

STRATEGIC

M A N A G E M E N T

Market Memo:

Developing a successful product line strategy

By Beau Keyte, BSE, MBA, and Howard Gershon, FAAHC

Product line strategies in health care can encompass all the interventions of disease management, thus positioning providers to accept and manage risk contracts. Unfortunately, many health systems are having difficulty identifying, rationalizing, organizing, and managing product lines from a system perspective. However, it is possible to rationalize and initiate a strategic focus in product line management by simply defining and working around some common misconceptions regarding product lines.

Defining a product line

The product line concept is a business approach borrowed from other industries that have used it to design, organize, and manage a distinctive portion of their enterprises. The concept involves the deployment of dedicated and shared resources which transform a product into something the market values.

Consider, for instance, the automobile industry, where a product line such as sport utility vehicles proceeds through several steps before ending up on a showroom floor (see Figure 1). Similarly, product lines in health care employ interventions that are increasingly parts of comprehensive continuums focused on specific diagnoses.

The scope of these continuums is constantly being stretched through payment schemes, such as case rates, that require all of the interventions possible within the broad context of disease management. The health care analogy (Figure 2) shows a patient progressing through several care delivery sites before completing a course of care.

It is easy to imagine neuroscience, cardiac, orthopedic, and other defined services progressing through these delivery points, with eventual receipt of a case rate which is then distributed to the participating care delivery sites.

When is a product line not a product line?

As the industry begins to adopt product line management strategies, one point of confusion is that providers frequently confuse product lines with revenue centers (such as surgery), specific delivery settings (such as ambulatory), or even targeted population groups (such as women or the elderly).

Revenue centers—Within surgical services, every patient must go through the operating room. While the OR can still be considered a revenue center in many markets, many systems mistake this for a product line. In reality, the OR is just one step in an acute care episode, with several product lines passing through, as shown in Figure 3. A similar automotive industry analogy would be component manufacturing, which includes welding as a process step for many of the different components within a plant. However, welding is not considered a product line.

When viewing ORs as one step in an intervention, it makes no difference whether the OR is a stand-alone facility, is a same-day surgery center, or is integrated within a hospital setting. It now can be perceived and managed as a cost center, with the global payment responsible for covering the costs incurred in surgery.

Delivery settings—Many of us have had conversations about the rehabilitation or home health product lines. In reality, these are postacute interventions which may have several product lines passing through them, as shown in Figure 4.

Very few patients interact with rehab or home health as their only point of treatment and, as payment mechanisms evolve, these will be redefined as cost centers. An analogy with the automotive industry would be like considering the final assembly plant as a product line, as opposed to the different car models which run down the assembly line.

Patient populations—Many delivery systems segregate women's services, children's services, and elder services as

By looking beyond traditional organizational boundaries and integrating the clinical and administrative activities from a system perspective, providers and their partners will improve their ability to compete by providing better, more effective care.

Market Memo:

Figure 1:
Product line path for
manufactured products

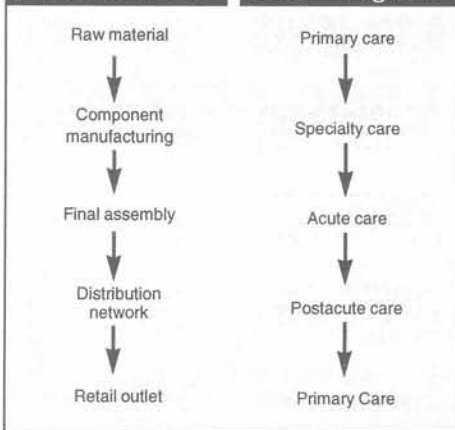


Figure 2:
Product line path for
disease management



product lines. Using that argument, only non-geriatric, adult males will be serviced by all the other product lines. While it may be beneficial to target specific populations for care delivery, each of these populations is a consumer of several product lines, as shown in Figure 5.

In the automotive market, competitors target specific populations. Women, for instance, may be targeted for compact cars and minivans at different points of their lives. Men may be targeted for sports cars and luxury cars at different points of their lives. Men and women of specific age groups might be targeted simultaneously for sport utility vehicles. In these cases, the industry is managing and marketing product lines, not population groups.

How to select product lines

Most organizations do not have sufficient resources to allow them to excel in all areas, particularly in a competitive marketplace. The challenge then is to determine those lines in which the health system can be a market leader.

There are two dimensions to making this determination: The capabilities of the provider, and the attractiveness of the market. Frequently, these issues are addressed subjectively or even ignored. We suggest that a rigorous approach be taken to product line selection, where at least the following parameters are considered:

Market position—This can quickly be established by looking at your market share for a particular product line. If actual market share data are not readily available, market penetration (e.g. the number of interventions per 1000 lives addressed) is a reasonable proxy.

Market draw—This parameter looks at the percentage of your activity in a particular product line that is attributable to patients that reside in locations beyond your traditional primary service area.

Financial performance—An evaluation of a product

line's historic financial performance is critical to the selection process. Additionally, an assessment should be made of the degree to which profitability is likely to change in the future. Profit within a product line continuum, whether in terms of percent of revenue or actual dollars, is the financial gauge of running any business.

