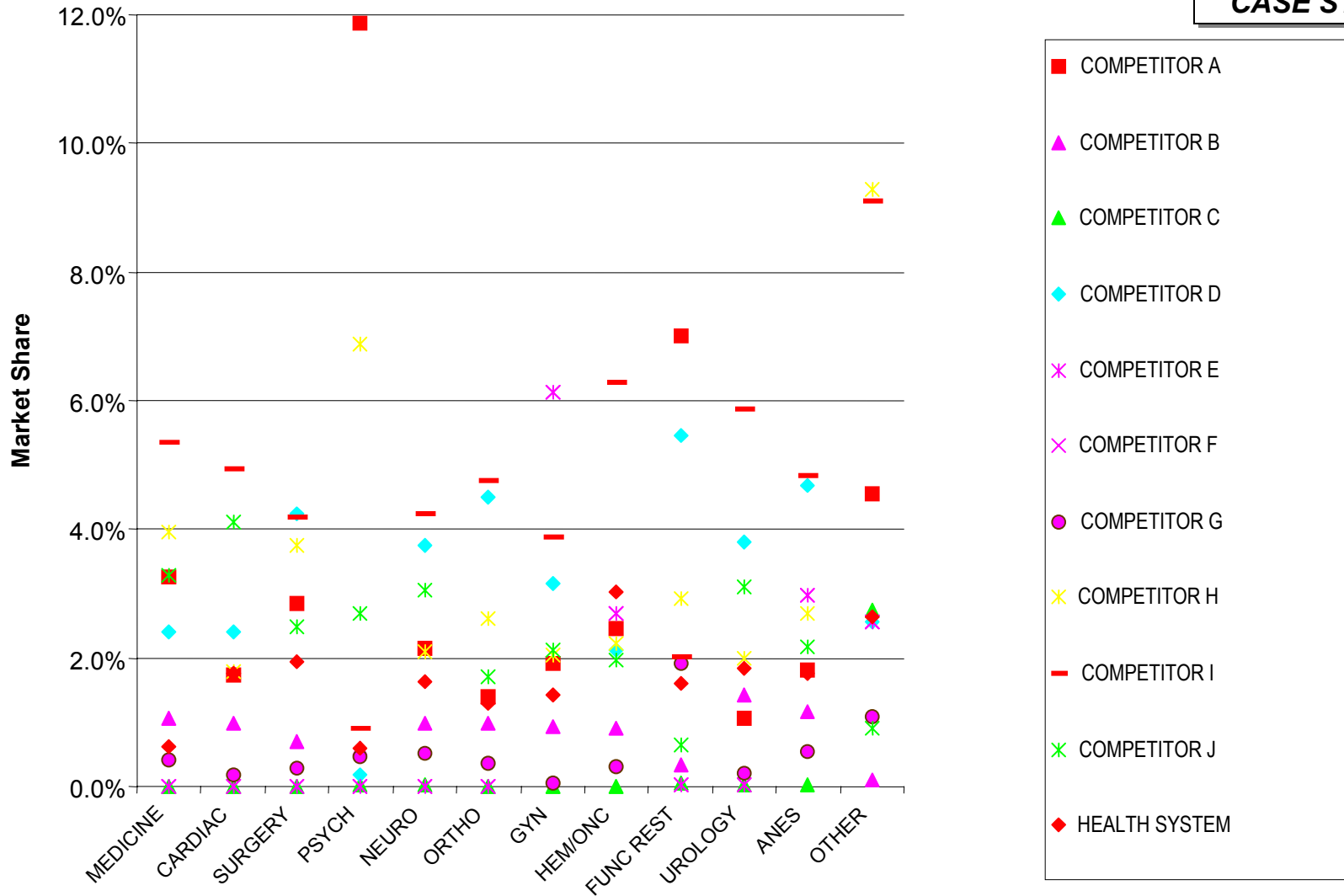


Notes: Circle size proportional to share of total IP cases; 11 county area represents 87% of total IP cases.

