

What's your specialty?

Service line strategy to remain competitive in the evolving healthcare environment

Webinar

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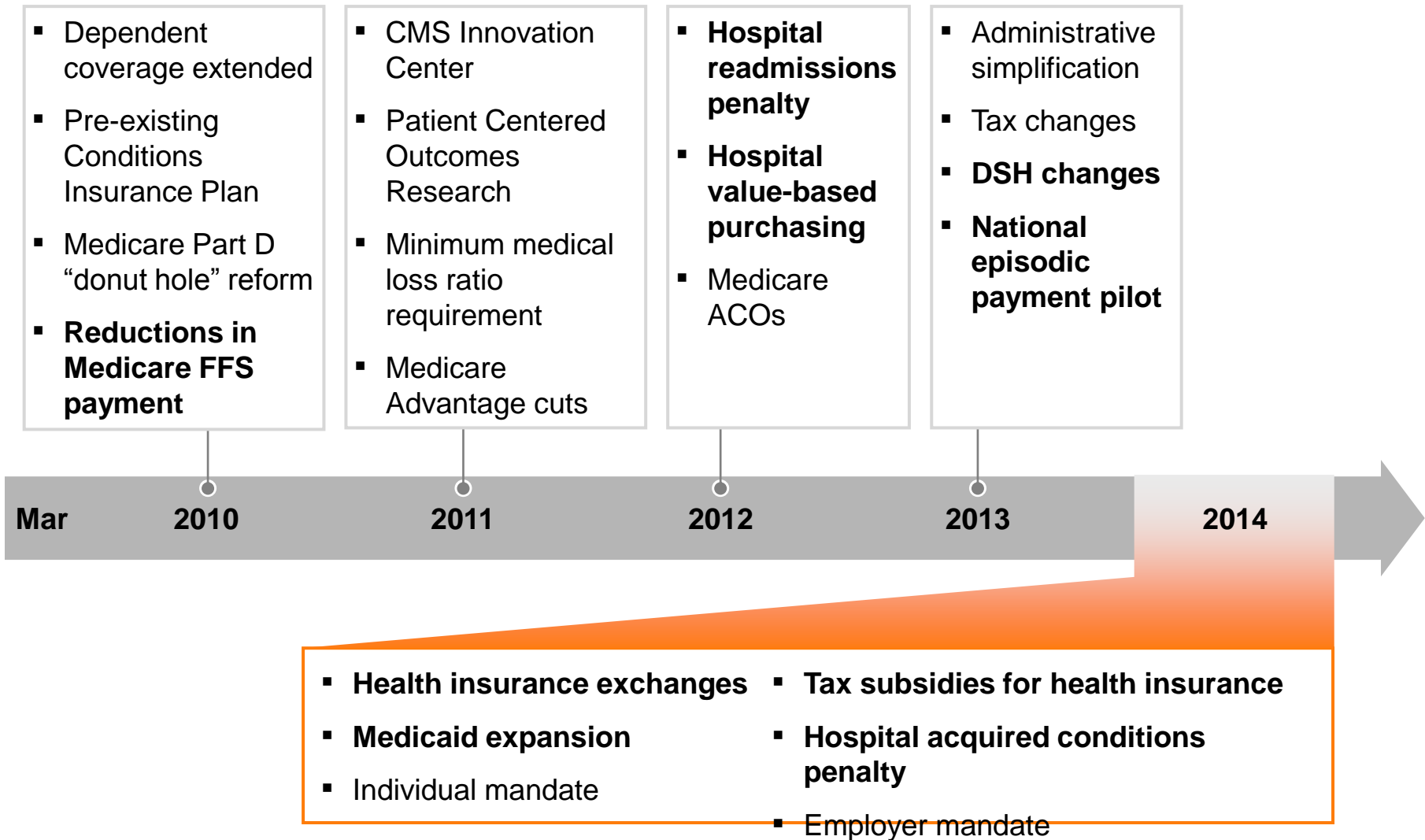
- **Context**
- Our approach to service line strategy
- Case study
- Conclusion

What is the expected impact if the Supreme Court **strikes down the individual mandate** but allows the rest of the ACA to stand?

