

the **EDGE**

Service Line Portfolio Management

Sg2 Staff

Project Directors

Natasha Goburdhun
Joan Moss, RN, MSN
Bill Woodson

Project Associate

Ricky Garcia

Editorial Review

Barbara M Bennett, RN

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Executive Summary

Service Line Portfolio Management

There is a new market reality for hospitals and health systems. Financial constraints, changes in utilization rates, health care reform and the public's increasing expectations of providers are challenging conventional wisdom about resource allocation. Moreover, many economists are predicting a prolonged period of recovery given the acuity of the recent recession. These factors will require many organizations to refocus and redeploy resources on core businesses, while distancing and divesting from those programs and services that are not central or profitable to the organization. The decisions made or not made in the next 5 years will define an organization.

Tomorrow's marketplace winners will be willing to make well-placed bets at a time when competitors are in retrenchment and to think long-term when everyone else is mired in the moment. Successful organizations will deliver value to the marketplace by assessing which services meet their mission and market demands and yet also provide the most potential for differentiation, growth and profitability. These organizations will also allocate resources efficiently and effectively across inpatient (IP) and outpatient (OP) services.

Service Line Portfolio Management 2009 is an interactive workbook that guides administrative and physician leadership through a framework required to understand and evaluate their service line portfolio. A series of exercises helps a multidisciplinary team to collectively anticipate future market states and collaboratively prioritize an organization's investment of time, energy and capital. The workbook also outlines the processes for creating a communication and work plan to gain the buy-in and momentum needed for organizational success. Finally, it provides lessons learned from the field.

During the past 12 months, many organizations have concluded that they can no longer be all things to all people or support the duplication of capital investments across multiple campuses. However, selecting service lines for investment and divestment raises challenging issues, such as community mission and welfare, infrequently encountered in other industries. For some organizations, the framework outlined in this workbook will help to accelerate the decision-making process and lead to immediate actions. For others, it will mark the beginning of conversations on a series of difficult questions. In both cases, the ultimate goal of the workbook is to develop a process for increasing organizational self-awareness, exploring current and future opportunities, identifying alternative courses of action and building a case for action.

Service Line Portfolio Management Framework

Phase I: Preparation

- Create a Planning Team to Lead the Process

Phase II: Evaluation

- Profile Your Market and Service Lines
- Aggregate Analyses Into a Decision Matrix

Phase III: Prioritization

- Identify Strategic Opportunities
- Prioritize Opportunities for Investment

Phase IV: Implementation

- Build a Detailed Communication Plan
- Develop a Comprehensive Work Plan
- Learn From Others Engaged in Service Line Portfolio Management

How to Use This Workbook

This workbook is a tool to help organizations navigate through the current period of uncertainty and heightened complexities. It will serve as a cornerstone of strategic planning and business development efforts and facilitate decision making regarding resource allocation.

Special Note: Adaptable Framework

While written from the perspective of a single entity evaluating all service lines, the processes outlined in this workbook can also be extended to a multihospital system. In addition, the overall methodology can be applied to a subset of service lines or at the service line level.

■ **Individuals Who Should Use This Workbook**

This workbook is designed to be used by hospital and health system administrative and physician leaders. It contains highly collaborative exercises intended for team members with diverse skill sets and a broad understanding of the business and clinical enterprise. The expertise of individuals from the following functional areas will be required: finance, information technology (IT), operations, legal, medical staff, public relations and strategy.

■ **When to Use This Workbook**

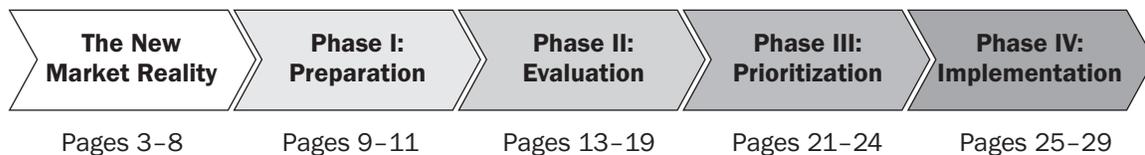
This workbook will complement both the enterprise and service line strategic planning process. However, a number of other internal and external triggers may necessitate undertaking the processes outlined in the workbook. For example, the anticipated loss of a key physician group, declines in market share and the entry or exit of a competitor are circumstances under which organizations should critically examine their portfolio of services, evaluate strategic alternatives and determine appropriate courses of action.

■ **Time Frame for Completing This Workbook**

The time frame for completing the workbook will be highly context specific. Sg2 estimates that an organization needing to expedite the process could complete all 4 phases in 3 months. This assumes that the initiative is made a top priority for each member of the planning team and that the organization is readily able to collect and synthesize utilization data. A key task in phase I is for the planning team to collectively determine goals for the initiative and develop a corresponding timeline.

■ **Workbook Structure**

This workbook is divided into 5 sections. Throughout the workbook, the ► symbol indicates action steps.



The New Market Reality

The New Market Reality

Expect a Transformation in Hospital Economics

Even as the economy begins to recover, the prolonged effects of the recession and credit crunch will continue to pressure the financial viability of many health care organizations. The health industry's economics have fundamentally shifted and will continue to change as health care reform takes place.

■ Hospitals and Health Systems Maintain Challenged Financial Profiles

Many hospitals and health systems will require stability in the financial markets and the revitalization of key industries, employment and health benefit coverage before volumes and margins return. An elevated number of uninsured, increased financing costs, softened levels of investment income, and depressed philanthropy will persist at least in the near-term. As a result, many organizations will be challenged to fulfill their current mission and organizational objectives.

