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Growth Is the Imperative for Children's Hospitals

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The story behind Kodak's 2012 bankruptcy,[1] after a century of market dominance, offers a key lesson for leaders of children's hospitals and other healthcare organizations. Kodak was not blindsided by disruptive digital technologies. In fact, a Kodak engineer, Steven Sasson, invented the first digital camera in 1975. Six years later, Kodak's own market research concluded that digital photography could potentially replace the company's core film business.

Neither was this a failure to respond. Kodak executives continued taking steps to grow the company but unfortunately, they chose the wrong growth strategy.[2] While the company made significant investments in digital, they did so with a focus on their core film business, failing to recognize the true potential of image sharing via social media. Even the innovations they introduced, such as a digital camera that required pictures to be printed, focused on shoring up film.[3]

In hindsight, Kodak's fall was inevitable. We all know what happened to film.

Children's hospitals are, of course, in a very different business than Kodak. Yet, today's pediatric healthcare leaders are facing their own Kodak moment—not a color-washed memory, but a fork-in-the-road decision about how to grow their organizations.

Well-funded, nontraditional competitors such as CVS Health and American Well are disrupting the traditional care model. Patient volumes are shifting to outpatient settings, payment pressures are intensifying from commercial and government payers, and families and other consumers are becoming more price sensitive.

A recent Kaufman Hall and Cadent Consulting group study of 1,100 families in nine major U.S. markets found that, on average, parents are willing to pay more for complex, specialized services at a children's hospital. However, they are more likely to seek lower-cost care at a community hospital or freestanding facility for services they perceive as commodities, such as low-intensity, noninvasive services (e.g., MRI and lab tests), and routine procedures (e.g., ear tube surgery).

For many children's hospitals, significant future growth is unlikely to be achieved through traditional approaches, such as increasing rates or building a new inpatient wing. Using yesterday's growth approaches for tomorrow's marketplace is comparable to a salmon swimming upstream. Instead, healthcare leaders should seek new markets and look to expand or add new products and services.

Evaluating Growth Opportunities

When considering how to expand and diversify an organization's product and service mix, it helps to leave all business assumptions at the door. Children's

[1] Chunka Mui, "How Kodak Failed," *Forbes*, January 18, 2012.
[2] Scott Anthony, "Kodak's Downfall Wasn't About Technology," *Harvard Business Review*, July 15, 2016.
[3] Chunka Mui, "How Kodak Failed," *Forbes*, January 18, 2012.

hospitals have traditionally focused on their core competencies: providing acute and specialty services.

As they look to the future, children's hospital leaders need to consider their organizations' unique value proposition, and how they might participate in other services, such as home care and rehab. Four overlapping questions can help jumpstart conversations about an organizations' product and service mix:

Who are our customers? This analysis should provide critical insights into the organization's current and potential patients as well as other consumers, ranging from employers to fellow providers. Dividing each customer group into segments based on their needs and preferences, demographics, socioeconomic factors, and attitudes can help identify potential growth opportunities.

Where are our markets? Children's hospital leaders need to look afresh at their current markets for opportunities to capitalize on their brand to grow their premium offerings, and identify unmet needs that their organization has the strengths and capabilities to fulfill. Potential new markets should be explored at the regional, national, and international level, including both face-to-face and virtual markets.

An example of a health system spreading its expertise to new markets is the Mayo Clinic Care Network.[4] Through arrangements with more than 40 health systems across the globe—including children's hospitals such as Shriners Hospitals for Children and Le Bonheur Children's Hospital—Mayo provides specialty consults and second opinions to physicians and their patients, electronically and via video chat.

What products and services? Specifically, executives should assess which of their existing products and services might be expanded, while pinpointing potential spin-offs and entirely new products and services that would be a good strategic fit for the organization.

Several children's hospitals with strong transplant programs, for instance, have partnered with Optum Health through its pediatric transplant centers of excellence,[5] including John's Hopkins All Children's Hospital, Riley Hospital for Children at Indiana University, and St. Jude Children's Research Hospital.

How should we grow? A critical fourth question is: Should the organization build, buy, or partner to expand or diversify products and service lines? Each option has advantages and disadvantages. The build option may make sense in expanding an existing service. If rapid growth is a priority, then buying or partnering with other organizations may be the preferred avenue.

For example, Boston Children's Hospital recently announced a collaboration with the Cleveland Clinic to provide pediatric heart care through the Cleveland Clinic's Cardiovascular Specialty Network,[6] including serving as a leader in the establishment and management of best practices. The two organizations plan to expand the partnership to other complex pediatric services in the future. In April, Mercyhealth announced a partnership with the Lurie Children's Hospital of Chicago to provide specialized pediatric services at its new Women's and Children's Hospital in Rockford, Ill., set to open next year.[7]

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[4] Mayo Clinic: Mayo Clinic Care Network (https://www.mayoclinic.org/about-mayo-clinic/care-network/about).

[5] Optum: Transplant Resource Services: The Centers of Excellence Network (https://www.myoptumhealthcomplexmedical.com/gateway/public/transplants/providers.jsp).

[6] Cleveland Clinic, "Boston Children's Hospital, Cleveland Clinic Announce Collaboration on Pediatric Heart Care," (press release) July 26, 2017.

[7] Jim Dayton, "Mercyhealth announces partnership for planned Rockford hospital," *Gazette Xtra*, April 28, 2017.

The Need for Urgency

There's still time to avert a Kodak-like mistake and take steps to grow in new directions, securing future revenues and relevancy. But don't delay too long. Given the push for growth among such new competitors, children's hospitals will need a strong sense of urgency about identifying and pursuing their own new growth opportunities.

The Governance Institute thanks Mark E. Grube, Managing Director, Kaufman, Hall & Associates, LLC, and Governance Institute Advisor, for contributing this article. He can be reached at mgrube@kaufmanhall.com.

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