



Nathan S. Kaufman

Succeeding in the Healthcare Market

Making sure your organization thrives now and in 2011.

No one can predict exactly what the healthcare delivery system will look like in 2011. However, an objective assessment of the trends in critical areas such as physician supply and sociodemographics, hospital management and utilization, healthcare economics and quality metrics will provide insight into managing these aspects of healthcare in the future. With this in mind, the right strategies can enhance the performance of your organization.

Physician and Facility Shortages

While the U.S. healthcare delivery system is gearing up for consumer-directed health plans, a crisis is arising on the supply side. Many healthcare markets are facing a shortage of physicians, especially in specialties such as cardiology, orthopedics, neurosurgery and radiology.

And surveys show that the number of physicians entering the work force is no greater than the number of physicians who are retiring. Due to a generational shift in work/life balance that prioritizes family before work, approximately half of these new physicians work 25 percent fewer hours than the physicians they are replacing. With the population growing, the combined result is that it takes multiple physicians to see

the same number of patients as a retirement-age doctor.

Predictions indicate that a shortage of 85,000 to 200,000 physicians will occur by 2025. As a result, hospitals must invest more to satisfy physician expectations and develop innovative, win-win economic relationships with physicians.

Another supply-side issue is the closing of a number of hospitals, which is leaving an impending shortage of hospital facilities. In 1995, 873,000 U.S. community hospital beds were available; today there are 808,000, a 7 percent decline.

Further, hospitals are approaching capacity in many markets and are faced with the challenge of accommodating patients when beds are full. Some organizations are expanding facilities to compensate, but due to a shortage of nurses and physicians they cannot find the personnel to meet the demand of the growing and aging U.S. population. Fewer beds also may force patients who might otherwise have compared hospitals based on price and efficacy to choose facilities based solely on bed openings.

Healthcare Economics

The challenge of maintaining

long-term financial stability continues to affect an organization's ability to provide needed services to the community. CEOs need to identify strategies that improve access, foster appropriate use and reduce unnecessary expenditures. The new emphasis on demonstrating measurable quality (discussed further below) will require expensive enhancements to hospital infrastructure that must be funded from operating income. Today's net income will impact tomorrow's quality report card. The imperative to achieve predictable high quality, which requires physicians to be clinically integrated, is enhanced by Medicare's recent focus on linking reimbursement increases to quality data for both the hospital and its physicians.

Those hospitals and healthcare providers that optimize their financial performance will be best prepared for upcoming challenges. Given that most hospitals do not have the funds to be all things to all people, successful hospitals will:

- Invest and divest to achieve desired results.
- Engage key physicians in the management of hospital service lines.
- Develop an employment option for physicians that results in a high-quality, clinically integrated group practice.

- Transition care delivery to hospital-focused groups such as hospitalists, intensivists, neuro-hospitalists, traumatologists, etc.
- Focus on medical care, not just healthcare. Hospitals are the only providers of critical-care services; they must first invest their limited resources in services for which there are no substitutes.
- Avoid popularity traps. The healthcare field has lost millions of dollars by investing in unproven strategies that sounded good but never panned out.

Another major financial issue is that Medicare and Medicaid comprise 25 percent of the federal budget, and the government cannot afford to spend at the current rate. In 2005, Medicare and Medicaid underfunded hospitals \$25 billion. Proposed Medicare and Medicaid cuts threaten the viability of many healthcare organizations. To compensate for underfunding in government reimbursement and have funds to invest in capital improvements and the development of a new delivery model, it is essential that hospitals contract for their fair share of the managed care premium. Contract rates that result in 180 percent to 200 percent of Medicare (140 percent of cost) are the minimum that should be acceptable.

Measuring Quality

Executives can establish a high-performance culture by researching best practice benchmarks and focusing their managers and medical directors on achieving these benchmarks. Hospitals can develop

a performance-based, measurable strategic vision that targets market share, net income and measurable quality. Then they can compare actual to desired results on a regular basis. Critical to every hospital's success is the recruitment of quality people for key positions. The quality of personnel is one of the few variables a hospital CEO can control.

The fundamental challenge in every service area is to create a world-class healthcare system that produces high-quality care. This requires:

- Leadership
- Objective, knowledge-based decision making
- Trust
- Communication
- Compromise
- Social responsibility

CEOs should routinely measure and monitor many factors for their hospitals' overall success. Achieving benchmarks in quality and other factors allows you to stay alert and nimble, enabling you to better face opportunities and threats as they emerge. One important factor is knowledge of the competition. Hospitals are competing with other facilities in their market, but the most intense competition is between hospitals and payors for dollars.

Looking Forward

The most likely characteristics of the healthcare delivery system in 2011 will include lower government reimbursement; a shortage of beds, physicians and clinical staff; more hospital-employed physicians; and a

new emphasis on measurable quality and clinical integration.

The healthcare field has experienced challenging times before. The hospitals that focus on the fundamentals, such as quality metrics and net income, will emerge as the leaders in this new environment. ▲

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Tactics for Improving Efficiency

- Reduce length of stay.
- Avoid adding new beds.
- Achieve benchmark cost per unit of service.
- Ensure adequate supply of physicians to support the hospital and community need.
- Operationalize an infrastructure that employs physicians in a multispecialty group culture.
- Engage in radically open communication.
- Develop joint ventures when terms and returns are reasonable.
- Prepare to invest more to engage physicians.
- Begin development of a clinical management infrastructure.
- Develop a world-class revenue cycle program.
- Use service-line management with active physician leadership to create better services and capture market share.
- Negotiate for your fair share of the managed care premium.