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NEW REVENUE GROWTH

Alan M. Zuckerman

annexing the neighbor's backyard increasing service area

> Doylestown Hospital in Doylestown, Pa., developed a large-scale, innovative ambulatory care center on the southern fringe of its service area.

The center has drawn millions of dollars of new business from outside its traditional service area, and essentially extended Doylestown Hospital's primary service area five miles to the south.

> AtlantiCare Regional Medical Center, Atlantic City, N.J., was a sole community hospital when it built a small satellite hospital about 10 miles to the west about 25 years ago. The satellite blossomed into a major tertiary facility and has significantly expanded the system's market into the rapidly growing communities in a 200-square-mile area to the west of the original hospital.

> University of Iowa Hospitals and Clinics, Iowa City, Iowa, has established dozens of outreach clinics throughout the state, so that 75 percent of its inpatients originate from outside its central location in Iowa City and Johnson County, allowing a large, tertiary teaching medical center to thrive in a rather sparsely populated region.

How did these healthcare organizations expand their service areas when the odds were not necessarily in their favor?

My February column addressed the opportunities for revenue growth in organizations' backyards by

increasing market share. This column moves from the mundane to the more glamorous—expanding the service area and enlarging the organization's sphere of influence. Expanding the service area inevitably infringes on the turf of one or more other providers, and can trigger aggressive competitive responses, especially in urban areas. Although this strategy has great appeal to many providers, it is not for the faint of heart or those without the resources to weather the fierce competitive battles that can arise.

For organizations that decide they are prepared to cope with the ramifications of encroaching upon another provider's turf with the potential payoff of increased revenue, there are four approaches that can be used.

Affiliating with or Acquiring Other Providers

This "buy" versus "make" approach allows providers to target growing service areas through affiliation or acquisition arrangements. The decision to pursue this approach is usually driven by a sense of urgency or a window of opportunity, a lack of internal resources to readily expand the service area, and a strong complementarity among the organizations involved in the affiliation or acquisition.

A wide range of affiliation opportunities exists with varying degrees of operational and organizational

nity-based clinics for the poor and elderly, a mobile clinic with prenatal and primary care, a mobile dental clinic, a parish nurse program in more than 20 area churches, and a home care network.

Establishing New Delivery Sites

In fast-growing markets, such as the Denver metropolitan area, expanding a hospital's or system's geographic reach by developing new acute care facilities is an attractive option. A more reasonable approach for many healthcare organizations is to develop an ambulatory care site with a mix of services tailored for the surrounding population.

The benefits of this approach are numerous: It increases access to services for communities whose residents would be unlikely to travel to the hospital for outpatient services, promotes community awareness of the hospital or system and its services, provides opportunities to partner with a new pool of

physicians, and protects or enhances the organization's inpatient market share in communities surrounding the ambulatory care site. Baylor Health Care System has used multiple delivery sites to strengthen its position in the Dallas-Fort Worth market. The system has 38 primary care centers, 18 specialty centers, 14 day surgery centers, eight senior care centers, and three fitness centers.

Reaching out to new patient populations and expanding the service area can lead to vast opportunities to increase service levels and revenue streams for hospitals and systems that have the vision, courage, and resources to move into new territory. Better access and improved health status of the community can also be achieved with service area expansion. ●

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integration and control. Strategic alliances, service-specific affiliations, shared services organizations, joint ventures, management contracts, joint operating agreements, mergers or acquisitions, and cosponsorships are among the most common affiliation arrangements among healthcare providers.

Healthcare organizations considering affiliations must carefully evaluate clinical and financial implications, governance and management issues, cultural compatibility, impact of quality of care, access, and market position. There are also the risks associated with venturing into unrelated geographic or service markets. Successful growth may be harder to achieve the further afield (geographically or by degree of service relatedness) the new venture is. Laurel Health System, a not-for-profit, integrated health and human services organization headquartered in Wellsboro, Pa., is a nationally recognized model of how acquisition and affiliation can create a strong and successful network of healthcare services across a large service area.

Developing Highly Specialized Services

Highly specialized services can draw patients from

beyond a hospital's or system's traditional service area, particularly if they are more convenient or accessible than other alternatives. Specialized services can also create a halo effect by attracting more patients for all services and generating increased volumes in ancillary tests and procedures. Services that can increase the regional draw of patients include angioplasty, pediatric subspecialties, specialty inpatient rehabilitation, and neuroscience programs such as spine centers, headache clinics, and stroke centers. The lack of well-organized programs for services such as these increases the probability that initiating a new service will attract patients from outside the service area. High Point Regional Health System in High Point, N.C., has used its heart and neurosciences centers, among other specialized programs, to draw patients from well beyond its original primary service area. High Point has developed a number of centers of excellence that have effectively redefined and greatly expanded the area it serves.

Enhancing Community Outreach Programs

Both marketing existing services to populations outside the traditional service area and developing programs to reach new patient populations can increase the service area for healthcare providers.

This approach can include screening and educational programs in schools, senior centers, and other community centers, and linking with community partners to identify and address unmet health needs. Community outreach efforts have the added benefit of often being the first to identify new and growing needs of ethnic populations.

Saint Raphael Health System in New Haven, Conn., reached beyond its immediate neighborhood to operate two school-based health centers, eight commu-

ORIGINALLY ALOOF NEIGHBORS DISCOVER COMPATIBLE CULTURES

Laurel Health System, headquartered in Wellsboro, Pa., is recognized as one of the nation's strongest rural health and human services networks and an exceptional example of community health integration. Although Laurel is considered a role model today, health care in this rural, agricultural area looked anything but ideal 20 years ago.

Wellsboro was home to the county's only hospital, Soldiers + Sailors Memorial Hospital, which was experiencing dramatic decreases in its admission rates and occupancy rates, and competitors from nearby counties were eyeing the hospital's service area. Blossburg, 18 miles away from the hospital, was the headquarters of North Penn Comprehensive Health Services, a network of health clinics and human service programs plagued by financial instability and an unstable physician base.

Despite a 15-year history of aloof and unfriendly relationships, the two organizations discovered that they shared compatible organizational cultures and many common goals. If the two became affiliated, North Penn health centers would serve as a feeder system for the hospital over a five-county area. Affiliation would also help both organizations maintain local control and prevent competitors from encroaching on their service areas—high-priority goals for both organizations. North Penn and Soldiers + Sailors also realized that, rather than maintaining the status quo, affiliation would create the opportunity to build a stronger and more effective healthcare network for the region.

In 1989, the multifaceted system of health and human services was created and named Laurel Health System. Other affiliates have been brought into the system that now includes Soldiers + Sailors Memorial Hospital, six primary care health centers, a skilled nursing facility, an assisted living complex, and wellness centers. Today, rather than dwelling on competitor initiatives in its service area, Laurel continues to thrive and seek opportunities to improve healthcare services for the communities it serves.