REVENUE ENHANCEMENT STRATEGIES

Last in a Series Examining Revenue Growth Strategies in a Difficult Health Care Market

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More than a year ago we began a series of articles for *Health Progress* aimed at helping hospitals and health systems focus on revenue expansion. Over the past year we have been encouraged by feedback and observations from the field; there appears to be an increasing balance now between growth efforts and cost containment and reduction initiatives.

The dilemma facing some organizations is how to return to revenue growth; for others, it is how to turn revenue enhancement into a major organizational focus. Previous articles in this series examined revenue enhancement opportunities by key categories and described how these opportunities could be capitalized on.

This final article presents a practical framework for beginning or accelerating the revenue enhancement process. This framework has been employed successfully, with minor variations, in dozens of health care organizations. If revenue growth is high on your organization's agenda, this framework should assist in improving the process.

HOW TO GET STARTED

The initial stage should involve two concurrent components: an objective assessment of progress to date and identification of needs and goals for the next one to three years. The assessment should address the following questions, at minimum:

- How has revenue changed in the aggregate over the past three years?
- For each major subsidiary or business unit, what have been the trends in revenue over the past three years?
- For key programs or services during this period, what has been the three-year trend?
- Where in the organization is revenue increasing greatly, and where is it decreasing greatly?
- In regard to each of the above, why has this occurred?
- What major growth initiatives have been attempted in the past three years, and what have been the results?

Depending on the organization and the scope and extent of its programs and services, a more detailed performance analysis may be appropriate. The goal of the assessment is to understand the basis for revenue generation and/or changes by a key program area and to evaluate the organization's track record in developing new revenue opportunities.

Future needs and goals can be determined by the following key considerations:

- What are the overall and business unit targets for growth for the next one to three years?
- What contribution margin thresholds must new or expanded initiatives meet? What other high level (e.g., mission-related) factors must be considered and how?
- To what extent should revenue growth focus on core businesses versus other businesses? How much effort should be directed to new versus expanded programs and services? To new versus existing markets?
- What role should acquisition or strategic alliances play in business development?

Planning staff analyses and management team review, input, and discussion of recent history and future needs and goals, including the points outlined above, should result in a good start to the revenue growth planning process.

A brief illustration further clarifies this process. We've worked with half a dozen health care organizations that have experienced static overall revenues or slightly declining revenues over the past three years. Despite attempts to shrink their expense bases to operate in a financially viable manner at these reduced revenue levels (actual or inflation-adjusted), the efforts were largely unsuccessful. In each case, a "stretch" target of 6 to 8 percent annual average growth in revenues was established for the next three years. With renewed energy being focused on judicious growth, budgeted growth levels are being realized (one to two years after implementation) along with improved financial performance resulting from increased contribution margins and, in nearly all cases, better service to their communities.

Identifying Potential Opportunities

As the preceding articles in this series have highlighted, myriad sources are available to draw on to identify potential revenue enhancement opportunities. The objective at this stage is to develop as complete a list as possible of the opportunities for evaluation and ranking in subsequent steps of the planning process. Typically, the opportunities are also defined, so they are consistently understood by leadership, and described succinctly, so that the nature of each opportunity and its magnitude are also clear and consistently interpreted.

There are three broad approaches to opportunity identification.

Strategic Plan and Other Source Document Review Numerous opportunities are often already identified in the organization's strategic plan and other key documents. Reports—such as patient satisfaction survey findings, medical staff survey findings, other market research, and special program studies—are terrific source documents for opportunity identification and are usually readily available for review. Sometimes the opportunities are already defined and described in such documents but not yet acted on; other times they lie a little below the surface, waiting to be dug out by the careful analyst.

Macro Analysis It is generally advisable to conduct macro analysis of the organization and its environment to discover additional revenue enhancement opportunities. Many organizations already have such analyses available in the form of an annual environmental assessment or strategic plan update. For others, supplementary effort will be required. In carrying out such an analysis, dissecting the organization's situation or environment in a highly detailed manner it is not necessary or advisable at this point. This analysis should include sufficient detail, however, on the main topics of previous articles in this series: market share, service area, continuum gaps, market niches, and target segments.

Qualitative Input Input from many levels and perspectives from inside and outside the organization are valuable sources of additional opportunities. The challenge is to structure a process that maximizes the possibility of gaining the most complete input but minimizes time and effort spent on collecting it. In general, group input sessions, using structured brainstorming techniques, are the best way to achieve this balance. These sessions can involve selected, diverse representatives from various levels and constituencies of the organization, structured into sessions of six to 10 persons each. For example, different sessions may include directors of various departments, physicians, and community leaders. Another approach is to organize the groups along program or service lines to identify opportunities by those most familiar with the service and market.

As a result of these three steps, it is not unusual for 20, 30, or even 50 opportunities to be identified in a large organization. The challenge from this point forward is to narrow the list of possibilities to a manageable number. To narrow the list and to properly conduct the type of prioritization process described in the next section, it may be necessary to expand the information base relative to each initiative. At the very least, a summary business plan for each opportunity identified (which may also involve transformation of the opportunity into a concrete initiative) is usually required. Here, too, it is possible (and sometimes necessary) to develop a feasibility study or full business plan for some or all the opportunities. This process should result in the elimination of the weakest or least likely opportunities from further consideration, which will allow the organization to focus on the more promising initiatives.

Prioritizing Identified Opportunities

A step that is often skipped in the revenue enhancement planning and implementation process is that of prioritizing identified opportunities. Some providers go directly from opportunity identification to implementation for one of the following four reasons:

- The need to immediately implement some or all identified opportunities is apparent
- Leadership has an intuitive sense regarding the priorities
- The need to move forward is so intense that

some are not willing to take the time to screen and evaluate the opportunities

• The early momentum of the process propels management directly into implementation

However, because few organizations can or should implement all their identified opportunities, some relatively objective method for determining priorities is needed.