Out of the 30 million people expected to gain coverage under current law:

- A. **8 million** fewer people would gain coverage
- B. **16 million** fewer people
- C. **20 million** fewer people
- D. **24 million** fewer people

Health reform has gradually been implemented, with the biggest impacts still to come



The landscape in 2012

Context

- Supreme Court decision on constitutionality
 - Presidential election
 - Federal government busy at work on implementation
 - Exchanges, Stage 2 Meaningful Use, DSH, Next Generation VBP, Wage index reform, National Bundled Payment pilot
 - Some states setting up their exchanges; several others waiting to see based on Supreme Court decision
-

Provider agenda

- **Providers continuing to prepare themselves for the coming post-reform era**, characterized by:
 - More patients, but fewer dollars per patient
 - Greater integration
 - Horizontally among hospitals; and
 - Vertically between hospitals, payors / employers and physicians
- **In 2012, providers will be focused on:**
 - Execution of “no regrets” moves to hold down costs
 - Pursuit of targeted service line growth opportunities
 - Execution of IT transformation to achieve Meaningful Use and lay foundation for potential clinical integration
 - Development of long-term strategy to thrive

How many service lines have you prioritized for growth?

- A. 1
- B. 2
- C. 3
- D. 4
- E. 5 or more



Why focus on service line strategy?

- Reform is coming, and placing more financial pressure on hospitals; focus is essential
- National utilization and demographic trends will drive growth in some clinical service lines, but hospitals vary in their ability to capitalize on this
- Success requires a distinctive value proposition (low cost, high touch, etc.), but most hospitals choose to be a “jack of all trades yet master of none”
- In our experience: the consequences of getting this right make massive margin differences at hospitals



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Leaders must choose a few focus areas from the broad landscape of service lines

Medicine

Neurosurgery

Cardiovascular

Pediatrics

Emergency Medicine

Oncology

**Diagnostic
Radiology**

Orthopedics

Radiation Oncology

Womens' Health

Neurology

Ophthalmology

General Surgery

Behavioral Health



Hospitals must carefully select the service lines they will play in by taking into account mission, market, margin, and likelihood of success

Hospital mission

Key factors to consider

- Patient care: secondary, tertiary, quaternary
 - Types of education
 - Types of research
-

Market growth

- Market growth by service line
 - Payor mix by service line
 - Ability to feed into other key profitable service lines
 - Ability to partner with payors / employers and shift share
-

