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## Physician Flight to Security: Using Service Line Planning as an Alignment Strategy

Over the last few years, several of our Perspective articles have focused on: 1) physicians', particularly specialists', efforts to secure incremental downstream revenue to offset the continuing decline in their income; and 2) the threat such efforts may pose to both their local hospital and/or the multispecialty group by which they may be employed. However, the good news is that successfully managing each of the above issues is not mutually exclusive to creating an efficient community delivery system. And after all, isn't the goal of any integrated health care delivery strategy to match the health needs of the service area population (market) with the professional aspirations and care-management skills of clinicians? Private practice physicians (in all specialties) are experiencing a widening gap between collectible cash from their professional charges and the money needed to fund both overhead and market-based compensation. For example, if they are working at the 75th-percentile of national benchmarks but only realizing 50th-percentile total pay compensation, there's a gap and it's widening. As a result, most will start to look at the "downstream" revenue sent to a hospital and desire some of that margin to close the effort-compensation gap.

Some of the specific tactics and structures we have offered in response to these market dynamics have included:

- Using professional service agreements (PSAs) to create incremental dollars for specialists so they can remain employed by their multispecialty group, while concurrently leading to improved service line performance.
- Using PSAs and management services agreements (MSAs) to retain some independence for a physician group, while delivering the necessary integration of a clinic's assets to achieve more favorable provider-based reimbursement through the local hospital.
- Creating an infrastructure joint venture that allows referring physicians to participate in a reasonable slice of the hospital's ancillary services margin through incremental growth, thereby eliminating the threat of duplicated services.

These remain powerful tools in the physician-hospital alignment toolbox, but given the ever-changing health care environment, these may not be enough. Hospitals and specialists need to cre-

ate greater alignment, focused on delivering better care for their communities. A very meaningful mechanism that can actively deliver greater physician alignment, while also growing or protecting market share and creating a more efficient community delivery system, is effective service line planning.

Service line planning helps hospitals and physicians compete more effectively in a changing health care environment. Hospitals and health systems must strive to more securely position themselves in their market and with those physicians who send them patients. At a high level, this requires them to work collaboratively with their physicians to better meet the needs of an increasingly demanding patient in order to ensure their mutual success. This sounds good, but how exactly is it achieved? We find that service line planning cultivates three characteristics that define successful hospitals and health systems:

- **Preparedness** – Key building blocks are in place at these organizations. They are aware of the challenges faced by both the organization and physicians and understand the models and requirements available to create alignment. They must have a "preloaded alignment strategy" to segment and prioritize service lines and be prepared to move in a nimble fashion to better understand and meet the needs of the community and physicians. They are proactive or, at the least, able to respond quickly and decisively to changes in their market.
- **Creativity** – Sound alignment with physicians requires creativity in addressing priority opportunities. Every situation is unique. This uniqueness extends to the type of structure the organizations and physicians may choose to pursue for alignment, as well as the scope and market approach that are best employed to improve care and jointly capture market share.
- **Follow-Through** – Finally, organizations must implement. This requires the ability to set appropriate goals and initiatives and to provide the measurement and management needed to make these joint activities successful.

These characteristics, which result from effective service line planning, can lead to hospital and health system success. In those circumstances where service line planning was considered

ineffective, the flaw was typically found in the execution, not in the design. Done properly, service line planning creates a win-win situation for both physicians and organizations of all sizes. Physicians and organizations end up with better alignment, while improving the patient experience, and ultimately improving market and financial performance for both parties.

## Service Line Planning

Service line planning and management occur when hospitals and health systems take a patient-focused view of their market and business, creating business plans for defined clinical service lines (examples include orthopedics, heart, women's health, cancer). These service lines are then developed in such a way as to create a unique value proposition to attract patients. Best-practice service line planning can be broken down into four phases:

### 1. Education and Preparation

In this phase, two key activities occur to ensure key building blocks are in place: 1) the organization assesses its strategic plan and quality program; and 2) key leaders (Board, administration, and physicians) are educated on alignment options, service line planning structures, and mutual benefits.

The assessment ensures the organization is prepared to pursue service line planning. A comprehensive strategy provides overall direction, and a quality program is essential to overall implementation success. Education helps provide a common understanding between organization and physician leaders as to what is possible under service line alignment. It also better ensures mutual expectations are established at the outset.

### 2. Analysis

This next phase involves lining up the organization's strategy with information that describes both the market and the organization's current capabilities with identified specialists. The ideal outcome is both a segmentation and prioritization of service lines. Segmentation may include a suggested strategy for each service (for example, grow, protect, monitor, disinvest), and prioritization provides direction as to which services must be addressed first. The value of this stage is twofold. First, it establishes the agenda for proactively focusing the organization's resources. Second, it puts the organization in a position to know how to react to changes in the market. A process that combines data analysis with physician-specific, facilitated discussion and decision making is ideal for this phase.

