

FOCUS ON FINANCE

Service Lines: They're Back—And Ripe for Success

Preston Gee

Service lines are back—and with more clout this time. The concept that first surfaced in health care in the mid-1980s is once again under serious consideration by many leading hospitals in the country. In this second iteration, several things are different.

Dynamics and Drivers

The first time around, service lines were seen largely as the realm and responsibility of the marketing department. That approach turned out to be unsustainable. This time, service lines are being viewed much more strategically and with a broader sense of organizational involvement.

Why does the concept have more cachet today? One reason is the rapid rise and success of niche players, which often cast themselves as single-service enterprises. Another is the realization that hospitals must focus on their core services. Together, these drivers have created a managerial epiphany: A service line orientation is the optimal way to stay attuned to the market and aligned with key customers.

As a result, service lines are now getting the kind of senior managerial attention and organizational

resources they absolutely must have.

Accountability and Objectivity

Central to a successful service line orientation and organization is the concept of ultimate accountability. In industry, the service line (or product line) model pivots on the notion of a mini-CEO—someone who is fundamentally responsible for the success of that segment of the enterprise. It should not be different in the healthcare world. Even though the service line director or vice president can and should be assisted by a cross-functional team, he or she must *own* the service and be accountable to senior management for its success or failure.

In addition, the service line analysis and strategy should be heavily data-driven. One great advantage that the current model of service line structure has over its predecessor is the availability of more in-depth data, on both the organization and its competitors. Consequently, the objective of a particular service line and the strategies developed to achieve it should capitalize on this fact.

Whatever criteria are used to measure success for the

hospital as a whole should likewise be used to measure success for a service line. If the hospital looks first and foremost at contribution margin, the service line should also look first and foremost at contribution margin, not volume, market share, or net revenue. All measures used should be quantifiable and realistic—a lesson learned the hard way in the 1980s.

Planning in Synch

Each identified service line—and to start off, there should be only three or four—should have its own business plan. This road map for success should, again, synchronize with both the strategic plan and the budgeting cycle of the organization. Despite the large number of organizations that are pursuing a service line model, far too many have not incorporated a disciplined planning process and cycle. This usually hurts the larger entity as well as the service line: Because neither fully understands the expectations, neither is able to recognize success—or failure, for that matter.

Drawing on that wealth of available data cited earlier, service line structures require a high degree of analysis at the outset, including a thor-

ough assessment of the competition—both existing and potential. If more organizations had applied disciplined business planning to their original service lines, they might have avoided some of the market meltdown that occurred as enterprising physicians and entrepreneurial ventures peeled off high-margin services and eroded valuable market share in high-performing areas.

The value of a cyclical planning process lies not only in the continual surveillance of market conditions but also in the constant monitoring of competitive forces—within the hospital (medical staff) and without (other hospitals, ambulatory surgery centers, retail ventures). As the market for medicine migrates more to a retail model (e.g., Target, CVS Pharmacy, and Wal-Mart), such rigorous planning will become all the more essential to the long-term viability of hospitals and health systems.

Start Small

Another mistake many organizations make when it comes to service lines is trying to take on too many at once. The obvious fallacy in this approach is diffusion of managerial energy as well as organizational resource allotment. Therefore, orga-

nizations should adopt the Pareto principle and focus first on the three or four service lines that represent the bulk of their business in terms of margin, market share, and sustainability. This is one of the most important lessons we can learn from other industries and organizations that have successfully implemented service line strategy for decades: By concentrating on its core strategic business units, the entire organization does better in the long run.

In addition, this approach conveys two important messages to the community and other key stakeholders: first, that the organization has staked its future on this core turf and this is where it will concentrate management time and enterprise resources, and second, that a hospital or health system can no longer be all things to all people.

In limiting itself to the three or four most important service lines, hospital leadership will want to carefully avoid sending a third message: that everything else is chopped liver. Rather, these core services are the initial focus, due largely to their strategic and financial value, but other services will eventually be treated to the same service line orientation, planning, and high-level scrutiny.

Application and Execution

Having been spurned once before, the service line model is again attracting some of its old suitors. Healthcare organizations now see it in a new light, as the most effective model to compete in a market rife with retail-savvy competitors and single-service providers. The question now is not one of value or viability, because both have

long ago been proved in other industries, but of application and execution. Those hospitals that can successfully implement a robust and rigorous service line strategy will be better able to survive—indeed, to thrive—in whatever circumstances lie ahead for health care. ■

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