Comparison of Overall Medians for Stand-Alone Hospitals and Health Care Systems

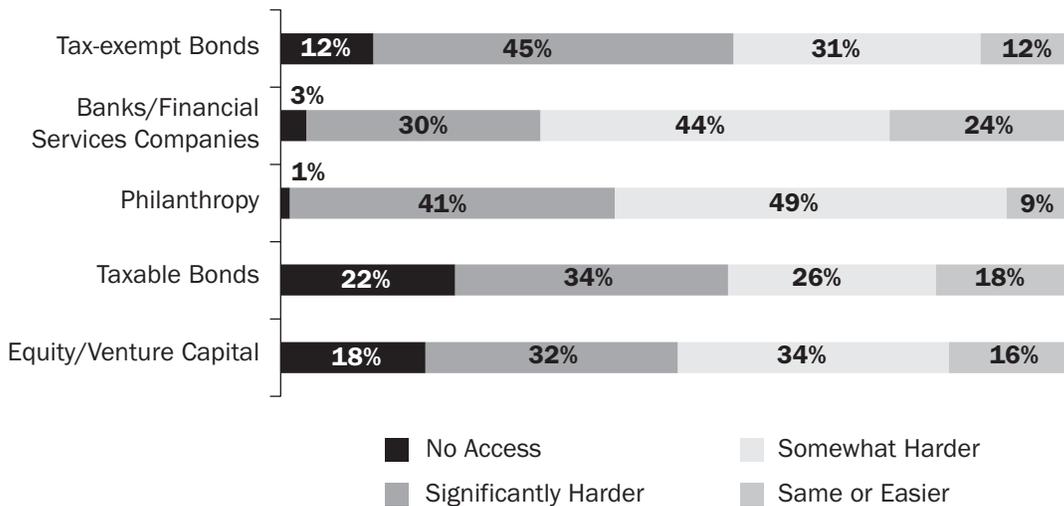
Metric	2006	2007	2008
Operating Margin	2.9%	2.5%	1.8%
Days' Cash on Hand	162.2	167.4	145.9
Unrestricted Cash/Long-term Debt	108.4%	115.8%	104.6%
Nonoperating Revenue as Percentage of Total Revenue	2.4%	3.0%	1.6%

Source: Standard & Poor's, 2009.

■ Availability and Sources of Capital Have Changed

The activity of the capital markets will continue to improve, but hospitals will find that the relative scarcity and higher cost of capital will continue to challenge capital allocation decisions. There will be fewer and more expensive dollars to distribute across key capital needs in areas such as IT, facility expansions and renovations, and clinical technology.

Hospitals' Survey*: Ratings for Difficulty Accessing Capital



*Excludes those hospitals indicating that they do not use that source of capital.

Source: American Hospital Association Rapid Response Survey. Report on the Capital Crisis: Impact on Hospitals. January 2009.

The New Market Reality

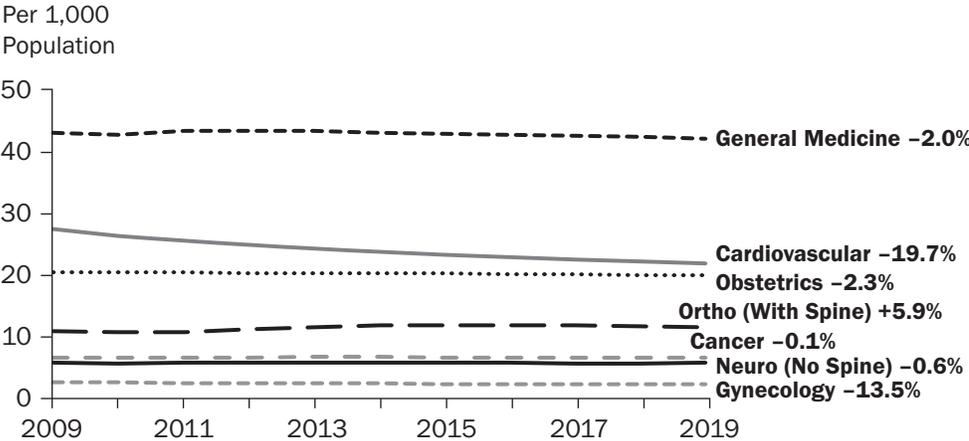
Anticipate Changes in the Utilization of Services

Changes in health care utilization will exacerbate financial pressures. While outpatient use rates will continue to grow, hospitals will no longer be able to rely on the inpatient clinical growth engines of the past. Moreover, the political environment will suppress IP use rates through initiatives such as penalties for readmission and scrutiny of 1-day stays. Accordingly, organizations will have to prepare for utilization changes both at the service line and disease level.

