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Hospital Focus

Focused Growth: A Strategic Framework

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"Independent community hospitals in the United States are not an endangered species. But they are threatened, and their survival as independents depends on the deliberateness of the actions they take now."[1] All hospital board members have heard about the litany of pressures facing their organizations, exacerbated now by two years of the COVID-19 pandemic. Pressures we recognized prior to the pandemic are still with us: payment rates not keeping up with inflation, the need to reduce costs by at least 10–15 percent to deliver greater value, increasing consumer expectations and demands, and the myriad new competitors, whether virtually or physically present in our markets.

But we now are faced with a new challenge: declining demand for hospital-related services, both inpatient and outpatient, while our cost inflation is staggeringly high. No organization can "shrink itself to greatness." While your hospital needs to continue focusing relentlessly on cost reduction, you simultaneously must identify and focus resources on sustainable growth.

Prerequisite for Growth: Honest Self-Assessment

Success in implementing any growth strategy requires an honest self-assessment of your starting strengths and weaknesses. The board must be willing to ask tough questions around the prerequisites for successful growth:

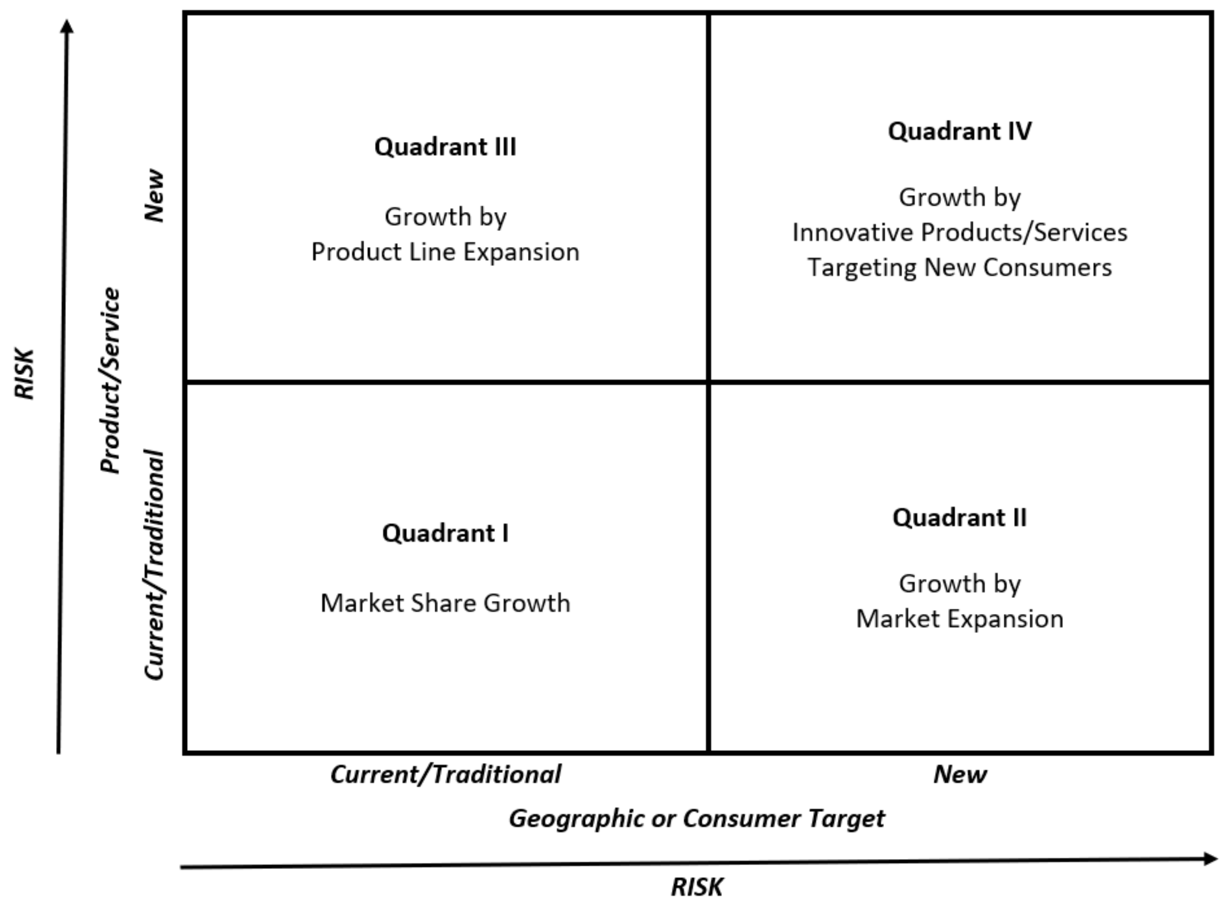
- Do we have the expertise, reputation/brand, value proposition, aligned physician/provider base, and an adequately sized and engaged workforce to support growth?
- Do we have sufficient financial resources or the ability to access needed capital while maintaining independence?
- What role could strategic partnerships play in supporting our growth objectives?

1 John Budd and Don A. Briones, "4 Essential Tactics for Sustaining an Independent Community Hospital," HFMA, January 22, 2022.

- What fundamentals would need to change to achieve the desired growth outcome?

