

Kurt Salmon 



INDUSTRY INSIGHTS

Planning for Performance

*Optimizing the Value of Your Hospital's
or Healthcare System's Capital Growth*

Crafting a Successful Master Planning Strategy

Changing healthcare dynamics demand a new approach to facility planning that takes multiple dimensions of care, research and education into account. A successful master planning strategy will be grounded in the organization's larger strategic direction, revenue and financial performance potential. This change requires organizations to "look beyond the buildings" and fully integrate business planning with capital facility investments.

Kurt Salmon is distinct among consultancies in bringing our clients this strategic focus and in blending the disciplines of space planning, forecasting, finance and clinical program planning. We do not begin an engagement by looking for building sites; instead, we begin by understanding your unique programs and processes so we can help you achieve your strategic goals.

A Changing Environment

Even if all the changes associated with reform are not carried out, a transition from volume- to value-based reimbursement is expected, creating new directions and relationships to consider when planning healthcare facilities.

While hospital, outpatient and clinic buildings will continue to be central to healthcare delivery under any reform scenario, effective performance necessitates managing patients through the full continuum of care. Ensuring patients receive quality care requires including elements not usually considered in the master planning process, beginning with preventive health and primary care and incorporating effective post-acute care either at home or in nursing or rehabilitation centers.

This patient care continuum, as shown in Exhibit 1, will help ensure quality, provide the right care in the right setting at the right time, enhance overall value and maximize reimbursement. Educational programs will in many ways mirror this continuum so that new health professionals are taught the principles of value-based care. Organizations today are substantially lowering readmission rates by training and partnering with subacute providers. This is just one example of the type of relationship that is anticipated and incorporated into a successful master planning strategy.

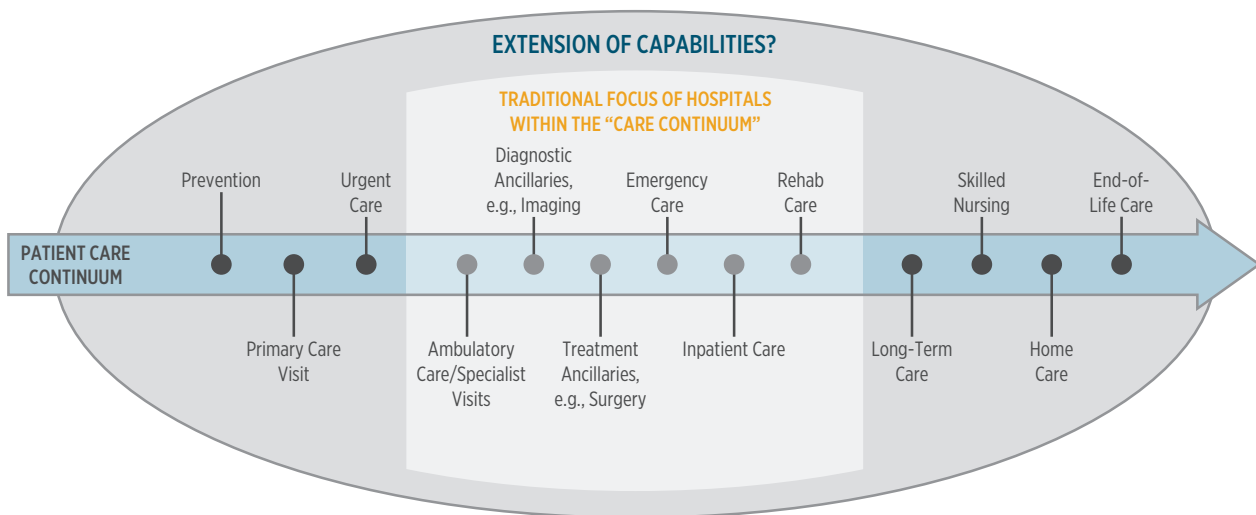
Implications for Healthcare Planning

Facilities will continue to represent major capital investments which need careful analysis and cannot be ignored pending reform changes. It is not necessary to own all aspects of the care continuum, but it is important to have productive partnerships and interrelated operational goals. This will drive subsequent impacts on the level of demand for physical spaces and support structure throughout the care continuum, including buildings, real estate, operations, IT, communication and management structure.