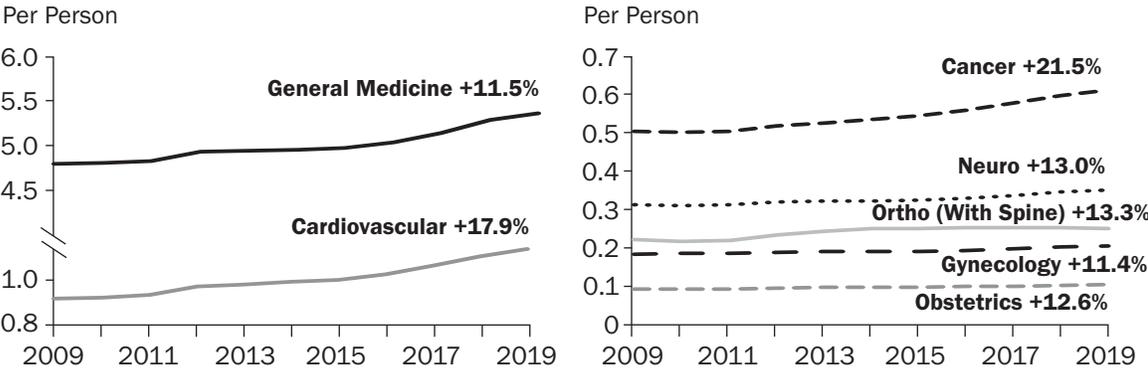
■ Expect Changes in Core Service Lines and Diseases

Sg2 forecasts just a 1.7%* overall growth rate in IP admissions nationally between 2009 and 2019. In the short-term, the effects of the recession will continue to reduce health care utilization, particularly for elective patients. In the long-term, payment reform, quality initiatives and new incentives designed to shift care to lower-cost settings will drive utilization downward. A significant portion of long-term growth lies in areas that are difficult to manage clinically and operationally (eg, infectious disease, the 85+ population). Furthermore, organizations will find that the sources of profitable IP services will continue to contract, and competitors will target these areas, as well as OP services, for enhancement and expansion.

 **Change in Inpatient Use Rates, US Market, 2009–2019**



 **Change in Outpatient Use Rates, US Market, 2009–2019**



*Includes all adult discharges except normal newborns and ungroupable.
Ortho = orthopedics; Neuro = neurosciences.
Sources: Impact of Change® v8.0; NIS; Pharmetrics; CMS; Sg2 Analysis, 2009.

The New Market Reality

Look Forward to New Business Models and Partners

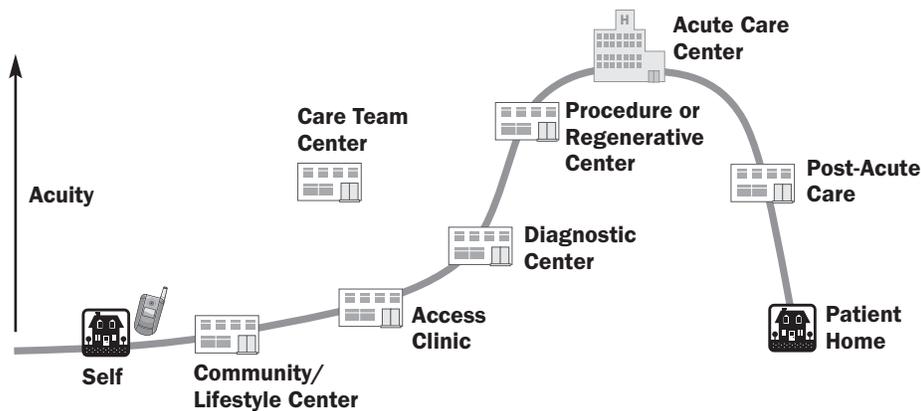
Evolving economic and utilization landscapes are not the only forces requiring fundamental changes in an organization’s scope of services and supporting business models. Over the past decade, many organizations have combined disparate care delivery sites into more complex delivery systems. At the same time, patients have demanded more from providers, including more synchronized care across multiple sites of service. In the next decade we will see the rise of bundled payment approaches and disease-based care delivery models that focus on care coordination across nontraditional or historically antagonistic partners.

■ On the Road to Systems of CARE

In this new landscape, organizations must move beyond the traditional “production model” of health care delivery toward integrated, disease-specific care delivery platforms. The fragmented care of old will give way to seamless care organized around a patient’s specific needs. Leading practice health care providers will evaluate the System of CARE (Clinical Alignment and Resource Effectiveness) for a given disease and align their organizations around patients’ needs at multiple sites of care.

A Systems of CARE (SoC) profile helps an organization understand its operating footprint (ie, the portfolio of services that are used to deliver care and the degree of integration across the care continuum). As a result, organizations are able to prioritize capital investment requirements, coordinate care locally and across the system, and strengthen collaboration of care. In doing so, the expectation is improved outcomes, increased patient satisfaction, and superior operational and financial performance.

System of CARE



The New Market Reality

Look Forward to New Business Models and Partners (Cont'd)

■ Systems of CARE Synchronize Services Across Care Settings

Systems of CARE provide value by coordinating and managing patient information, clinical decisions, operations and multiple care sites. Early adopters of Systems of CARE strategies have implemented different business models for specific clinical conditions.

Sample Systems of CARE Models

SoC Model	Description
Telestroke Network	<ul style="list-style-type: none"> ■ Telestroke networks allow remote neurologists to evaluate, diagnose and recommend treatments for patients presenting to the emergency department (ED) with acute stroke symptoms. ■ Regional stroke centers partner with community hospitals, which have limited access to neurologists, to provide 24/7, real-time bedside neurologic consultations through videoconferencing. ■ Integration strategies include protocols for making clinical decisions and executing patient transfers, as well as education sessions for providers at the receiving end of the consult.
Regional Acute Myocardial Infarction (AMI) Network	<ul style="list-style-type: none"> ■ A formalized AMI network provides patients with a coordinated, comprehensive care path between initial medical contact and final treatment. ■ The primary challenge for AMI is delayed diagnosis, which slows access to percutaneous coronary intervention (PCI) and increases the risk of death and/or myocardial damage for chest pain patients. Moreover, two-thirds of AMI patients initially present to hospitals without PCI capabilities, and most STEMI patients do not receive treatment within 90 minutes. ■ Collaboration between emergency medical services (EMS), tertiary and community hospitals, and helicopter agencies to develop customized written clinical pathways with standard protocols facilitates early diagnosis and rapid interfacility transport from non-PCI to PCI institutions.

