Case study health planning

Business

An aggressive expansion strategy was developed by management contractor American Entrust In 1992 and this led to an operating profit In 1998 of $480, 545. This marked a turning point for MUSIC, as it was the first year in a very long time that the hospital had turned a profit.

As they look to the future, MUSIC needs to determine if it should continue with the aggressive strategy of expanding services or slow Its expansion pace and focus on providing excellent service within Its current capacity and looking for ways to reduce cost and enhance revenues.

Key Demographics and Facts Certain elements of the MUSIC case are essential in determining the appropriate strategy to pursue in the future. The external community general hospital environment has not been thriving during this time period. Of the roughly 5, 000 community hospitals in the United States in 1997, 22% had bed capacity of 50-99. From the year 1980 to 1997, the number of hospitals with 50-99 beds decreased by 24%. As a 96 bed facility, the national trend does not bode well for MUSIC.

When the hospital was purchased by the city of Charleston, American Entrust came in with its aggressive “ revitalization initiatives” to help MUSIC become profitable. Under American Entrusted leadership, MUSIC spent more than $3 million from 1992 o 1998 to accomplish these aggressive strategies. Two key elements of those initiatives involved expanding the services offered and rebuilding relationships with insurance companies and the local medical community. As a full-service hospital, MUSIC already offered a variety of medical services. Because of a consistently low census (occupancy rate around 45%).

Evolving ways to attract new patients was vital. A new inpatient characteristic unit, skilled nursing facility, and a home health agency were added to the mix when hospital executives determined that there was a deed in the community for these services and that the competition was not offering these services. By 1998, all three new service lines were bringing In at least $1 million in gross revenue. Other key investments included the creation of an outpatient mall, purchasing new technology, and the creation of satellite specialty and primary care clinics.

Finding and expanding sources of revenue was also a key feature in the aggressive strategic plan.

MUSIC knew that to enhance revenue, the hospital had to contract with managed care companies. Because of sour relationships between MUSIC ND the insurance companies, MUSIC enlisted the help of the state legislature and the insurance companies to work with providers like MUSIC and provide written explanations for any declinations of contracts. In 1994, MUSIC had two managed care contracts; there were twenty-five managed care contracts in 1998.

With 65% of its patient base on Medicare, it was essential for MUSIC to increase these managed care contracts if the organization hoped to expand their revenue stream. Because of the enhanced services offered, the number of full time equivalent employees also increased from 183 in 1994 to 270 in 1998. MUSIC has benefited from a low 11% employee turnover and a lean organizational structure.

Even with these systems in place however, the salary and wage expense has nearly tripled from $3. 3 million in 1992 to $9. 88 million in 1998. Of the 270 FEET employees, there are 75 active members of the medical staff.

Gross revenue generated by physician was a bit lopsided in 1998 with 11 out of 75 physicians generating almost 75% of the gross revenue.

As MUSIC plans for the future, revenues generated by physician, by department, and the related salary expenses need to be carefully examined to determine the optimal mix of services provided to the Clark County community. The location and demographics of Clark County continue to provide challenges for MUSIC and the creation of future strategic plans. Clark County is a rural area with the majority of its population living in the southern half of the county, near the Indiana and Kentucky border.

While Clark County does enjoy a low 2. 7% unemployment rate, the average county household income was a middling $36, 726 in 1997.

Only 11% of Clark County residents had earned a bachelor's degree as of 1998, thus the probability of the average household income increasing by any great degree was mall. 65% of the MUSIC patient base in 1998 was a Medicare patient. MUSIC is located in the north central section of Clark County. Its closest competitor is Clark Memorial Hospital in the southern half of the county. Clark Memorial has about 3 times the number of beds as MUSIC and the majority of the county population lives closer to Clark Memorial.

Louisville, KY is about 15 miles from MUSIC. Any future expansion plans must include a close analysis of the population growth trends in the area and an analysis of the service mix offered by both competitors, Clark Memorial and the Louisville-area health systems. Both of these competitors are better positioned to capitalize on any growth trends in the area and have the financial resources to aggressively expand to meet these trends. Even though MUSIC has posted an operating profit for the first time in many years, the majority of Mess's assets are tied up in receivables.

The current ratio and days cash on hand are well below industry standards.

With increasing salary expenses and various interest expenses increasing, investing in capital expenditures or investing large sums of money in new service lines might cause Mess's operating profits be negative. Recommendations The Medical Center of Southern Indiana should continue to grow and improve the service lines that are currently offered such as home health, skilled nursing, and characteristic services. These services have been marginally profitable in the past for the facility.

The home health agency has seen a tremendous growth increasing from $422, 000 to $1. 75 million in four years.

Skilled nursing facility revenues have grown in four years from $1. 07 to $4. 7 million. In order to keep these existing service lines thriving, MASC.' should plan moderate renovations that keep the facility up to Tate Walt current service lens.

Renovations snouts De salary to ten remodeling that was done to the outpatient service mall and should include the purchase of medical supply equipment that will help MUSIC stay up to date with its competitors.

Large capital expenditures should be avoided at this time. Additionally, MUSIC should expand its marketing campaign to target the local populations and keep patients from the surrounding five counties from migrating into the Louisville area to receive care. This has been a problem for the facility in the past, and has led to losses in revenues. Another point of emphasis that should be addressed is the inclusion of the Ivy Tech College population and the Indiana University Southeast population. This population of students has yet to be targeted by the facility, and are a large source of potential revenue.

The marketing strategy should also focus on the recruitment and retention of physicians. Recruitment has been an issue in the past and recruiting and retaining quality physicians is a key component to the success of a facility. Currently, a minority of physicians bring in a majority of the revenues. Having quality physicians that provide services that the community wants and needs will also help enhance revenues. Because so much of the patient population is on Medicare, these revenue enhancement strategies need to be complemented by cost saving strategies.

MUSIC has a bit more control over their expenses than it does over their revenue sources.

After years of having a defender style of strategic plan, this aggressive prospector strategy has allowed MUSIC to have the resources to better meet the needs of the community and find a way to be profitable. However, at this point, it would be best to take a step back and shift to analyzer mode before continuing in an aggressive manner. Screening of Recommendations To evaluate these recommendations, MUSIC should set benchmark goals to try and meet.

MUSIC should set a benchmark goal of retention of employees that can be measured and Judged each fiscal year to track performance and set accountability. Increased number of patients, both inpatient and outpatient, should also be measured to track Mess’s performance.

MUSIC should strive to be the premier name- brand hospital of the surrounding counties by increasing the marketing budget beyond what has been spent in past fiscal years. Additionally, MUSIC should focus on what other competitors are doing to renovate their facilities.