

# QUARTERLY CHECKUP

## It's 2014: Do You Know Where Your Service Lines Are?

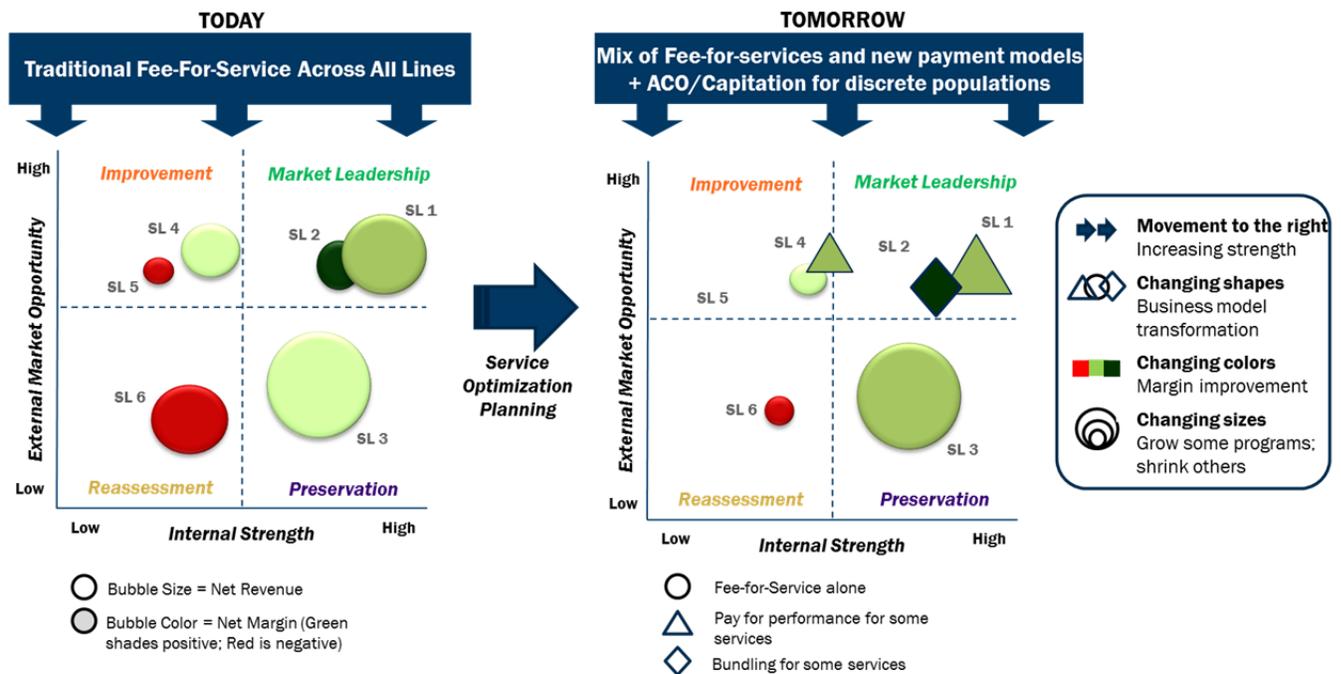
JULY 2014

In today's frenzy to transform from the fee-for-service model to value-based payments, it is easy to overlook the nuanced effects such models will have on individual service lines. Just as each service line has its own unique business models, so will be the impacts of these emerging payment structures.

A recent FTI project with a regional referral center resulted in a refreshed portfolio assessment in terms of:

- External Market Opportunity:** In addition to demographics, competition and market share, we facilitated senior leadership discussions around the **macro business outlook by service line**. For instance, *Cardiology* continues to face reimbursement pressures and decreased utilization drivers (e.g., statins, lifestyle changes), while *Neurology* is experiencing increased sub-specialization (e.g., Stroke, Parkinson's, epilepsy) and new treatment options.
- Internal Strength:** As hospital employment of physicians is on the rise, service line performance is increasingly dependent on **physician enterprise (PE) optimization**, including physician productivity, quality outcomes and resource utilization. As such, FTI identified key PE measures and developed proprietary benchmarks around PE optimization.
- Service Line Financials:** Net margin does not tell the whole story. Contribution to fixed costs and synergies with other service lines (e.g., co-morbidities) must be considered. And, as healthcare evolves, **cost position relative to national benchmarks is a better predictor of long-term sustainability than historical hospital margins**. Our analysis identified services for which the hospital's high quality/low cost position could parlay into enhanced margin, such as direct employer contracts and narrow networks.
- Value-Based Payment Readiness:** The march from fee-for-service to capitation will not be immediate, orderly, or absolute. Value-based payments will be **most pronounced in services for which resources are predictable and quality measures reliable** (e.g., episodic bundling for hip and knee replacements).

The result is Service Line Portfolio Matrix that is dynamic and forward looking, and provides health system leaders the confidence to prioritize service lines for optimization and rationalization focus.



To learn more about Service Line Optimization lessons from providers across the U.S., contact one of our practice leaders:

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