Hospital service line organization:
Innovation in approaches and strategy
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Innovative look at service line organization

As hospitals focus on cost control and the need to deliver high-quality care, their challenge has never been greater to meet the needs of their community and ensure long-term financial sustainability, even as reimbursement is ratcheted down.

These factors are forcing many hospital leaders to evaluate which service lines are essential to their long-term success and which should be de-emphasized or discontinued.

Service line organization is an approach to planning, managing and evaluating a hospital's performance. As a patient goes through a hospital, he or she engages with many departments. For example, a cardiology patient is served not only by the cardiology department, but also by registration, nursing, cardiac catheterization, radiology, pathology and others.

Through service line analysis, hospital leaders can use a wide range of data from multiple departments to understand the contribution that each line makes to the institution's financial sustainability and position in the community. That analysis allows decisionmakers to understand how a given service line is affecting the overall hospital; how that service line compares to others; and how the line might be improved.

That kind of analysis is frequently overlooked, according to Howard Gershon, founding principal at New Heights Group, a healthcare consulting company.

He recalls a client of his company—a hospital—that sought help organizing its service lines, but had a preconceived idea of what those lines should be. “They had already decided what they were going to do and it wasn’t really based on a lot of facts,” Gershon said. “It was: ‘Everybody has oncology, everybody has cardiology, everybody has orthopedics and neurosurgery, so we thought we’d start with those four.’”

Selecting services to keep based on what other organizations offer may have worked when all hospitals were paid the same, regardless of the quality or efficiency of care they delivered. But in the ever-changing world of healthcare payments, hospitals will soon see revenues decline if they provide poor quality or high-cost care. Thus, it is imperative that each hospital capitalizes on its strong service lines and minimizes weaknesses.

The Centers for Medicare & Medicaid Services and private payers are making it clear that they want to move to value-based payment strategies that reward hospitals and physicians that deliver high-quality and low-cost care. In some cases, this will force a new definition of “quality” on healthcare providers that, in turn, may influence how some service lines are viewed.

Jill Horwitz, a professor of health policy and management at the University of Michigan School of Public Health, points to spine surgery, which has been such a profitable subspecialty that some hospitals have developed it into its own service line. In the search for value, some payers are introducing contracts that incentivize providers to use the most cost-effective treatment that alleviates patients’ back pain. In that scenario, spine surgery for lower back pain is an expensive last resort for providers, rather than a trip to the bank.

“There’s a pretty strong consensus that there’s too much surgery for lower back pain,” she said, “and one of the reasons that doctors and hospital organizations do this is because it’s very profitable to do it. But with a bundled payment, you won’t get paid for doing more of it.”

“If you’re only providing the services that are the most profitable, you might not be doing the best service for the patient.”

Jill Horwitz, Professor of Health Policy and Management | University of Michigan School of Public Health
While some hospitals are reviewing their service-line mix in search of profitability, that approach has its limits. The patient that comes in for knee-replacement surgery may have diabetes and congestive heart failure; increasingly, the hospital’s financial success will be tied to its performance on quality measures for those conditions.

“If you’re only providing the services that are the most profitable, you might not be doing the best service for the patient,” Horwitz said. “Patients don’t come with one problem that they can easily [be treated for] at one hospital, and another problem they can [be treated for] at another hospital.” Hospitals need to understand the implications of all the services that are being delivered.

**Internal data challenges**

Gershon and other industry leaders say that hospitals must use data and analysis to understand and manage their business.

“Data doesn’t make decisions for you, but it allows you to go forward knowing what you’re getting into,” Gershon said. “The key is conducting a formal and a rigorous review of service lines.”

Many hospitals do not access all the data needed to accurately assess service line performance, said David Anderson, a managing director with healthcare consulting firm BDC Advisors. In addition to specific kinds of internal financial data, hospitals need information about their competitors, patient demographic trends, the plans of the physicians in their community and payer contracting strategies to fully understand each line’s performance and potential.

“If you’re going to manage a business, you have to have good information systems about the business. Most hospitals don’t have very good information systems, and they don’t organize their information in a service line way,” he said. “There’s lots of information needed, and it’s relatively rare that all that information is assembled and available to decision-makers.”