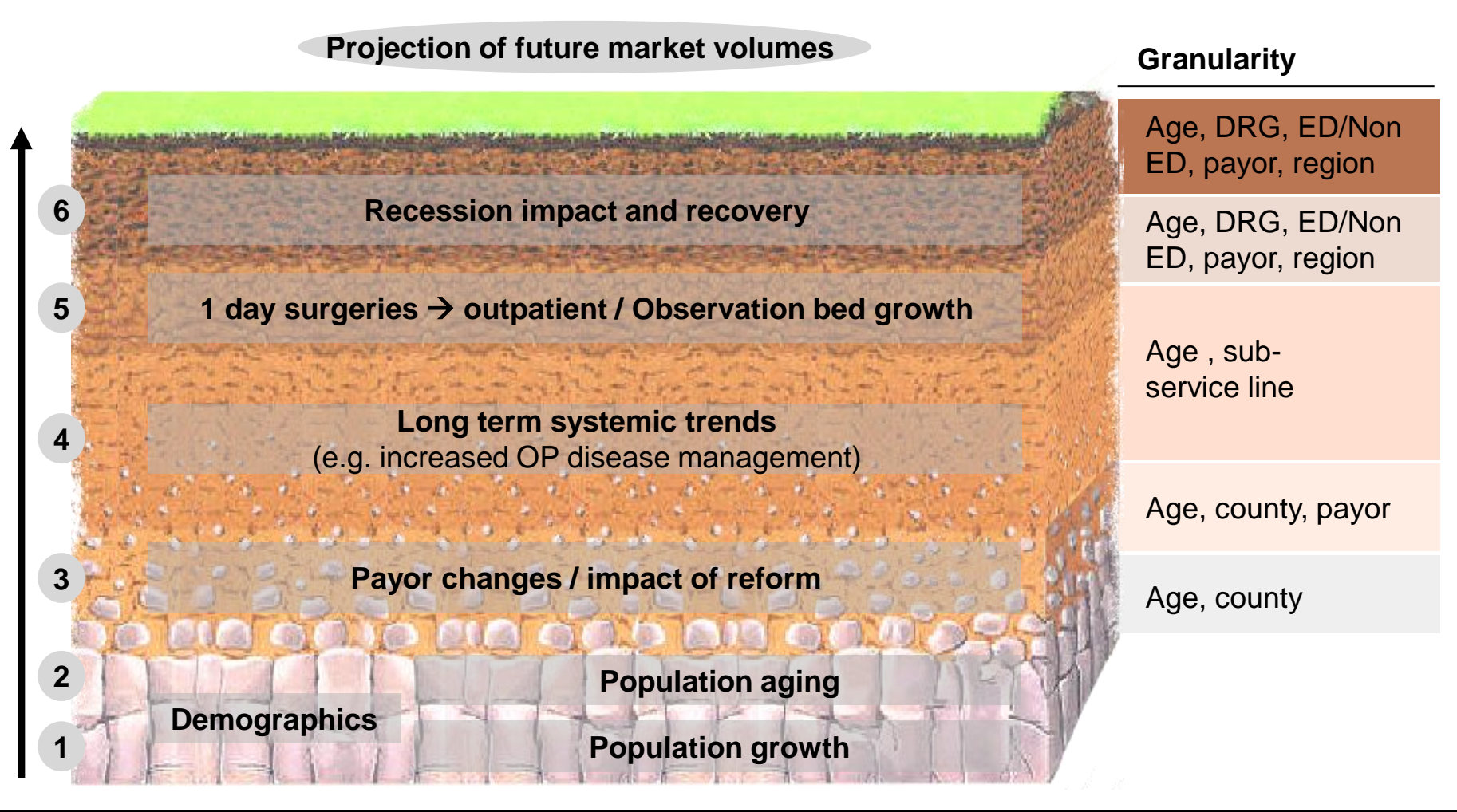
Margin

- Payor mix by service line
 - Impact of reimbursement changes
 - Ability to partner with physicians to control costs
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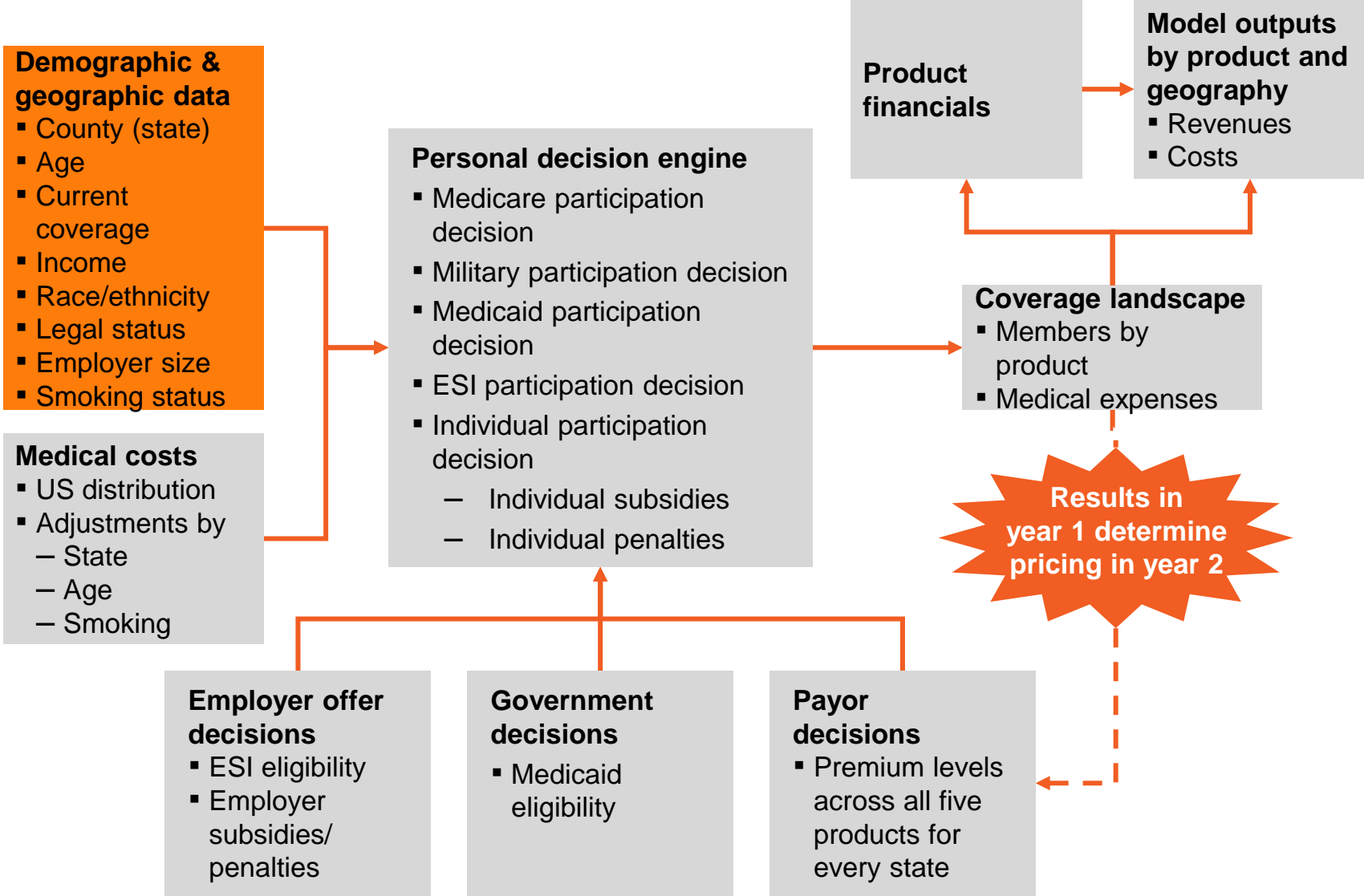
Likelihood of success

- Necessary investments (e.g., physician recruitment, capital expenditures)
- Internal and competitor capabilities

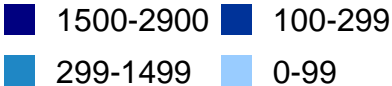
We have built a highly granular 6-layer model to help hospitals predict demand



It incorporates behavioral economics-based modeling of how healthcare reform will impact coverage



We project orthopedics to be the fastest growing service line in most U.S. counties in this decade



Projected market growth (CAGR), 2010-2019						
Service line	Number of counties					U.S. CAGR Percent
	Rankings (1=highest growth, 5=least growth)					
	1	2	3	4	5	
Orthopedics	2,540	512	35	11	2	2.0
Hematology/ Oncology	514	2,457	72	20	32	1.7
Neurosciences	31	110	2,782	158	20	0.7
General Surgery ¹	8	18	178	2,685	212	0.4
Cardiovascular	1	4	34	227	2,835	-0.2