Medical staff support—The level and extent of medical staff support is another key variable. Metrics here could include the number of physicians that actively participate in a particular product line, the percentage of physicians in groups, and the average age of those physicians.

Market size—The key issue here is determining the current as well as the projected size of the market for the product being considered. Various modeling approaches are available to accomplish this analysis.

It is imperative to evaluate the continuum of the product line in this manner, not just the traditional approach of looking at it from the hospital's perspective. With this approach, all interventions can be assessed to identify strengths and weaknesses of the continuum which will be marketed. An example of this kind of an evaluation is shown in Figure 6.

Developing a plan

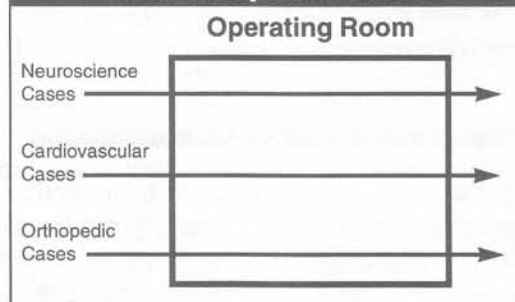
A sound business plan is a critical success factor in any industry. Reorganizing care delivery using a product line management strategy is no small feat, and requires a well articulated operating strategy. The major components of such an operating strategy include:

- Reorganizing the product line continuum
- Redesigning the delivery of care
- Measuring and managing product line performance.

Once the operating strategy has been developed for the product line, it must be staffed with people who are technically competent, and who can work in a team atmosphere without traditional organizational boundaries. One of the keys to this is a clear communication plan, so that everyone involved understands the effort. Roles and responsibilities should be negotiated and communicated, along with feedback mechanisms. Change management assistance may be needed when merging different cultures and/or operating philosophies within a continuum.

Redesigning care as continuums has frequently been overlooked in reengineering efforts. Most of these projects are contained within individual organizations, and usually focus on departments, instead of a

Fig 3: Many revenue centers, such as operating rooms, are components of several product lines



system perspective of product lines. However, when dedicated pathways are developed which lock in care delivery points, there are a wealth of redundant activities that can be redesigned. Registration, patient education, discharge planning, and billing are just a few of the activities that can be streamlined and/or eliminated through a product line approach. Clinical practices can also be standardized. These redesign opportunities typically result in at least a 10% reduction in cost per case, better clinical outcomes and improved patient satisfaction.

Financial matters

Comprehensive business plans that focus on new ways of coordinating care must also include new ways of managing revenues and costs, and new ways to incent the product line team to perform. Continuing to manage integrated product lines by utilizing traditional, individually developed budgets (i.e., hospital vs. home care vs. skilled nursing facility) creates two fundamental problems:

- Segregated financial reports for different points of care will dis-incent the team to provide the "right care for the right reasons"
- The actual financial performance of the integrated product line could be difficult to determine.

Delivering the "right care for the right reasons" involves optimizing the best clinical outcomes with service and economic outcomes (i.e., patient satisfaction and case cost). If a product line is being independently measured and managed within each point of care delivery, as opposed to the aggregate performance, individual administrators won't want to implement any changes which may cause a decrease in revenue or a shift in cost to their facilities.

If an integrated system is unwilling or unable to create new performance measures for all services, individual product line performance must be carved out and separately reported. To do this, revenues from and costs of the integrated product line must be quantified, and financial goals modified so that the product line's carved-out financial statement can stand on its own and doesn't penalize the participating organizations. This will forgive the impact of cross-organizational care on individual organizations.

However, carving out a product line's financial statement will require combining revenue and costs from several points of care delivery. This in itself is a dilemma: many health care providers don't believe their own cost

structures. What credibility would a combination of costs have if it were a summation of cost components from several different providers?

To manage the financial performance of a product line, it's imperative that resources be invested in good cost accounting techniques, and the team held accountable for real costs which they can influence. This doesn't necessarily mean implementing a complex enterprise-wide system: It's possible to get started by a focused approach

involving just the product line and using throwaway financial spreadsheets which reconcile to the formal financial reporting system.

One of the most important aspects of cost accounting is the ability to profitably negotiate risk-bearing contracts for specific product lines. Many managed care contracting efforts still focus on increasing the number of covered lives with minimal regard to care delivery costs. Once actual costs are quantified, contracting efforts and can be evaluated based on the

same attribute as any other industry—impact on the bottom line.

Once a product line organization is formed with its own plan, resources, and financial statements, it's now possible to incent the care delivery team to manage and grow the product line as a business. Clinical, economic, and service outcomes can be measured, and the team rewarded for the overall improvements in outcomes and growth in the business as a cross-organizational continuum. In terms of financial rewards, gain sharing can be established for the entire product line organization, not just the physicians.

Finally, once the care is redesigned, it is imperative to hold these gains. Patient satisfaction, case costs, and clinical outcomes, measured from the perspective of the overall product line, need measurement systems which are simple to use and visible to everyone on the team. If your current clinical and financial management systems can do the job, use them. If not, have the team set up a simple system to analyze the key outcomes which are indicators of success.