More than ever, hospital executives are challenged with balancing preparation for the potential implications of healthcare reform while addressing near-term needs. Expecting a future of shrinking payments, leaders of all provider organizations are navigating some or all aspects of the performance improvement readiness dynamic. Managing how major capital will or will not be spent is a part of this dynamic and will therefore also be addressed differently going forward.

As healthcare transitions from payment based on growth of assets to growth in the value of services performed, it is important that capital growth be considered from new perspectives regarding how new facility operations and technology will support this transition. Anticipating demands in capital

EXHIBIT 1: Healthcare Continuum



infrastructure will be critical to tightly managing those outlays. Kurt Salmon’s framework is biased toward investments that will be valuable under both the current reforms and future changes. At the same time, we look for avenues of flexibility to minimize the risk of less-certain investments.

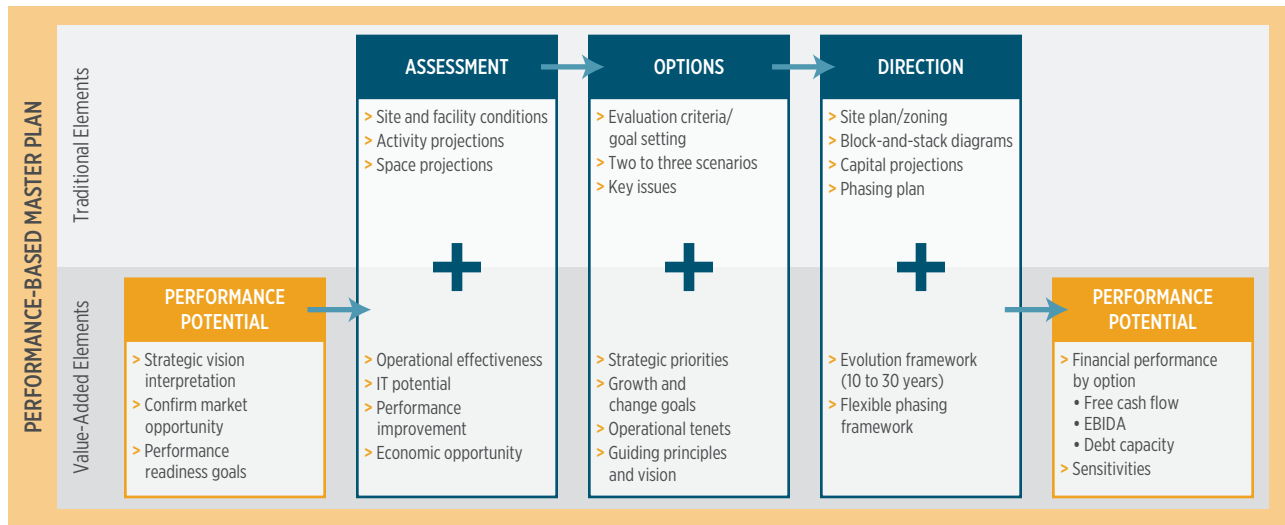
Kurt Salmon brings a robust and thorough approach to master planning that enables us to “look beyond the buildings.” As shown in Exhibit 2, we add to the elements of a traditional master plan, ensuring that the information required to make a good investment decision is included in our analysis. Master planning serves as the basis for making major capital investment decisions. Successful investment decisions will be viewed through the same lens as any business decision—will the investment perform as intended? The perspective Kurt Salmon adds to the traditional master planning approach includes:

» **Strategic thinking** - not reinventing the organization’s strategic plan, but having the ability to interpret critical points that impact facility decisions. Beyond how much space is needed, what are the investment’s implications for physicians and service lines, market reach and opportunity, competitive positioning, prioritization of mission, and medical staff development?

» **Operational integrity** - how care is arranged, delivered and supported underlies quality, safety, satisfaction and cost of care. Anticipating efficient (or Lean) operations is a basic tenet for assessment and planning. Understanding organizational structures that deliver superior functionality and envisioning how those structures fit your programmatic goals are critically important when considering future care delivery models.

