

strategies for underutilized capacity

BY BARBRA Z. RIEGEL, M.B.A.

It is not uncommon to walk the halls of a hospital and find patient rooms being used for storage or offices and even entire wings closed. This is expensive space – is it being used for its highest and best use? As organizations struggle to become or stay financially viable, maximizing existing assets is crucial to success. Here are some strategies to consider:

1. Evaluate high margin services for growth.

What services are most profitable for the organization on a per case basis? The highest margin services for a facility are often double to triple that of the average. Given the amount of work it takes to acquire an additional new patient, efforts should be targeted at services with the largest return.

2. Identify new program opportunities.

Identify new program opportunities by examining market demand and talking to physicians and key stakeholders. These may take the form of a new service line, such as neuroscience, a niche program, or even a population specific program. Some hospitals have dedicated floors or wings to a specific population (e.g., Japanese or Korean). On these floors, they cater to patients and physicians of that ethnicity with nurses who speak the language, customized ethnic food offerings, and literature and education materials translated into their language. This can differentiate a facility in the marketplace and grow market share to utilize existing capacity.

3. Lease space to third parties:

- a. **Contract with a company to manage a new service.** This works well for niche services such as acute rehab, geropsychiatry, subacute care, etc. There are companies that will offer turn-key services to manage the unit for a facility that does not have the resources or competencies to do so.
- b. **Run the service for another organization.** For example, a hospital had excess skilled nursing (SNF) beds. It entered into an agreement with a medical group that needed access to SNF beds. Under this arrangement, the medical group leases beds from the hospital. The hospital is paid a fee for providing the facility and management services.
- c. **Rent the space to another hospital operator that licenses a hospital within a hospital.** This can work for specialty services such as pediatrics, long-term acute care (LTAC), or other services where another hospital can run a hospital within the facility. It generates lease revenue for the space, as well as purchased services through the use of ancillary and other support services provided by the host hospital.

Vacant inpatient space is a valuable asset, and choosing the best use of the space is an important decision. When considering how to use underutilized capacity, identify early in the process the criteria most important for the hospital (e.g., financial consideration; consistency with overall strategic direction) and then evaluate the options against the criteria to make the right choice for the organization.