

NICHE SERVICES

Fifth in a Series Examining Revenue Growth Strategies in a Difficult Health Care Market

Niche services are defined as specialized programs that address specific health care needs. Opportunities to develop niche services are evident from the growth of investor-owned providers of specialty services. These companies have targeted certain markets for development, leveraging a high level of expertise and concentration on a specific segment of the care continuum into very financially rewarding businesses. This approach is particularly evident in markets where local health care systems have failed to recognize an opportunity to provide these services or, more often, lack the focus and attention to ensure the high level of service and performance needed to compete in a very narrow spectrum of the marketplace.

Revenues and services are enhanced when niche services:

- Create or increase opportunities to partner with physicians
- Offer a specialty service not otherwise available in a local market
- Are characterized by a high level of expertise and service excellence
- Potentially improve community health and health status
- Target patient care activities with potential for positive return

Many niche services require a physician champion or a high level of physician support to succeed. These services can therefore provide an opportunity to strengthen hospital-physician relationships through mutually beneficial partnerships. The lack of existing competition and the provision of high-quality, patient-focused care will also support the establishment and long-term success of a new service. In addition, niche services arise from unmet health needs in the community and may address issues affecting health

status. Finally, niche services usually target profitable reimbursement opportunities by third-party payers to remain financially viable, although some start with or retain some proportion of revenues directly from patients.

Figure 1 on page 2 shows a partial list of potential niche services for many health care organizations. Clearly, services that are aligned with the organization's overall mission and have a high growth potential will be more sustainable over the long term than others. This article focuses on five niche services that are suitable candidates for development by most health care organizations and appear to have significant potential for growth in the next several years.

SLEEP DISORDERS CENTERS

Sleep disorders centers (or sleep labs) represent one of many programs within the neurosciences that offer a significant market opportunity. A number of factors contribute to the growth of treatments for neurological conditions:

- Increasing incidence of neurology-related conditions resulting from the fact that the population is aging (older people tend to have chronic conditions)
- Increased funding for neurology-related research
- Advances in technology and pharmaceutical interventions
- Growing physician subspecialization in the neurosciences
- Growing consumer awareness of sleep-related diagnoses and treatments

Sleep disorders are one of several conditions within the neurosciences—along with headache, back pain, neuromuscular disorders, cognitive disorders, seizures, and strokes—that a relatively large number of people experience. According to the National Commission on Sleep Disorders, at

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Figure 1

NICHE SERVICES	
Complementary/alternative medicine	
Occupational medicine	
Wound care	
Headache clinic	
Pain management	
Alzheimer's programs	
School health programs	
Sleep labs	
International patient programs	
Prison medicine	
Incontinence treatment	

least 40 million Americans have chronic, long-term sleep disorders, and 20 to 30 million more suffer from occasional sleep problems. The commission estimates that 95 percent of all sleep disorders go undiagnosed.¹ A recent poll by the National Sleep Foundation also revealed a significant discrepancy between the self-reported incidence of sleep problems and the number of disorders actually diagnosed by a physician (see Figure 2 on p. 3).² The most common sleep disorders include insomnia, sleep apnea, "restless leg" syndrome, and narcolepsy. These and other sleep disorders can usually be effectively treated or managed once diagnosis is confirmed.³

With so many American adults experiencing chronic sleep problems, developing a sleep disorders center enables a health care organization to provide a needed clinical service that can also increase revenues. In addition to contribution margin directly attributable to a center, spin-off volumes for pulmonary function testing, complementary medicine, surgical procedures, pharmaceuticals, and medical equipment may provide an additional revenue stream.

Examples include a two-hospital system in the northeastern United States that has operated a sleep lab at each hospital since 1988. Four beds are staffed on each campus. On an annual basis, this system reports a contribution margin of \$500,000. A three-hospital system in the southeastern United States has operated its sleep lab for 11 years; one sleep lab with four beds supports the three hospitals. The system estimates its contribution margin at approximately \$1 million annually.