» **Information technology integration** - communications across the care continuum, quality and safety of care are all premised on seamless IT services. Like facilities, these systems require significant capital investment, so it is critical to have a firm grasp on the status of the IT systems’ capabilities to balance the overall demand for capital and ensure that future facility investments are capable of handling future system advancements.

EXHIBIT 2: Performance-Based Master Planning Value Additions



- » **Campus evolution framework** – near-term projects are valuable only if they integrate with the long-term direction. Saving money on projects in the short run could cost a lot more in the long run if it leads to future workarounds in terms of capital expenditures and operating costs. Our experience enables us to anticipate the future direction of the healthcare industry and apply that perspective to today’s situation.
- » **Financial performance** – capital capacity and ROI don’t represent the full measure of analysis upon which to base a fully informed investment decision. The implications of any capital investment plan on future activity volume, reimbursement expectations, enterprise-wide capital and operating costs, philanthropy, and other sources and uses of capital must be understood and evaluated. A longitudinally modeled implementation plan will enable an organization to achieve “managed continuity,” through the evolution of its investments, to achieve its goals and vision with a high level of confidence.

The primary goal of our approach to master planning is to enhance the value of the overall enterprise predicated upon the major elements of value: quality, patient satisfaction, institutional efficiency and cost. Experience has taught us

that buildings, like people, go through lifecycles, and that leading organizations optimize a building’s performance throughout its life and across its many uses.

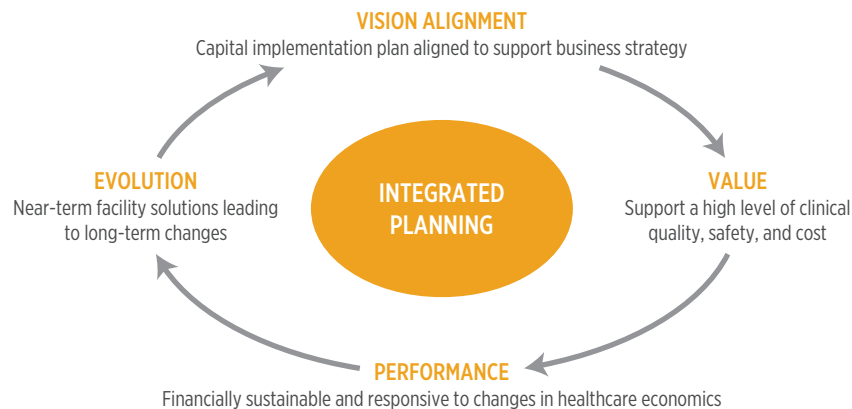
Approach to Achieving Value

Performance-based master planning is a deliberately thought-provoking process that requires a high level of involvement of the organization’s senior leadership, supported by expertise in a wide variety of disciplines: strategic planning, operations, information technology, finance, economics, facilities, and real estate.

As shown in Exhibit 3, these disciplines are integrated within Kurt Salmon to provide critical analysis, insight and business advice. We work with you to gain the direction needed to define all aspects driving the plan and arrive at a comprehensive solution.

In addition to arriving at the best solution, the planning process provides value in itself. Developing a master plan creates the opportunity to learn about your organization’s larger strategic efforts, such as understanding how your strategic plan aligns with leadership’s development vision, how existing assets can evolve over time, what aspects of value are supported by the plan and how the solution will perform financially.

EXHIBIT 3: Integrated Planning



The planning process itself is straightforward, highly participative and iterative. Exhibit 4 provides an overview and timeline of the process for a typical organization.

