RETURNING TO REVENUE GROWTH

A New Series Examines Five Revenue Growth Strategies in a Difficult Health Care Market

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Words such as turbulent, volatile, and chaotic have all been used to describe the last decade for health care, but the past few years have been particularly difficult for nearly all health care organizations. With few exceptions, financial performance plummeted as a result of three key factors:

- Market forces began to work, and the excess supply of most health care services resulted in price and reimbursement pressures on providers.
- The accumulated effect of a number of years of managed care growth, combined with excess supply and other market forces, resulted in revenue deterioration.
- The Balanced Budget Act of 1997 dramatically affected Medicare reimbursement, despite recent rollbacks.

Developments in the past decade drove a shift in the focus of health care organizations from pure growth (in the early 1990s) to building integrated delivery organizations (in the mid 1990s) to financial viability (in the late 1990s). Many health care organizations are in their second or third wave of cost repositioning as they strive to cope with financial realities and threats. Some providers are also mounting significant efforts to maximize reimbursement for current patient demands, implementing initiatives such as revised coding procedures, more thorough charge capture mechanisms, managed care contract review, and payor compliance activities. A few aggressive and innovative providers, however, are taking a more creative approach: pursuing new sources of revenue.

REVENUE GENERATION OPPORTUNITIES IN THE NEXT CENTURY

Even though cost cutting and repositioning dominate agendas, few health care organizations have actively explored the new revenue generation opportunities now available to them. The **Box** on p. 20 presents five general strategies for revenue enhancement. All these strategies are being used to varying degrees by health care organizations today, but rarely in a systematic and purposeful manner. In the current crisis-oriented financial environment, revenue enhancement is being ignored, or relegated to a minor role, in the quest to dramatically and rapidly improve financial performance. Although few of these opportunities demonstrate the immediate return that cost repositioning strategies can, they can provide significant and long-term benefits and deserve a prominent role in the arsenal of approaches used to deal with today's financial pressures.

A key issue in financially prudent revenue growth—one that is especially relevant to Catholic health care organizations—is business focus and discipline. Almost any organization can grow, but not all growth is equally rewarding. Outside health care, successful growth is increasingly driven by state-of-the-art strategic planning, which clearly delineates priorities and dictates resource commitments, and sophisticated business planning, which carefully and completely describes how the opportunities are to be pursued. This type of business focus and discipline is uncommon in not-for-profit organizations and is still resisted to a surprising degree in Catholic health care organizations in particular.

To set the stage for a new era of financially rewarding revenue growth, in the next several issues of *Health Progress* the following five revenue growth strategies will be examined in greater depth to provide specific examples and guidelines for their application in Catholic health care today.

INCREASING MARKET SHARE

Increasing market share, the most basic of all revenue growth approaches, is commonly found in strategic plans of nearly every health care organization. But because essentially *all* organizations are trying to increase share, most are unlikely to succeed at some point in time—barring the demise of a significant competitor or a major drop in share of any single organization.

Outside health care delivery, the battle for market share may actually lead to a temporary drop in revenues rather than an increase. In the most straightforward situation, one competitor drops prices to gain share, which precipitates a price war and a decline in overall revenues for each competitor. Such situations had been unknown in health care delivery until the past few years, when some organizations began to enter into managed care contracts at steeply discounted rates and, despite any share gains or price war, realized lower overall revenues temporarily or for an extended period.

Few strategies being pursued by health care organizations to gain market share are as counterproductive as price-cutting. More commonly, services are deepened or extended, leading to gains from pent-up demand when capacity constraints are relieved or additional business from related areas of service. Unfortunately, much of today's product and service development is still haphazard and lacks the market and business application of approaches used by for-profit companies. An emerging and likely fruitful future area of market share strategy is demonstrating higher quality and leveraging that quality difference into true product differentiation.

REVENUE ENHANCEMENT STRATEGIES

Strategies	Solutions
Increase market share	Expand breadth and depth of existing services (e.g., add new capabilities such as surgical oncology, subspecialty neurosurgery)
Expand service area	Develop programs with broader market draw (e.g., tertiary or quartenary services) or establish new delivery sites on periphery of existing service area (e.g., new ambulatory care center)
Fill gap in the continuum of services	Partner with others or develop new services not currently provided by the organization (e.g., physical medicine and rehabilitation, occupational medicine)
Develop niche services	Seek opportunities to provide profitable niche programs (e.g., wound care, headache clinic, pain management)
Repackage existing services for targeted marketing	Organize services by market segment or disease (e.g., women's health center, breast center, stroke center, spine center)

EXPANDING SERVICE AREA

Somewhat less prevalent but still fairly typical is the strategy to increase revenue by extending the service area, usually into adjacent markets. Here, too, competitors often are engaged in the same activity, generally leading to no gain for either party or gains that offset each other.

