Hospital 2020: boosting productivity and business model innovation

The modern hospital landscape is shaped by complex structures and procedures – from primary processes with direct patient contact to supporting secondary processes, such as IT (digital patient records), and tertiary processes, such as hospital catering. The challenge facing management is: could efficiency improvement go hand in hand with innovative services and business models?
Dynamic power
Collaboration
The science behind the intuition
Co-creation
Placing trust in the future

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The private hospital operator market is facing an enormous transformation, with new competitors and increasing consolidation. Given the need to meet both shareholder value targets and strict regulatory requirements, hospital management is more challenging than ever before.

Privately managed hospitals, including state- and church-run hospitals, are facing rising competition and cost pressure. This is true not just in the provision of health care, but across all three processes that hospitals carry out, namely:

► Primary processes, i.e., the provision of health care
► Secondary processes, e.g., finance, staffing and IT
► Tertiary processes, e.g., catering, cleaning and technical services

All three processes are coming under increasingly close scrutiny; and, in particular, calls for the use of outsourcing or partnerships for tertiary processes are growing louder. But the highly regulated environment in which hospital operators work makes management a challenging juggling act.

Nowadays, hospital operators must be able to handle and integrate, at an operational level, several acquisitions a year without interrupting the day-to-day business of existing hospitals. For this reason, great emphasis is placed on the flexibility of the underlying organization. To seamlessly integrate new hospitals, their primary processes have to be promptly and efficiently lifted onto the shared...
business platform of secondary and tertiary processes, so that the overall hospital operation system works as envisioned.

**Hospital manager or infrastructure operator?**
When making decisions, the managers of hospital groups often find themselves faced with a recurring dilemma: “Do we make the decision from the perspective of a hospital manager or an infrastructure operator?” That is, should they look at the issue from the perspective of those involved in the primary hospital process or from the viewpoint of those involved in the secondary and tertiary processes?

In general, the verticality of the hospital's own structure will influence the answer to this dilemma by determining which parts of the value chain are produced internally and which are sourced externally. On the whole, when the three processes are considered in context, the tendency is for management to act as an infrastructure operator. While science park, trade fair, airport and train station operators also face the same dilemma, the issue is more sensitive in a health care environment. The public is uncomfortable with topics such as covering costs, margin pressure and dividends when it comes to hospitals.

As the utilization of hospital capacities declines, it is the operators of private hospitals who focus most intently on margin optimization to ensure a consistent level of quality and compliance. Modern medicine, the growing health outcome business (i.e., services oriented toward maintaining a healthy lifestyle rather than just “selling pills”) and alternative health care programs increase this cost pressure.

The emergence of greater lifestyle consciousness and health awareness is forcing hospital management to rethink their operations and increasingly regard health care as a holistic and end-to-end service.

**Business model innovation and cost optimization: a contradiction in terms?**
In the future, hospital operators will need to have a sharp focus on service, but not just on the day-to-day management of running operating theaters, cleaning corridors or cooking patients’ meals. By following an integrated business model approach, hospital managers will ensure that the essential operational elements are prioritized. The benefit of working in this way is that it aids the identification of efficiencies and helps keep the focus on those core aspects of the business that create the most value.

Generalized statements about the merits of outsourcing business functions are of little value, as the decision needs to be made on a case-by-case basis. Hospital operators must identify the right balance between outsourcing versus buying in services for each of their individual structures and then work out the details for themselves. For this reason, there is no standard answer to the question of whether to outsource or buy in.

As a rule, hospital operators focus their management and optimization efforts on costs (whether outsourced or bought in), with the result that any corresponding price and cost spirals that arise from time to time cause out-and-out business panic among the management involved. In the long term, this will have an inevitable impact on service quality and compliance.

But should management boards constantly train their focus on costs when the health care market is on the threshold of a paradigm shift toward preventive health care for everyone? Or could efficiency improvement go hand in hand with innovative services and business models?

Recognizing that someone else can produce something more effectively and efficiently than you can is the responsibility of each individual management board.
Hospital 2020: enhancing future viability in three essential steps

The question that hospital operators and, indeed, companies in other industries pose most often is about their own financial health and, ultimately, their long-term viability. Again, making generalized statements about the financial wellbeing of a business has little value. However, using the following three diagnostic steps, this question can be analyzed and answered at a high level.

Opening yourself to the market and its participants can give you innovative strength and access to resources.

Diagnosis 1
Consistent focus on service

“"You have embedded the concept of ‘service’ at all levels of the group – your business activities focus on providing the general service (i.e., health care) to the general recipient (i.e., the patient).”"

As a result of this consistent focus on service, there is a corresponding transfer of responsibilities for service provision. This requires essential roles and responsibilities to be clearly defined (although this does not have to translate into an increase in headcount) and the transparency of the necessary interfaces to be articulated and understood by everyone.

Appropriately designed structures and procedures with consistent business processes and clear governance structures will provide the necessary foundation for an appropriately elastic business platform. These include lean, process-oriented business forms and shared service organizational structures.

Diagnosis 2
“Re-innovation” of your own value creation

“"You persistently focus on identifying and innovating those aspects within your own business that create value. This approach boosts your competitive advantage, thereby strengthening your market position and opening up alternative commodity sources.”"

The stringent level of regulation in the health care sector and the sensitivity of the market and the media to health topics frequently lead to the rejection of process or business model innovations. This can also result in the immediate rejection of service innovations.

The key to staying in the game financially lies not only in optimizing the prevailing cost structures, but also in continuously examining your own areas of responsibility in the value chain, in identifying alternative, more cost-efficient procurement channels for resources and in constantly reassessing the changing requirements of your client, the patient.
Diagnosis 3
Thinking in terms of networks and partnerships

“...you ensure that you keep a constant lookout for potential partners and service providers – inside as well as outside your market – so that the non-core components of your own value chain are provided more efficiently and more cost-effectively, and so that these companies can contribute to your own ability to innovate.”

There are numerous examples that show the most successful companies are those that do not operate in isolation, regardless of whether they are in an oligopoly or a highly fragmented competitive environment. Recognizing that someone else can produce something more effectively and efficiently than you can is the responsibility of each individual management board. Even collaborating with competitors can be profitable – provided that your own essential intellectual property is not involved.

Opening yourself to the market and its participants can give you innovative strength and access to resources. This can sometimes lead to very beneficial partnerships. This trend is unlikely to stagnate in the near future; rather, it is expected to grow dramatically.

Prognosis
Privately managed hospitals face a variety of pressures both externally, from competitors and regulators, and internally, in terms of spiraling costs and shareholder targets. Hospital operators need to act now to ensure the future viability of their businesses. The prognosis is good, so long as current management never stops thinking as if they were operating a start-up. The challenge of building on this thinking and taking hospital management to the next level will pass to the operators of tomorrow, but it’s today’s management that carries the responsibility for ensuring that the foundations for “Hospital 2020” are solid and well laid. ■