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The value of consistency

As a final point, product lines in other industries quickly fail when their products are not consistent. IBM, Ford, and American Express are all examples of companies with very consistent products and services. For instance, Taurus are assembled in Chicago and Atlanta, but the con-

Fig 4: Global pricing and capitation redefines postacute settings as components of several product lines

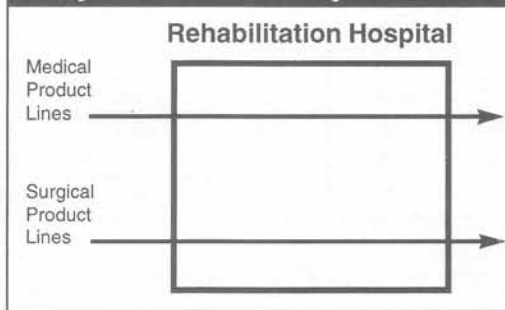
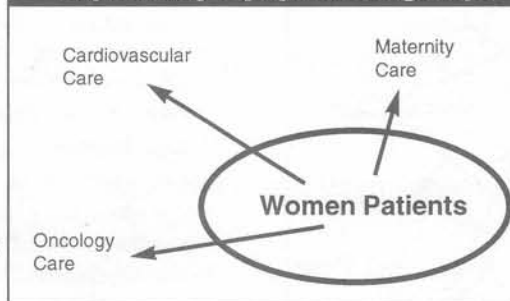


Fig 5: Women's services encompass several product lines required by a population group



Market Memo:

Fig 6: Product line analysis rankings worksheet

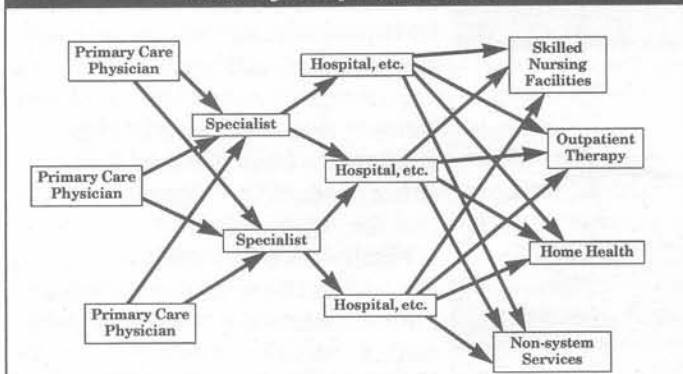
Product line	Market size and position				Financial Position	Medical Staff		Score		
	Market size	Market share	Current volume	Market draw		Net margin	Market's top attending M.D.s	Average age	Total	Weighted average
Vascular	○	●	▶	●	▶	▶	▶	27	3.9	2
Cardiac	○	●	▶	▶	●	▶	○	21	3.0	
Orthopedic	●	▶	●	▶	●	●	▶	29	4.1	1
Gastrointestinal	●	○	▶	▶	▶	~	~	15	3.0	
Neurological	○	▶	○	●	▶	▶	▶	17	2.4	
Thoracic	○	▶	○	●	○	○	○	13	1.9	
Oral	○	▶	○	○	○	~	~	7	1.4	
Plastic	○	▶	○	●	○	▶	▶	17	2.4	
Urology	▶	○	▶	▶	○	▶	▶	17	2.4	
ENT	▶	○	○	▶	○	○	▶	13	1.9	
Ophthalmology	○	●	▶	●	○	●	●	25	3.6	3

● = 5 points ▶ = 3 points ○ = 1 point

(Points are based on an analysis of the organization's performance relative to its market competitors.)

sumer can't tell the difference. Consumers may call American Express customer service and reach any of a thousand representatives. Yet, the responses and actions of these representatives are very consistent for any given customer issue.

Fig 7: Multiple pathways may create inconsistent outcomes that impair brand identity for product lines



Integrated delivery systems, on the other hand, have spent very little time in establishing product line consistency. A large, integrated system may define a product line which includes any and all delivery points and care givers, as shown in Figure 7.

Brand identity is a moving target without consistent outcomes. Using product line delivery models such as the one shown in Figure 7 can only be effective if each alternative pathway using similar interventions (different hospitals, specialists, etc.) has identical clinical, service, and economic outcomes. Otherwise, there is no consistency to identify the product to the market at large. If a consumer is considering

a hip replacement in your system, which hip replacement pathway should he choose? Different hospitals and orthopods have different procedures to complete an episode of care, not to mention post acute care variations.

The choices a system has to create a brand identity with their product are to:

- Create consistent patient pathways for the continuum which are followed by all participating organizations
- Reduce the care delivery points associated with the product line.

This operational strategy involves not only the clinical care, but the clinical support and administrative processes which impact patient satisfaction and costs.

Product line strategies have very little resemblance to the health care focus we knew even a few years ago. Looking beyond traditional organizational boundaries and integrating the clinical and administrative activities from a system perspective will give delivery systems, and their partners, the ability to compete by providing better, more effective care in their markets.

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