STEMI = ST-segment elevation myocardial infarction.

The New Market Reality

Refocus on Portfolio Management

A confluence of forces, perhaps unequaled in the past, is challenging the health care industry’s historical inertia. Hospitals and health systems will face a set of new universal realities that necessitate a proactive philosophy if they are to succeed in this new market. This philosophy must include a systematic process for evaluating clinical service lines, the core “business units” of a hospital.

■ Hospitals and Health Systems Face a New World Order

The health care landscape is unquestionably evolving, and organizations need a new lens as they perform service line portfolio analysis. The core of tomorrow’s health care market will be an emphasis on service and clinical integration with a renewed focus on clinical and operational performance.

Past and Future Market Realities

Yesterday’s Market	Tomorrow’s Market
<ul style="list-style-type: none"> ■ Hospital as the center of gravity ■ Delineation of inpatient and outpatient management expertise ■ Competition based on products, services ■ Technology as a differentiator ■ Fear of turf issues and protected interests ■ Easy credit accessibility ■ Strong nonoperating income ■ Increasing provider payments ■ Payer sets price 	<ul style="list-style-type: none"> ■ Hospital as 1 element in a System of CARE ■ Management with comprehensive understanding of care across settings ■ Competition based on productivity and business models ■ Technology as a price of entry ■ New partnership/affiliation opportunities ■ Delineation of clinical service line winners and losers ■ Focus on margin-generating services ■ Risk-based payments that are tied to performance ■ Payer rewards and penalizes performance

■ The Planning Process and Service Portfolio Are Also Changing

In response to these emerging market realities, hospitals must have a disciplined resource allocation and program development process. In the near-term, this workbook will help organizations transform their overall planning processes and instill rigor in their program evaluation and prioritization methodology. In the long-term, it will set the stage for comprehensive Systems of CARE development and optimization.

Past and Future Service Line Portfolio Management

	Planning Approach	Impact on Service Line Portfolio
Yesterday	<ul style="list-style-type: none"> ■ Array of strategic initiatives ■ Emphasis on geographic extension, facility expansion and technology acquisition 	<ul style="list-style-type: none"> ■ Broad scope of clinical services ■ Transaction-based services—providing discrete services that are attractive to individual physicians and patients
Tomorrow	<ul style="list-style-type: none"> ■ Selective and defensible strategic initiatives ■ Emphasis on value chain coordination, operational performance, patient experience and clinical quality 	<ul style="list-style-type: none"> ■ Emphasis on core clinical competencies ■ Relationship-based services—building an organized System of CARE for a defined patient population

Phase I: Preparation

Preparation

Create a Planning Team to Lead the Process

Service line portfolio assessment should be led by executives and physician leaders who are well versed in the organization’s current strategic plans and operational status. The planning team should be interdisciplinary and consist of no more than 12 individuals from across the organization.

Special Note: Team Composition
The planning team’s stature and credibility will help gain organizational acceptance of its analyses, assumptions and recommendations.

■ Identify Diverse Team Members From Hospital Administration

Hospital representatives should come from a range of functional areas to ensure the team maintains a variety of perspectives and has the appropriate range of knowledge and skill sets needed for service line evaluation. Ideally, the team should include executives from operations, finance, strategy, public relations, legal and IT. An overall project champion should be selected from this group.

▶ **Exercise:** In the space below, list the executive team members and identify a project champion.

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

■ Find the Right Physician Participants

Physician engagement will be critical to success. Physician candidates should include the chief medical officer as well as high-volume, high-revenue physicians who are dedicated to your system.

▶ **Exercise:** In the space below, list selected physician team members.

■ Assign a Dedicated Project Manager

A dedicated project manager should be assigned at the outset of the project to coordinate meetings, data gathering and materials development. Perhaps more importantly, this individual will also be responsible for day-to-day management during the implementation phase of any initiative.

▶ **Exercise:** In the space below, name the project manager.

Preparation

Create a Planning Team to Lead the Process (Cont'd)

■ Establish a Shared Understanding of Goals

The planning team will be tasked with balancing a number of interdependent variables and opining on the potential implications and outcomes for a given set of actions. As such, understanding the overall drivers of the process and clearly providing context for the analysis will be essential. These drivers may include limited access to capital, changes in the cost of capital, decreases in elective procedures, increases in bad debt and/or staffing shortages. This process is likely to challenge sacred cows and the status quo, and the team needs to have a clear and concise set of goals when making complex and potentially difficult decisions.

▶ **Exercise:** Once the full planning team has been formed, have the group answer the questions below. Be sure to capture the questions and answers in a formal document and distribute it to the team.

What are the key drivers of this process?

What do we hope to accomplish?

What is the scope of our effort? Does it include all service lines, a subset of service lines or a single service line? Does it include all facilities or certain facilities?

What is our time frame for completing the service line portfolio assessment?

How will we define success?

Phase II: Evaluation

Evaluation

Profile Your Market and Service Lines

Portfolio analysis should be grounded in an assessment of each service line’s current operational, clinical and financial state, and in an understanding of the competitive landscape and future demand for services.

