

hfm

healthcare financial management association www.hfma.org

NEW REVENUE GROWTH

Alan M. Zuckerman

prioritizing growth opportunities

Regional Medical Center is a 400-bed hospital located in the affluent northern suburbs of a medium-sized metropolitan area in the Midwest. Regional's revenues are approaching \$200 million annually and have been increasing by an average of 10 percent per year for the past five years. Regional's operating margin has ranged between 4 and 6 percent per year during this period. By all measures, Regional is an incredibly successful organization with nearly unlimited opportunities.

LEARN MORE

Looking for new ways to generate revenue and control costs? Subscribe to HFMA's monthly newsletter *Managing the Margin*. You'll find innovative ideas on topics such as:

- Benchmarking best practices
- Managing the supply chain
- Achieving operational performance goals

Go to www.hfma.org/publications/newsletters/managing_the_margin

Regional's success has generated myriad possibilities for continued growth. Simply to keep up with its natural growth rate and supporting infrastructure needs, it is planning a \$150 million capital expansion project on its main campus. The demands of the project have meant that Regional has only enough near-term capital for routine equipment replacement and updating and selected additional initiatives. For an organization that has never had any serious financial constraints on growth, this situation is unique. How will Regional choose from among nearly 100 new initiatives to pursue over the next 18 to 24 months?

Although the particulars of this situation—especially the prosperity of Regional—may seem somewhat unusual and even a bit extreme, all healthcare organizations face increasing constraints on growth. Whether the organization is rich or poor, large or small, urban or rural, freestanding or in a network or system, its growth opportunities almost always

outstrip resource availability and capability. This situation, in large part, is a consequence of a fast-changing environment in which opportunities are constantly appearing. But it is also a function of growing financial constraints, increased uncertainty and risk, and simply the sheer number of opportunities that nearly every organization faces relative to the amount of management time and talent available.

Structure and Discipline: Essentials for Profitable Growth

Faced with a growing and dizzying number of opportunities and frustrated by the conventional methods of addressing them, some healthcare organizations have begun to adopt new approaches. These leading-edge organizations have noticed that companies outside health care with a strong record of profitable growth are extremely disciplined in their pursuit of growth.

Rather than pursuing ad hoc approaches and subjective decision-making processes, successful companies use structured processes and quantitative methods to select growth opportunities. The exact approach varies by organization and situation, but generally includes explicit criteria and logical weighting, leading to systematic project ranking.

Explicit criteria. Criteria for rating opportunities usually include financial and market considerations, internal capabilities, and ease of implementation. The most common criteria are capital needs, number of months required to reach breakeven,

Whether an organization is rich or poor, large or small, urban or rural, freestanding or in a network or system, its opportunities for growth almost always outstrip resource availability and capability.

return on investment, competitor strengths and/or likelihood of competitive response, existence of an internal champion, and internal capabilities on which to build.

Weighting. Some criteria may be double- or triple-weighted in the analysis. For example, capital-short organizations may place more weight on proposals that require limited or no capital investment.

Systematic project ranking. Project ranking is done at least once a year in organizations that employ these methods, and may be done as frequently as two to four times a year in larger organizations and those operating in the most dynamic environments. In these situations, unusual opportunities are “green lighted” outside the formal, regular project evaluation process (but are still subject to the defined criteria). This approach is in stark

contrast to the random, disjointed project approval process that unfortunately is still far too common in health care today.

Although Regional Medical Center’s ad hoc approach to growth had served it well for many years, the hospital decided it was time to adopt a project evaluation process similar to the one just described. At first, the transition was difficult, with many disgruntled project sponsors, attempted “gaming” of the ratings process, political end-runs, and other maneuvers designed to undermine the integrity of the process. But now, midway through the third year of this structure, the kinks of the new system have been worked out and there is high satisfaction internally with this approach.

Nearly everyone agrees that this is a much more rational, fair, and transparent project evaluation process than what preceded it. Because the criteria are known and understood, initiatives proposed are generally fewer in number, more realistic and feasible, and more consistent with Regional’s overall strategic direction. The only question now raised about the process is, “What took us so long to move to such a rational approach?”

As financial constraints continue to tighten, today’s organizations face increasing pressures to better prioritize the opportunities before them. Regional experienced significant success by adopting a more structured approach to strategic planning. If your organization hasn’t made this leap into the 21st century, maybe it’s time it did. ●

Alan M. Zuckerman, FACHE, FAAHC, is director, Health Strategies & Solutions, Inc., Philadelphia. His e-mail address is azuckerman@hss-inc.com.