Outside health care delivery, expanding the service area is the primary area of growth for many large businesses. Expanding the service area takes many forms, but most frequently involves merging with or acquiring companies servicing different (new) markets and expanding internationally into untapped markets. Both aspects of revenue growth are being pursued vigorously by many companies that see this as an era favoring large firms and providing economic circumstances that are conducive to global expansion.

In the more circumscribed world of U.S. health care delivery, service is still carried out primarily as a local or regional endeavor. Although mergers and acquisitions have been one approach to expand the market, more frequently the tactics employed are less dramatic. Developing programs with a broader market appeal, particularly distinctive and unique services that will draw patients from a larger market area and establishing new distribution points outside the existing market area, are the most common approaches to revenue growth through service area expansion. As with increasing share, being able to demonstrate higher quality is also an emerging strategy for increasing service area.

FILLING GAPS IN THE CONTINUUM OF SERVICES

One of the most time-honored competitive strategies in health care delivery is to avoid competition by filling gaps in service availability rather than going head-to-head with others in the same business. For many years, and as late as the 1980s in some areas, gaps could regularly be discovered and met with little or no impact on other providers in the market. But as the gaps were filled, this strategy became increasingly difficult to pursue.

The analogous situation outside health care delivery takes two forms. One is truly discovering a gap and filling it. Recent history is replete with successful examples, such as 3M's Post-It Notes, cellular phones, and minivans. The second form, which has recently influenced health care, is vertical integration. Vertical integration has not been tremendously successful outside health care and has led prominent companies such as AT&T, Sears, Matsushita (Panasonic), and Seagram down a path that, although clearly one of expansion and revenue growth, has not been profitable or sustainable. Although gaps are readily identified and filled with this strategy, it is rarely done in a manner that leads to long-term, rewarding growth.

> Growth is a proven way to attain long-term profitability goals.

Vertical integration has led some health care organizations down similarly unproductive paths. The best example of this strategy going astray is in the acquisition of physician practices by hospitals, which, despite the consistent market and revenue growth approach, has resulted in near universal financial distress. In contrast, a few organizations carefully identified actual gaps in the continuum and achieved greater vertical integration, but in a financially prudent manner. In these situations, real community needs are generally being met and, alone or in partnership, services are being delivered in an effective and efficient manner. Catholic health care organizations have natural allies in this area, and through collaboration with other Catholic health and social service organizations in their communities, they can often make great progress relatively easily.

Developing Niche Services

Creating niches has been the province of the for-profits in health care delivery for most of the past decade. Although not-for-profits have largely pursued the goal of developing integrated delivery systems, for-profits have sprung up to pursue opportunities that were too small or seemingly insignificant for the increasingly large not-for-profits to carry out.

Outside health care, the past decade of consolidation in many industries and advances in market research and segmentation have created a boom in niche creation. ESPN, CNN, boutique banks, gourmet groceries, and "lite" beer are just a few examples of this exploding phenomenon. Most industry experts believe we are seeing just the beginning of an explosion in niches brought on by an affluent, informed, demanding public and the plethora of information that is available to increasingly segment and subdivide in the pursuit of profitable niche markets.

Many of the fastest growing health care companies have pursued niche marketing strategies. HealthSouth in the orthopedic and rehabilitation sector, Curative Health Services in the wound care sector, and Fresenius Medical Care in dialysis are just a few examples. Some not-for-profits have discovered that this is a successful approach to revenue growth and are transforming part or all of their organizations to product-line management, which facilitates creating niches or splitting off smaller existing businesses into new entrepreneurial ventures. Still others are mimicking the behavior of for-profits and developing local and regional niche businesses.

Repackaging Existing Services for Targeted Marketing

A final approach to revenue growth is less strategic in orientation and more driven by marketing. Repackaging is another way to gain additional business and revenues for existing services with minimal product development or market expansion expenses. Repackaging is an increasingly common way for health care organizations to take current services and "freshen up" the offerings for today's consumer markets.

Outside health care, repackaging is a frequently used method to generate revenue growth from mature products, thus extending their life cycle. The periodic retooling of stale car brands and creating "greatest hits" albums of popular musical groups are two examples of repackaging. In industry, such gains are generally understood to be temporary, often a last gasp before the product expires—certainly not a long-term fix. Nonetheless, because most, if not all, fixed costs have been fully amortized, tremendous short-term profits can often be realized in these endeavors.

In health care delivery, recognition of the value of repackaging and targeted marketing is growing. Certain customer groups, particularly those that have elective or discretionary needs, are especially good candidates for this strategy that may also tie in product line structure and support and enhance the transformation to more consumer-oriented delivery and marketing.