The Growth Opportunity Matrix

The two-by-two matrix shown below is a schematic representation of the Growth Opportunity Matrix. Conceptually simple, it is a useful analytical framework for identifying the "vital few" growth opportunities worth pursuing, along with their relative risks and key success factors. As indicated, the horizontal x-axis relates to the target market, whether defined by geography or consumer segment, and the vertical y-axis relates to the products or services being offered.



Quadrant I: Market Share Growth

Traditionally, Quadrant I has represented the primary and generally successful hospital growth strategy. Examples include targeted growth in your primary or secondary service areas through clinical innovation, satellite facilities' distributing physician and/or ancillary services at convenient locations, and new patient-centered primary care models with greater alignment between your primary care providers and your specialists. Enhancing your brand/reputation through a clinical affiliation also is a frequent Quadrant I tactic.

This is still a valid, relatively low-risk growth strategy. The challenge is that organic market growth for traditional services has slowed (or, as in obstetrics, may have declined) and the continued shift of surgery from inpatient to outpatient settings negatively impacts hospital revenues. Additionally, many independent hospitals already hold large market share in their primary markets, so there is little opportunity to reduce outmigration to grow share.

For most independent hospitals, focusing solely on Quadrant I will not yield sufficient growth.

Quadrant II: Growth by Market Expansion

In this quadrant, a hospital would focus on expanding its geographic markets or targeting new types of customers (e.g., Gen Z, infrequent users of hospital services, or members of minority or vulnerable communities who may be fearful of institutions). A realistic market expansion strategy must be built upon solid market and consumer research. Just because a market is proximate does not mean you will succeed.

Successful geographic growth requires that you offer a distinctive consumer experience to build brand awareness and reputation. Examples include acquiring physician practices outside of your traditional market, partnering or joint venturing with outlying urgent care centers (UCCs), building a freestanding ambulatory medical center or "micro-hospital" in a new geography, or expanding your referred laboratory services beyond your traditional market.

Successfully targeting a new customer requires an in-depth understanding of the needs and preferences of these consumers and often requires a cultural shift. Examples include offering a freestanding birthing center or gender confirming surgery on campus.

The risks associated with Quadrant II strategies are moderate. Growing in new markets or with new consumers may yield unpredictable results.

Quadrant III: Growth by Product Line Expansion

Growth in this quadrant occurs by successfully introducing new products or services to consumers in your service area/market. Committing philosophically and financially to digital technologies as new and different "services" is one example. For example, redesigning ambulatory care around a "digital door" to attract more patients/expand access as well as to expand the supply of digital providers, regardless of their location. Other examples would be creating new home-based service offerings, whether high-tech (e.g., the medical home; use of virtual care for chronic care in home settings) or oriented to the private pay market (e.g., assisted living at home), or introducing an insurance product to your market.

Competition in Quadrant III can be fierce. The risks associated with Quadrant III strategies are moderate to high based on both how innovative your new product would be and the size of your organization. In this space, smaller independent hospitals may find themselves outmanned by large, well-capitalized competitors.

Success requires that your hospital be willing to acknowledge the size, sophistication, and staying power of likely competitors; acquire the needed product line expertise, either by hiring talent and/or by partnering; commit resources sufficient to compete effectively; and identify up front the strategies' risks and when to reconsider or terminate a strategy.

Quadrant IV: Growth by Innovative Products/Services Targeting New Consumers

Growth in this quadrant occurs primarily by breakthroughs in clinical and/or information technologies and is seen most frequently in the private sector or in large corporations, including insurers or academic medical centers and their research spinoffs. Although not impossible, most independent hospitals do not play in this quadrant unless they participate through an affiliation or partnership agreement with a larger entity.

Competition in Quadrant IV is fierce. The risks associated with Quadrant IV strategies are high, with even the most competitive players often expecting that many strategic initiatives are likely to fail.

The success factors for an independent hospital venturing into Quadrant IV include all those already identified for Quadrant III, as well as proceeding only with an experienced partner with substantial financial resources and only when the hospital could absorb a financial loss without jeopardizing its ongoing financial viability.

➜ Key Board Takeaways

- There is no "one size fits all" strategy to generate profitable growth for independent hospitals in disparate markets. However, looking beyond traditional growth approaches is required by today's challenging environment.
- After an honest self-assessment, boards can use a framework like a Growth Opportunity Matrix to identify the most viable growth opportunities along with the associated risks and key success factors of each.
- Partnering to gain expertise and/or reduce the hospital's financial exposure is especially important if you are considering bolder, innovative growth strategies focused on new geographic markets, new consumer segments, and/or new product introduction.

Conclusion

A one-size-fits-all growth blueprint for independent hospitals in disparate markets is an impossibility given the seismic shifts facing healthcare, but we believe that the Growth Opportunity Matrix offers a framework that can help board members understand the benefits, drawbacks, and risks involved in various types of growth strategies. Prudent strategy development and implementation, carefully linked to the organization's mission and ability to tolerate/manage risk, may help independent hospitals both avoid the "endangered" list and thrive in a difficult, ever-changing climate.

The Governance Institute thanks Marian C. Jennings, M.B.A., President, M. Jennings Consulting, and Governance Institute Advisor, for contributing this article. She can be reached at mjennings@mjenningsconsulting.com.