Growth Is the Imperative, but How?

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Healthcare transformation is underway. Payment pressures are intensifying from commercial and government payers, the shift of patient volumes to outpatient settings has accelerated, and consumers are becoming more price-sensitive. At the same time, well-funded, non-traditional competitors, such as CVS Health with its popular retail clinics and Smart Choice MRI with its high-quality, low-cost scans, are disrupting the market, threatening core hospital services.

Key Board Takeaways

Amidst the challenges facing the nation's hospitals and health systems, the growth imperative is ever-present. Traditional approaches to growth are unlikely to be successful going forward. Four interrelated questions can help directors focus their conversations about growth:

- Who are our customers? Think broadly, including employers and providers along the care continuum.
- Where are our markets? Look at current markets as well as new ones, including those that can be served virtually.
- What products and services are we offering? Assess opportunities for existing offerings and entirely new ones that would be a good strategic fit.
- How will we grow? Consider build, buy, or partner options.

Robust planning that links growth strategies with financial and operating expectations and performance should guide leadership teams.

For many hospitals and health systems, significant future growth is unlikely to be achieved through historical approaches, such as increasing rates or building a new inpatient wing or medical office building. Healthcare boards that advocate sticking to the traditional course need to prepare for a hazardous ride. The more promising route is to seek new customers and broaden the organization's offerings.

The Who, Where, What, and How of Growth

Four interrelated questions can help all leadership teams—from small critical access hospitals to large regional health systems—to jumpstart conversations about their organizations' growth plans. **Exhibit 1** shows the who, where, and what dimensions of growth consideration—from growing core offerings in existing markets in the lower left quadrant to bringing new offerings to new markets in the upper right quadrant. The "how" continuum of build, buy, or partner can be considered in all quadrants.

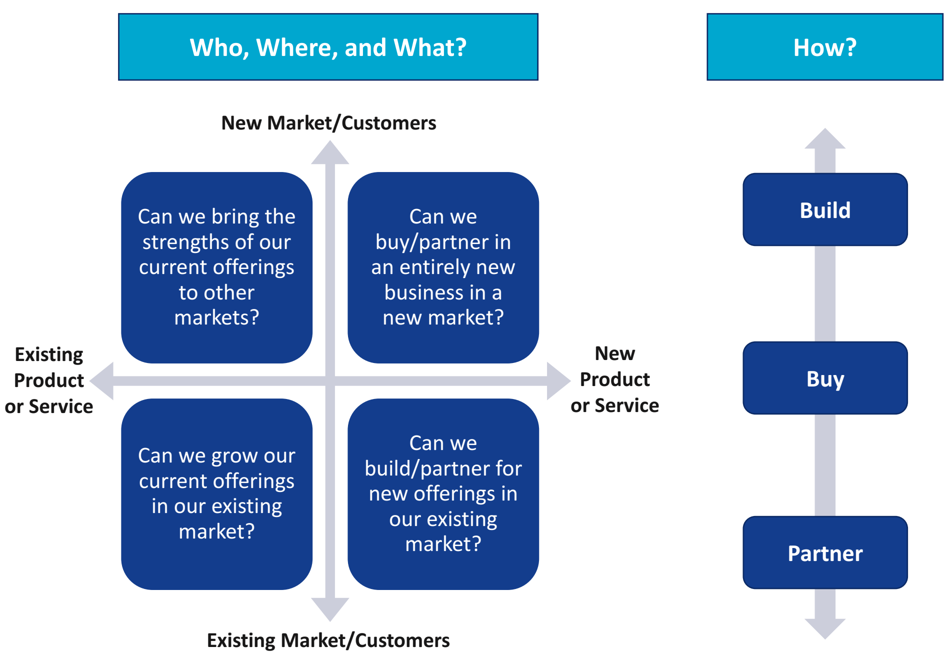
Who are our customers? This analysis should provide critical insights into the organization's current and potential patients as well as other customers, ranging from employers to fellow providers. Dividing each customer group into segments based on their needs and preferences, demographics, socioeconomic factors, and attitudes can help identify potential growth opportunities.