¹ Includes oncology surgery

SOURCE: Objective Health Market Volume Explorer

Turning to profitability, service lines across hospitals and geographies show 'clusters' of performance



Contribution margin per case, 2010

Percent of hospitals in Objective Health database¹

Service line	Rankings (1=highest CM/case, 5=lowest CM/case)					Avg CM/case \$ Thousands
	1	2	3	4	5	
Orthopedics	0%	20%	40%	30%	10%	6.1
Hematology/ Oncology	0%	10%	20%	10%	60%	4.8
Neurosciences	0%	0%	10%	60%	30%	4.9
General Surgery ²	100%	0%	0%	0%	0%	10.6
Cardiovascular	0%	70%	30%	0%	0%	6.6

¹ Database filtered for hospitals with high quality cost accounting and revenue data (includes 10 hospitals)

² Includes oncology surgery

SOURCE: Objective Health client data

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Now let's look at how one of our clients prioritized service lines using granular local data

Background

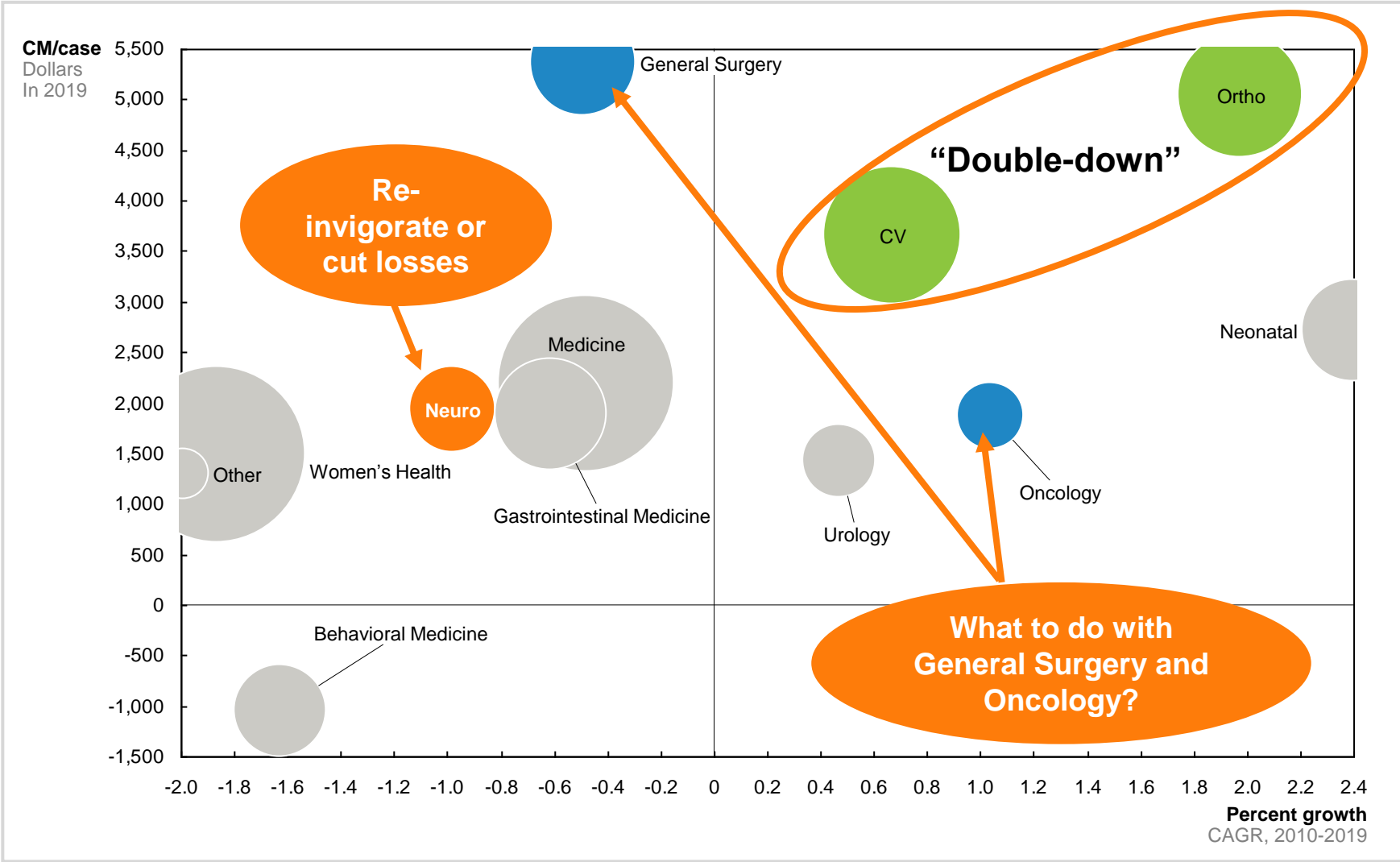
- 400+ bed tertiary hospital
- Not-for-profit
- Urban market

