

Health Care Growth Strategies

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Admissions at Children's Hospitals Increase by 50,000 between 1997 and 2000

Today, over 80 percent of the three million inpatient medical/surgical pediatric discharges occur in the community hospital setting. Community hospitals may have difficulty holding onto this activity, as freestanding children's hospitals become an even stronger force in the market. This trend has already started, with freestanding children's hospitals attracting 50,000 more admissions in 2000 than in 1997.

Growth and Revenue Opportunities: Inpatient Pediatrics—Invest or Divest?

Many of the more than 2,000 community hospitals offering inpatient pediatric services may face a serious strategic decision: whether to divest their small struggling pediatrics programs or make the necessary investments to join the growing ranks of children's hospitals within a hospital. From 1997 to 2000, more than 200 community hospitals closed general pediatric units. On the other hand, the ranks of children's hospitals within a hospital (59) and large pediatric affiliates (18) have grown to outnumber the freestanding general children's

hospitals (44) participating in the National Association of Children's Hospitals and Related Institutions (NACHRI).

Even at current activity levels, community hospital pediatric units are difficult to justify. The typical unit has an average daily census of only 6.7 patients. Since these volumes cannot support dedicated facilities, staff, and other resources, even sophisticated cost-accounting systems are likely to understate the financial burden of inpatient pediatrics. Hidden carrying costs can include additional caregiver time for supervision, staff time helping families negotiate adult-oriented services, down time associated with census fluctuations, and inventory costs associated with supplies sized for patients of all ages.

Some hospitals have attempted to quantify the total effect with startling results. One urban community hospital in the Midwest estimates that its inpatient pediatric program, with an average daily census of 2.9, had a multimillion dollar negative bottom-line impact. Another hospital in the Southeast estimated that it would need to more than double its average daily census, from 6.2 to 15+, to reach break-even financial performance.

Finances are not the only consideration. Management must also balance the desire to be a full-service facility against the ability to provide care that is

sufficiently tailored to the unique needs of children and families. Another concern is the ability to generate sufficient volumes to attract pediatric subspecialists who are in short supply. Situations where divestiture might be difficult include urban hospitals with emergency departments that serve as the primary care resource for inner-city children, hospitals with comprehensive maternity programs that need specialized pediatric capabilities for high-risk newborns, rural hospitals distant from a full-service children's hospital, and hospitals with teaching programs that need a pediatric component.

There are, however, compelling reasons to consider becoming a children's hospital within a hospital. The investments in specialized staff, facility, and equipment resources required can be enormous, but this investment can contribute to an outstanding experience for children and families, aid in recruitment of well-qualified pediatric clinicians, and help build sufficient volumes to cover infrastructure requirements. Hospitals can also expect a positive impact on the hospital's image, enhanced access to philanthropy, and support for other related activities such as high-risk obstetrics and teaching programs.

The Silicon Valley Children's Hospital Foundation and Stanford's Packard Children's Hospital plan to

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Building a Children's Hospital within a Hospital?

Key Factors to Consider



- Existing base of specialized services and clinicians
- Sufficient population base to support
- Competitive intensity
- Competing organizational priorities
- Financial capacity

invest in a new 50-bed children's hospital within a hospital in San Jose, California. Many children's hospitals within a hospital are also acting upon expansion opportunities. Inova Fairfax Hospital for Children recently invested in a new ambulatory care center and pediatric emergency room. The campus of the new Bristol-Myers Squibb Children's Hospital at Robert Wood Johnson University will soon also house a biomedical research center. The University of Oregon's Doernbecher Children's Hospital in Portland is a former children's hospital within a hospital that is now getting its own facility.

Organizations considering a children's hospital within a hospital strategy will need to act quickly because the window of opportunity is narrowing as new and expanded children's hospitals come on line. Every market is different, but a hospital with 120,000 to 150,000 or more children in its service area should be able to support a children's hospital within a hospital unless a nearby freestanding children's hospital is already well entrenched with the local pediatrician referral base.



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