As the field grows, successful sleep disorder centers will be able to differentiate themselves by accreditation status, physician commitment, hospital commitment, and staff certification. In fact, some insurers will not reimburse a sleep center that has not been accredited.

The American Academy of Sleep Medicine has accredited more than 550 programs, 80 percent of which are operated by a hospital or academic medical center. This group provides guidelines for staff, treatment, facilities, and equipment, all of which help a center attract high-quality physicians and staff and receive appropriate reimbursements.

These guidelines require an accredited center to have a board-certified sleep specialist on staff. Gaining physician commitment often involves offering medical directorship or exclusivity rights. Because of the multidisciplinary nature of sleep

disorder diagnosis, the medical director may specialize in neurology, pulmonology, psychology, or cardiology. Capital costs include equipment (up to \$250,000 for two beds) and any facility renovations needed to support the program.

OCCUPATIONAL HEALTH

Occupational health, or industrial medicine, is a growing opportunity in many markets. Employees injured while on the job often seek treatment at the emergency department or at their private physician's office—both of which may be unprepared to handle the special reporting and testing requirements of work-related injuries. Employers must comply with a variety of federal and local regulations covering workplace health and safety. A comprehensive and well-organized occupational health program can provide the care the employee needs while supporting the employer's compliance requirements and desire to help the employee return to work as quickly as possible.

These services can provide the following benefits to the health care organization:

- A gateway for new patients into the health care system—employees who are satisfied with the care received may come back for other services
- Increased demand for related ancillary services—most testing and treatment modalities used by occupational health programs are already available, so little new capital investment is required
- Partnerships with local employers—which broadens the health care organization's links to the community and creates opportunities for other service development or fund-raising activities
- Relatively undiscounted reimbursement—most workers' compensation plans pay for services at higher levels than other government or managed care payers

The potential size of the occupational health market depends on the size and nature of the local industry. Although the overall incidence of workplace injury and illness is declining, it is generally higher in the manufacturing, construction, agricultural, and transportation industries and lower in service-related industries (see Figure 3 on p. 5). One notable exception is the health care industry, where the incidence of injury and illness in hospitals (9.2 per 100 full-time workers) and nursing homes (13.5) is as high or higher than in the manufacturing sector overall (9.2).⁴

In one medium-sized metropolitan area with 1.1 million residents, 4,000 employers, and a broad mix of manufacturing and service industries, core occupational medicine services, including physicals, substance abuse screenings, and the treatment and follow-up of work-related injuries, represented a \$22 million business opportunity

for health care providers.⁵ Without a comprehensive and organized approach, most health care systems realize only a small fraction of the potential market for occupational health.

In addition to core occupational health services, occupational health programs create a significant amount of referrals for other hospital services. These indirect referrals generate additional revenues from physical and occupational therapy visits, other specialist visits, and ancillary tests—such as MRI and lab tests—that can surpass the direct revenues. Operating margins can be 20 percent or better, including direct and indirect revenues.

A 200-bed hospital in the Mid-Atlantic region with \$80 million in total annual revenues developed an occupational health program that was recently moved to a nearby hospital-owned ambulatory services center, which also houses rehabilitation, fitness, and wellness programs. This program is projected to realize a 10 percent operating margin on direct revenues of \$1.6 million generated by 15,000 visits. Another occupational health program in this region is realizing operating margins of 25 percent on total revenues, including direct core services and indirect referral services to the hospital.

Some hospitals and health care systems have been reluctant to initiate or expand occupational health services in the face of significant physician opposition. In fact, this service represents an opportunity to partner with, rather than compete with, physicians. A well-organized program that

establishes and maintains good employer relationships can result in a significant increase in the demand for occupational health services for both the hospital and its physicians.

