Service Line Management

What Can We Learn from Consumer Industry Models?

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The waxing and waning of the popularity of service line management in the healthcare field over the past two and a half decades has been attributed to a number of factors, ranging from the changing nature of competition in the industry to misalignment of internal resources to variations in clinical practice to mixed financial results. Since its origin in the early 1980s, much has been debated about the structure, strategy, and capabilities resident in service line organizations.

In general, the service line business model has evolved from service line marketing to clinical program operations to a more systematic approach to managing a defined line of business delivering a bundle of services to distinct market segments. In practice, however, service line models differ widely across health systems and hospitals—and with varying results. Not all service line marketing models failed in the 1980s; not all integrated service line business models work today.

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The key question to explore is "what" creates success—the model itself or superior execution of a service line strategy. Without a defined strategy as to how value will be created by the service line structure, the model will be sub-optimized. Thus, service line strategy must be more than an aggregation of tactics—it must articulate a futuristic vision for how the service line intends to compete, identify specific initiatives to create a distinct and compelling market position for cardiac, cancer, or other defined clinical programs, and address the capabilities, resources, investments, and structure required for effective execution.

The emergence of a competitive consumer market also presents a new challenge for service line management—the need for a more effective capability to understand and more rapidly respond to shifting patterns of demand while maintaining an efficient and profitable operation. To better understand the challenge, fundamental differences between healthcare's service line model and brand (or product) management models from the consumer goods and services industry offer some insights.

Market Orientation

A key difference between service line and brand managers (and between better performers and poorer performers of service line management) is the vantage point from which decisions are made. Poorer performers operate from the inside out ("Here's my program; let's see if we can find some customers.") versus outside in ("We've identified segments offering significant opportunity for growth; let's build a product to attract them."). In competitive consumer markets, maintaining an external focus while keeping a direct line into the operations team to deliver against changing consumer requirements is paramount to success.

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Strategic Focus

Historically, the strategic focus for hospital service lines has been the development of profitable clinical services to compete with other health institutions; efforts to improve quality, lower costs, align physicians, and add services all are aimed at creating a better offering. Competitive advantage, however, isn't sustained by being "better" than the competition, but by being "different." Brand managers seek to create markets and new sources of revenue by finding new and different ways to meet customer needs, extend the life cycle of the brand and representative products, forge strategic partnerships to enhance product offerings, and develop proprietary approaches for channel leadership.

Competitive Posture

The healthcare industry's supply-side orientation to strategy tends to favor defensive posturing. Service line initiatives are over-invested in similar activities among providers to protect position and share, as opposed to proactive strategies to leverage strengths against emerging market conditions that offer opportunity for substantial growth. What's needed is a demand-side perspective that acknowledges that consumers have shifting needs that can be met in a myriad of ways. It opens up our thinking as to not only "who" but "what" we compete against.

Value Innovation

Organizations that consistently perform above industry norms are those that better anticipate changes in competitive dynamics and continually innovate to create greater value for customers and the market. However, the health industry's penchant for benchmarking and low tolerance for risk-taking sentences service lines to numbing sameness and marginal improvements. Value innovation does more than raise the bar—it resets the rules of competition by de-commoditizing health care services. The ultimate pay-off is substantial gain in growth.

Marketing

The traditional service line marketing toolbox has offered up a limited set of tactical activities to promote service line offerings and cultivate referral relationships. By comparison, the traditional industrial marketing model includes major functions of producing, packaging, pricing, and promoting individual products. In consumer markets, marketing is a strategy-critical core business competency to create profitable exchange relationships between an organization and its publics. It is the principal process for creating and linking customers to the organization's products and services.

Scope of Responsibility and Authority

One of the fundamental issues with the service line management model is lack of agreement as to whether service line leaders are operations managers, clinical leaders, business developers, marketing managers, or some combination of the mix. A matrix reporting structure, which is often poorly defined, limits the manager's ability and authority to achieve service line objectives. In contrast, in a consumer industry brand management model, cross-organizational teams work for a brand manager who reports to senior executives, and lines of authority and accountability for performance are clear.

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Performance Metrics

In poorer performing service line organizations, performance objectives and measures of success are unclear and reward systems are not linked to achievement of specific goals. Even worse are those where authority and accountability are so misaligned that turf wars break out inside the very service line structure intended to "break down silos." Consider the service line leader who is held accountable for volume growth and profitability, but has no authority to impact capacity, through-put, or supply costs. In competitive consumer markets, metrics such as preference share, conversions to trial, percentage of revenue growth from introduction of new products, and repurchasing rates, among others, are leading success indicators.

Imitation is Not the Answer

The service line management model is an effective structure to support growth and prosperity for health systems and hospitals. And while the traditional framework for service line management has been characterized by different approaches to the market; different degrees of integration or service consolidation; and different degrees of centralization, delegation of authority, and functional specialization, the key consideration for healthcare leaders is whether or not those differences add value to the business model in achieving the company's strategic vision and goals. The classic flaw of imitation is the assumption that someone else was doing it right.

What's important to keep in mind is that service line management, in and of itself, is not the goal; when aligned to an organization's strategy and configured to achieve results, it can, however, be a powerful model for creating and sustaining competitive advantage.

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