

MEETING THE CHALLENGES OF BUILDING A NEW HOSPITAL

New Business Opportunities for Smart Business Professionals

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NEW ENVIRONMENT/OLD HOSPITALS

The face of health care has changed dramatically in the 50 or so years since many small and medium-sized hospitals were built. Most were designed for inpatient services. However, 80 percent of today's hospital services now are performed on an outpatient basis.

Small and medium-sized hospitals also face competition that simply did not exist 20 to 30 years ago, and it's not just for patients. These hospitals also must compete to attract and retain doctors, nurses and other professionals. Older hospitals generally are not as attractive a work environment compared to a modern regional medical facility.

Physician clinics are striking joint ventures with hospitals and more doctors are becoming hospital employees, driving the need to provide clinic and office space adjacent to the hospital.

TRENDS DRIVE NEED TO BUILD

These and other health care trends, such as new technologies and evidence-based medicine, require hospital administrators to address the challenges of building a new hospital.

Most hospital administrators face at least three major challenges when building a new hospital - a task most administrators deal with only two or three times in their entire career: 1.) generating hospital and community support; 2.) finding a way to pay for it; and, 3.) designing and building the new facility. Each challenge presents an opportunity for a smart team of business

consultants to differentiate them in the marketplace.

COMMUNITY SUPPORT

The first major challenge is selling the idea to the hospital board of directors and the health care community. The idea also must have the support of residents, businesses and public officials throughout the community. This is largely a public relations issue of understanding existing community perceptions of the hospital and the health care market in general.

The perception issues include what the community thinks, wants and does when obtaining health care in the community. Which hospitals and doctors do people prefer to use for inpatient care, outpatient services and doctor visits? How many people seek care outside the hospital service area at a larger hospital 30, 50 or 70 miles away?

The community perceptions can be determined through a survey on these and other questions. The survey results provide insights into understanding current perceptions, identify areas for educating key audiences and supply the data needed to make the case for building a new hospital.

Another closely related issue is the hospital's economic impact, in terms of both the initial effect from construction jobs and the on going economic impact of operating a new hospital with the capability to offer more services. Detailing and quantifying these short and long-term economic effects is an essential part of community education.

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DIVERSE FUNDING SOURCES

The second, and perhaps largest, challenge for an administrator is paying for the new hospital. The revenue mix for hospitals has changed dramatically over the past 10 to 20 years, just as the face of health has changed. In general, there are five or six main funding sources for hospitals looking to build new facilities:

1. **State and federal grants.** These have been a major source of funding in the past, but are becoming much scarcer with tight budgets at the state and federal levels. The granting process often is cumbersome with lead times of 12 to 24 months.
2. **Loans from state and federal programs.** These sources generally are tied to Medicare and Medicaid reimbursement levels. Future uncertainties about these programs make long-term debt riskier and more costly than in the past. The increasing ranks of the uninsured and those nearing retirement will only compound this problem.
3. **Hospital operating revenues.** This traditional source of funding has been shrinking. Moreover, funding for a new hospital must compete with revenues to pay doctors and nurses, as well as invest in new technology. With reduced third-party reimbursements and thin operating margins, few hospitals can pay for a new facility through free cash flow.
4. **Local taxes.** This generally rare source of hospital funding carries many disadvantages. If a taxation district exists, raising taxes to pay for a new hospital has severe political risks associated with it in today's anti-government spending environment and underscores the need to

generate community and business support.

5. **Endowments.** Some larger hospitals may be lucky enough to have a large endowment built up over time. However, relatively few medium and smaller hospitals have endowments or foundations large enough to pay for new hospital construction.
6. **Philanthropy or private donations.** A panel of experts from the Marketing & Planning Leadership Council and the Association of Healthcare Philanthropy recently concluded that charitable giving would become a much more important source to fund expansion projects. Virtually every hospital administrator must conduct a capital campaign to tap into philanthropy. Yet many hospitals, particularly smaller facilities, do not have a foundation or know how to conduct a capital campaign.

In the end, the funding to build a new hospital usually includes a mix of sources, further increasing the complexity of the challenges the hospital administrator must address throughout the process.

RELATIONSHIPS OF DISTINCTION

A strategic marketing focus that addresses a hospital administrator's two major challenges – generating broad community support and securing funding sources - can add value to your efforts.

To learn more about how we can help you, contact Jeffrey Remsik of Bottom Line at 414-270-3000, ext. 222 or visit www.blmpr.com

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