Heart Health: Volume and Revenue Growth Through Clinically Integrated Medical Fitness Centers

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THE HEALTHPLEX® CONCEPT

In the late 1980s, St. Lawrence Hospital in Lansing, Michigan was facing a serious dilemma. Located in the inner city with an aging physical plant and with competing hospitals better located to capture profitable market share, St. Lawrence decided taking a bold risk. The Hospital determined that in order to survive, it would have to increase its market share and improve its payer mix. The area of greatest opportunity for achieving these objectives appeared to be East Lansing, which is approximately ten miles from the Hospital. A traditional or “safe” approach would have been to build a medical office building, ambulatory care center, and surgery center in that area. But if they did that, competing hospitals with greater capital resources could have duplicated the facility and neutralized the St. Lawrence initiative.

Having explored various opportunities for market differentiation, the leadership realized that their strength was in primary care and outpatient services. It was decided that the best approach would be to focus on “health” rather than on “sickness”. This would be accomplished by building the area’s largest and highest quality fitness center to compliment a comprehensive array of ambulatory care services. This concept, which later became known as “Healthplex®,” consisted of four components:

- Physician office space which targets complimentary physician specialties such as primary care, cardiology and orthopedics.
- Hospital diagnostic and therapeutic services, such as physical therapy, sports medicine, occupational medicine, cardiology services, radiology, laboratory, and health related research.
- Healthcare related retail, including pharmacy, optometry services, restaurant, meeting and banquet facilities, and a pro-shop.
- A State of the art fitness center, including lap pool, therapy pool, cardiovascular area, strength and resistance equipment, gymnasium, group fitness/aerobic studios, racquet ball and squash courts, indoor tennis courts, and an indoor walking/running track.

Capital for the East Lansing project came from a local developer and local investors who built the Healthplex® on the strength of the Hospital’s lease commitments. In addition to the fitness center, the complex included 60,000 square feet of ambulatory care and physician office space. When this Healthplex® style facility opened, St. Lawrence experienced an immediate and dramatic increase in clinical volumes, revenues, and overall market share. They also saw the fitness center component quickly achieve break-even and begin to generate substantial profits.

From this first Healthplex® project, the concept has been adapted and refined so that it has been shown to be successful in large population areas as well as in smaller and rural communities.

HEART HEALTH

Once the Healthplex® concept had been developed with documented financial and market share growth success, hospitals began to explore the positioning of a medical fitness center to help in achieving more targeted clinical objectives. An example of this is the McConnell Heart Health Center in Columbus, Ohio. During the early 1990’s, Riverside Methodist Hospital found itself in a “Heart Wars” situation with other healthcare providers in the Columbus metropolitan area. Physicians and executives at Riverside saw the need to provide positive market differentiation in cardiology services in order to win the competitive battle. It was decided to use the Healthplex® approach, but to focus on “Heart Health” as the marquee service. The project got a jumpstart from a local donor, who wanted their legacy to be the prevention of heart disease. The financial contribution of several million dollars anchored a capital campaign which stressed the concept of “Heart Health” and eventually generated well over $10 million dollars in contributions.

According to Michael Jennings, MD, Medical Director, objectives for the Center have been achieved and surpassed. The fitness facility generates a substantial profit and documented growth has occurred in cardiology and other clinical service lines. To assist in their efforts for achieving market differentiation, the cardiology staff at Riverside developed a concept called “Heart School” in which post cardiac rehabilitation patients continue their exercise program at the Center. They found that “Heart School” participants were three times less likely to be readmitted to the hospital than those who did not participate in the program. In promoting these findings, it was...
apparent to consumers that their chances of having to go back for more surgery or cardiac procedures were significantly lower if they went to Riverside and participated in this program than if they did not. More information on this program is available on their website at www.ohiohealth.com/mcconnell/.

**WHAT ABOUT SMALL AND RURAL COMMUNITIES?**

OK, so this can work in communities the size of Columbus, Ohio, but what about smaller rural communities?

