New Models for Hospitals, Health Systems

Save to myBoK

by Vincent R. Kaval and Susan S. Veladi

Change has been a constant during the recent evolution of the healthcare marketplace. Trends have emerged like shooting stars: very bright, but moving off stage quickly.

As we enter the new millennium, change in the healthcare marketplace continues rapidly. Payers, patients, and providers, including hospitals and health systems, will be buffeted by their own actions or reactions to others. This article highlights significant trends that will impact hospitals and health systems now and in the future.

Development of New Care Models

Health services will continue to migrate from hospitals to alternative care settings. This movement, driven by cost concerns and advancing technology, has resulted in the creation of new care models. Emphasis on outpatient services will favor utilization of medical malls, hospital "lite" settings, and "niche" mini-hospitals.

Medical malls will cluster medical offices and ambulatory care in locations convenient for the consumer. Hospital "lite" settings, including women's and children's clinics, will proliferate in commercial locales. "Niche" mini-hospitals will deliver specialized care in cardiology, oncology, ophthalmology, and neurology, establishing focused "centers of excellence."

New models of care will change health systems by decreasing hospital use and length of stay. High margins received from "traditional" outpatient services located at hospital-operated facilities will diminish as services move to alternative locales and the impact of APCs is felt.

Hospitals will be forced to take a proactive approach in planning and structuring clinical services lines to effectively respond to new models of care. They will need to address the risk of specialty services being stripped out of their facilities into physician-owned entities. Here, there will be opportunities to develop partnerships and joint ventures with physicians and venture capitalists. Either directly or through relationships, health systems will be required to incorporate alternative care models into their clinical service lines in order to retain some control of their revenue streams.

Pharmaceutical Impact: The Debate Continues

The soaring price of pharmaceuticals will continue to raise questions regarding the value of drug treatment and whether treatment is a universal component of healthcare or an add-on. As the population ages, the debate over pharmaceutical coverage, especially by Medicare, will continue. Until pricing stabilizes or proven value is demonstrated, cost and affordable access to pharmaceuticals will continue to be a major issue.

Hospitals and health systems will need to restructure themselves to adapt to innovative drug therapies that replace inpatient services. This change will reduce inpatient utilization but potentially increase length of hospital stay because only the most seriously ill will be hospitalized.

Overall, inpatient services as a percentage of the premium dollar will continue to decline as the dollar amount spent on drugs continues to increase. Hospitals will face continuous cost pressures and quality of care demands as the expanding problem of pharmaceuticals alters the profile of the typical patient.

The Medical Technology Squeeze

Advances in medical technology will proliferate in an accelerated pace, forcing health systems to respond quickly. While the adaptation of technology enhances treatment and quality of life, the use of new medical devices will create multiple challenges for hospitals. Informed consumers will demand access to the innovations, causing health systems to seek avenues to meet these demands. The need for new capital investment for cutting-edge equipment and facilities will increase the pressure to maximize necessary resources through improved operating margins, innovative partnering, or joint ventures.

Decreasing the Knowledge Gap: Consumer Empowerment

The future will be the province of the informed consumer, as the continued growth of the Internet leads to the explosion of and better access to medical information. The knowledge asymmetry that exists between the payer, patient, and provider will diminish. Consumers' demands will increase as they gain knowledge about quality of care, medical advances, and treatment alternatives. More readily available data will enable consumers to comparison shop among providers.

Hospitals and health systems will be forced to pay more attention to consumer satisfaction in multiple ways. Responding to consumers' added knowledge, hospitals and health systems will need to question the reliability, integrity, and consumer understanding of information. The continued development of hospital Web sites will enable accurate, quality medical information to be distributed to consumers while directly linking patients to their providers. Hospitals will have the opportunity to compete and demonstrate that their performance meets the cost and quality demands of more informed patients.

Speeding Information Transfer

Information technology will significantly reshape the competitive landscape. Driven by the need for improved availability of coordinated information and the demands imposed by legislation such as HIPAA, hospitals will link their databases into cohesive information systems, integrating affiliated providers and tracking the patient's movement through the health system.

In addition, electronic medical records will transform the operations of hospitals once HIPAA, privacy, and cost concerns are addressed. To relieve the capital pressures of hardware, software, and support services, information systems may eventually be transferred from internal hospital sites to external Internet providers.

This technology revolution has only begun to affect e-health. The electronic environment provides connectivity, enabling the rapid exchange of information and knowledge. The Internet will not only enhance communication and connectivity between providers, patients, payers, and suppliers, but cost-effective Web-based computing will link clinical and administrative transactions among multiple parties.

Claims processing, prescription ordering, and medical supply purchasing will be completed with less administrative overhead. Telemedicine, computerized lab testing, and x-ray downloading will enhance the efficiency of clinical transactions by reducing lag time and location barriers. Providers will use the Internet to create environments in which field experts can exchange information on best practices. Web-based consultations between patients and physicians could function as screening processes to reduce voluntary hospital visits.

Information transformation and the Internet will reduce hospitals' administrative costs, while increasing the quality and timeliness of information and the ability to communicate it. This strategic tool will help strengthen relationships with affiliated providers, business partners, and, most importantly, patients.

Payer Consolidation

Payer consolidation focusing on cost containment, increased profits, and enhanced market share will continue to play a role in healthcare. This consolidation will reduce competition and create leverage, forcing hospitals and health systems to respond to rebalance the market. Health systems will need to develop new and innovative integration initiatives to effectively address this imbalance.

Looking for Alternatives

The popularity of complementary and alternative medicine (CAM) will continue as cost pressures and an empowered consumer shift the focus from curative to preventive measures. Already consumers are embracing massage therapy, acupuncture, supplement intake, and herbal remedies to avoid invasive treatments, prevent chronic illnesses, and exert control over their health.

Hospitals and health systems will adapt to a new definition and standard of quality care that integrates CAM approaches with traditional care to promote wellness, reduce cost, and meet members' demands. Alternative care methods will receive greater acceptance, recognition, and utilization within hospitals and health systems as they become integrated into care patterns and service lines.

These trends are interrelated, so it is difficult to determine their precise impact on a specific hospital or health system. But players in the changing marketplace will need to be aware of such trends and develop appropriate responses both strategically and tactically. There is no end to this process; strategic planning is ongoing.

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Article Citation:

Kaval, Vincent R. and Susan S. Veladi. "New Models for Hospitals, Health Systems ." *Journal of AHIMA* 71, no. 5 (2000): 35-36.