■ Evaluate Market Opportunity

Understanding the current and future market landscape and the services offered by your competitors identifies areas of unmet need, market saturation and service line opportunities.

► **Exercise:** Obtain and list your service line metrics in the table below (columns 2 through 6). Consider the following questions pertaining to market competition and then rate each service line’s competitive landscape and overall market opportunity using the respective keys.

- Are we “good” at this service line? Consider key operational, financial, clinical outcomes, physician and staff, and market performance metrics.
- Which other providers deliver this service? Are they “good” at this service line?
- What is the level of in-migration and out-migration for this service line?
- Is there a clear market leader (based on share, reputation or physician complement)?
- Are competitors located in high-growth areas?
- Are new competitors likely to enter the market in the next 3 years?
- Do competitors have star physicians and/or leading clinical/technological innovations?
- Do competitors have strong brand recognition?
- Are competitors engaging in capital investments?

Market Opportunity Assessment

List All Service Lines	IP Discharges	OP Volumes	IP Market Share/ Size	IP Market 5-Year % Growth	OP Market 5-Year % Growth	Competitive Landscape	Overall Market Opportunity

Competitive Landscape Key

- Weak competition. Competitors are ceding share and/or are undifferentiated in the market.
- ◐ Some competition exists.
- Strong competition. Competitors are investing significant resources and/or it is difficult to move share.

Overall Market Opportunity Key

- High growth forecast, this area has an attractive market size and/or there is limited competition.
- ◐ Moderate growth forecast and/or this area has a relatively less attractive market size.
- Contracting growth forecast, this area has a small market size and/or there are highly versatile/distinguished competitors.

Sg2’s Impact of Change® Online disease-based forecasting tool enables users to project health care service demand, examining the cumulative effects and interdependencies of key factors driving change in utilization. Visit members.sg2.com for more information.

Evaluation

Profile Your Market and Service Lines (Cont'd)

■ Assess Financial Attractiveness

An accurate, fact-based picture of a service line’s financial health is a core component of the analytical foundation used to execute a service line portfolio assessment. Sg2’s recent series of *Leveraging the Profit & Loss Statement 2008* publications are available to guide this analysis.

▶ **Exercise:** Obtain and list your service line metrics in the following table (columns 2 through 7). Then rate each service line’s overall financial opportunity using the key below.

Financial Opportunity Assessment (Current Year)

List All Service Lines	Total IP Net Revenue	IP Net Revenue per Case	IP CM per Case	Total OP Net Revenue	OP Net Revenue per Case	OP CM per Case	Overall Financial Opportunity

- Highly favorable. Services represent a significant source of total net revenue, generate above-average margins and/or maintain an attractive cost structure.
- Medium financial opportunity.
- Very unfavorable. Services represent a below-average source of total net revenue and/or the expenses required to deliver services are significantly higher than the income collected.

Sg2’s Integrated Performance System (IPS) tool can help guide the completion of this section. The IPS tool enables you to measure your performance across 5 disciplines—market, operational, financial, clinical outcomes, and physician/staff. Using expert-defined metrics, IPS compares your performance to peers and leading practice organizations, helps you drive change and reach your optimal levels of performance, and aligns resources across all sites of care for optimal growth. Visit members.sg2.com for more information.

CM = contribution margin.

Evaluation

Profile Your Market and Service Lines (Cont'd)

■ Understand Depth and Breadth of Capabilities

An organization’s depth and breadth of capabilities in a service line are defined by the level of existing services, available expertise, clinical competence, sites of care and the degree to which information, physician/staff relationships and clinical decision making are integrated.

► **Exercise:** Consider the following questions and then rate each service line’s depth and breadth of capabilities using the key below.

Human Infrastructure

- Do we have the appropriate physician base (ie, number and type)?
- Do we have physician champions or potential champions?
- Do we have the appropriate support staff (eg, RNs, physician’s assistants)?
- Do we have service line management that can manage across all sites of care?

Equipment and Technology

- Do we possess any leading technologies for this service line?
- Are we planning any major technology and equipment acquisitions?

Operating Footprint

- What critical services support each service line? Do we currently offer these services?
- Are these services offered in the right location?
- Do we own or have access to the optimal locations for these services?
- Is the distribution of service locations optimal?
- How efficient are the facilities that support these services?

Clinical Competence

- For the high-volume diseases in each service line:
 - How do we compare against national benchmarks?
 - Do we have clearly defined care delivery processes?
 - How well is care coordinated across the relevant settings?

Depth and Breadth of Capabilities Assessment

List All Service Lines	Human Infrastructure	Equipment and Technology	Operating Footprint	Clinical Competence	Overall Depth and Breadth of Capability

Limited Capability —○●◐◑●—→ Full Capability

Sg2’s Systems of CARE tool can help guide completion of this section. The tool is designed to help organizations understand what level of services they provide and the degree of integration they exhibit compared with other health care facilities. Visit members.sg2.com for more information.

Evaluation

Profile Your Market and Service Lines (Cont'd)

■ Understand Impact on Mission and Community

The current economic climate has challenged the levels of profitability necessary for many organizations to fulfill their charitable missions. Service line portfolio management requires that organizations treat their mission as paramount and understand their role in meeting the medical needs of their communities.

► **Exercise:** Consider the following questions and then rate each service line’s overall mission and community impact using the key below.

