

CASE 6:



HOSPITAL PROFITABILITY

Firm Style	Interview Round
BCG	1

Case Question:

A hospital group has been experiencing growing pains and has asked our firm for help.

Clarifying Questions & Answers

Provide the following answers only if the interviewee asks the corresponding questions.

Question	Answer
What do you mean by growing pains?	The hospital group originally consisted of one hospital and then it acquired 3 other hospitals, and its profits are going down.
Any other change in organization?	Yes the CEO of the main hospital changed; it was originally an MD doctor now it is a business experience MBA.
Any other changes or events impacting the hospital group?	None.
Any external market condition changing?	No.

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Framework / Structure

This is a profitability case with lots of twists and turns. The analysis may include, but is not limited to, the following areas:

Phase 1

- Identify the root cause of profitability decline.
 - If the candidate makes an assumption that the acquisition led to profitability decline, steer candidate away by stating that the acquired hospital did not experience any decline in profits.
 - **Key expected response/insight: So the main hospital is experiencing profit decline**
- Identify the root cause of the profitability decline in the main hospital
 - Costs – No change
 - Revenue – Decline
 - **Key expected response/insight: So the primary reason for profits to decline is that the revenue for the main hospital is going down.**

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Explore the revenue decline

- **If the interviewee asks the revenue stream for the hospital, this should be the response:**
 - The hospital treats patients and mainly collects payments from the insurance companies based on the service provided.
- **Key facts to be provided to the interviewee if asked:**
 - Volume of patient change: No
 - Any change in mix of services performed by the hospital (lower of number of surgeries etc.): No
- **Key Expected Insight: In some way the revenue per patient on average is decreasing, which implies that the patient mix is changing in terms of revenue. Which implies that the patient mix in terms of insurance they cover is changing**
- If patient asks to explain the insurance coverage, provide the following facts: Primarily the patients can be categorized into the following categories:
 - Private Insurance Covered Patients
 - Public Insurance Covered Patients
 - No Insurance Covered Patients (Usually homeless people)
 - Payments from private insurance is **greater than** public insurance.

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- So expect some insight from candidate:
 - **Key Insight Expected: Looks like then the patient mix for the hospital is shifted, with less patients with private insurance coming to the hospital.**
- On providing the insight, ask the candidate what does the candidate wants to do with this information.
 - **Key Question Expected: What are the key drivers to getting people with private insurance to the hospital.(Note to the interviewer: Guide the person to explore the driver)**
- For the key drivers that drive the patients with private insurance to the hospital is referral by private physicians.

Phase II

- Interviewer should prompt the candidate to make some hypothesis with regard to lower number of patients with private insurance coming to the hospital.
 - **The key expected hypothesis: Because of change of management the perception of physicians may have changed –resulting in lower number of referrals of patients with private insurance. Interviewer should guide the candidate to make the hypothesis.**
- Interviewer should then ask the candidate how he/she can test the hypothesis.
 - **Key expected answer: Survey of physicians who normally refer patients.**

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- Direct the candidate to the exhibits 1 and 2 for survey results
 - **Key Insight expected: Majority of doctors are indifferent about the hospital which may not be good news when it comes to referrals. One of the major issues plaguing the doctors is complex billing.**
- Interviewer should then prompt the candidate as to what should be the next course of action given some of the insights.
 - **Key Insight Expected: Candidate should try to highlight the need to strengthen relationships with physicians and “complex billing” may be an opportunity.**
- Interviewer should then highlight that the hospital has a outsourcing billing service which it does not aggressively market to the physicians. Pose the question how will judge whether this is a viable service for the physicians.
 - **Expected question from candidate: What is the cost of the service to the physicians and the economics of the physicians office.**
- Interviewer to provide the following data:
 - Price of the service: \$50,000
 - Physician Annual Profit: \$175,000
 - Physician time: 75% on patient care, 15% on billing, 10% on administrative overhead

Ask the candidate to provide a plan for the approach before calculation

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- **Key Insight expected:**
 - If physician outsources the billing to the hospital, then what benefit does it derive.
 - To derive the benefit, I assume that for 15% of the time the physician is not involved in billing he/she can see patients.
 - So the candidate should ask for the revenue number:
- **ONLY IF THE CANDIDATE ASKS FOR REVENUE, PROVIDE IT, IF NOT TRY TO GUIDE THE CANDIDATE TO THE REVENUE NUMBER.**
 - Revenue of the doctor's office : \$425,000
- **The candidate should either clearly ask whether the physician incurs additional cost when he or she adds 15% additional physician time**
 - Interviewer state that no additional cost is incurred.
- Now the interviewer should guide the candidate to perform the cost benefit analysis: Refer to the calculations section
- Ask the candidate to calculate **ROI, New Profit, Increase In profit %**

See the next slide for calculations.