Challenges they faced

- Heavy Medicare payor mix
- Highly competitive market
- Lower projected operating margin = less resources to invest going forward
- Historically provided services in all service lines (i.e., no focus)



Bucking the larger trend, Cardiovascular was growing fast and Neurosciences was not, but several service lines were 'on the bubble'



... so they looked at additional factors beyond analytics to help them decide, including their capabilities ...

Internal capabilities

Key factors

- Key service offerings or limitations
- Facility and service capacity
- Performance on key quality metrics
- Physician perception of service line performance
- Public perception of service line performance

Client situation

- CON-driven restriction on outpatient radiation therapy
- Excess OR and bed capacity
- US News “Top 50” hospital for CV
- Excess surgeon capacity in some sub service lines but not all; outmigration in colorectal cases

...as well as their competitors' capabilities...

Competitor capabilities

Key factors

- New competitor market entry or expansion
- Competitor offerings of new key feeder services or specific services within service line
- Aggressive marketing by competitors
- Physician perception of competitors

Client situation

- Teaching hospital competitor was clear market leader in Neurosurgery-commanding market share, aggressive marketing and full suite of services
- Significant capital investment required to compete in Oncology

... and the state of physician partnerships in that service line

Physician partners

Key factors

- Shifts in physician availability (e.g., physician retirement, physician departure from market, physician employment)
- Physician recruitment by competitors (both within current market and from other markets)
- Shifts in physician referral sources

Client situation

- Client recently recruited boarded vascular surgeon
- 50% of market physicians are employed
- Competitor recently lost key colorectal group to smaller regional hospital

