

SPECTRUM

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Planning

Portfolio Analysis: Beyond Market Share and Market Size

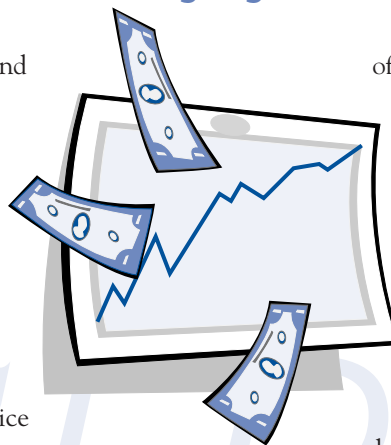
A more powerful form of service-line portfolio analysis that incorporates evaluations along several dimensions allows healthcare organizations to balance multiple, often conflicting organizational objectives.

Across the country hospitals today find themselves in the midst of a medical arms race. Competing organizations race one another to expand capacity and offer the latest in high-tech services. Many hospital leaders are choosing their battles by focusing their scarce human and financial capital on the most promising opportunities. Service-line portfolio analysis (SLPA) has become increasingly popular – again – to select service lines for investment.

Hospitals have used a basic form of SLPA by comparing service lines' market share and market size. However, by incorporating several criteria along multiple evaluation dimensions, portfolio analysis can be a much more powerful tool. This more robust version, or multidimensional SLPA, allows for a strategic assessment of service-line opportunities.

Why Use Multidimensional SLPA?

The value of multidimensional SLPA derives from articulating what is important to the organization in the form of criteria and explicitly measuring the performance of the service lines against this common yardstick. Service lines can provide strategic value to an organization by meeting different organizational objectives. For example, typically highly profitable service lines (e.g., cardiac surgery and orthopedics) provide the operating income necessary to maintain the financial vitality of the organization. Other,



often less profitable service lines (e.g., OB/GYN and pediatrics) may be important to meet a need and maintain goodwill in the community. Incorporating several criteria allows SLPA to balance the multiple, often conflicting objectives of the organization, allowing “apples to apples” comparisons of disparate service lines (e.g., obstetrics and orthopedics).

Perhaps the most significant advantage of multidimensional SLPA is the transparency it brings to the process.

Ultimately, the purpose of service-line priority setting is to identify the best opportunities for the organization and to *take action* on those opportunities. Not only must the organization make good investment decisions, it must also build support within the organization to follow through on the selected priorities. The SLPA criteria make it crystal clear why certain service lines were chosen for investment over others, mitigating concerns about organizational politics driving the plan and, if the right criteria are chosen, reassuring staff that the organization's mission has been considered.

Establishing Evaluation Dimensions and Criteria

Although each organization is unique, organizations frequently use the following three dimensions to facilitate their thinking about desired criteria:

- Market position
- Economic considerations
- Impact on the organization and community

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For each dimension, the organization identifies criteria to measure service-line performance. The evaluation dimensions and criteria selected are the heart of SLPA and determine the ultimate value of the analysis to the organization. Therefore, it is important to take care early in the process when establishing the dimensions and criteria. The following guiding principles can be helpful.



1. No single list of criteria works for every organization. The planning group should make sure that the criteria selected reflect the organization's unique mission and vision as well as its financial and competitive position.
2. Allow time for debate. Buy-in regarding the criteria is essential before buy-in regarding the results is possible. Having influential members of the planning group on board with the results often proves valuable when rolling out the plan to the rest of the organization.
3. Clearly define how the service lines will be measured against the criteria. The criteria alone will not eliminate concerns about objectivity. The criteria must be coupled with concrete measurements and scoring, which may be qualitative in nature.
4. Focus on the most important criteria. Although it is tempting to keep adding criteria, if there are too many, the analysis will no longer be transparent, and one of the key advantages of SLPA will be lost. Ideally there should be no more than 10 to 12 criteria in total across all three dimensions.
5. Be prepared to use qualitative measures. An organization is unlikely to be able to accurately reflect its varied objectives and needs without including at least a few qualitative criteria. For example, quantitative measures of risk or the importance of a service line to the community rarely are readily available, yet the planning group may consider them criteria that are critical to identifying opportunities. It is important to remember that criteria can be both qualitative and objective.

Dimension #1: Market Position

A service line presents an opportunity only if the organization has a reasonable chance of success. Criteria within the market position evaluation dimension focus on measuring the likelihood of success. Critical success factors include the overall size of the market (i.e., is there sufficient volume to offset any investment required?), the nature of competition in the market (i.e., is there an 800-pound gorilla?), and whether the organization has or can develop the internal capabilities to be an attractive provider (e.g., quality of care, breadth of physicians).

Dimension #2: Economic Considerations

To fulfill its mission, a healthcare organization must remain a going concern – that is, it must continue to exist if it is to continue to meet the needs of the community. Viability requires that the organization not only fund its current operations, but also reinvest to maintain its current capabilities. The organization also must be able to fund investment in new technologies and facilities as care modalities change. Criteria within the economic considerations evaluation dimension focus on measuring how financially attractive a service line is and the degree to which investing in a given service line is likely to generate a sufficient economic return.

Dimension #3: Impact on the Organization and Community

Assessing the impact of the service line on the organization and community is where the planning group has the opportunity to use SLPA in a way that is fundamentally different from most conventional business analysis. Criteria in this dimension focus on measuring the degree to which service lines support the organization's multipart mission and its other activities. Explicitly incorporating mission-related criteria into the analysis allows the organization to break out of the common scenario in which a service line's financial losses are justified by asserting, without evidence, that the service line is crucial to the mission. SLPA requires that service lines demonstrate mission support by their performance against the criteria.

Conclusion

Although multidimensional SLPA cannot calculate “the answer” for the hospital, it can be a valuable priority-setting tool by providing structure and transparency in the planning process. As with any tool, it is valuable only if it is used properly. Hospital leaders should recognize that careful attention to the planning process used to develop SLPA is necessary for success. By carefully selecting the right evaluation dimensions and criteria, hospital leaders not only can identify attractive opportunities for the organization, but also can begin to generate the buy-in necessary to implement change. 🔄

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Susanna Krentz and David Kantor, president, Kantor Consulting Group, will lead a preconference workshop on “Strategic Planning Building Blocks: Who, What, When, Where, Why” at the Society's Annual Conference in Palm Springs on Wednesday, September 8, at 9:00 a.m.



Potential Market Position Criteria

- What is each service line's market share?
- What is the market size (volume or dollars)?
- Do you have a significant advantage over competitors in any service line that is difficult to replicate?
- What is relative patient satisfaction?
- What is the geographic pull?
- How diffuse or concentrated is the competition?
- What are the depth, breadth, and loyalty of the service line's physicians?
- Is the quality of any service line better than that of its competitors?
- What is the caliber of physician leadership?

Potential Economic Considerations Criteria

- What is the total book of business (revenue)?
- What is the service-line profitability?
- What is the contribution margin of each service line?
- Has its profitability been rising or falling over time?
- Is the cost per discharge above or below that of principal competitors?
- What are anticipated capital requirements for each service line?
- What is the financial/legal risk for this service line?
- What are future payment or cost trends?
- What is the philanthropic appeal?

Potential Impact on the Organization & Community Criteria

- What percentage of revenue or profit comes from each service line?
- Has utilization been increasing or decreasing?
- How critical is each service line to the functioning of other service lines?
- Would the community be materially worse off if the hospital did not offer this service?
- Would there be a loss of related business if the service line were downsized, closed, or divested?
- Are any special populations served?
- How does each service line promote teaching or research missions?