Oneonta, New York is a city of 15,000 people in central upstate New York. Although A.O. Fox Hospital is the only hospital in the community, hospitals from distant communities have established ambulatory care facilities with physician practices in order to take market share away from Fox. Applying the Healthplex® concept to this situation, the Hospital acquired a vacant 140,000 square foot shopping mall and converted it to a “medical mall.” The “FoxCare Center” opened in 1997 with five physician practices, outpatient laboratory and radiology services, a small wellness area, and the Hospital’s cardiac rehabilitation department. In 1999, a 25,000 square foot fitness center called “HealthLinks@FoxCare,” was opened with dues paying membership quickly surpassing 2,000. This made the facility profitable, and incorporation of physical therapy services and cardiac rehabilitation into the fitness center resulted in an increase of cardiac rehabilitation and physical medicine volumes and revenues of over 40% within the first two years. The A.O.Fox Healthplex® continues to grow and has been expanded to include radiation therapy, optical services and a hospital operated outpatient pharmacy.

**CRITICAL SUCCESS FACTORS**

In considering the development of a clinically integrated medical fitness center as a strategy for market share growth of cardiology and other clinical services, we have found that there are a number of suggestions that can be made, based upon our work with over 300 hospitals throughout the United States analyzing the feasibility of developing a clinically integrated medical fitness center.

1) **LOOK AT YOUR MISSION.**

The first question a board member may ask is “what does this project have to do with our mission?” Ten years ago, most hospital mission statements were somewhat depressing. They spoke of caring for the sick, suffering, and dying while helping patients and families cope with illness and death. While these issues are still incorporated in many hospital mission statements, most hospitals have added language dealing with the prevention of disease and promotion of health as part of the hospital’s mission. Hospitals that have not incorporated language pertaining to wellness, health promotion, and community health improvement, may not be ready for a medical fitness center.

2) **LOOK AT YOUR STRATEGIC PLAN.**

Just as with mission, board members are likely to ask how the project supports the hospital’s strategic plan. Although specific reference to community health improvement, wellness programs, development of a medical fitness facility, etc. is logical for a health system to have in its strategic plan, it is not essential. In the case of cardiology, the strategy may be to provide positive market differentiation while growing clinical volumes and revenues. The strategy for achieving this objective would be the development of a medical fitness center. By examining the broad range of the institutions’ strategic initiatives, an analysis can be made to determine how many of them relate to the medical fitness center. Examples would be cardiology, orthopedics, women’s services, senior services, physician recruitment, oncology services, employee health, etc. The answer to the question “how will this project help us in achieving our strategic objectives?” is what will determine whether this strategy is correct for the institution and the community.

3) **HAS ANOTHER HOSPITAL ALREADY DONE IT?**

With medical fitness centers, there is a fairly simple rule of thumb. “First in wins. No prize for second place.” This is not to say that more than one hospital in town could create a successful a wellness center, but a late entry into the market requires a much more focused strategy and has inherent risks. This is because being the second entrant into the market carries such risk of failure that hospital boards are reluctant to approve such projects, and CEOs tend to fear that they will lose their jobs if the project fails.

4) **WHERE SHOULD THE CENTER BE LOCATED?**

When cardiology is the focal point for clinical programming in a medical fitness center, it is often assumed that the facility should be located on the hospital campus, so that it is adjacent to the other cardiology services. This strategy can work if the hospital has enough vacant land, is located in a spot that has convenient access for consumers, and is not overly congested. Additionally, if the hospital is not located in the demographic area of the community from which the majority of members will come, risk of failure increases. An off campus location may be a good strategy if the hospital does not have sufficient land available on its campus, or if a different location provides the opportunity to improve overall hospital payer mix and market share. Many off-site locations have been found to work well for traditional services such as cardiology services.
5) **SELECT A CONSULTANT.**