- What is our mission?
- Are these services core to our mission? Why?
- If not, does this service line align with who we are as an organization? Are we passionate about this service line?
- What are the community’s most pressing health problems?
- Do we understand community expectations?
- Is there an opportunity to improve outcomes and health in this service line?
- What is the broader availability of these services in the community?
- Is there sufficient capacity in the market to absorb demand if we exited the business?
- Is this service line highly valued by the community?

Impact on Mission and Community Assessment

List All Service Lines	Mission and Community Impact

- Strongly aligns with mission and/or has high community implications. There is significant community need and/or we are the sole provider of services.
- Somewhat aligns with mission and/or has medium community implications.
- Does not align with mission and/or has low community implications. There is limited community need and/or services are broadly available in the market.

Special Note: Alternative Dimensions, Variables and Rating Scales
 Other dimensions, supporting measures and rating scales can be used in this analysis. Some organizations have chosen to apply different weights to supporting measures or to use more quantitative rating scales. In any case, be sure the planning team considers the market and organizational context and agrees on the dimensions, variables and rating scales before proceeding. The goal is not to debate a single measure, but rather to assess the organization’s services along multiple dimensions on an aggregate basis. Use the measurement process outlined above as a way to reduce the inherent complexity and maintain analytical rigor in the process.

Evaluation

Aggregate Analyses Into a Decision Matrix

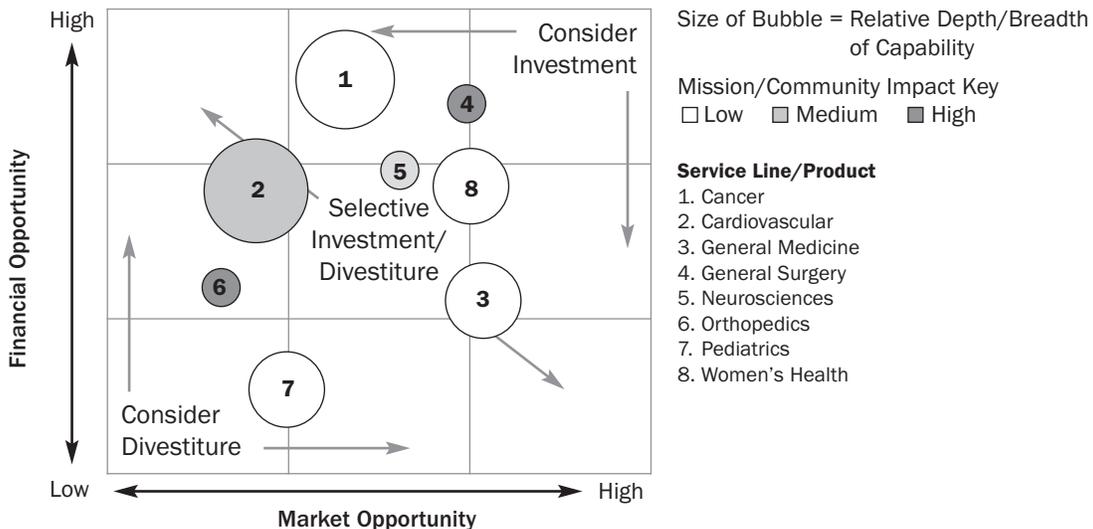
The results of the prior analyses now need to be aggregated into a multidimensional decision matrix. This tool highlights the areas of greatest opportunity and balances business impact against organizational mission and community needs.

► **Exercise:** Record the overall ratings from each of the previous profiling exercises in the table below. Then, using the sample decision matrix below as a guide, create your own matrix.

Profiling Summary

List All Service Lines	Overall Market Opportunity	Overall Financial Opportunity	Overall Depth and Breadth of Capability	Mission and Community Impact

Sample Decision Matrix



Matrix Category Definitions

- Consider Investment: Prioritize as a top organizational focus for resource allocation.
- Selective Investment/Divestiture: Evaluate for repositioning in terms of selective reduction in services or selective investments to enhance or develop key programs.
- Consider Divestiture: Focus on maintaining or reducing services—in some cases full divestment.

Special Note: Decision Matrix Conclusions

Sg2 members who have used this approach have generally not been surprised by the outcome of the scoring. The relative simplicity of this methodology helps to accelerate decisions about what will happen over a 3- to 5-year time frame. Members who are in large and complex systems will require a way to reduce the time it takes to make decisions and to communicate how and why priorities have been selected.

Evaluation

Aggregate Analyses Into a Decision Matrix (Cont'd)

► **Exercise:** Review the planning team’s goals for the project (as defined on page 11) and then discuss the questions below. The objective of this task is to identify the areas that present unique opportunities across the continuum of full divestment to full investment.

Given your goals, would any of the service lines that fall under “Consider Investment” be more or less attractive based on the additional criteria of depth and breadth of capabilities and/or mission/community impact?

Do mission/community impact and depth and breadth of capabilities make any of the service lines under “Selective Investment/Divestiture” any more or less attractive, given the goals? If so, which ones?

Do mission/community impact and depth and breadth of capabilities influence the decision to consider any service lines for divestiture? If so, which ones?

Based on your project goals and the answers to the questions above, list up to 5 service lines that require further analysis and discussion. These will be the areas that the planning team further evaluates in terms of opportunities and alternative courses of action.

Special Note: Service Line Divestitures
In most cases, organizations will not completely divest a service line. Resource prioritization is about identifying areas that will garner most of an organization’s time, energy and capital investment. Consequently, the “nonpriority” service lines will obtain limited facility, IT and clinical technology investments, as well as limited management time. For those organizations considering divestiture, gaining board support, obtaining physician buy-in, understanding the financial implications and developing alternatives for patient access are key steps. While the remainder of this document is geared toward identifying areas for growth and development, the sections on developing a communication plan, work plan and financial analysis will assist you through the divestment process.

