

Top Ten Divestiture Targets: Using Divestiture to Boost the Bottom Line

Financial crisis management and short-term tactical planning have dominated the agendas of healthcare providers facing increasing uncertainty about the future and ever-diminishing financial prospects.

Few organizations believe they have the luxury of relying on growth-oriented strategic plans that were appropriate during most of the last 35-year period. As growth has slowed in the past few years and adequate reimbursement is no longer taken for granted, the more immediate concerns of financial health and near-term viability have pushed strategic planning to the back seat or out of the vehicle altogether.

Some healthcare organizations have adapted from a focus totally on growth to one more appropriate to the changing conditions. Like the banking and airline industries, utilities and other businesses forced to face the realities of today's changing markets, these organizations are concerned about sustainable and financially beneficial growth, not just growth itself. These advanced strategic planning organizations have increasingly turned to divestiture as a tactic to deal with ailing portfolios. Divestiture can take a number of forms: outright sale of an entire enterprise, sale of part of a business (and creation of a joint venture organization), outsourcing, contract management, and in its ultimate form, termination.

Logical targets for divestiture have emerged for healthcare organizations that need to restructure their portfolios.

1. Physician practices. Physician practices are the number-one divestiture target in many organizations. Few healthcare organizations have successfully developed medical groups that contribute to the financial well-being of the organization. Reprivatization of physician practices is one of the least complicated, least costly, and least disruptive ways to resolve what has been an ill-advised or even financially disastrous strategy for many providers.

2 Small system hospitals. Many systems have far too many acute care beds that often overlap service areas and compete with one another. While it is less difficult politically to merely take beds or units out of service in such situations, it is also less effective. Systems are increasingly taking a harder line in these cases and closing, selling or converting to other uses small, redundant hospitals, rather than disassembling hospitals piece by piece.



3 Behavioral health programs. As a favorite target of managed care cutbacks, behavioral health has experienced the most significant reductions of any clinical program in recent years. Many healthcare organizations have closed their programs entirely or cut back large portions of their service offerings. Others have turned to partnering arrangements with niche companies for all or part of their behavioral health programs.

4. Wellness and health promotion. Hospitals and particularly health systems devoted enormous resources to health and wellness promotion in the late 1990s. Few, if any, wellness services were developed with a break-even financial goal, let alone potential margin. Instead, they were typically designated as loss leaders, community outreach or marketing ventures. Healthcare organizations must now scrutinize wellness and health promotion activities, with major cutbacks carried out in programs or significant components without acceptable return on investment.

5. Outpatient centers. Ambulatory care center development and expansion were rampant in the late 1990s, but many centers failed to achieve projected volumes and revenues. Low-volume sites are now being eliminated and even a few high-volume locations in peripheral service areas are candidates for sale or joint venturing.


6. Subacute care. Aided and abetted by favorable reimbursement in the 1990s, subacute care was a popular development target. With a downturn in reimbursement, many organizations are now reconsidering their commitment to this service. Some have eliminated it, others have reduced the size of their business units and still others have turned to contract management arrangements.

7. Home care. Home care is one of the services most dramatically affected by reimbursement reductions precipitated by the Balanced Budget Act of 1997. Most providers have reduced their services or the geographic areas they cover or have merged with other home care agencies to develop more scale economies. Others have abandoned this business altogether.

8. Nursing homes. Nursing homes also have been dramatically affected by the aftermath of the Balanced Budget Act of 1997. Similar to home care but less widespread or severe, service reductions and wholesale abandonment of sites and facilities have occurred. In a few instances, conversion to other uses or sale, the latter at very low prices, has taken place.

9. Managed care plans. Provider organizations have been steadily exiting the insurance business for about two years. In most cases, provider-sponsored plans have been sold to insurance companies; in others, plans have been sold in part to insurers or merged with other plans.

10. Small, peripheral, nonintegrated business units. This catchall category covers a variety of areas where divestiture may be appropriate, such as assisted living, rehabilitation or imaging.

Strategic planning and analysis is a valuable tool to identify these areas, hold them up to careful scrutiny and assist organizational leadership in determining whether divestiture is an appropriate course to pursue. But if strategic planning is to be a useful management approach in the new century, it needs to move beyond its exclusive orientation toward growth. Clearly, divestiture may be warranted in healthcare organizations that have exhausted less dramatic expense-reduction strategies such as overhead reduction in nonrevenue areas, productivity benchmarking and improvement and reengineering. Divestiture should move explicitly into the strategic planning armament as a relevant and necessary strategy for maintaining financial health. 

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