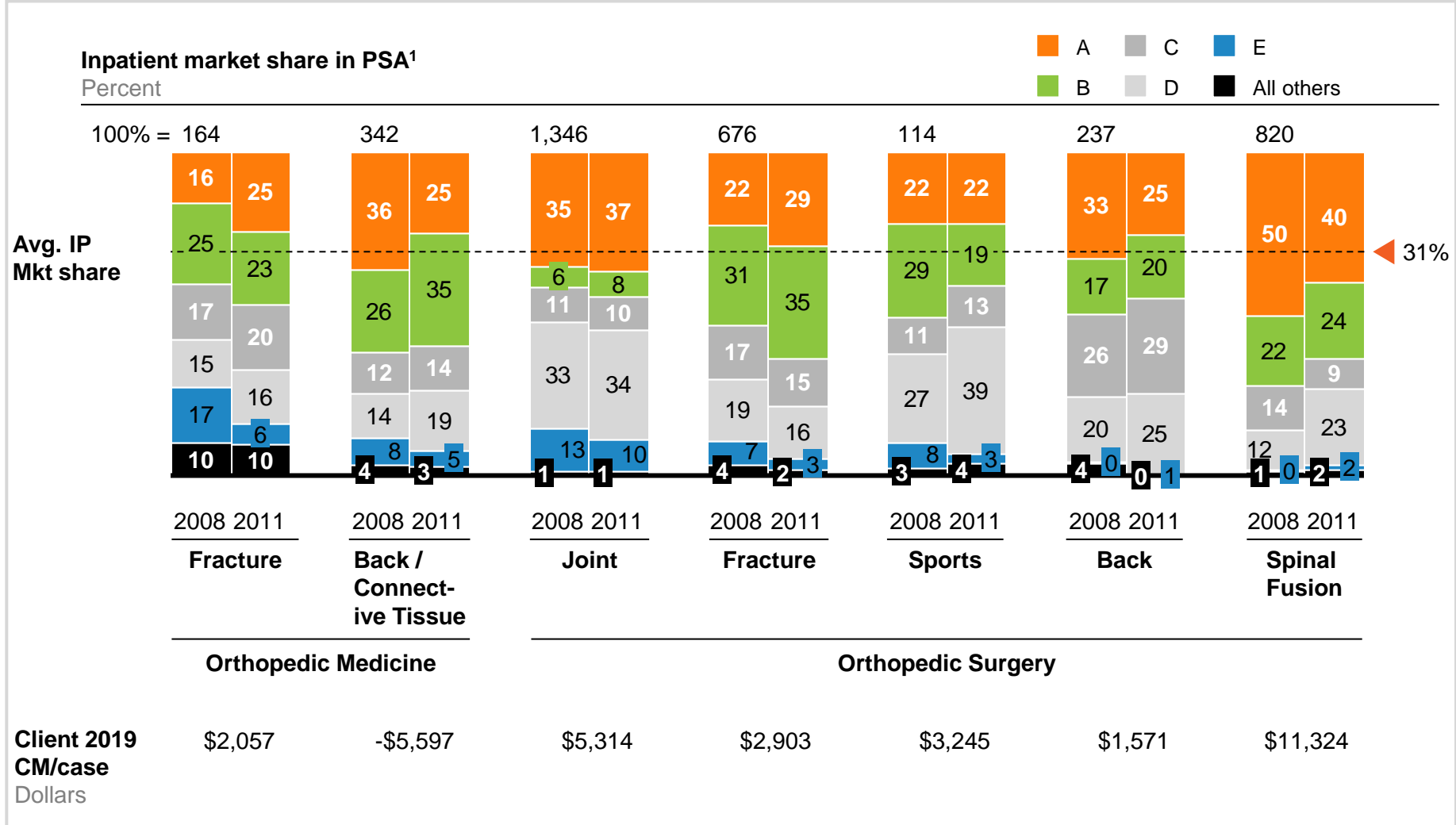
Using a balanced scorecard, they decided to prioritize Orthopedics, Cardiovascular and General Surgery

