

Alan M. Zuckerman

creating competitive advantage: product development

Take a look at the following healthcare organizations that are experiencing growth and financial return because they know what product lines are profitable for them to cultivate. Can you say the same thing about your organization?

- > University of Wisconsin Hospital and Clinics in Madison, Wisc., has focused on developing some key service lines, notably transplantation, cancer, pediatric, neuroscience, and orthopedic services to differentiate its capabilities from very formidable local and statewide competition. These service lines are comprehensive, integrate advanced research, and are far more referral-oriented than most university hospital services.

Internal capabilities and competitive dynamics should dictate positioning decisions and then drive the rest of the product development process.

- > Miami Children's Hospital in Miami has extremely well-developed cardiac and neuroscience service lines. In both cases, entrepreneurial physicians have collaborated with hospital management to build broad, strong programs with significant outreach efforts. Collaboration with an interested donor resulted in the Dan Marino Center, a freestanding outpatient facility where neuroscience patient care and other services are provided.
- > Stillwater Medical Center in Stillwater, Okla., is a small community hospital located equidistant

(about 70 miles) from the major medical centers in Oklahoma City and Tulsa. Stillwater Medical Center proves you don't have to be a large, urban center to take product development seriously and make it work. Stillwater has made significant advances in its cardiac, oncologic, and orthopedic service lines, allowing it to raise its capabilities considerably above those of other surrounding hospitals and function as a regional referral center for selected types of care.

Product development has been approached in a rather haphazard manner by most healthcare organizations. Although many organizations have recognized the benefits of formalized product development processes, this recognition has not translated into management action until very recently. The failure of healthcare product line management to take hold during a first wave of interest in the 1980s led to declining interest in the topic until the financial crises of the late 1990s.

What became clear in the past five to 10 years is what has been obvious to for-profits (in health care and outside) seemingly forever: There are entire product lines and portions of product lines that are far more profitable than others and worth emphasizing and nurturing for further growth and financial return.

Although this notion seems to fly in the face of the not-for-profit tradition of being all things to all people (somewhat equally), the ability to survive and flourish is at least partly dependent on making such difficult investment decisions. To maximize the benefits of such decisions, more structured, formal product development is a necessity.

WHAT'S IN A BUSINESS PLAN?

PHASE I		PHASE II			
<p>Project Organization</p> <ul style="list-style-type: none"> > Process expectations > Key planning questions > Guiding principles > Overall assumptions > Requirements for success 	<p>Market and Environmental Assessment</p> <ul style="list-style-type: none"> > Internal Capabilities <ul style="list-style-type: none"> -Scope and distribution of services -Medical and clinical staff -Facilities, technology, capacity -Clinical outcomes/performance -Operations and systems -Referral relationships -Organization and management -Financial performance > External Assessment <ul style="list-style-type: none"> -Demographics -Competition -Demand -Major trends (regulatory, reimbursement, etc.) -Market perception -Opportunities and threats 	<p>Program Direction and Strategies</p> <ul style="list-style-type: none"> > Future environmental assumptions > Mission and vision > Overall planning targets (goals) > Metrics 	<p>Product and Service Development Plan</p> <ul style="list-style-type: none"> > Scope of services > Distribution of services > Volume targets > Program development priorities > Recruitment needs 		
PHASE III					
<p>Organizational Plan</p> <ul style="list-style-type: none"> > Hospital/physician relationships > Program leadership > Organizational structure 	<p>Operational Assumptions</p> <ul style="list-style-type: none"> > Accessibility > Staffing > Customer service > Consistency across care delivery sites > Others 	<p>Marketing Approach</p> <ul style="list-style-type: none"> > Objectives > Segmentation > Resource allocation priorities 	<p>Financial Impact</p> <ul style="list-style-type: none"> > Major capital requirements > Incremental impact on operating performance > Sensitivity analyses > ROI 	<p>Implementation Plan</p> <ul style="list-style-type: none"> > Actions > Responsibilities > Major resource requirements > Sequencing/priority 	

Source: Health Strategies & Solutions, Inc.

