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to view Alan Zuckerman's *Healthcare Financial Management* article on divestiture

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Divestiture is More than a Strategy of Last Resort

Divestiture is often seen as a purely defensive move, linked with announcements of strategic repositioning or major restructuring. This perception is reinforced because poor financial performance, either for the organization as a whole or the service or program in question, is frequently a key driver in the decision to divest.

Instead of being a reactive and often emergency strategy, identifying and evaluating opportunities for divestiture should be part of routine operational reviews and strategic planning conducted by hospitals and system leaders. Programs and services should be evaluated to assess their fit with the organization's mission and vision for the future in light of the competitive environment and the expected financial conditions.

Yet making the leap from identifying potential candidates for divestiture to implementing the strategy requires a series of hard decisions. As a result, most health care organizations have considered divestiture only as a strategy of last resort. Instead, divestiture is a strategy worth consideration by all organizations striving to maintain financial health. When made proactively, decisions to divest can be a valuable tool for achieving sustainable, financially beneficial growth. A selective divestiture strategy can help:

- Focus capital and management resources on core services and businesses
- Eliminate or minimize the need to subsidize financial losses in underperforming programs
- Provide capital to meet infrastructure requirements and fund future growth initiatives
- Provide capital to pay down debt and improve financial position

Refocus on Core Business



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Like many health systems during the 1990s, Aurora Health Care pursued the integrated delivery service model, developing or acquiring businesses that enabled them to offer services across the whole continuum of care. Aurora currently operates 13 acute care hospitals and a psychiatric hospital in eastern Wisconsin, and, until recently, the system also included senior housing, skilled nursing care, and nursing homes.

When Medicare began paying based on a per patient rate instead of on a cost basis, these subacute services lost some of their financial appeal. After reassessing the value of continued investment, Aurora sold its Friendship Living Centers and Valley Manor Nursing Home in 2004. The sale of these facilities will enable Aurora to focus its resources on medical and other services it provides to seniors, including acute care for the elderly, the Aurora Geriatrics Institute, a regional Parkinson's center, memory assessment and geriatric assessment services, and elder care management.

Minimize Financial Losses

Health First Physicians is part of Health First, an integrated health care system in Brevard County, Florida. The group of employed physicians was formed in late 1995 and expanded to 60 primary care and specialty physicians within two years. Through a systemwide strategic planning process, Health First reexamined its physician strategy and ultimately negotiated buyouts with the more than half of the physicians in the group.

By 2003, Health First Physicians was still not meeting financial expectations, so the system initiated a strategic assessment of the group prior to the development of a performance improvement plan. At the conclusion of that process, Health First divested two practices, and others have been the focus of performance improvement initiatives. Health First Physicians continues to play an integral role in physician recruitment initiatives for the system and has recruited 14 additional physicians to the group since 2003.

Raise Capital for Growth

Health Alliance of Greater Cincinnati, a not-for-profit system of six hospitals in the greater Cincinnati area, has used divestiture to help raise capital for growth. One of the system's key business lines has been Health Alliance Laboratory Services (Alliance Laboratory), which provides outreach lab services to physician practices in the Cincinnati area and reference lab testing to the Health Alliance hospitals. Annual revenues have been about \$40 million.

In late 2002, the Health Alliance announced that it was exploring a range of options related to the sale of its laboratory business. The system had conducted a review of all business lines to identify opportunities to improve its financial position because significant capital investments needed to be funded in the near future. A sale was also expected to have an immediate positive impact on the system's cash position. The transaction ultimately closed in early January 2004, when the assets of Alliance Laboratory were purchased for \$38.5 million in cash.

Improve Financial Position

Tenet Healthcare Corp., which currently owns 74 acute care hospitals in 13 states, has pursued divestiture as a strategy for financial improvement. In March 2003, Tenet announced plans to sell or consolidate 14 "non-core" hospitals nationwide. The divestitures would allow the company to concentrate on key markets and to raise capital in order to pay down debt.

Following a review of the strategic position and capital needs of its remaining hospitals, Tenet announced another restructuring in January 2004 that included plans to divest an

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additional 27 hospitals. The latest hospitals targeted for divestiture require significant future capital investments, are unable to meet financial objectives, or are located in markets Tenet no longer intends to serve. By eliminating the need to divert resources from stronger hospitals to subsidize poor performing ones, the decision to divest is intended to improve the company's potential for long-term growth.

A Proactive Pursuit

As healthcare organizations continue to experience competitive and financial pressures that can impede future growth plans, many could benefit from the proactive pursuit of a divestiture strategy. The decision to divest is often a difficult one to make. However, the benefits of divestiture, including the elimination of poorly performing services, a renewed focus on core businesses, and additional funds for capital investment, can have a significant impact on the financial well-being of tomorrow's hospitals and health systems.

For more information on divestiture, contact [Maria Finarelli](#) or [Alan Zuckerman](#), or call 215-636-3500.



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