



For Board Members Only: 10 Trends to Watch in 2007

From boardrooms and “C-suites” to associates on the frontlines in hospitals and healthcare systems across the U.S., strategic and financial planners are sharpening their pencils and loading up the spreadsheets to anticipate and forecast the strategic and business implications of market and industry changes in 2007. Following is our best advice for boards and senior management about trends and issues that must be considered for policy and strategic impacts in the new year and beyond.



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1. **Healthcare economics** will be mixed in 2007 (and for the next three years). Federal and state reimbursement levels will not keep pace with overall expense inflation. Medicare seems on track to further incentivize the shift from inpatient to outpatient settings by reducing site-of-service payment differentials. More procedures continue to be authorized for payment in freestanding facilities. Medicare will put more pressure on reducing pharmaceutical costs.

***In the boardroom:** Watch financial statements that reflect changes from rate shifts for surgery, imaging, and other outpatient services. Key questions to ask are, “What is the right mix of on-campus versus off-campus services; what is the right pricing strategy?” Keep an eye on creeping bad-debt levels and allowances for indigent care. On the managed care side, many hospitals should be able to secure at least modest rate increases from HMOs and PPOs in areas where they have market leverage.*

2. **Physician–hospital alignment** will be a top strategic concern through 2007. Retention of good physicians is less costly than recruitment, and healthy relationships go a long way toward maintaining revenue for inpatient and outpatient services. Many are using joint ventures, practice management, employment, electronic linkages, and other creative methods to preserve and strengthen aligned interests.

***In the boardroom:** Monitor physician satisfaction survey scores and trend-lines. Physicians are the economic engine for the enterprise, and 5,000 mile check-ups to test the barometer of relationships is effort well spent. Key physicians must be shown appropriate appreciation. They must know that there are advocates and champions for them among the top ranks of the organization. Monitor management’s effectiveness in engaging physicians in joint efforts*

to enhance service lines and to achieve strategic objectives.

3. **“Transparency”**—the buzzword of 2006 will be the 2007 policy standard applied to pricing, quality, safety, service, and clinical outcomes. Increasing public access to information will allow even moderately sophisticated consumers, payers, and others to create a “value proposition” that is quantitatively based

rather than anecdotal. This trend toward transparency is fueled by website sponsors that publish price and outcomes data. In fact, many hospitals now publish price and quality information. Consumers with high deductible health plan coverage or health savings accounts are increasingly price sensitive; they may engage in comparison shopping for rates and outcomes, and create their own value equations based on data.

***In the boardroom:** Consider your organization’s transparency quotient—is it enough? It may be better to get this in focus from the inside before someone on the outside does it for you. A robust information technology infrastructure will be essential to achieve your transparency initiatives.*

4. **Employee workforce shortages** still loom large, especially in high-tech, high-skilled job areas such as nursing, imaging, and information technology. Expect wages and benefits to feel the pressure, especially in multi-hospital markets where bidding for competency will be common.

***In the boardroom:** Consistently monitor three essential indicators—the aging of your organization’s workforce in key positions, employee satisfaction survey scores to gauge morale and culture effectiveness, and turnover rates. Hiring and retaining skilled workers will become more difficult, especially with increasing non-healthcare employment opportunities available to your people.*

5. **Expense inflation** will continue with higher costs for technology, skilled workers, benefit cost escalation, more organized labor activity, charity care, bad debt, and out-of-control construction costs. The aging population is consuming more healthcare resources, and its demand for convenience, service, and immediate access is driving supply.

In the boardroom: Watch per unit revenues and per unit expenses. Financial reports that include profit and loss figures by service line, or contribution margin reports, are essential to monitor performance and make course corrections. Include in your regular strategic discussions how to make adjustments in service mix, payer mix, productivity, sites of service, marketing effectiveness, and other factors to control costs.

6. **The shift from inpatient to outpatient** will continue, supported and driven by more affordable, accessible technology and physicians and others anxious to capture patient volume and revenue from both professional and technical fees. Office-based procedures and freestanding ambulatory settings still are on the upswing, and developers, manufacturers, and vendors are very willing to accommodate interested parties. Medicare's reimbursement policies will also financially impact this sector.

