

EXPANDING SERVICE AREA



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

Previous articles in this series identified five major strategies for enhancing revenue through service development (“Returning to Revenue Growth,” *Health Progress* March-April 2001, pp. 19-21, 79) and reviewed opportunities to increase market share as one approach to enhancing revenue (“Increasing Market Share,” *Health Progress*, May-June 2001, pp. 28-33). This third article in the series focuses on exploring opportunities to enhance revenue by expanding the service area and communities served by the organization. Expanding the geographic reach of a health care organization increases the number of people accessing the organization’s services and, potentially, associated revenues.

Expanding an organization’s service area can be done in four principal ways:

- Affiliating with or acquiring other facilities located near the boundary or outside the service area
- Developing highly specialized services that draw patients from a greater geographic area
- Enhancing community outreach programs to reach new patient populations
- Establishing new delivery sites in locations outside the service area

Each of these approaches is discussed in more detail below.

AFFILIATING WITH OR ACQUIRING OTHER PROVIDERS

By affiliating with or acquiring other providers, a hospital or system can enter new marketplaces, expand its service area, and potentially enhance the range of services it offers to achieve growth and increase its revenues. Many different types of affiliations exist, varying to the degree that operational and organizational integration and control are achieved and that benefits are realized. They include the following:

- Strategic alliances
- Service-specific affiliations
- Shared services organizations
- Joint ventures
- Management contracts
- Joint operating agreements
- Mergers or acquisitions
- Cosponsorships

In contrast to the other three approaches to expanding service area, affiliation or acquisition is considered a “buy” versus “make” approach. Rather than pursue the “make” path of internal development, organizations target growing service areas through affiliation or acquisition arrangements. Most commonly, the decision to pursue such an approach is driven by the sense of urgency or a window of opportunity in which to move forward, the lack of internal resources to readily accomplish the expansion, and the strong complementarity of the organizations involved. Outside health care delivery, affiliation or acquisition is the approach most widely used by businesses to expand their geographic reach, particularly in the increasingly global pursuits of many large companies today.

Many factors need to be considered when evaluating a potential relationship with another provider, including clinical and financial implications, governance and management issues, cultural compatibility, impact on quality of care, access, and market position. Additional issues arise when health care organizations venture into unrelated geographic or service markets in the pursuit of growth; studies in business literature that are also applicable to health care strongly suggest that successful growth is far more difficult to achieve the further afield (geographically or by degree of service relatedness) the new venture is. Catholic hospitals must also comply with the *Ethical and Religious Directives for Catholic*

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Health Care Services, an area that has come under increasing scrutiny when Catholic hospitals have sought relationships with other-than-Catholic organizations.

The affiliation or acquisition strategy has been used very effectively by many health care organizations to expand their service areas and capabilities. In the early 1990s, Mercy Health System, which included three community hospitals located in the metropolitan Philadelphia market (an area of little or no population growth), acquired a fourth hospital, located in a fast-growing suburban community, hoping thereby to expand its service area, reach new patient populations, and improve its financial position systemwide.

Shortly thereafter, Mercy Health System seized the opportunity to take on a management contract for the two-hospital North Philadelphia Health System, which expanded its presence, albeit in a different organizational form, to another part of the city. Mercy Health System was an early innovator in managed care, developing Mercy Health Plan about 15 years ago. The system has also used a partnership strategy to expand Mercy Health Plan out of southeastern Pennsylvania.

Through its partnerships, Mercy Health System is now the largest multistate Medicaid managed care organization in the country, providing services to nearly 800,000 members in Pennsylvania, New Jersey, South Carolina, Missouri, Kentucky, and Texas. And in mid-2001, Catholic Health East, Newton Square, PA, Mercy's parent organization, announced the pending acquisition of five hospitals sponsored by Catholic Health Initiatives, Denver, three of which would join Mercy Health System and create one of the largest urban Catholic health networks in the United States.

