

Kurt Salmon 



INDUSTRY INSIGHTS

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# Reducing Costs through Effective Master Facility Planning

With the uncertainty surrounding the impact of reform on the future of the healthcare industry, cost reduction is top of mind for the leaders of many organizations. Planning ahead and monitoring capital expenditures present critical opportunities to rein in costs while improving quality of care. Ensuring your organization has a well-crafted master facility plan helps avoid unnecessary capital costs and improves your financial position by providing a strong framework to evaluate needs and guide decisions.

Without such a plan, healthcare organizations risk reacting opportunistically and committing capital without appropriate analysis. These actions can erode margins and hinder an organization's ability to make a major investment when the time is right.

Preparing a master facility plan is not a promise to spend money. Quite the opposite. If done thoughtfully, it can provide a rationale for why money should not be spent. Conversely, if there is a need to invest in facilities, a good plan provides leadership with the rationale to commit to the investment with a high level of confidence.

Based on Kurt Salmon's work with industry leaders, we've identified the top 10 qualities of a successful master facility plan. A well-crafted master facility plan:

- 1 Documents organizational vision and leadership's priorities for programmatic changes, volume growth and functional improvement (quality, service, efficiency).
- 2 Outlines leadership's assumptions about the implications of reform and reimbursement changes on the continuum of care and revenue stream. These assumptions have been analyzed and metrics defined to track these assumptions.

- 3 Clearly defines annual volume projections by service and modality, based on an analysis of the market for the next five to ten years.
- 4 Identifies and prioritizes all major capital demands including facilities, information technology and major equipment.
- 5 Includes an analysis of the capacity of each department to support opportunities for growth.
- 6 Measures current performance against benchmark productivity targets to insure optimal utilization of assets. Where benchmarks are not being met, the reason is identified and an action plan is defined and implemented.
- 7 Provides an organization-wide projected baseline financial performance model and alternative models that evaluate investment option scenarios with resulting implications on cash flow, net present value and debt capacity.
- 8 Projects timelines for the implementation of major capital projects as well as the trigger points and measures for each project.
- 9 Is used as a guideline to track market changes, projected implementation phasing, and performance against the measures and assumptions defined in the facility master plan. Leadership reviews these measures at least quarterly, and the board reviews them annually.
- 10 Is used to test investment opportunities that arise to ensure harmony with earlier plans and assumptions, and to identify how a given investment might change the plan.

**Consider delaying any major investment until your master facility plan meets all 10 criteria.**

**As the following results show, a well-crafted master facility plan can better frame decisions and yield stronger financial performance.**

#### Case 1: Decision on real estate development

An upper Midwest integrated system with a large tract of land wanted to investigate the value of the land as a location for future growth and renewal of its clinical buildings. Following a study of the client's vision and priorities, the market demand and opportunity, projected capital capacity and approaches to phased renewal over time, it was determined the land would not be of great value for this purpose. This analysis helped the organization's leadership and board feel confident about selling the land, which will improve their cash position.

#### Case 2: Building a new program

An urban hospital comprised of a mix of buildings, some nearly 100 years old, was prepared to invest over \$12M in endoscopic labs in its oldest building. Further investigation of the strategic opportunity of a digestive disease program proved the financial performance value of taking an alternative approach that would yield a more robust margin. Further, this alternative approach was less "tactical" and supported the long-term renewal of the campus.

#### Case 3: Framing growth and renewal decisions

A major children's academic and research hospital had outgrown its site capacity and was continuing to grow aggressively. The organization was struggling with the need to further segment its services, threatening to inhibit its potential growth and disrupt the functionality of its missions. A long-term plan defined realistic development scenarios, detailed the financial performance of each and provided a set of decision dates correlated to projected growth targets. This organization is executing on that decision track, including the defined interim moves that will fit its long-term direction regardless of the scenario that is ultimately selected.

Capital investments, like any other business decision, stand a greater chance of success if they are based on solid evidence and thoughtful consideration of important factors. If in design "form follows function," then in business "function follows strategy," and a comprehensive, performance-based master facility plan can help organizations turn strategy into function. ❖

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