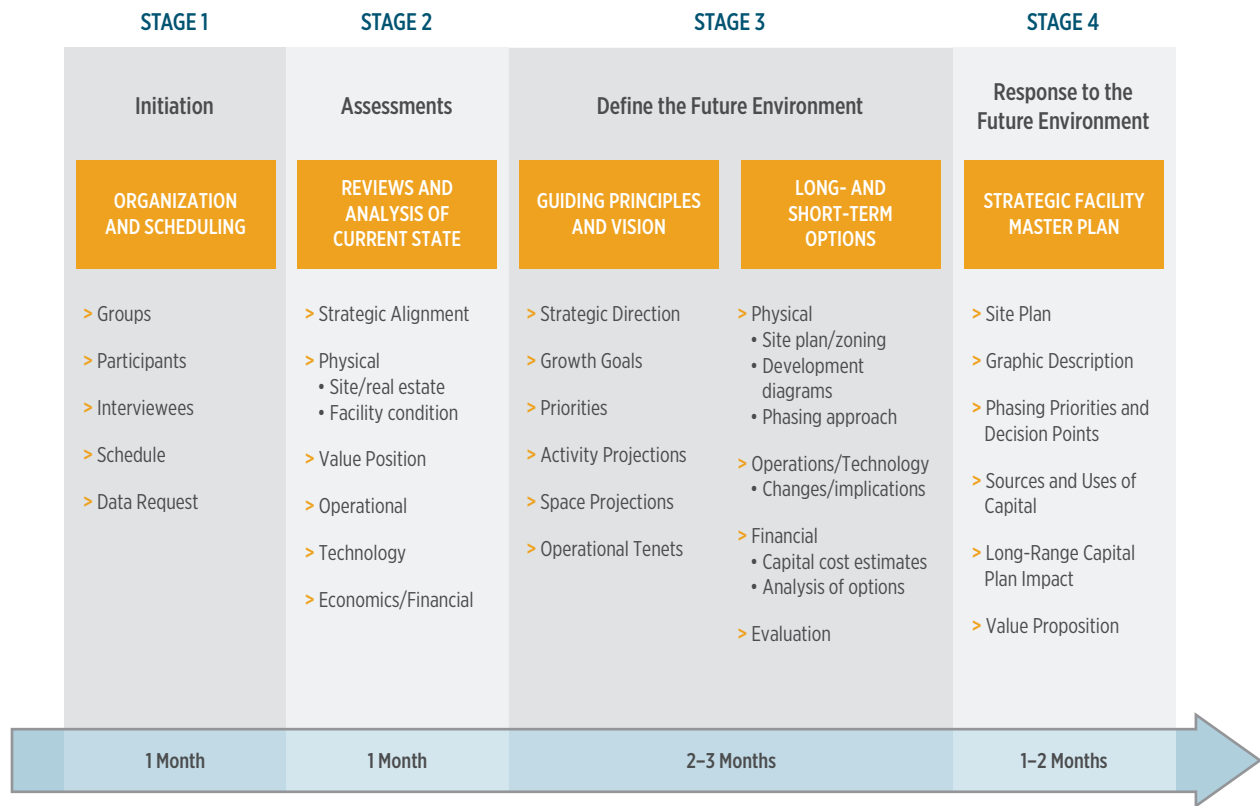
In the end, a performance-based master plan is built upon evidence and clear metrics. We don't assume that new buildings, information systems, major equipment, or other major investments are needed. In fact, we seek opportunities to preserve capital and reduce costs in new assets both immediately and in the long term.

Senior leadership requires a final plan that provides clear direction but can also be adapted as circumstances dictate. Metrics driving the plan must be transparent so as changes occur, the

impact on the plan is easily understood and leadership can make ongoing decisions to adapt the plan.

To prepare for the changes shaping the future of the healthcare industry, leading organizations will craft master planning strategies that take strategic, functional and financial goals into account and remain responsive to a changing environment without compromising aesthetics and technical capabilities. Kurt Salmon is uniquely positioned to help you arrive at the best master planning solution that encompasses all these elements.

EXHIBIT 4: Planning Process



KURT SALMON

Kurt Salmon is the premier management consulting firm for today's leading hospitals and health systems. We work closely with our clients to create tailored solutions for their strategic and finance, facility development and performance, operational and information technology needs.

AUTHORS

Harvey J. Makadon, MD, and Larry Sterle have more than 30 years of experience working with and advising the leaders of health systems and hospitals in both the academic and community settings. They can be reached at harvey.makadon@kurtsalmon.com and larry.sterle@kurtsalmon.com.

CONTACT

Kurt Salmon
120 South Sixth Street, Suite 1600
Minneapolis, MN 55402
612.378.1700
www.kurtsalmon.com