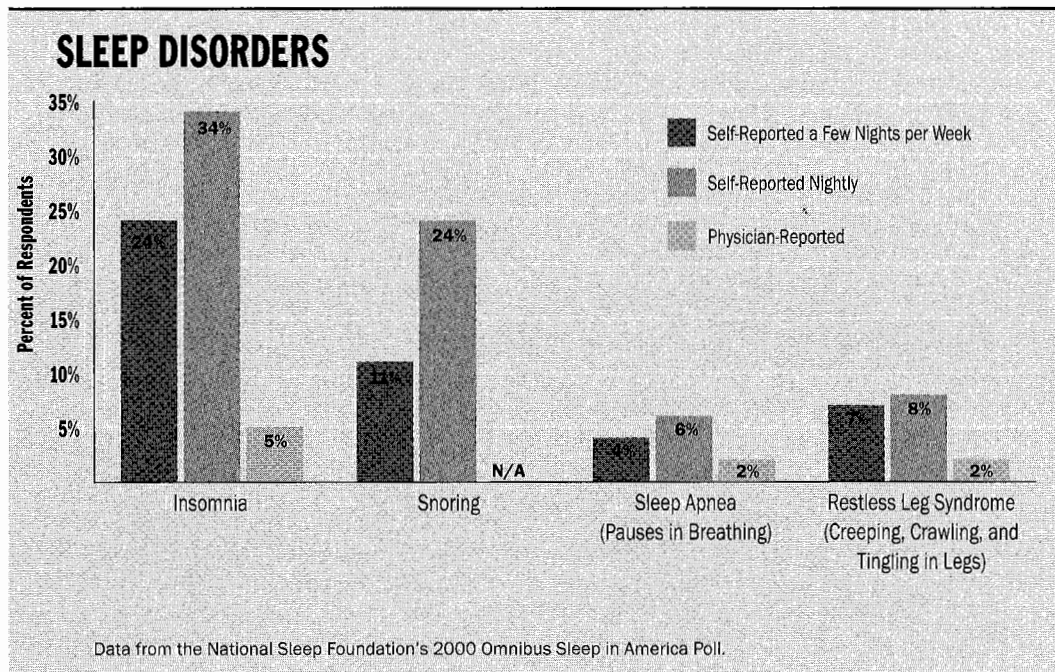
Keys to the success of an occupational health program include understanding the needs of the employers in the service area, developing a program with managers and clinicians experienced in providing occupational health services, partnering (not competing) with physicians, and providing a comprehensive, integrated, and highly responsive service that will encourage area businesses to direct employees to the program.

Given the low capital requirements for entry and today's relatively undiscounted reimbursement levels for workers' compensation in many states, most hospitals can quickly develop a profitable occupational health service or significantly expand an existing occupational health program.

WOUND CARE

Nonhealing wounds affect an estimated 3 to 5 million Americans, with total annual treatment costs estimated from \$5 to \$7 billion.⁶ Clinically, chronic wounds may be associated with pressure, trauma, vascular insufficiency or disease, diabetes, or a prolonged sedentary state. The treatment of chronic, open wounds is variable and costly because of lengthy hospital stays, specialized home care, skilled nursing, and expensive supplies. And, once a wound is healed, recurrence rates can be as high as 70 percent.⁷

Figure 2



Patients seeking care for nonhealing wounds often consult multiple physicians, resulting in disjointed care. Typical treatment involves passive therapies such as cleansing, dressing changes, and wound protection, none of which actively stimulate the healing process. These more traditional approaches to wound care may lead to poor healing outcomes that could result in amputation and costly rehabilitation.

Therapies are now available that, when provided in a coordinated fashion, can dramatically improve patient outcomes, reduce treatment costs, and generate incremental revenue. A wound care center may include an interdisciplinary team of physicians (e.g., primary care, vascular surgeons, plastic surgeons, podiatrists), nurses, nutritionists, physical therapists, and compression therapists. These professionals assess patients, develop a course of treatment, and provide therapies and treatments.

Curative Health Services, a wound center management company, cites an 80 percent healing rate for patients who complete treatment and an average healing time of 10 weeks—after patients have spent average of seven months seeking treatment from other health care professionals.⁸ A key factor in this success rate is developing and adhering to clinical pathways—including case management, outcome management, and proven standards of care—to consistently produce cost-effective clinical outcomes.