To capture and analyze internal data by service line, hospitals use a data warehouse or SaaS (Software as a Service) business intelligence tools that allow data from disparate sources to be compiled and analyzed for decision-making.
What are the steps involved in analyzing which service lines might be eliminated?

I'm a big believer that you start with data. Service line assessment is not only a quantitative analysis, but that's usually where you start. Obviously, you do a financial analysis to look at growth potential vis-à-vis contribution margin, revenue vis-à-vis contribution margin, or maybe total contribution per case. Arranging the data in a four-quadrant model is a good way to show it. Those service lines that are in the northeast quadrant with high growth and high margin (or high revenue) are usually the ones that you want to keep, while the ones in the southwest quadrant—low margin, low growth potential, and maybe low market share—are typically service lines where you say, 'OK, this is where we begin our analysis.'

Then you need to look at other factors, such as community considerations. If you are a faith-based organization or you might be the only provider of that service, you should consider your responsibility from a mission standpoint. You need to think about the impact of eliminating a service line on the medical staff. And even though that particular service line may not be high performance from a margin standpoint, it may be a feeder into other service lines you need to think about. So, there are a number of qualitative factors as well as the quantitative factors that should be considered.

One other consideration, of course, is quality and the perception of quality. If your service line is third in the market and your consumer preference is very low, and you have really no chance of raising those metrics vis-à-vis your competitors—either because of historical situations or because they outspend you in marketing, or whatever it is—then you might want to say, 'Let's concentrate our efforts where we're strong.'

What service lines are most popular for elimination?

Behavioral health is one that often gets reviewed, for a number of reasons. Many times it is a duplicate service that is being provided elsewhere in the community. From a financial standpoint, it's often one of the service lines that experiences reimbursement challenges. OB/GYN, in the past 10 years, has surfaced as a service line to consider eliminating. But, you have to weigh the risks of eliminating the services because women are the primary purchasers by far in healthcare, and therefore, OB/GYN is often an individual's first introduction to the hospital. The other service I would single out is pediatrics because, again, it generally does not have as favorable reimbursement rates as other service lines.

What is the upside of eliminating a service line?

In healthcare, we have kind of an egalitarian approach, especially in the faith-based [organizations], where we want to provide all the services to the community. That's noble, but it's not always practical. We have limited resources we can devote to our service lines, and we can't be all things to all people, so where are we really going to concentrate our resources?

Hospital executives should concentrate their management time on those areas that really give you a favorable outcome. ... If you have service areas that are a drag on the institution from a financial viewpoint or managerial effort, the advantage of eliminating that service is it materially helps you focus on where you need to concentrate your resources.

What are the expenses involved in eliminating a service line?

There are actual, direct expenses—such as, any time you jettison a business unit you will likely have severance pay—and there are what you might call "soft expenses." You might alienate some of the medical staff and that might have a ripple effect on other service lines. There may be some community backlash, especially if the eliminated service isn't provided elsewhere in the community.

Any lessons learned from hospitals that have mishandled their exit from a particular service?

One organization that got out of urgent care was a classic example of what you don't want to do and a good example of why you should always consider the option of getting out of a service.

This system's urgent care clinics were doing OK for a while, but the payer mix and market conditions shifted, to the point where it was no longer economically viable. Yet, the people that managed the urgent care clinic division would not even consider exiting the business.

Finally, the CEO said, 'We're getting out of this business,' because I think the board called him on it. It was done at the 11th hour; it was poorly handled; there was poor communication and it really upset people in the community. That is a major risk and problem with not conducting the analysis on an ongoing basis, thus providing time for exiting, for communicating to the multiple stakeholders and for recalibrating organizational resources.

It is somewhat ironic because people think they are somehow doing themselves and the organization a favor by not asking the hard questions early on or by failing to consider exit as an option. But they're really doing everyone involved a disservice.
By combining internal financial and quality data with external data on competitors, physicians, payers and market demographics, hospitals can—and should—analyze their service lines to prepare for a successful future.