For instance, responding to the needs of large local employers, Wisconsin's Bellin Health developed a booming direct-to-employer business, which includes on-site clinics and corporate wellness programs.[1]

Where are our markets? Leaders need to look afresh at their current markets for opportunities to grow their premium offerings and for unmet needs that can be fulfilled. For example, to extend the organization's brand and neonatology expertise regionally, independent Lurie Children's Hospital of Chicago developed outreach partnerships with community providers, including hospitals and outpatient centers.[2]

Additionally, new markets should be considered at the national and international level. Both face-to-face and virtual delivery may be appropriate. For example, through arrangements with more than 40 health systems across the globe, Mayo Clinic Care Network provides specialty consults and second opinions to physicians

Exhibit 1: The Who, Where, What, and How of Growth



Source: Kaufman, Hall & Associates, LLC. Used with permission.

1 Christopher Cheney, "Bellin's Direct-to-Employer Services Booming," *HealthLeaders,* March 14, 2016.
2 Lurie Children's Hospital Web site, "Partner Hospitals."

and its patients via video chat and other electronic means.[3]

What products and services? When considering whether and how to expand an organization's offerings, directors should consider the entire spending pie. About 58 percent of U.S. personal healthcare spending goes for hospitals and physician/clinical services, but the remaining 42 percent is spent on home care, nursing care, health and wellness, and other types of care.[4] Healthcare directors need to ask, "How might we participate in some of these other services?"

Redefining the organization's market share as the percentage of total market spend in the service area identifies the size of the opportunity. For instance, if the population in the organization's service area is 5 million and estimated per capita healthcare spending is $10,000, then a health system with net patient care revenue of $1 billion is capturing 2 percent of the total healthcare spend of $50 billion.

Leadership teams should assess which of their existing products and services might be expanded, while pinpointing potential spin-offs and entirely new products and services that would be a good strategic fit. For example, in 2016, Saint Luke's Health System of Kansas City partnered with Bishop Spencer Place, a skilled nursing and assisted and independent living community, to expand its post-acute network for better success with bundled and other value-based arrangements.[5]

On a larger scale, Dignity Health got into the urgent care and occupational health businesses after acquiring U.S. HealthWorks in 2012.[6] Extending both product and customer groups, the deal gave Dignity Health more physical access points and expanded access to employers.

How will we grow? This question should be asked throughout the who, where, and what growth conversation. To expand or diversify products and service lines into existing or new markets, organizations can build, buy, or partner. Each option has advantages and disadvantages. If expanding an existing service, then the build route may make sense. If rapid growth is a priority, then buying or partnering with other organizations may be the preferred avenue. Smaller and specialty organizations (e.g., critical access, independent, and children's hospitals) will want to consider partnership arrangements with larger health systems that are developing networks to manage population health in specific regions.

The Need for Urgency

Given pressures from traditional and non-traditional competitors, boards and executive teams must take steps to grow in directions that will secure future revenues and relevancy. The disrupters are in a hurry to disrupt. The sense of urgency about pursuing growth opportunities must be as pressing in hospitals and health systems.

Robust planning that links growth strategies with financial and operating expectations and performance is a must. Leading organizations will develop innovative plans, make data-informed decisions, track progress, and show agility with resource allocation when opportunities under- or over-perform. Don't delay too long. Organizations must grow to succeed on a long-term basis.

The Governance Institute thanks Mark E. Grube, Managing Director, Kaufman, Hall & Associates, LLC, and Governance Institute Advisor, for contributing this article. He can be reached at mgrube@kaufmanhall.com.

3 Mayo Clinic Web site, "Mayo Clinic Care Network: Collaborating to Enhance Locally Delivered Care."
4 National Center for Health Statistics, *Health, United States, 2016*, Hyattsville, MD, May 2017, Table 94, p. 316.
5 Kaufman Hall, "Kaufman Hall Advised Saint Luke's Health System on Continuing Care Retirement Community Partnership" (press release), December 2016.
6 Kathy Robertson, "Dignity Health to Acquire U.S. HealthWorks, Will Become National Health System," *Sacramento Business Journal,* July 4, 2012.