An objective method of determining priorities is needed.

Concurrent with the opportunity identification step, and before any concrete opportunities emerge, it is a good idea to develop a framework for prioritizing and ranking initiatives. When developed at this time, the framework is usually free of any biases that might be introduced by the awareness of specific opportunities by organizational leaders and the resulting desire to ensure that the evaluative process is structured so that certain opportunities emerge as priorities.

The prioritization framework typically includes specific criteria and a weighting system as appropriate. At a minimum, the following four criteria should be considered:

• *Mission enhancement.* To what degree does the proposed initiative advance or satisfy the organization's mission?

• *Organization's capabilities.* Does the initiative draw from, build on, or enhance any particularly strong existing capabilities? Will unique capabilities be developed as a result of this initiative? Is there a lack of essential capabilities that will be remedied by pursuit of this initiative?

• *Market conditions.* Is there growth or change in the environment that this initiative capitalizes on? Is there much direct competition now, and is this situation likely to change in the next few years? Is the competition weakening or strengthening? Are there new technologies or approaches that will strengthen or undermine the market for this initiative in the next few years?

• *Reimbursement/financial impact.* Is the reimbursement for this initiative favorable, not favorable, improving, or likely to deteriorate? Is the likely financial performance very good, good, fair, or marginal? Does pursuit of this initiative require significant capital? Does pursuit of this initiative require any special resources that may be difficult to obtain? What degree of risk is associated with carrying out this initiative?

More sophistication in these questions is possible and, in some instances, will be necessary. Key areas for expanding this framework are adding new criteria, subdividing some of the criteria described into multiple criteria (e.g., finance can be subdivided into margin, capital needs, risk) and weighting criteria so that some may be accorded greater importance.

Once these steps have been completed, the prioritization process can be carried out based on the initial business case developed for each initiative. Typically, a leadership group reviews all the proposed initiatives and then individually scores each proposal. The group then meets to compare individual rankings and discuss each proposal. A final composite score is the result. Depending on the goals for revenue enhancement identified at the outset, a number of the highest priority initiatives will be recommended for near-term implementation, possibly followed by groups of second- and even third-order priorities. In some organizations, the ranking process is more elaborate, with input secured from medical leadership, multiple management groups (especially in very large systems), and even the board before a final set of recommendations is made.

A Catholic-sponsored integrated delivery system in the Northeast went through such a process for the first time in mid-2001. A group of eight senior managers in the system, including all senior vice presidents, some business unit leaders, and planning staff, evaluated approximately 20 revenue enhancement opportunities through a process nearly identical to that described here. This approach included a ranking of 1, 2, or 3 regarding the degree to which the proposal satisfied the criteria described and a double weight applied to the financial impact criterion. A maximum score of 15 was possible for any proposal. The 20 proposals had composite scores ranging from six to 14, with five proposals scoring 12 or higher. These high-scoring proposals were recommended for concurrent immediate implementation. A second group of three proposals is scheduled for implementation this year, pending the results of the initial implementation efforts.

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Implementing High-Priority Opportunities

Resist the temptation to implement too many initiatives at once! There is a tendency to charge ahead on multiple fronts in these revenue expansion planning efforts, propelled by the excitement of having many opportunities and aided and abetted by the momentum generated in the planning process, including the interests and appetites of those outside senior leadership who may have a role in or benefit from one or more of the initiatives.

One often overlooked challenge is maintaining organizational enthusiasm and interest, even if only a small fraction of the identified opportunities are actually pursued immediately. Pent-up, unsatisfied demands for growth and disaffected constituencies can be a major barrier to success in this process. Be realistic about how much the organization can take on at any one time and manage implementation judiciously.

Many implementation structures are possible, but at a minimum this effort should include for each initiative a task listing, assignment of responsibilities, schedule, and significant incremental resources required. Specifying in advance how, when, who, and what it will take to successfully implement the priority initiatives will go a long way toward achieving success.

Implementation may begin even as planning is in its concluding phase as long as the proper controls are in place to manage the process. In most health care organizations, implementation of any given initiative is carried out by one primary individual, often supported by a few others or even a team.

Some organizations have a difficult time making the transition from planning to implementation and continue to study the opportunities past the point of diminishing returns from the analysis—and occasionally so long that implementation never occurs. As noted earlier, other organizations rush prematurely from planning to implementation, which results in limited success at best and chaos at worst. Experienced managers can make the intuitive judgment as to where and when to transition from planning to implementation.

Once implementation begins, the role of senior leadership generally shifts to ongoing monitoring, evaluation, and redirection as necessary. Depending on the scope and extent of implementation, formal monitoring may be advisable on a regular basis (weekly, monthly, etc.). Formal monitoring should include review of all key elements in the implementation plan for each initiative, with particular regard to variances from what was originally anticipated.

Only rarely do plans proceed exactly as envisioned and achieve precisely the results initially expected. Modifications to the implementation plan are normal and are not a sign of flawed planning or implementation failure. The discipline of ongoing evaluation facilitates identifying these adjustments and achieving the best results possible.

In some cases, however, major obstacles are encountered, including changes in external conditions, and implementation may need wholesale revision or perhaps abandonment. Even in these extreme circumstances, the ongoing monitoring process builds in opportunity for anticipation and consideration of such situations. The well-managed organization with a well-designed implementation process will take such situations in stride, address them directly, and continue to move forward on as many fronts as possible and deal evenly with both the successes and failures that result from this important effort. □