Support for service lines

Before hospital leaders decide to discontinue a given service line, they should consider whether the line has been properly managed. Many hospitals may have inadvertently harmed service line management by not investing sufficiently in the resources needed for success.

According to Anderson with BDC Advisors, many hospitals traditionally have not assigned enough staff to oversee service line operations. “Some had service line managers that were assigned to 12 service lines, and they really didn’t operate as businesses because there was too little oversight to do that,” he said. “When you’re committed to a powerful service line, you’re talking about a management structure that has enough staff and resources that can actually grow a business. That’s not trivial.”

Another infrastructure issue is in an organization’s marketing and advertising efforts. Although hospitals tend to centralize marketing activities in a single department, that approach may not adequately support a specific service line’s initiatives.

“If you’re serious about a service line … leadership needs to have some control over their marketing budget,” he said.

Anderson believes the days of hospital-driven service line management are over. Today, physician leaders are often in charge of service lines, and their financial incentives are aligned with their hospital’s incentives.

“In today’s hyper-competitive environment, successful service line development efforts need strong physician leaders. If you’re not engaging physicians in every step of service line development and management, you’re probably not going to accomplish much,” Anderson said.

While some physician leaders have the business training and experience to manage a service line on their own, more typically they need to have a close connection with a strong administrator with extensive business skills, Anderson said.

He believes the dyad management model, where a physician leader and an administrator share management responsibilities, proves to be the most successful strategy. This model has long been used by physician-driven health systems, such as Mayo Clinic and Gundersen Lutheran Health System, and is catching on with many health systems that are organized by service lines.
Service line analysis sets strategic direction

Seattle hospital focuses on their service strategy an eye to the future

When its community experienced a growth spurt a few years ago, a mid-sized hospital in the Pacific Northwest needed to position itself for the future. Although its patient volume and capital needs were increasing, the hospital’s profit margins were decreasing.

“They had some capacity constraints and had to decide which services they were going to grow and which ones they were going to downplay,” said Howard Gershon, founding principal of New Heights Group, the consulting firm who advised on the hospital’s service line strategy. “They had to be more focused and more selective about where they wanted to invest their energy and their resources.”

The analysis of the hospital’s service lines included the steps below.

- Identify which service lines had the most drawing power.
- Study market demographics to forecast volumes for various services in the years ahead.
- Review the hospital’s case-mix index to understand the complexity of the patients it served.
- Assess the profitability of each service line.
- Calculate the percentage of overall revenues that came from each service line.
- Benchmark the hospital’s financial and operational performance against other facilities.
- Review the market share for each service line.

Inevitably, service line analysis turns up some surprises for hospital leaders. For example, this hospital’s executives had been thinking about expanding radiation oncology, which is generally considered to be a profitable service line for hospitals.

“But when we got into it, they realized that it really wasn’t a profitable service, so maybe that’s not something they wanted to do after all,” Gershon said. “That fell from high priority to lower priority.”

Also, this hospital’s cardiology service line needed shoring up to reach its full potential, as the analysis highlighted that over time patient volume was decreasing.

This hospital’s executives and board of directors used the analysis to make decisions about capital investments. They also used it as a baseline to track the hospital’s service-line performance going forward.

Going forward: How a hospital in growth mode positioned itself for the future

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David Anderson, Managing Director | BDC Advisors
Keys to success

Commit to making decisions based on data.
Frequently, hospital executives base their investment decisions on news articles that say a certain service line is profitable or in reaction to a competitor.

Make sure the data is reliable.
Require your staff to be knowledgeable about each service line. Rigorously review the data and verify the accuracy of the analysis.

Be prepared for pushback, particularly from physicians who may have a vested interest in the outcome of the analysis.
Physicians are data-driven and if they can find a loophole in the data that negates all the effort, it will destroy the credibility of the process.

Update the service line analysis regularly.
Ongoing periodic review keeps hospital leaders informed about trends in the performance of various service lines, which allows for better planning and decision-making.

