



Stovall Grainger Modleski Inc.

Partners in Building Competitive Immunity®

I'm Getting Beat on Cost!

"Hospital credit rating downgrades are expected to outpace upgrades. In the last reporting period, downgrades outpaced upgrades by a ratio of 1.6 to 1, and this trend is expected to continue.

"Many hospitals have already improved the efficiency of their operations, making improvements in that area more challenging. At the same time, hospitals continue to face volume and reimbursement declines which negatively impact the bottom line."

Couple the above news with uncertainty regarding the potential impact of healthcare reform on reimbursement methodology/amount, and our humble speculation is that the 1.6 to 1.0 ratio might tilt more towards worse news. With this as context, don't take it personally when the following current reality becomes even more vivid in 2011-2012:

As a result of your **fervent tactical activity** (we know you have a good work ethic—and we know that many of you have an activity target to hit) at **lower influence levels** in your target organizations...you know...Department Managers, Materials Management Staff, Lab, Pharmacy and Staff Clinicians, the endgame still seems to be your **unit price** versus reasonable alternatives. There *are* reasonable alternatives to your product or solution right? Watch how much more situational-contextual the definition of *reasonable* can become as finances get tighter.

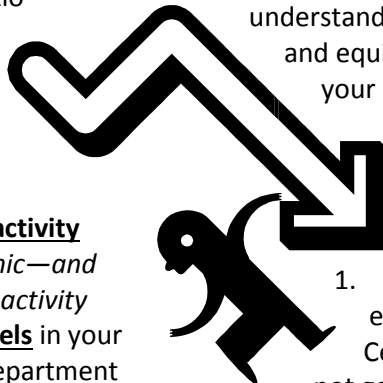
"Wow! I'm glad my products and services aren't hospital/IDN based, I'm off the hook regarding this trend." Sure you are. Practice profitability is

a non-issue right? And Hospital/IDN fiscal health is a vacuum and there's no interdependency between anything going on with their balance sheets and your customers. Call Stovall Grainger Modleski today if this is your belief. We have an investment opportunity for you.

Equity or contractual affiliations, referral source and volume and independent practitioners' involvement in Clinical Service Lines represent just a few examples of how hospital/IDN fiscal realities begin to potentially impact independent clinical practices. By the way, we are assuming that you've already reconciled step one in clinic/independent practice terrain reconnaissance. Step one being your thorough understanding of the ownership, governance and equity/contractual affiliation status of your most important practices. This must be true or otherwise you couldn't have exclaimed "wow."

So what's a Strategist to do?

1. Realize that even in the most evolved "Units Per Case—Service Line Centric" hospital/IDN, **cost per unit** is not going to be ignored and that Department Managers will always be more focused on this measure because it's one that is constantly measured relative to how well they are doing their job.
2. You MUST take a higher level-systems approach to defining the arena within which you compete. If not, please have the best **unit price** to accompany comparable clinical performance (See *reasonable alternative* above please). Realize that





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hospital/IDN stakeholders at higher levels, in spite of, or because of their ongoing economic challenges, are focused on clinical and economic performance efficiencies and increased clinical quality. **Units Per Case** as opposed to **Cost Per Unit** is the currency that they are more likely to use. But you have to understand the terrain at their level before you can use this reality to your advantage.

3. Strategy creation that uses the aforementioned terrain inputs as the main ingredient appeals to higher level selection criteria. **Cost per unit** isn't ignored but it isn't the driving force for selection. Your product or solution's systems impact on overall clinical outcome quality, on Service Line Efficiencies and profitability, on **Units Per Case** become strategic currency that potentially trumps **unit cost**. But that currency is spent wastefully if only used at lower levels in the organization.

So get out there and learn the higher level terrain. Continue your quest to gain higher level physical and visceral access so that you can breathe the rarified air that tacticians have never inhaled. And create account level strategic plans that recognize and integrate your Phase III, higher level terrain understanding. Realize that strategy creation is not a onetime event, done once per year when your account plans are due. Understand that as you gain higher level, higher quality terrain information; your account level strategic plan should evolve and move you closer to Building Competitive Immunity.

Now back out of the driveway and go make it happen. And stop and get me a loaf of bread and a half-gallon of milk on the way home.

SGM Inc. is a Training & Consulting coalition with expertise in Strategy and the Evolving Healthcare Marketplace
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