Phase III: Prioritization

Prioritization

Identify Strategic Opportunities

Once 5 service lines requiring further evaluation have been selected, the next step is to identify strategic opportunities that will ensure each area remains or becomes an organizational strength.

► **Exercise:** Divide the planning team into smaller teams of 3 to 4 individuals and distribute the service lines under review among these teams. Have each small group answer the questions below for each assigned service line. Teams should feel free to explore questions beyond those outlined below. The outcome of this exercise is to create 2 to 3 strategic initiatives for each service line.

Can current program strengths be expanded upon or does growth in this area require new program creation?

What are our gaps in terms of sites of care, clinical services (ie, diagnostics, screening, post-acute care), clinical technology and IT? Are there opportunities for us to build affiliations or partnerships to close these gaps?

What clinician strengths can be leveraged to grow the program (eg, board-certified specialists, nurse practitioners, hospital-based physicians and/or physician leaders/champions)?

How can new program elements improve or leverage performance across multiple dimensions (ie, market, clinical quality, financial, operational)?

► **Exercise:** Using the sample table below as a guide, have each team create an outline of the value proposition and program components of its 2 to 3 service line initiatives.

Sample Strategic Opportunity Summary

Service Line Initiative	Value Proposition	Specific Program Components
Create Comprehensive Spine Program	Expansion of existing spinal surgery program to create comprehensive patient experience establishes unique market position.	<ul style="list-style-type: none"> ■ Develop patient triage incorporating rehabilitation/pain management in conjunction with loyal orthopedic surgery group. ■ Provide practice support by hiring physiatrist to conduct triage. ■ Create retail opportunities around acupuncture and massage at new ambulatory campus.

Prioritization

Prioritize Opportunities for Investment

The group should now have 10 to 15 strategic initiatives. Since equal investment in all initiatives within a 3- to 5-year time frame is unrealistic, decide how to prioritize investment based on which initiatives will help the organization accomplish its goals of mission, differentiation, growth and profitability.

► **Exercise:** Reconvene the full planning group and have each team present the rationale, value proposition and program specifics of its strategic initiatives. Then have the full planning team consider the following questions and rate each service line initiative using the key below.

Potential to Sustain or Grow Competitive Position

- What does it take to win in the marketplace?
- What specific points of differentiation will help us remain competitive?
- What other competencies must we develop to maintain or grow our competitive position?
- How will competitive dynamics change by implementing this strategy?

Program and Resource Investments

- What resources (physicians, technologies, facilities) will we need to implement this strategy?
- How will our organization deliver these services?
- Will we own these services? If not, how will we control or influence them?
- Who are the physicians, nurses and extenders delivering these services? Are they employed or partners?

Ease of Implementation

- How will physicians, patients and payers respond to our strategy? How difficult will this be to execute politically? What will be required to gain stakeholder support?
- What will be the overall level of time, energy and capital required to implement this change?
- How will governance/management structures and the business metrics change?
- How must we change our strategic plan?

Strategic Opportunity Prioritization Scorecard

Service Line Initiative	Potential to Sustain or Grow Competitive Position	Program and Resource Investments	Ease of Implementation	Overall Rating



► **Exercise:** Once the service line scorecard is complete, the full planning team should discuss the question below and designate 2 to 3 service line initiatives for financial analysis.

Which 2 to 3 initiatives offer the greatest return for the organization based upon the potential to increase competitive differentiation, level of investment and ease of implementation?

Prioritize Opportunities for Investment (Cont'd)

■ Gauge the Financial Impact

The next step is to assess the financial viability of the 2 to 3 strategic initiatives you have selected. While outside the scope of this workbook, Sg2 recommends performing a comprehensive financial analysis to complement each of the strategies selected in the prior exercise. The amount of rigor invested in this step directly impacts the validity of the final results.

▶ **Exercise:** Have the finance team develop a financial analysis for each selected strategic initiative. Consider the following questions as the financial assessment is prepared:

- What is the initiative's net present value?
- What is the upstream and downstream impact on revenue from this service line?
- Is reimbursement most likely to increase, decrease or remain stable in the future?
- How will the payer mix trend over time?
- Is this area a source of philanthropic donations?

▶ **Exercise:** Have the finance team present its analysis to the full planning team and discuss the questions below.

In light of the financial analysis, how do we rank each option relative to one another?

Does our intuition support this ranking?

Do we need to employ more than 1 of these initiatives to reach our goals?

If so, do we have the ability to undertake these initiatives at the same time or does a phased approach make more sense?

▶ **Exercise:** At this point, the project champion should pause to reflect on the process and efforts thus far. The objective of this step is to remind participants of the due diligence they performed and the decisions that were made throughout the course of the prior discussions.

First, revisit the questions the team answered at the first meeting (page 11). Second, highlight the key outcomes from the decision matrix (page 18) and strategic opportunity prioritization exercises (page 23). Third, describe how the financial analysis supported the prioritization among the final 2 to 3 initiatives (page 24). Fourth, restate the team's decisions from the prior exercise and describe how they meet the group's original stated goals. Finally, indicate that the next steps are to build a communication and work plan.

Phase IV: Implementation

Implementation

Build a Detailed Communication Plan

Whether your organization has identified service lines to grow or noncore programs for divestment, creating broader awareness of the goals and intended outcomes will be a key step in ensuring success.

