

HCA 445 Case 1

THE PROBLEM

Regional Medical Center (RMC) recognizes that it needs a much more robust and innovative primary care delivery system to compete successfully and flourish in a post-reform environment. As a specialist-dominated organization, RMC has found mustering and sustaining the effort required for a big primary care push difficult. What can and should RMC do to attack this issue effectively?

THE SITUATION

RMC is a 450-bed major teaching hospital located in the southern end of a large metropolitan area. The hospital provides a full range of services, including a broad array of subspecialty and tertiary care. It has flourished as the population in the metro area has grown and spread to the periphery of the area and beyond, particularly over the past 20 years.

RMC's medical staff consists of an employed medical group of 300 organized as a faculty practice in support of eight residency programs the hospital offers (internal medicine, surgery, ob/gyn, pediatrics, family medicine, emergency medicine, anesthesiology, and radiology) and the hospital's clinical services. The medical group has expanded from 50 percent of the active staff to 75 percent of the active staff over the past 10 years, primarily by adding subspecialists, while the voluntary medical staff has been static. Almost all of the voluntaries are primary care physicians organized in small groups and solo practices.

RMC draws patients from a wide geographic area in the southern suburbs and beyond, extending to rural areas that are 30 to 40 miles to the south, southeast, and southwest. As a regional center, RMC depends on referrals from both primary care physicians and specialists whose practices are scattered throughout the region and who are on the active staff of about 10 small community hospitals. A few of these hospitals have recently joined other systems based in the metro core, and a handful of their affiliated physicians are now employed by the systems, too. For these competitor systems, the acquisition of rural hospitals and medical practices in RMC's extended service area appears to be an increasing priority.

Although RMC has had a great ride for the past 20 years (annual operating margins averaging 6 percent, 250 days cash on hand, A-rated debt), with the benefits of rapid population growth and a fragmented market, concern exists that the good times may be ending. Some of the subspecialists have noticed in recent months that referrals from outlying practices have slowed, and they are calling on RMC's CEO and executive team to do something to shore up business.

Also important is RMC's positioning for a post-healthcare reform era. Although a more balanced group of specialties on the medical staff is important, equally crucial are the capabilities and skills that a more significant cadre of primary care providers brings: case management/medical home support, chronic and preventive care, risk contracting, managing throughout the care continuum, and ultimately, population health management.

ALTERNATIVES CONSIDERED

Data analysis performed by RMC's planning staff has confirmed that referrals from many of the newly employed rural physicians and hospitals that have joined systems are down significantly over the past year. As a result, the CEO has convened an ad hoc committee of management and physicians, led by the senior vice president of planning and business development, to identify alternative courses of action and recommend how best to address the situation.

The ad hoc committee has identified 10 initial alternatives and distilled them to five for further evaluation.

Clearly, none of the alternatives is the obvious first choice in this situation. As often happens in these cases, the ad hoc committee has begun to revisit the five discarded alternatives and to reach out nationally to others in a similar situation for advice on how best to proceed. **If you were in RMC's situation, what would you do and why?**

Exhibit

STRATEGIC ALTERNATIVES FOR REGIONAL MEDICAL CENTER (RMC)	
Option	Description
Purchase rural primary care practices	Pursue independent practices for acquisition into a new community medical group.
Acquire rural hospitals	Pursue independent hospitals for acquisition.
Organically grow primary care	Use residency program graduates and others to add to the employed primary care base.
Purchase south suburban primary care practices	Pursue independent practices for acquisition into a new community medical group.
Acquire south suburban hospitals	Pursue independent hospitals for acquisition.