In the boardroom: Examine what physicians are doing on the outpatient front. Competition created by physicians in this arena can be very disruptive. There may be a joint venture in your future if things are getting out of hand. If so, be aware of three guiding principles for joint venture development: First, do not share money that you don't have to. Second, know when you "have to." Third, make sure that projected returns from your portion of the new joint venture will exceed current results. That is, there must be the potential for growth, synergy, and higher performance levels under the joint enterprise that make the venture extraordinary.

7. **Physician workforce shortages** are felt nationwide in many specialties including neurosurgery, internal medicine, radiology, and pediatric subspecialties. The physician workforce shortage is exacerbated by qualitative factors as lifestyle demands, the desire for part-time and flexible schedules, and a propensity to seek employment in large group-practice settings. Physician attraction strategies range from income guarantees and offering practice support to employment (back in vogue after a brief hiatus). Employment offers now extend to specialists as well as primary care physicians, although this time around most arrangements are performance-based, having learned lessons from prior experience. Most new physicians want to immediately step into turn-key practice situations that offer income guarantees, established patient bases, minimal or no ED on-call coverage, and participation in ancillary revenues.

In the boardroom: You must have a current medical staff development plan and physician-hospital alignment strategies that address current and future organizational and community physician needs by specialty. Hold management strictly accountable to their implementation. Succession planning is essential, especially in important specialty areas where it might take two or more new physicians to fill a capacity void left by an especially busy retiring physician. Make sure that senior management is creating a forward-looking, dynamic, competitive environment that attracts and retains the highest caliber of physicians to the medical staff.

8. **Emergency Department on-call coverage** will become more complex and expensive. This is driven largely by physician issues around lifestyle, payer mix, and reimbursement. Call coverage is particularly difficult in high-demand specialties, including orthopedic surgery, general surgery, and neurosurgery. Payments for ED on-call coverage directly impact financial performance, and many hospitals are creating innovative payment methodologies and formulas to reach win-win arrangements.

In the boardroom: A problem with paying for ED call is that money does not often solve the lifestyle issues. There are new creative ways to approach payment structures and coverage arrangements, so don't be afraid to explore options in this arena. Validate on-call payments for compliance and market reasonableness.

9. **The health insurance industry** will begin to feel the tremors of potential policy changes. Although the threat of Federal-sponsored reform may be more visible and vocal, actual change is more likely at the state level, especially to address coverage for indigents and children. Is there a universal or single payer national solution in the near term? Not likely, although some type of change can be expected within the next five to eight years. For 2007, more people will gravitate to consumer directed plans, providers will vigorously pursue pay-for-performance bonuses, and pricing will be an important factor in choices about insurance coverage and where patients decide to receive care.

In the boardroom: We still haven't heard a good answer to the question, "Who will pay for all of this?" In the meantime, monitor your pricing strategies and bad-debt levels. On the managed care front, insurers continue to innovate with creative benefit plans and pricing schemes. PPOs and HMOs are almost indistinguishable from each other as provider panels and benefit plans have become

more similar, along with granting patients broader and less restrictive access to care. Management should be appropriately demanding about negotiating better rates and contract terms with managed care companies.

10. **Healthcare services will continue to go retail.** It starts at the top of the new site-of-service *food chain* with the shift from inpatient to outpatient, to the physician office, to the local discount superstore. Convenience is prime, and the public wants to have it *now!* Retail outlets are fast, accessible, inexpensive, and post their prices up-front. They are banking on high volume to mitigate low margin procedures, and they meet people in very convenient locations and times. Retail clinics capture consumers at the head of the continuum, and they could be sources of referrals for higher acuity physician and diagnostic services downstream.

In the boardroom: *If you can't beat them, join them? Many large healthcare systems are jumping on board, negotiating contracts, joint venturing, or creating their own versions of immediate care "Quick Clinics" to get in the game before someone else gets the competitive edge. Regardless*

of whether or not you jump into this business, make sure your existing services all are very responsive to patient needs. Customer service enterprise-wide is a top priority. Questions to ask in the boardroom include, "Do we offer online appointment scheduling for outpatient services? Same day access for primary care? What are our patient satisfaction survey trends telling us about outpatient service performance?" Don't let participation in retail clinics distract you from what is most important to preserve and enhance right now.

These trends and issues will be important topics for discussion in board meetings and strategy sessions for the year ahead. Ask many questions, and be bold in considering new avenues to keep your organization vibrant, growing, and healthy during the most interesting and challenging of all healthcare times.

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