The Sisters of St. Francis of Perpetual Adoration, Mishawaka, IN, in pursuit of the creation of a Catholic health care network in the Midwest, sponsor a number of hospitals in northwest Indiana and have recently expanded into the southeast suburban Chicago market. One acquisition included a for-profit hospital in Olympia Fields, IL, formerly owned by Columbia/HCA.¹

Community hospitals can expand their service area by linking with physician practices in targeted geographic areas at the periphery or beyond their traditional service area. These practices create community awareness of the hospital and potential referral streams, particularly if the hospital locates other outpatient programs with the

practices. A system located in the Southeast linked with a primary care practice outside its primary service area to expand its geographic penetration. One of its hospitals assisted an affiliated primary care group, with offices already located in the primary service area, in recruiting and establishing a satellite office in a neighboring county. This practice is composed of six physicians, including internal medicine, family practice, obstetrics/gynecology, and ophthalmology specialties, located in a medical office building easily accessible to area residents. As a result, the hospital's market share in that county increased from 11 percent to 18 percent over a recent three-year period.²

The development of primary care networks as part of an overall outreach strategy has been the approach of several successful rural health systems, such as Laurel Health System in north central Pennsylvania. Faced with declining acute care admissions and a vulnerable physician base in the 1980s, Laurel Health System affiliated with a large local primary care network, recruited a number of physicians to the medically underserved area, and developed a number of outreach programs to increase its geographic reach and patient base. These strategies, in combination with other resource reduction and service reconfiguration initiatives, increased the system's value to its community, improved its financial position, and prevented the hospital from being acquired or driven out of business by competing systems.³

DEVELOPING HIGHLY SPECIALIZED SERVICES

Developing highly specialized services expands the service area and potentially increases revenues in two ways:

- A specialized service can draw patients from beyond a hospital's traditional service area, especially if it is more convenient and more accessible than other alternatives.
- These services often create a "halo effect," attracting more patients for all services and generating increased volumes of ancillary tests and procedures.

Specialized services can be developed with a partner that is a market leader for certain services to fast track the development process or promote community awareness and trust. Community hospitals that affiliate with a regional cancer center or children's hospital, for example, are able to provide a higher level of service with a brand-name provider within their community. Thus, they are able to attract patients from beyond their

traditional service area who would have previously bypassed them altogether and traveled to the specialty hospitals.

The initiation of a cardiac catheterization or a cardiac surgery program, discussed in the second article of this series ("Increasing Market Share," *Health Progress*, May-June 2001, pp. 28-33), may also have the effect of attracting patients from beyond the immediate service area, patients who otherwise might have traveled even greater distances to a major medical center. Other examples of services that may increase regional draw include pediatric subspecialties, specialty inpatient rehabilitation programs, and neuroscience programs such as a spine center, headache clinic, or stroke center. These services will be discussed more extensively later in this series.

The lack of well-organized programs for such services in some markets increases the probability that initiating a new service will attract patients from outside the immediate service area. Some programs may need to be supported by relatively large service area populations to be cost effective. Therefore, the feasibility of offering such a program or service should be reviewed carefully.

ENHANCING COMMUNITY OUTREACH PROGRAMS

The third major approach to expand service areas is enhancing community outreach. This strategy encompasses not only marketing existing services to populations that may reside outside the existing service area, but also developing programs to reach new patient populations with a variety of collaborative models.⁴ This approach includes a well-organized effort to provide screening and educational services in area schools, senior centers, or other community centers. It can also involve linking with community partners and agencies to identify and address specific health issues in the population, such as lack of prenatal care or diabetes and substance abuse services. Saint Raphael Health System, New Haven, CT, for example, has reached beyond its immediate neighborhood to operate school-based health centers, clinics for the elderly, a mobile clinic for pregnant women, a parish nurse program in more than 20 area churches, and a home care network.⁵

These community outreach efforts are often the first to identify new and growing ethnic populations in many markets that need culturally sensitive services to bridge gaps in language or customs for the growing Hispanic, Asian, and African communities in many urban areas of the country. In New Jersey, a number of hospitals

have instituted programs to identify foreign-born women who need prenatal care and frequently do not speak English, enroll them and their children in Medicaid or other state-funded programs, and provide access to needed services. Community outreach not only has the potential of increasing the health care organization's service area population and potential use of its services, but also can positively affect the health status of residents.