In the standard business planning process used by healthcare organizations, Phase I provides market context for planning, Phase II is the overall framework for business development, and Phase III incorporates the details that allow the organization to reach its business goals. Financial planning is the capstone of this process.

What Does Good Product Development Look Like?

Many hospitals have well-developed radiology departments. More so than any other service providers in my 30 years of working in health care, radiologists have excelled at demanding (and getting) the latest technology. In what has become a yearly pilgrimage and rite, radiologists attend the annual Radiological Society of North America meeting in the fall and come back with a list for Santa Claus. Hospital executives nearly always have been unprepared for this annual event and, put on the defensive, attempt to accommodate. This is not good product development planning.

Good product development planning has four key characteristics.

Good product development planning starts with a solid understanding of what product the organization is going to plan for and how each product is to be positioned in the market. New efforts in product development planning in an organization are generally implemented in phases, starting with one or two service lines that have a strong interest in product development and the capability to move forward with it purposefully. Product development is then gradually extended to most, if not all, areas. Even the most advanced healthcare organizations today may have only 75 percent of

their service lines involved in formal product development planning. Positioning options for products range from comprehensive to niche and

In the best of all possible situations, financial planning is the final stage of a service line business planning process.

from high-tech to high-touch, with varying emphasis on quality, service, value, cost, and the like. Internal capabilities and competitive dynamics should dictate positioning decisions and then drive the rest of the product development process.

Good product development planning is a regular, ongoing activity, not a periodic event. Continuous research is performed on the latest innovations that may have the potential to benefit the organization or service line in question. Sometimes that research is carried out within the organization itself, although usually it occurs elsewhere. At a minimum, formal consideration of product enhancement occurs at least once a year and is typically tied to the capital budget development cycle. However, some innovations and improvements are not very capital intensive and may be implemented (assuming they meet other tests of desirability and feasibility) at any point throughout the year.

Good product development planning incorporates explicit consideration of technological innovation and market need. Clearly, technological innovation may bring about new technologies or techniques that represent advancements over current approaches. The regular, ongoing product development planning process should uncover such developments in the field. In considering the value of these innovations, two basic questions to

answer are: In what ways does this represent an improvement over current approaches? Can the potential benefits be quantified?

The other important dimension in screening innovations for potential implementation is market need. Although the innovations may represent an advancement, large or small, the issue of market need is a somewhat separate concern. The questions here are: Will the market value this innovation? Is there likely to be enough demand? Can the demand be quantified?

Good product development planning is directly connected to business planning. If a product development idea passes the test of technological benefit and market need, is it then financially feasible—and, better yet, financially desirable—to implement? If multiple product development ideas are under consideration concurrently, which ones yield the best financial outcomes? ROI and payback period are important, but so are capital consumption, since few organizations have unlimited capital, and spin-off benefits (or indirect effects) for other parts of the service line or organization. In the best of all possible situations, financial planning is the final stage of a service line business planning process.

It's Not Too Late to Get Started

Many healthcare organizations have already designated centers of excellence or are considering moving toward a service line planning and management framework. No matter what stage of development an organization is currently in, a more formalized approach to product development can provide substantial benefits. And the more formalized product development approach should yield significant financial returns—more judicious use of capital, better financial performance, and accelerated, but appropriate, revenue growth. ●

Alan M. Zuckerman, FACHE, FAAHC, is director, Health Strategies & Solutions, Inc., Philadelphia. Questions or comments about this article may be sent to him at azuckerman@hss-inc.com.

Looking for new ways to generate revenue and control costs? Read HFMA's monthly newsletter *Managing the Margin*. You'll find innovative ideas on topics such as:

- > Revenue growth strategies
- > Benchmarking best practices
- > Managing the supply chain
- > Achieving operational performance goals

To subscribe, go to www.hfma.org/mtm.