### 3. Design

Starting with the highest-priority service line, the organization must then begin designing the service line that will achieve the selected strategy. A team of both physicians and organization

staff lead this phase. The four primary components of service line design are:

1. **Market Position** – To drive growth, the service line must deliver the right services in a manner that uniquely satisfies the market (access, service quality, reputation, etc.). Defining a unique customer value proposition and scope of services is critical to the rest of the design phase. To get to this point, the team must utilize and discuss market data, competitor profiles, and specialty-driven medical staff planning information to reach these definitions.
2. **Alignment Strategy** – Once the market is understood and the service line is defined, the appropriate alignment strategy must be selected. Specific alignment tactics must be identified and refined. Without alignment, the service line will not be successful. Once the team identifies options, it is up to organization and physician leadership to finalize details. Note that alignment options must reflect the market and situation. Options can include PSAs, MSAs, and joint ventures as listed above or could end up being much simpler, such as clearly defined and compensated medical directorships or just quicker operating room through-put for surgeons.
3. **Patient Experience and Processes** – The patient (and referring physician) experience must reflect the market position selected by the work team. Utilizing process improvement tools, the team will identify and improve the key processes required to deliver on the market position. Examples include improving patient flow, reducing operating room turnover time, enhancing communication with patients and their referring physicians, and eliminating potential barriers to quality care.
4. **Investments** – There are going to be gaps to be addressed between where the organization is currently and where it wants to be. These gaps may include missing skill sets, technology, or the facilities necessary to support key processes or capacity. In this final stage of the design process, these gaps are identified and quantified.

### 4. Implementation

The implementation process should be kept simple, yet use an effective and proven set of tools. The implementation process includes four major tasks that must be accomplished: the structure/governance must be finalized; investments must be managed; initiatives must be defined and completed; and progress must be measured. The two important tools at this stage are the quality program and performance measurement tools such as the Balanced Scorecard. A sound quality program, coupled with project management tools, provides an engine for chang-

ing processes. The Balanced Scorecard provides a “road map” for the areas of service line planning that must be tracked during implementation (financial and customer goals, process initiatives, and investments). Once implementation is complete, the strategic (market), operational (through-put), and financial needs of all parties need to be satisfied to expectations (or expectations must be modified) to mutual benefit. The Balanced Scorecard can also keep track of these expectations. As the organization moves beyond implementation, the scorecard provides stakeholders with a complete view of service line planning, with measures for customer and financial outcomes, as well as key measures of process and investment effectiveness.

## Expected Outcomes

As described above, service line planning should lead to a win-win outcome. First and foremost, the community benefits as it receives better and more efficient care. These improvements should also lead to volume gains for both the organization and physicians. Furthermore, alignment and collaboration lead to them working together to achieve their goals, rather than competing with each other. Let’s look at a quick example.

If we are considering an orthopedic service line, it is helpful to understand the basic economics of a 1.0 FTE practitioner (Source: MGMA Physician Compensation and Production Survey, 2007 Based on 2006 Data).

Gross Charges	\$1,800,000
Less Contractual Discounts/Bad Debt at 52%	<u>(\$936,000)</u>
	\$864,000
Less Overhead at 48%	<u>(\$414,720)</u>
Net to Fund Compensation	\$449,280
Less W-2 Median Compensation	<u>(\$455,000)</u>
Less Typical Fringe Package	<u>(\$75,000)</u>
Shortfall to Fund Total Pay Needs	(\$80,720)

Higher producers will have higher discounts, along with higher income expectations. With an increasing shortage of orthopedic residents, which drives compensation higher, private practice may not deliver the desired economic returns. Consequently, institutional ASC or imaging margins are sought because ortho-

pedists know they deliver \$2.8–\$3.0 million annually in institutional inpatient and outpatient charges. Service line planning can be a solution.

## Summary

In the example above, service line planning could be used as a framework to:

- Allow quick discussion between the organization and physicians. (The organization has a proactive strategy for orthopedics.)
- Build formal alignment between the organization and physicians.
- Collaborate around the development of services that truly meet patient needs.
- Increase revenue for both the organization and physicians through increased volumes and enhanced revenue strategies.
- Create shared responsibility for the long-term success of the service line.

The organization and physicians are able to jointly develop a service that better meets community needs, while establishing a relationship that benefits both parties. Service line planning provides a powerful context and enhancement for traditional physician-hospital alignment strategies.

This is the first of three articles. Together, these articles are intended to show the benefits of service line planning and identify critical steps necessary for successful implementation.

The next article will address the financial considerations for successful alignment—ensuring the service line is sustainable and profitable. This article will identify strategies for maximizing reimbursement and bottom-line results. In addition, the article will explore the financial analysis best suited to prioritizing service lines and for modeling and projecting future performance.

Finally, the last article will address the redesign of service line processes and the role of technology in this phase. Alignment tools and marketing, by themselves, are not sufficient for lasting success. Truly successful service lines deliver effective care in a way that increases customer value in an efficient manner. To achieve this result, organizations must change their core processes and create infrastructure for growth.

Concurrent sessions will offer you an opportunity to gain insight into key issues facing your hospital today. You will be able to take away lessons that can immediately be applied to your hospital. For more information, call Sylvia Weise at 715.858.6631, or e-mail her at [sweise@wipfli.com](mailto:sweise@wipfli.com).

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