ESTABLISHING NEW DELIVERY SITES

A fourth way to expand a hospital's geographic reach is to establish delivery sites near the boundary or beyond the existing service area. In some fast-growing markets, considering the development of an acute care facility in a new geographic area is feasible. New sites are emerging in growing population centers in the Southeast, Southwest, and West. Douglas County, CO, south of Denver, is one of the fastest growing counties in the country. Currently, the county has no acute-care hospitals, but two competing systems, HealthOne and Centura Health, each have plans to build a new hospital in the county in 2003. Despite their proximity, both systems claim more than enough demand for both hospitals exists.⁶

A more feasible approach for many health care organizations is developing an ambulatory care site with a mix of services appropriate for the surrounding population. This strategy has the following benefits:

- Increases access to services for communities whose residents would be unlikely to travel to the hospital for outpatient services
- Promotes the community's awareness of the health care system and the services it offers
- Provides opportunities to partner with physicians or physician groups that will generate increased outpatient activity and referrals for inpatient services
- Protects or enhances the organization's inpatient market share in communities surrounding the ambulatory care site
- * Establishes new revenue streams

Some health care organizations have followed the example of for-profit niche providers and developed specialty-specific ambulatory services. Wills Eye Hospital, Philadelphia, established nine ambulatory surgery centers throughout an eight-county region to better position the organization in the marketplace and to provide services more locally. Baylor Health Care System, Dallas, has developed a network of nine senior health care

centers throughout its metropolitan area to increase the draw of older patients into the system.

If the new site is too close to an existing delivery site, some shifting of volume to the new site may result and should be considered. This shift can occur in the case of a surgicenter, often developed with and at the instigation of surgeons unhappy with the poor turnaround and operations of combined ambulatory and in-patient hospital operating room suites. However, a new site often offers the opportunity to configure services and provide parking in a way that is not possible without far greater expense on a poorly configured or congested hospital campus.

A range of services addressing the needs of targeted populations, such as women, can be developed to establish new service delivery opportunities. A multihospital Catholic system located in the Midwest evaluated the market feasibility of developing several ambulatory care centers that would better configure its outpatient services across the system and target growing populations in suburban regions at the fringe of its core metropolitan service area.

An audit of service area demographics and competitor facilities revealed opportunities to expand women's and children's services in a facility located in a region of high population growth. A significant concentration of high-income baby boomers in another growing region presented an opportunity to develop wellness/fitness, prevention/screening, menopausal and postmenopausal services for women (e.g., osteoporosis, mammography, and incontinence), and cancer services in an easily accessible site in conjunction with physician practices in the area to create market presence and patient traffic. In both cases, patients seen at the ambulatory sites could be referred to one of the system's hospitals for follow-up and/or acute care services as needed.⁷

A community hospital located in the Northeast designed an ambulatory care strategy that included developing a site beyond the boundary of the hospital's primary service area to target a growing baby boomer population and preempt any competitor activity in the area. Core services at the site will include orthopedic and primary care physician offices, sports medicine and rehabilitation, and ancillary services, including imaging and lab testing. An operating margin of nearly 30 percent was projected based on revenues of \$1.8 million by the fifth year of operation.⁸ The new site is being planned in partnership with affiliated physicians and is expected to increase the hospital's presence in the area as well as eventually increase its in-patient market share.

Reaching out to new patient populations and expanding the service area and presence of the health care system will provide opportunities to increase service levels, revenue streams, and, potentially, improve access and health status of the community. □

NOTES

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