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Calculations

Revenue	\$425,000	
Profit	\$175,000	
Cost	\$250,000	
Patient Care	75%	
Billing	15%	
Administrative	10%	
Revenue earned if billing outsourced	\$85,000	$(425000 * 15\% / 75\%)$
Cost of Outsourcing	\$50,000	
Return on Investment	70%	$(85000 - 50000) / 50000$
New Profit	\$210,000	$((425000 + 85000) \text{ (Revenue)} - (250000 + 50000) \text{ (Cost)})$
Increase In profit	20%	$(210000 - 175000) / (175000)$

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Case Performance Assessment

Strong Plan

- Candidate clarifies key terminology – “growing pain”
- Candidate quickly focuses on the profitability of the main hospital
- Candidate keeps exploring reasons for revenue decline for main hospital and takes hints from the interviewer
- Candidate keeps asking questions or states assumptions aloud
- Candidate clearly establishes hypothesis linking revenue decline and change of management
- Candidate clearly articulates the plan, asks for the revenue to calculate the cost benefit analysis and gives some insight after calculations

Weak Plan

- Candidate keeps getting distracted and ask questions about acquisition
- Candidate starts focusing on cost instead of revenue decline
- Candidate fails to identify change in patient mix with regard to insurance coverage
- Candidate fails to clearly state the hypothesis of lower referrals with physician dissatisfaction with management change
- Candidate does not ask about the revenue when calculating cost benefit analysis

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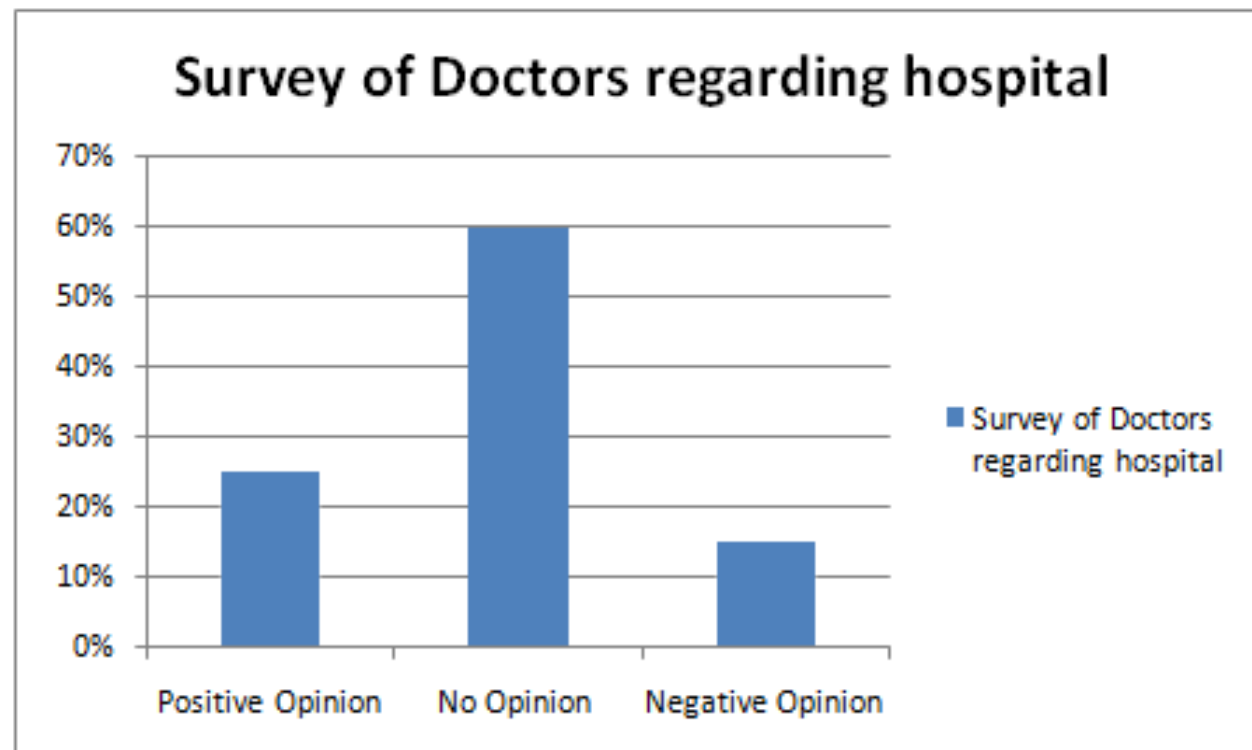
Recommendation

- The recommendation should include the following:
 - The hospital is facing revenue decline because of lower number of patients with private insurance which may be due to a change in perception of private physicians after management change.
 - To reverse the revenue decline the main hospital needs to establish strong relationship with the physicians by aggressively marketing the billing outsourcing service as it provides 70% return on investment within one year and increases profits of physicians by 20%.

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Exhibits

Exhibit 1



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Exhibit 2