■ Identify Your Audience

Your audience will consist of internal and external stakeholders. These will likely include the hospital board, broader employee base, medical staff and/or local community.

▶ **Exercise:** Identify your target audience(s).

■ Define the Communication Needs

Each target audience may have some similar and unique interests, questions and/or issues. Messaging must be tailored where required to address the unique needs of these audiences.

▶ **Exercise:** Define the key interests and messaging components for each audience identified above.

■ Determine the Mechanism and Frequency of Communication

Your constituents likely will also require different forms of communication. On 1 hand, a series of face-to-face meetings with physician leaders and open forums with the broader medical staff to discuss concerns may be most appropriate. On the other, a press release via several local media outlets and a series of town hall-style meetings may be required to notify the community.

▶ **Exercise:** Determine the mechanism and frequency of communication for each audience.

Special Note: Communication Plan Leading Practices

- Develop an overall communication approach that is consistent with the organizational culture and desired outcomes, as well as with the perspectives of its target audiences.
- Begin early—this should be 1 of your first action items.
- Build the communication plan into your overall work plan; assign responsibilities and timelines.
- Consider incorporating a 30-day period to solicit ideas on how to speed and simplify implementation.
- Highlight the benefits for the community and the organization in initial messaging.
- Anticipate reactions and questions from the community, employees, other providers, payers and unions; be ready with prepared and coordinated responses.

Implementation

Develop a Comprehensive Work Plan

Leading organizations employ a structured and calendar-driven approach when executing service line portfolio management initiatives. The work plan is your road map toward implementation and the tool your project manager will use to ensure the project is managed efficiently and effectively.

Special Note: Parallel Planning

The communication and work plans can be developed in parallel to advance the process. Sg2 recommends having a small subset of the planning team develop the communication plan while the rest of the planning team develops the work plan. The full team can then reconvene to review both documents.

■ Define the Action Items for Implementation

A defined set of actionable steps will be required to achieve your proposed goals and objectives. Action items will include developing a communication plan and holding regular leadership meetings to evaluate progress. Other action items may include presenting to the board of directors, establishing an advisory board, initiating an advertising campaign, etc.

▶ **Exercise:** Identify the key steps needed to implement the initiative below.

■ Sequence Steps and Set Calendar Milestones

Once your action items are set, the next steps are to sequence the list and establish the overall initiative completion date. Working backward from this date, each action item must be assigned an estimated completion date. It is important to note that not all action items will necessarily need to be finished by this date; some action items may be phased in at later dates.

▶ **Exercise:** Set an overall completion date, sequence the steps from the prior exercise and assign each action item a target completion date.

Overall Completion Date: _____

Action Items	Target Date
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Implementation

Develop a Comprehensive Work Plan (Cont'd)

■ Establish Target Metrics

Leading organizations define metrics to track progress and measure performance and evaluate these metrics at regular intervals. To be effective, performance management metrics must be simple, relevant, timely and actionable. It is important to note that not all action items will necessarily have a quantitative metric; some will simply need to be completed by a certain date.

▶ **Exercise:** Assign each action item a target metric (where appropriate).

Action Items	Target Metric
_____	_____
_____	_____
_____	_____
_____	_____

■ Assign Task Responsibilities

Detailed project tasks, timelines and target metrics will help leaders to delegate actions and ensure that clear expectations and accountabilities are established from the outset.

▶ **Exercise:** Assign each action item to an appropriate responsible party.

Action Items	Responsible Party
_____	_____
_____	_____
_____	_____
_____	_____

■ Finalize the Work Plan

The finalized work plan will memorialize the efforts of the planning team and function as an oversight tool. It will also serve as a step-by-step guide for the project manager and delineate activities, timelines and targets for those tasked with executing the plan. The finalized work plan should include the overall completion date and should be disseminated to all involved parties.

▶ **Exercise:** Compile the information from the prior exercises into the table below.

Overall Completion Date: _____

Project Work Plan

Action Item	Target Date	Target Metric	Responsible Party

Implementation

Learn From Others Engaged in Service Line Portfolio Management

Even the best-laid plans will encounter unplanned hurdles and require course correction. Here are insights from Sg2's experience with health care organizations that have undertaken a service line portfolio evaluation process.

■ Lessons From the Field

- Defining what you are not going to do is just as important as defining what you are going to do.
- Many organizations will always remain general acute care providers; however, an organization's investment of time and resources across services may differ.
- Do not force service lines to rationalize and/or regionalize that are not amenable to such actions.
- While you must do what you can to mitigate concerns about inconvenience, travel time, turf and attrition, recognize that you will likely not be able to please all stakeholders.
- Each market is unique with its own dynamic, so it is critical to understand the impact of geographic and geo-political barriers.
- Physician input and engagement in the process are key to buy-in and implementation.
- Give and elicit feedback to and from consumers to build consensus and understand their perspective in value-based purchasing.
- Service line leadership must be accountable to strategic and operational targets.
- Allocate dedicated resources to oversee the implementation plan and meet calendar milestones.
- Conflict is unavoidable.
- Identifying partnership options is as important as building a new facility or buying a new technology.

Anticipate the Impact of Change

Sg2's analytics-based health care expertise helps hospitals and health systems integrate, prioritize and drive growth and performance across the continuum of care. Over 1,200 organizations around the world rely on Sg2's analytics, intelligence, consulting and educational services.

5250 Old Orchard Road
Skokie, Illinois 60077

847.779.5300

Sg2.com

