Changes in Hospital Competitive Strategy: A New Medical Arms Race?

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Emerging Health Care Market Trends: Insights from Communities
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Hospitals Reviving “Retail” Strategies

• Competing more for physicians and patients, less for managed care contracts

• Investing in a wide array of services that often match or improve on those offered by others

• Aggressively marketing to consumers
Current Strategic Emphasis
Surprising

- Hospital consolidation theoretically minimized need for retail strategies, particularly service duplication
- Managed care theoretically made hospitals more sensitive to costs and the impact of new services on clinical quality
1996-1997 Hospital Strategy: Building Integrated Delivery Systems

- Focus on strategies for success in a selective contracting, full-risk environment
- Resources devoted to mergers, acquisitions and risk-contracting infrastructure
- Select service consolidations and additions
  - Cost reduction vs. plan “must-have” status
2000-2001 Hospital Strategy: Back to Traditional Strategies

- Focus on strategies for success in a broad provider network, moderate risk environment
- Resources freed-up as integration is de-emphasized and unprofitable business shed
- Adding inpatient and outpatient services attractive to specialists and patients
## Hospital Service Expansions, 2000-2001

<table>
<thead>
<tr>
<th>Service Expansions</th>
<th>Description</th>
<th># Reported</th>
<th>%CTS Hospitals (N=43)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialty care centers</td>
<td>e.g., oncology, cardiology, orthopedics, neurosciences</td>
<td>19</td>
<td>44</td>
</tr>
<tr>
<td>--Inpatient</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--Outpatient</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Niche specialty services</td>
<td>e.g., centers for digestive diseases, seizure disorders</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td>Cardiac surgery programs</td>
<td>New open heart program or expansion to other system hospital</td>
<td>6</td>
<td>14</td>
</tr>
</tbody>
</table>
## Hospital Facility Expansions, 2000-2001

<table>
<thead>
<tr>
<th>Facility Expansions</th>
<th>Description</th>
<th># Reported</th>
<th>% CTS Hospitals (N=43)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outpatient facilities</td>
<td>Joint ventures with specialists</td>
<td>17</td>
<td>40</td>
</tr>
<tr>
<td>Emergency and operating room</td>
<td>Includes ICUs</td>
<td>11</td>
<td>26</td>
</tr>
<tr>
<td>Inpatient capacity</td>
<td>Additional beds</td>
<td>13</td>
<td>21</td>
</tr>
<tr>
<td>Building new hospitals</td>
<td>Acute care or specialty</td>
<td>9</td>
<td>16</td>
</tr>
</tbody>
</table>
A New Medical Arms Race?

- New = Rekindled
  - Mimicking and one-upmanship has returned
  - Rapid technological change continues

- New = Different players and dynamics
  - Fewer, larger hospital competitors
  - New, more viable non-hospital competitors
  - Greater cost pressure

- But some capacity constraints reported
Policy Implications

• Potential to drive up costs
  ‣ Service duplication
  ‣ Supply-induced demand

• May threaten clinical quality
  ‣ Low volume results in poor outcomes

• May misallocate capacity
  ‣ Oversupply some services, undersupply others
Potential Market and Policy Responses

- Make consumers better purchasers
  - Tiered approaches to cost sharing
  - Provide more information on clinical quality

- Reconsider state and federal policies
  - Certificate of need (CON)
  - Technology assessment
  - Antitrust