

## Case Study in Strategy Development\*

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A hospital management company recently acquired a 150-bed general hospital in a medium-sized city in the southeastern United States. Although they acquired the facility with relatively limited knowledge of the local market, their first thought was to continue to run the facility as a general hospital. However, given that the hospital had not been particularly profitable offering general care and it faced competition from three large facilities that had access to almost unlimited resources, the new managers choose to perform a situational analysis in order to determine the most appropriate strategic approach to pursue.

The managers commissioned a study of the immediate market area, the five-mile radius that could be attracted to a general hospital. The immediate market area was examined within the context of overall trends for the metropolitan area. The analysts reviewed demographic trends to determine the future size and composition of the population, analyzed trends in service utilization, and developed projections of the likely future demand for health services in the urban area and the immediate market area. Particular attention was paid to the competitive situation to determine the service offerings of various players, existing market shares for various services, and the nature of existing managed care contracts and other negotiated relationships.

The analysis determined that the immediate service area was not likely to support a general hospital. The payer mix was not favorable and other facilities maintained major shares of the local market. Further, most area employers were tied into the provider networks of the two dominant systems in the community. The hospital did not have a large or strong medical staff, and it was going to be difficult to attract additional physicians to the facility.

Having conceded that it was not possible to operate effectively as a general community hospital nor was it practical to attempt to confront large, established competitors head on, other types of strategies were given consideration. After an analysis of the data, it was decided that, under the circumstances, a niche strategy was appropriate for the hospital. Specific niche services would be identified, and corporate efforts would be focused on exploiting these niches.

The hospital had previously developed an occupational health program that catered to the numerous employers proximate to the area. Facilities were available, a basic program was in place and adequate personnel were available to provide the basis for the expansion of this program. Given the void in this service in the community, this appeared to be a logical direction to take. In addition, the hospital had long had a behavioral health program that had had some success in attracting patients. In addition, some of the areas leading substance abuse experts were affiliated with the hospital. Since a fledging program was already in place, key personnel were available, and the market was very underserved, behavioral health (including substance abuse treatment) was identified as a high priority for the hospital. In view of the large Medicaid population in the general

area and the lack of geropsychiatric services in the community, it was decided to add geropsychiatric services to the behavioral health component.

This niche strategy focused on services that were not be adequately provided to the community, and another niche initiative was considered but eventually rejected. Market research had indicated that the community contained a very large proportion of minority group members. These were primarily African American, but the Hispanic population in the area was growing rapidly. Further, these were populations that had historically been neglected by mainstream providers. A niche strategy focusing on these target populations was considered that would essentially convert the hospital into a facility specializing in minority care. Because of the many unknowns surrounding this concept and the potential controversy such a strategy might arouse, this idea was rejected.

After carefully assessing the situation, the hospital chose a niche strategy among the various strategic alternatives. The managers conceded that it could not successful operate as a general hospital and chose to pursue a narrower strategy. The approach has, in the short run at least, been relatively successful, with this hospital maintaining a significant share of the occupational health and behavioral health markets in the city and earning a reputation as a facility that doesn't do a lot of things, but does a good job with the services that it does provide.

\*Project carried out by Richard K. Thomas. The name of the client has been changed to preserve confidentiality.