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

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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

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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

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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

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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

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Hospital Service Expansions, 2000-2001

Service Expansions	Description	# Reported	%CTS Hospitals (N=43)
▪ Specialty care centers --Inpatient --Outpatient	e.g., oncology, cardiology, orthopedics, neurosciences	19	44
▪ Niche specialty services	e.g., centers for digestive diseases, seizure disorders	15	35
▪ Cardiac surgery programs	New open heart program or expansion to other system hospital	6	14

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Hospital Facility Expansions, 2000-2001

Facility Expansions	Description	# Reported	% CTS Hospitals (N=43)
▪ Outpatient facilities	Joint ventures with specialists	17	40
▪ Emergency and operating room	Includes ICUs	11	26
▪ Inpatient capacity	Additional beds	13	21
▪ Building new hospitals	Acute care or specialty	9	16

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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

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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

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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

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