Realize that the profitability of a given service line is only one consideration of whether it should be continued, expanded or eliminated.
Gershon of New Heights Group recalls one service line analysis that showed a hospital’s obstetrical unit was unprofitable, poorly rated and uncompetitive in the market.
“All of the data suggested that this was something that they should step away from but, politically, the senior management and ultimately the board just felt like they couldn’t,” he said. Hospital leaders decided to invest in the service line to strengthen it rather than let it languish as a drain on the entire hospital.
## Considering new service lines

There is no set list or template of service lines at which all hospitals can succeed—or should even pursue. But industry leaders say certain services present specific challenges and opportunities that hospital leaders must be aware of; the following are considerations from leaders:

<table>
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<tr>
<th>Specialty</th>
<th>Considerations</th>
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<tbody>
<tr>
<td>Pediatrics</td>
<td>Although children's hospitals and large community hospitals can provide high-quality profitable programs, most small community hospitals struggle—and it will not get easier as Medicaid reimbursements tighten in the years ahead.</td>
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<tr>
<td>Obstetrics</td>
<td>Many community hospitals lose money on their OB units and, in recent years, some have been discontinuing the service. But some find success using obstetrics as a loss leader that feeds their profitable neonatal and pediatric intensive care units.</td>
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<td>Orthopedics</td>
<td>The number of outpatient surgery centers owned by orthopedic surgeons will continue to increase. Traditional inpatient procedures, such as hip replacements, will increasingly move to outpatient centers, and insurers are pushing patients to surgeon-owned facility because costs are lower. That means entering into joint ventures with surgeons will be the best strategy for many hospitals, even though they lose the facility fee associated with a procedure.</td>
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<td>Oncology</td>
<td>Cancer care programs are usually profitable for large hospitals, but it can be challenging for small community facilities to provide all elements—surgery, medical oncology and radiation oncology—needed for a comprehensive program. Radiation oncology and surgery are generally profitable; medical oncology is a good business for hospitals that are eligible for the government's 340B pricing program, which offers discounts on pharmaceutical purchases. Many oncologists are seeking hospital employment, which is reducing competition.</td>
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<td>Cardiovascular services</td>
<td>Cardiovascular surgery and interventional cardiology continue to be profitable for most hospitals. The most successful business model is integration of surgeons, cardiologists, and other specialties in designated heart centers or cardiovascular institutes.</td>
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<td>Neurosurgery/neurology</td>
<td>Spine centers, sometimes headed by orthopedic surgeons and sometimes by neurosurgeons, can be quite profitable.</td>
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<td>Behavioral health</td>
<td>Although some hospitals provide inpatient mental health services to meet community need, this service line is seen as a profit-loss endeavor.</td>
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<tr>
<td>Bariatric surgery</td>
<td>Successful if there are high-volume procedures with quality surgeons</td>
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<tr>
<td>Wound care</td>
<td>Successful because it's an easy line to add, often with good profit margins</td>
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<tr>
<td>Sleep center</td>
<td>Successful because this line can offer additional revenue without significant expense</td>
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## Service line evaluation

<table>
<thead>
<tr>
<th>Service line current state</th>
<th>Decision points for evaluation</th>
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| **Low** or decreasing volume + **High** profitability | - How can volume be increased?  
- What is the marketing plan?  
- Is there a need for more physicians in this area?  
- Will equipment upgrades bring additional volume? |
| **Low** or decreasing volume + **Low** profitability | - Can reimbursement be improved?  
- Can payor mix be improved?  
- Can costs be decreased?  
- Is it a physician issue?  
- Is it a LOS issue?  
- Can this service be discontinued? |
| **High** or increasing volume + **High** profitability | - How can volume be maintained or increased further?  
- What is the marketing plan?  
- Are there related services that can be implemented?  
- Will equipment upgrades bring additional volume?  
- Who is the competition? |
| **High** or increasing volume + **Low** profitability | - Can reimbursement be improved?  
- Can payor mix be improved?  
- Can costs be decreased?  
- Can volume be limited?  
- What is the marketing plan?  
- Is it a physician issue?  
- Is it a LOS issue? |

**Source:** Agilum Healthcare Intelligence
About the Author
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