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NEW REVENUE GROWTH

Alan M. Zuckerman

to divest or not to divest? that is (sometimes) the question

To date, my "New Revenue Growth" columns have focused on growth strategies, arguing that purposeful, systematic, managed growth is feasible and desirable for most healthcare organizations. Pursuit of such growth in the logical, orderly way described in these columns should lead to positive financial returns and other important benefits.

"However beautiful the strategy, you should occasionally look at the results."

–Winston Churchill

But not all organizations are in a position to grow successfully, and some, often after a significant growth spurt, may need to restructure or retrench. In these cases, strategic repositioning rather than strategic growth may be at the top of the agenda. Hard decisions often need to be made, which may be why healthcare organizations, especially not-for-profits, have infrequently used divestiture, downsizing, and other types of repositioning until the past five years.

Repositioning can take five principal forms: reduction of services, elimination of services, sale, outsourcing, and strategic alliances or joint ventures.

Reduction of services. In the most straightforward cases, cutbacks are carried out. Typical actions taken by healthcare organizations include eliminating parts of a program (e.g., shut down the partial hospitalization component of a mental health program), eliminating certain delivery sites, reducing hours or days when a service is available, or reducing staffing, effectively restricting access and increasing the wait time for an appointment.

Elimination of services. In some cases, entire programs or business units may be terminated. A number of hospitals shut down their home care programs during Medicare cutbacks a few years ago. More recently, most hospitals have eliminated owned physician practices as a line of business.

Sale. Occasionally, a program or operating unit may be sold to another party. Many healthcare organizations sold their HMOs to Blue Cross plans or commercial insurers in the past five years. As part of the retreat from integrated delivery, some also sold nursing homes or home care agencies to outside groups.

Outsourcing. In other instances, the business remains an owned part of the organization, but management and day-to-day operations are ceded to an outside entity. Outsourcing has become an increasingly popular approach for managing some nonclinical services, but is also used in some clinical areas, most notably emergency, mental health, and rehabilitation care.

Strategic alliance/joint venture. Last and possibly least favorite for healthcare organizations are various partnership arrangements with shared ownership and shared management responsibility. These kinds of ventures are usually a last resort, largely because they are complex to operate, especially in times of stress. Among the most successful examples of this form of repositioning is the conversion of ambulatory care centers to federally qualified health

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Not all repositioning has to be purely defensive.

centers, supported by the increased payment these centers receive.

Probably most prevalent are the current threats to core hospital outpatient services posed by entrepreneurial physician initiatives and the various joint ventures that result from these situations.

Not all repositioning has to be purely defensive. A health system in the East had an owned managed care plan that needed a significant capital infusion to remain a major force in the market, and other system components also had large capital needs. The system sold a 50 percent interest in the managed care plan to a commercial insurer and used its proceeds and investments from its new partner to reinvigorate the plan. The result has been a major growth spurt for the plan and a windfall for both parties.

A hospital in the South faced the loss of its endoscopy service to its gastrointestinal physicians, who were considering a joint venture gastrointestinal center with a for-profit partner. The hospital counteroffered a joint venture gastrointestinal outpatient center sponsored by the hospital and the physicians. The physicians agreed to proceed with the hospital as their partner, and the outpatient gastrointestinal market expanded greatly, leading to a more-than-doubling of historical volume and excellent financial returns for both parties.

Although most financial executives outside health care consider it good business practice to continually review all operations and prune or restructure underperforming units, this approach has been employed only in a crisis mode in all but a minority of healthcare organizations. Smart, contemporary executives will consider the full range of options from investing to divesting and use structured, thoughtful approaches to business development (such as the one presented below) to make the tough but necessary decisions that are inevitable and vital to any high-performing organization today. ●

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GUIDELINES FOR DIVESTITURE OF SERVICES

1. Were the actual financial results equal to or better than those anticipated in the strategic plan?
   Yes (reinvest) No (divest)
2. Has the organization been in operation less than 18 months?
   Yes (reinvest) No (divest)
3. Is there at least an example of a known profitable operation of approximately the same size as your operation?
   Yes (reinvest) No (divest)
4. If utilization targets have not been achieved, what is the reason?
   Not achieved, but reasonable (reinvest)
   Overestimated (divest)
5. Is your payer mix the same as or better than you expected?
   Yes (reinvest) No (divest)
6. Is this a high fixed-cost operation with excess capacity?
   Yes, could increase utilization without adding much expense (reinvest)
   No, expanding services means adding expenses (divest)
7. Can you quantify spin-off benefits to the system?
   Yes (reinvest) No (divest)
8. Can you identify any real competitive advantages this service has in the marketplace?
   Yes (reinvest) No (divest)
9. Can you identify specific management actions that can reverse the losses?
   Yes (reinvest) No (divest)
10. Is this a mature product or market?
   Yes (reinvest) No (divest)
11. Would you use your own money to invest in the venture?
   Yes (reinvest) No (divest)

Source: Society for Healthcare Strategy and Market Development; this exhibit appeared in Zuckerman, A.M., "Revisiting Divestiture," *Health Forum Journal*, Nov.-Dec. 2000, pp. 53-54.

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