Strategic areas of growth

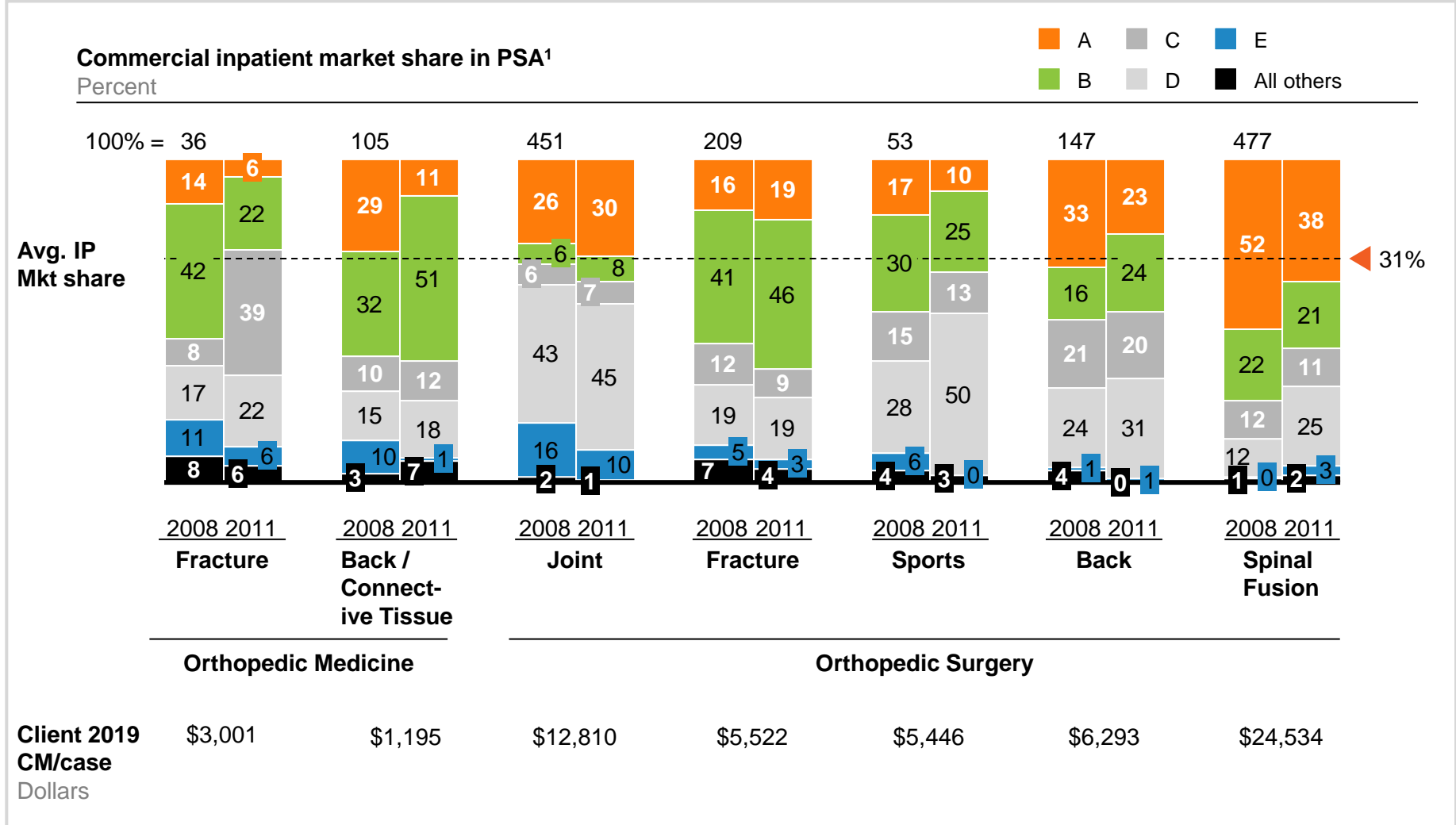
Service line	Hospital Vision	Volume growth	CM/case	Likelihood to succeed
Orthopedics				
Oncology				
Cardiovascular				
General Surgery				
Neurosciences				



Finally, they dove deep into each prioritized service line's recent performance, the key drivers of that performance, and potential initiatives to grow (1/2)



Finally, they dove deep into each prioritized service line's recent performance, the key drivers of that performance, and potential initiatives to grow (2/2)



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Conclusion / Summary of key points

- The changing reimbursement environment and massive secular trends are pushing hospitals to define and defend a real value proposition
- Hospitals can't afford to be caught in the “murky middle” – trying to be all things to all people
- Focus brings risk (the risk that comes with choosing to not focus on some things) – granular data analysis is key
- Data analytics aren't 100% sufficient though – you still need to understand some important qualitative factors like internal capabilities, competitors' capabilities, and the physician landscape
- Even these can be tackled in a rigorous way

Q&A

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