Wound care patients use a variety of services:

- Diagnostic testing, such as vascular studies, Doppler ultrasounds, lab work, and MRI
- Surgical services, including revascularization, plastic/reconstructive surgery, and skin grafting
- Rehabilitation and nutritional counseling
- Durable medical equipment, such as compression bandages and elastic wraps

Several new treatments have been introduced in recent years that offer additional promise and revenue opportunities for effective wound treatment. Hyperbaric oxygen therapy, which involves breathing pure oxygen at greater than atmospheric pressure, promotes healing by enhancing oxygen delivery to tissue. Innovative wound healing drugs and tissue-engineered skin are also gaining prominence in treatment plans.

The Milwaukee Comprehensive Wound Healing Center, a multidisciplinary program within Covenant Health System in Milwaukee, WI, provides expert evaluation and treatment to patients with nonhealing wounds, including assessments, treatment planning, and therapies. Therapies include compression therapy, basic and advanced dressings, basic debridements, negative pressure wound therapy (vacuum dressing), off-loading of pressure ulcers, heat therapy, artificial skin grafts,

and hyperbaric oxygen treatments. Physicians on staff are available to offer special expertise in the approach to and treatment of wounds and other diabetic-related conditions of the foot. The program offers lymphedema treatment, physical therapy, pain management, and nutritional services as needed. Patients are also referred to other services in the system for imaging, vascular studies, biopsies, peripheral endovascular procedures, lab work, and drug therapy.

Primary care physicians, infectious disease specialists, and nursing homes generally refer patients. Staffed primarily with registered nurses, the Wound Healing Center provides 5,000 wound treatments and more than 1,500 hyperbaric oxygen treatments annually. More than 70 percent of wounds treated heal within 10 weeks. “Our multidisciplinary approach means we can do a better job than less comprehensive programs,” states Mark Hirsch, program director. In the most recent fiscal year, the program generated \$1.4 million in net revenues, excluding revenues generated by referrals to other services, and realized a contribution margin of \$500,000.

As with most outpatient services, ambulatory patient classification systems have affected payment for wound care services. Patient supplies (e.g., dressings, bandages) are now included within ambulatory patient classification system payments and cannot be billed separately. The impact of this change on wound care centers is still being assessed but, at minimum, will require increased emphasis on cost-effective care.

Given the number of Americans affected by nonhealing wounds and the costs of their care, organizations that develop well-coordinated wound care services can improve patient outcomes and reduce overall health care costs while enhancing physician relationships and diversifying revenue streams.

PAIN MANAGEMENT

Another growing niche service that has a broad and, as of yet, relatively untapped market is pain management. Most studies estimate that 20 million Americans (almost 10 percent of the adult population) have non-cancer-related chronic pain, and more than half of all cancer patients report pain.⁹ In a 1999 study, the American Pain Society found that more than four of every 10 people with moderate to severe chronic pain have yet to find adequate relief.¹⁰

Pain is treated by a variety of therapies and by many types of providers. Recent studies have demonstrated that the most effective clinical results come from a multidisciplinary approach that incorporates anesthesiology, neurology, behavioral medicine, physical and occupational

therapy, social work, and biofeedback. Nevertheless, a recent American Pain Society study showed that only 22 percent of chronic pain sufferers had been referred to a multidisciplinary program or clinic.¹⁰