Sources: Market share based on CY 1998 OSHPD; direct margin / case based on Health System 6 months YTD 2000 TSI (IP performance)

Step 2: Service Line Strategy; Existing Service Line Evaluation

CASE STUDY



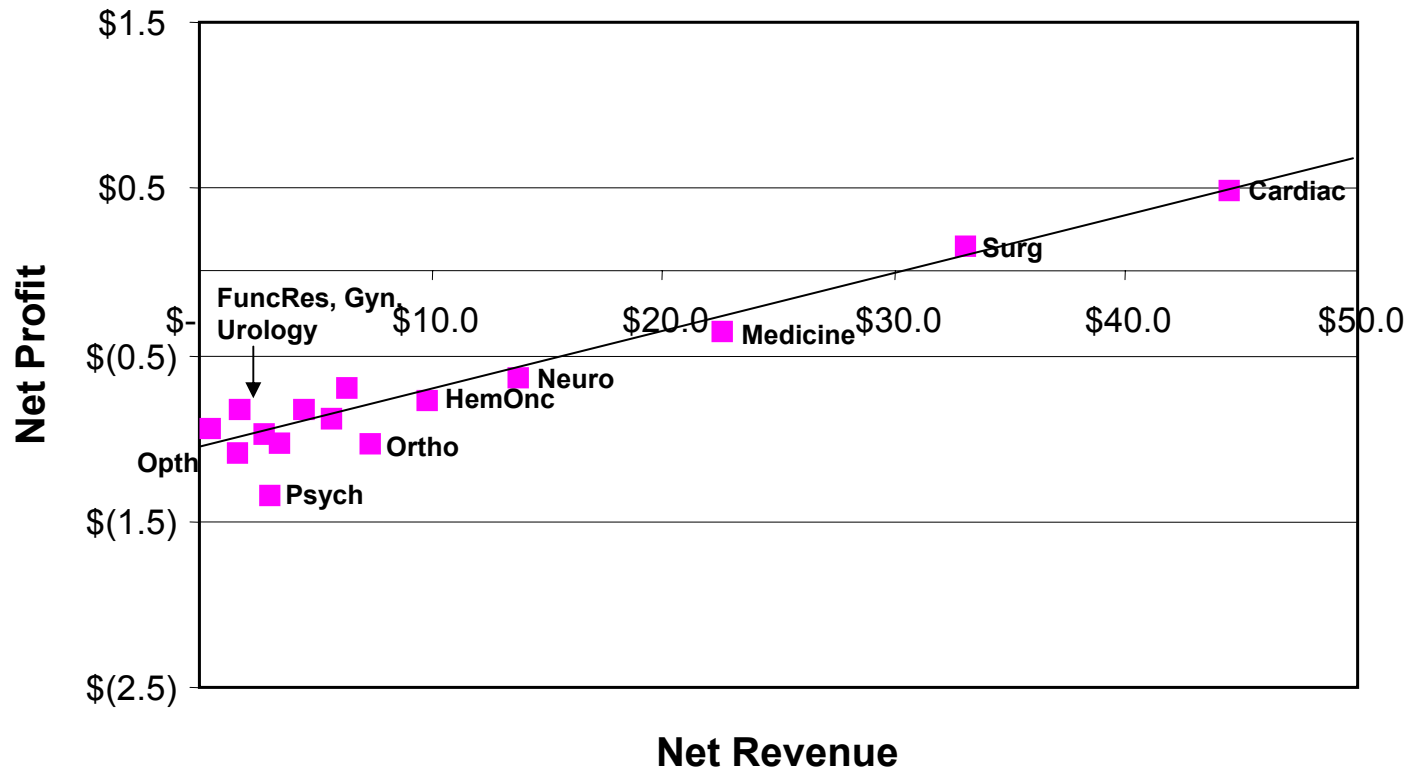
Source: DRG groupings applied to CY 1998 OSHPD patient origin discharge data set; n = 456,150, excluding OB (IP cases only)

Step 3: Performance Improvement

- **Branding**
- **Price**
- **Volume**

Step 3: Performance Improvement Revenue!

CASE STUDY



Notes: Health System did not allocate equipment under indirect costs in the current fiscal year

Source: Health System 6 months YTD 2000 TSI (IP performance)

Step 3: Performance Improvement Branding

Cost:

- “Low cost leaders”
- Not product or service innovators
- Excellent execution, guaranteed low price, and/or hassle free service
- Examples: Kaiser Permanente, PriceCostco, Dell Computer

Access:

- Availability and consistency
- Never the best available, but always available
- Consistency across all locations
- Examples: Starbucks, McDonalds

Service Quality:

- Total “service” orientation
- Tailors its products and services to meet customer expectations
- Gives more than what is expected
- Examples: Evanston Northwestern Healthcare, Nordstrom, IBM, Four Seasons, Home Depot