The Bottom Line: Grow or Perish

Organizations must grow or they will stagnate, decline, and ultimately expire. Growth at any cost

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MINISTRY AND POSTMODERNISM

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Cynicism subtly poisons an atmosphere because it seems to make the present situation permanent, providing no hope of change. Such cynicism, with its fatalistic foundation, breaks out into scorn and derision of people and institutions that believe compassion, mercy, and justice are values that can, in fact, be practiced.[21]

Leaders of Catholic health care facilities can unwittingly be seduced by this cynicism as they struggle to develop and maintain a Catholic ethos in health care in the midst of a postmodern world. They lose their nerve to lead appropriately or surrender to the temptation to cease trying. They may resort to simple repetition of the facility's vision and mission statements, making no real effort to integrate these statements into the facility's culture. Such leaders vainly believe that if they repeat the statements often enough, people will automatically comprehend their meaning.

Effective leaders, however, see postmodernism's positive challenges. They realize that mission integration methods that worked in an era of modernity are frequently inadequate for today's reality. They see an opportunity to begin again, using the experience of staff members, especially their inner yearning for meaning and community, just as Christ did in his own day when he developed leadership skills in his apostles. □

NOTES

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3. See Anthony Giddens, *The Consequences of Modernity*, Polity Press, Cambridge, England, 1990, p. 45. Giddens rejects the word "postmodernism" on both philosophical and sociological grounds.
4. Jean-Francois Lyotard, "The Postmodern Condition," in S. Seidman, ed., *The Postmodern Turn: New Perspectives on Social Theory*, Cambridge University Press, Cambridge, England, 1994, pp. 27-38.
5. Margaret Wheatley, *Leadership and the New Science: Learning About Organizations from an Orderly Universe*, Berret-Koehler, San Francisco, 1992.
6. See Gerald A. Arbuckle, *Earthing the Gospel: An Inculturation Handbook for the Pastoral Worker*, Orbis Books, Maryknoll, NY, 1990, pp.119-120, and *Healthcare Ministry: Refounding the Mission in Tumultuous Times*, Liturgical Press, Collegeville, MN, pp. 18-19.
7. Molly O'Neill, "As Life Gets More Complex, Magic Casts a Wider Spell," *The New York Times*, June 13, 1999, p. 1B.
8. David C. Korten, *When Corporations Rule the World*, Earthscan, London, 1996, pp. 70-71.
9. See Gerald A. Arbuckle, *From Chaos to Mission*, Liturgical Press, Collegeville, MN, 1996, pp. 42-57, and *Healthcare Ministry* pp. 3-41, for fuller discussions of this topic.
10. Ian I. Mitroff and Elizabeth A. Denton, *A Spiritual Audit of Corporate America*, Jossey-Bass, San Francisco, 1999, pp. 184-185.
11. Jacques Derrida, "This Strange Institution Called Literature," in D. Attridge, ed., *Acts of Literature*, Routledge, New York City, 1992, p. 109.
12. Mitroff and Denton, p. 185.
13. Sheila Hillier and Graham Scrambler, "Women as Patients and Providers," in *Sociology as Applied to Medicine*, G. Scrambler, ed., W.B. Saunders, London, 1997, pp. 131-133.
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16. Robert Wuthnow, *Sharing the Journey: Support Groups and America's New Quest for Community*, Free Press, New York City, 1994, p. 365.
17. See Arbuckle, *Healthcare Ministry*, pp. 35-36.
18. Paul VI, Apostolic Exhortation, *Evangelization in the Modern World*, par. 41.
19. Arbuckle, *Healthcare Ministry*, pp. 233-234.
20. See Arbuckle, *Healthcare Ministry*, pp. 241-270; Bernard J. Lee and Michael A. Cowan, *Dangerous Memories: House Churches and Our American Story*, Sheed and Ward, Kansas City, MO, 1986.
21. Richard Stivers, *The Culture of Cynicism: American Morality in Decline*, Blackwell, Oxford, England, 1994, pp. 13.

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In Catholic health care, the rationale for growth is less apparent.

is not desirable, but growth has proven over time to be the most certain way to attain long-term financial stability.

The need for growth in investor-owned companies is fairly obvious and usually is directly linked to profitability and shareholder return. In not-for-profit businesses and Catholic-sponsored health care organizations, in particular, the rationale for growth, apart from survival, is less apparent. In these cases, growth provides the principal means to support the mission, both in terms of the continued future viability of the organization and the charitable mission that is central to Catholic-sponsored organizations. Setting an overall profitability target in an organization and allocating a portion to continuing the business and a portion to charitable purposes ultimately determines how much growth is needed to enable this return to be generated. In fact, the business challenges for not-for-profits are not markedly different than the ones investor-owned companies face—but the proceeds of successful operations are distributed very differently.

Health care providers have struggled through an extremely difficult period in which survival was the main goal; those that have emerged, battered and bruised but somewhat intact, need to resume a growth orientation before the next new challenge hits. This series of articles will help health care organizations carefully and purposefully move forward and take advantage of the many opportunities that exist in the next century of health care delivery. □

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