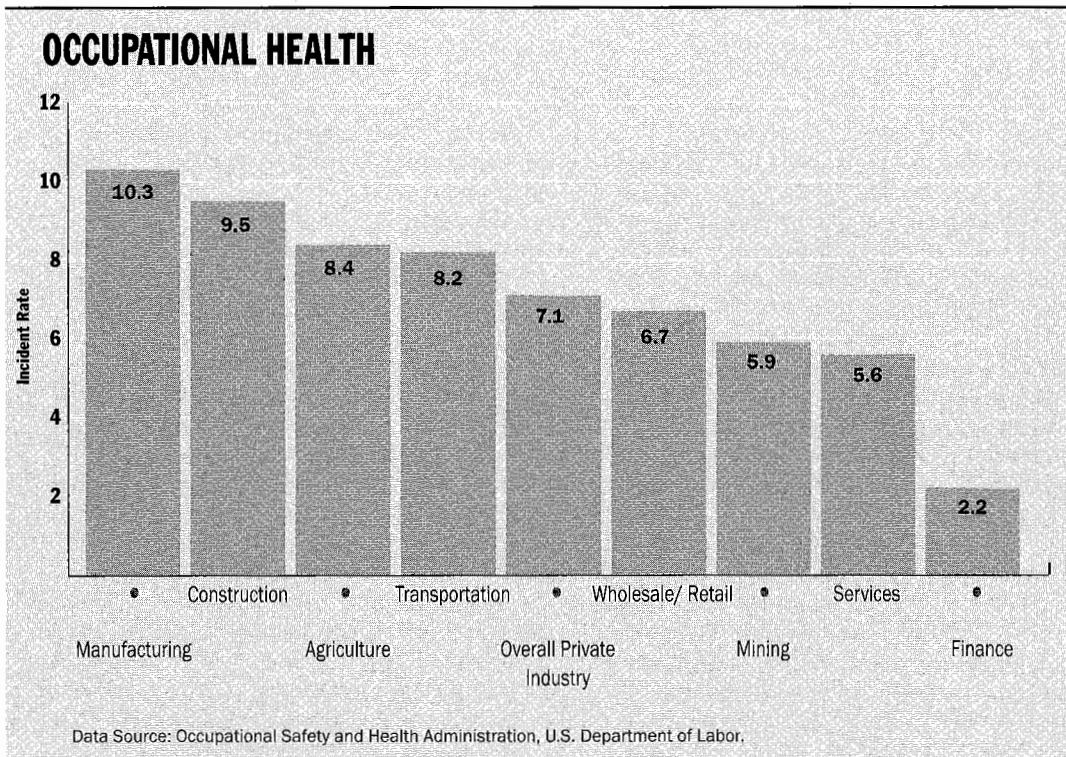
Well-integrated, multidisciplinary pain management centers (MPMCs) create opportunities to offer a superior level of pain management services to patients. Sources of revenue from MPMC's include rehabilitation therapies, behavioral counseling, diagnostic services, surgical procedures, and, in a handful of programs, inpatient treatment, although inpatient care faces increasingly stringent reimbursement.

According to a source at Comprehensive Medical Management, which specializes in the billing and management of pain centers, expanding pain services beyond anesthesiologists performing nerve blocks can generate significant incremental revenue for health care organizations. The firm estimates a multidisciplinary program with 20 to 30 visits per day (roughly 250 to 350 patients per year) can generate \$1.5 million in net hospital revenue through physical and occupational therapy, behavioral medicine, procedures, pharmacy, x-ray, lab, and complementary medicine services. In contrast, a procedural program typically generates \$500,000 or less in net hospital revenue.¹¹

Payer mix varies by program but typically includes workers' compensation, Medicare, and commercial payers. Some literature and program experiences suggest that managed care has been reluctant to pay for MPMC services in part because of past unorthodox and ineffective treatments by unregulated providers. However, accreditation and outcomes research to legitimize the practice of pain management has significantly increased recently. Keys to success include:

- Forming a team of well-trained providers dedicated to interdisciplinary care
- Creating well-defined and individualized treatment plans that use the most effective and efficient resources to meet patient needs
- Offering a time-limited treatment program with identified functional goals
- Tracking and reporting long-term benefits in multiple outcome measures—including decreased pain, improved physical and mental functioning, and cost-effectiveness—to demonstrate efficacy and managed care readiness
- Developing thorough preauthorization and billing processes (supported by staff with expertise in pain reimbursement)
- Developing education and outreach programs for referring physicians and payers
- Pursuing accreditation from the American Academy of Pain Management and/or the

Figure 3



Commission on Accreditation of Rehabilitation Facilities

A well-organized, multidisciplinary pain program can address an increasingly recognized health issue in the population, improve the quality of life for patients, and expand service capabilities and potential revenues for providers.