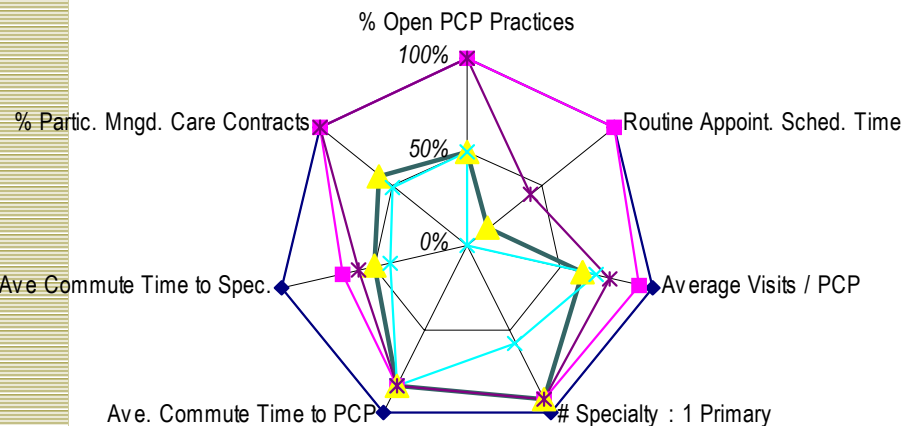
Clinical Quality:

- Best product, period!
- Leading edge, new application of existing services / products
- Examples: Mayo Clinic, J&J, Sony, 3M, Disney

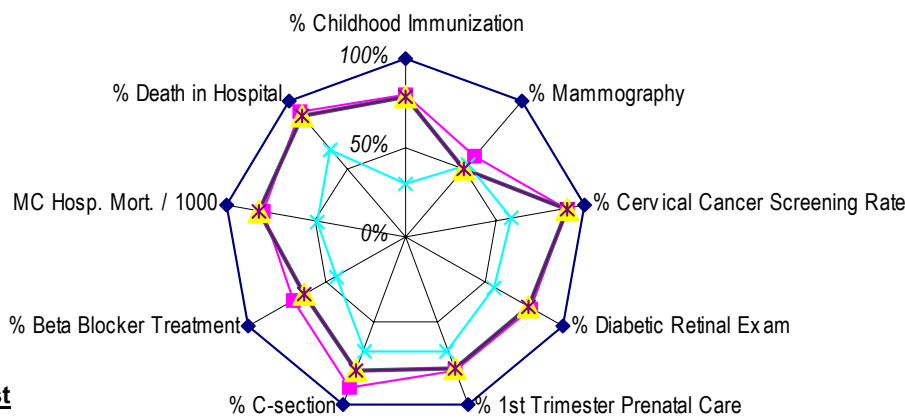
Step 3: Performance Improvement Branding

CASE STUDY

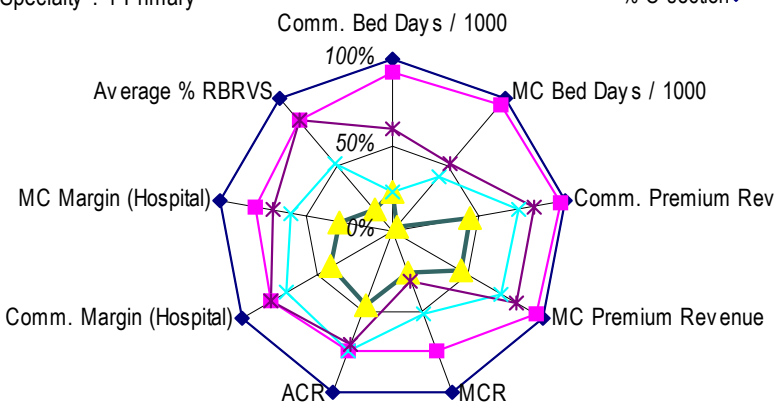
Access



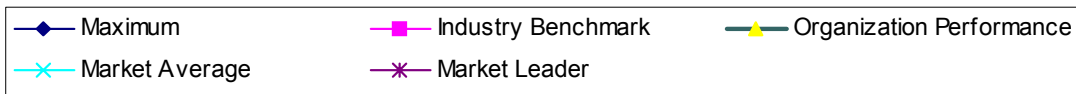
Quality



Cost

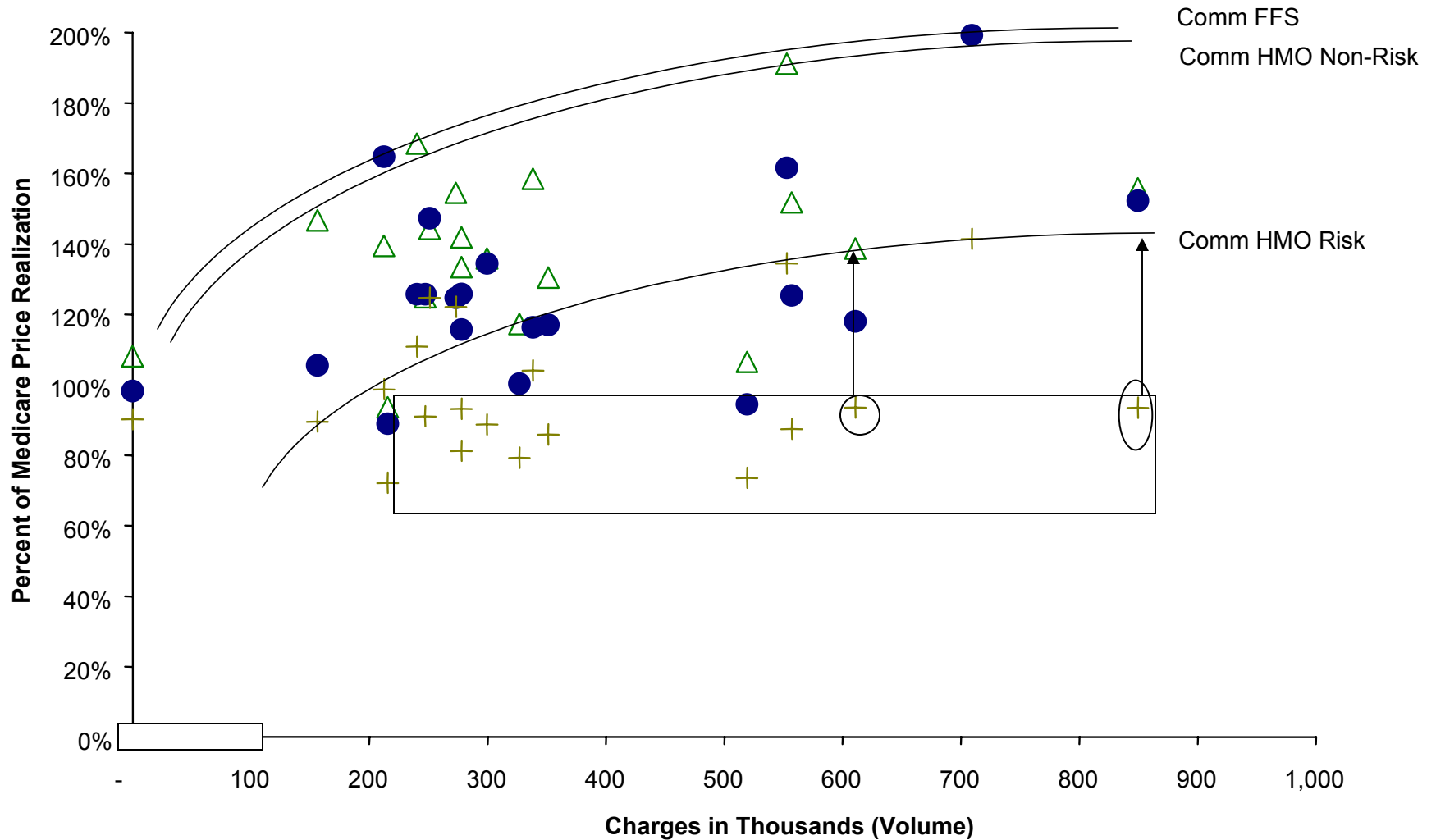


Note: Values approaching the origin indicate poor performance and, therefore, offer high opportunity potential.



Step 3: Performance Improvement Pricing

CASE STUDY



Source: Hospital service line profit and loss by payor analysis
 Note: Each point represents the simple average price realization for the payor class.

Step 3: Performance Improvement Volume

CASE STUDY

Introduce New Lines of Business

- ❑ **Senior service line: Provide ElderCare / Sick Child day care services**
- ❑ **Orthopedics service line: Build a sports center**
- ❑ **Oncology service line: Offer retail products such as wigs, bras, and lymphoma**
- ❑ **Women's health: Open an infertility clinic**

Pursue New Geographies

- **Develop out-of-area heart health education to support a cardiovascular service line**
- **Build a midlife health center in a rural area to support a women's health service line**

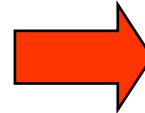
Increase Share in Existing Service Lines

- **Create a premium network product for payor**
- **Attract well-known physicians with service line-specific expertise**
- **Invest in newest technology**