ALTERNATIVE MEDICINE

Complementary alternative medicine has generated significant consumer and provider interest in recent years. Consumer interest has been fueled by a desire for more natural and less invasive treatment alternatives to traditional medicine and the failure of traditional medicine to treat some (particularly chronic) conditions adequately or to provide a holistic approach.

Alternative medicine is a combined approach of alternative and traditional medicine therapies. The underlying premise is that alternative medicine does not replace traditional medicine, but is complementary to traditional medicine. Research suggests that the complementary approach can be especially effective in the treatment of chronic illnesses, such as cancer, because it combines a mind-body healing experience. Alternative therapies include acupuncture therapy, massage therapy, reflexology, chiropractic, and herbal medicine, among others.

A study on trends in the use of alternative medicine estimated that in 1997, Americans paid at least \$27 billion in out-of-pocket costs on alternative therapies, which equaled out-of-pocket payments made to U.S. physicians.¹² This study also found that the number of people seeking alternative medicine therapies increased 20 percent from 1990 to 1997. The overall size of the potential market and the interest level generated from National Institute of Health funding for a National Center for Complementary and Alternative Medicine demonstrate the significant opportunity alternative therapies may present to health care organizations. Increasing support and reimbursement by payors and increased patient satisfaction also make these services an attractive niche opportunity that could help health care organizations attract and retain patients.

Also according to this study, the most common alternative medical therapies are chiropractic, massage, relaxation techniques, and self-help groups.¹² The most prevalent users of alternative medicine are women aged 35 to 49 years. Offering alternative medicine in the appropriate setting for this group of users can be rewarding. For example, many hospitals and health systems introduce alternative medicine into a women's health center of excellence. This direct approach to fulfilling patient demand may include hiring a

massage therapist or acupuncturist or offering a stress management class within the center.

A key component to the success of alternative medicine is the relationship between nontraditional and traditional providers. Physician-provider support of alternative providers and therapies will allow for referral relationships. Several clinics surveyed by *The Integrator* in 1999 indicated that anywhere from 20 percent to 50 percent of their business is based on referrals from "conventional" physicians.¹³

Providing alternative therapies in a team approach, where physician providers and non-physician providers communicate about the patient's treatment modalities, ensures the complementary aspect of alternative medicine. In clinics where both traditional providers and alternate therapy providers practice, case reviews are a significant component of the integrated approach.

Of eight clinics surveyed in *The Integrator*, half expected the clinic to break even, whereas the remaining clinics expected to make money. Sources of revenue for alternative therapy clinics can include massage therapy and acupuncture, which are still predominantly paid out of pocket. Additional sources of revenue are sales from supplements such as herbal remedies and yoga, nutrition, and stress management classes.

The cash nature of this business, however, may be changing. Managed care organizations are beginning to cover and discount services such as massage therapy, acupuncture, and chiropractic care, and alternative medicine promotes the health and wellness approach that managed care organizations have come to support for their patients' physical and their company's financial well being.

If structured and managed well, alternative medicine can be financially rewarding. A community hospital in the northeastern United States estimates that in three years its integrated medicine program will generate a net income of \$90,000 from \$350,000 of net revenue. This program offers such services as chiropractic care, massage and acupuncture therapies, nutritional and spiritual counseling, educational classes, and the sale of nutritional supplements. By providing the opportunity to capture some of the health care dollars being spent on alternative medicine, attract and retain consumers in the hospital or health system, and enhance the patient care experience, complementary alternative medicine benefits both patients and health care organizations.

Today's successful niche services are likely to be succeeded by new niches tomorrow. Niche service development is limited only by the marketplace and imagination of the health care organization; an environment of entrepreneurial activity within the organization can help discover new opportu-

nities. The development of niche services such as the ones described here can lead to new revenue streams and may also provide a needed service in the community, improve quality of care, and increase patient satisfaction. □

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