Step 3: Performance Improvement Other Considerations

Improved payor mix drives higher profitability

- Service line payor mix vs. health system vs. market

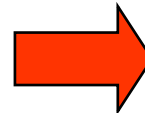


Implications

- Payor contracting strategy

Improved collections drives income

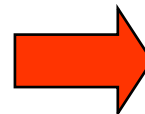
- Collections as a % of gross revenue
- AR days
- Number of bills declined due to eligibility
- Percentage of Medicare RBRVS Realized



- MSO services evaluation
- Payor/pricing contracting strategy

Improved access drives volume

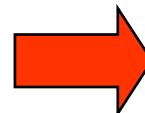
- Patient satisfaction with appointment wait times
- Ambulatory care capacity utilization
- Ancillary service wait times
- Ancillary service capacity utilization



- Joint capacity and utilization management / governance
- Departmental program development
- Service contract design (e.g., performance expectations)

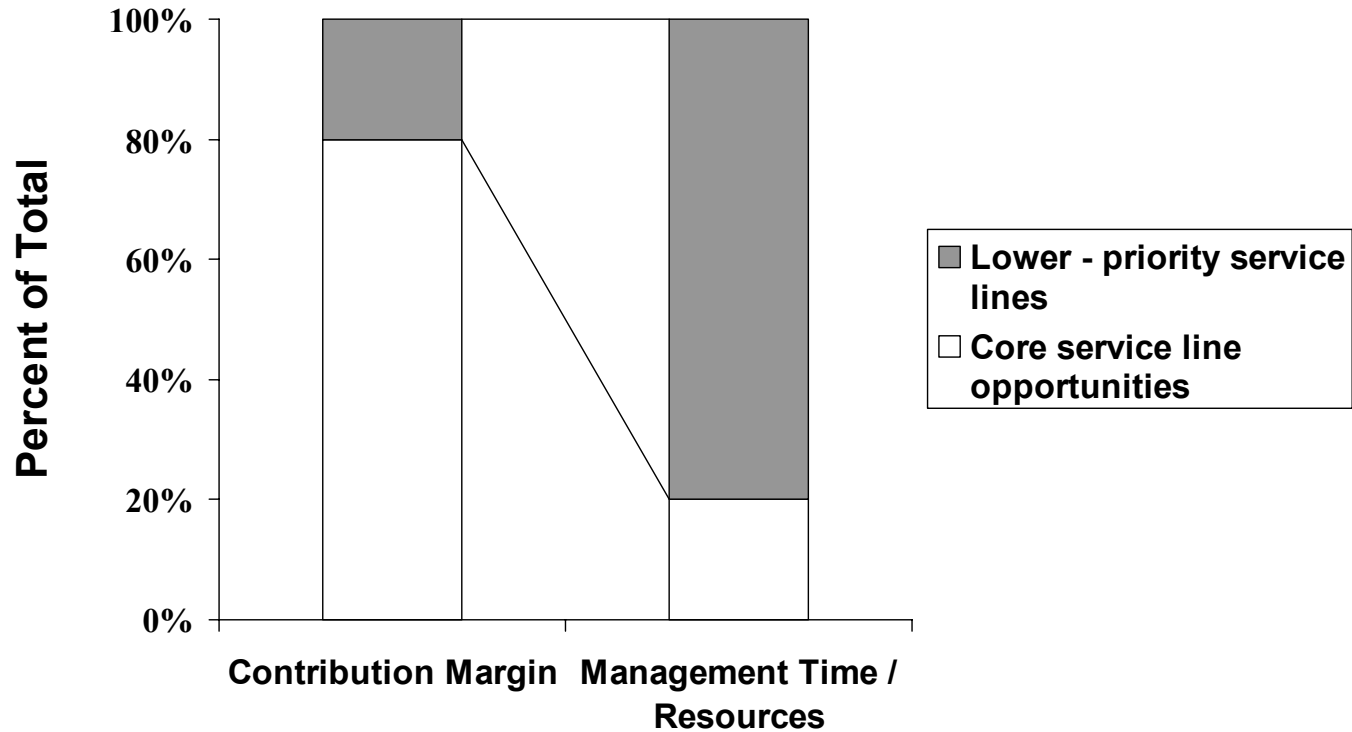
Improved service drives volume

- Patient satisfaction data
- Appointment cancellation/rescheduling
- Reception/scheduling phone response times
- Percentage of registrations complete at time of visit
- FTEs/ function given volume



- Ambulatory infrastructure design and performance criteria
- Service contract design (e.g., performance expectations)

Lessons Learned: Time Allocation



- **Prioritization**
- **Allocation (Management time)**
- **Organization (Strategy and resolve)**
- **Quantification (Measurement)**
- **Orientation (Consumers)**