Medical fitness centers, particularly the membership or “retail” component, are unlike other service lines or outpatient facilities hospitals normally operate. Although many capable individuals in hospital departments such as planning and business development or physical medicine attempt to plan or manage a hospital based wellness center, they rarely have the experience with this particular type of business that is required for success. Additionally, when analysis and recommendations are presented to a hospital board, they will want to know who conducted the analysis and how many successful facilities of this type have they developed. If the answer is “we did it internally in order to save money,” the project is likely to be dead. There are a number of consultants available who specialize in the analysis and development of medical fitness centers and a careful analysis of each firm, checking of references, and touring of successful facilities will help in making a decision. It is important to identify where consultants make money. This is particularly true when dealing with a construction or architectural firm that claims to have expertise in developing medical fitness centers because the larger the center, the more money they will make. Firms that will share risk based on achievement of financial projections from the business plan can generally be trusted to provide appropriately conservative projections. Further, it is absolutely essential to examine the roots of the firm. Do they truly understand the key objective of healthcare delivery? Do they come from the fitness only side of the business or do they have demonstrated success in health care?

6) **ANALYZE MARKET DEMOGRAPHICS.**

A “quick and dirty” market analysis can be done by anyone who has access to fitness industry data. There are ratios of health club participation per 1,000 population that can be applied to any market. The problem is, the market demographic for clinically integrated medical fitness centers is considerably different than for health clubs. Our experience has shown that approximately 50% of the members in a medically based facility will be people who have never belonged to a health club before. And they don’t fit the profile. It is therefore important that your consultant utilize a system for market demographic analysis, which is based on actual experience in this type of medical fitness center. It should be adjusted based on market competition and of particular importance, the distance prospective members will have to travel to get to the site. One of the most important components of the demographic analysis is the calculation of pre-opening membership. This number is key to determining how long the facility will need to be subsidized before achieving break-even.

7) **PROPERLY SIZE THE CENTER.**

It is not uncommon to find a hospital that has hired an architect, designed a medical fitness center and only afterward decide to look into the issue of how many members they should expect to have. It is very important that the center be sized to accommodate the projected population but not be overbuilt. A good rule of thumb would be approximately 10 square feet per member, meaning that if market demand shows 2,500 members, the center will require approximately 25,000 square feet. A careful examination of the amount of physician office space and clinical services space that is required in the project is also key to success.

8) **DETERMINE IF THE RETAIL OPERATION CAN MEET THE HOSPITAL’S HURDLE RATE.**

What is your hurdle rate? Is it to break even? If so, in how many years? Do you look for new ventures that can earn a 15-20% return over a five-year period? Ask the question early on in the analysis because if the project cannot meet the hurdle rate, it is not likely to be approved. Keep in mind that a full analysis includes the retail fitness business as well as the incremental income that will come from clinical services. The combined total will show the total financial impact of the project. That will probably be the basis for the ultimate decision as to whether or not the project will proceed.

9) **IDENTIFY FINANCING SOURCES.**

Medical fitness center projects are often stopped before the analysis phase, based on the perception that there is no hospital capital available. This mentality is troubling since it doesn’t address the issue of how much potential revenue such a project could generate, it only looks at the cost side. Fortunately, there are a number of third party financing options available for medical fitness centers, including off-balance sheet, synthetic leases, real estate investment trusts, and partnerships. For example, some developers are willing to share the risk in developing medical office space as part of these projects and not require the hospital to sign a full master lease. Also, from a philanthropic standpoint, the concept of “Heart Health” has proven to be a powerful stimulant for generating financial donations. It is not uncommon for hospitals to see individual donations in the $5-$10 million dollar range for clinically integrated medical fitness centers.

10) **DEVELOP A CLINICAL BUSINESS PLAN.**

The objective is to increase clinical volumes and revenues, it is essential to quantify the opportunity for growth in each clinical service that will be housed in the Healthplex®. Studies have documented a concept which we call “the
Hospitals have a compelling case to take to local business and industry to encourage them to do the same.

**SUMMARY**

The number of hospital-sponsored medical fitness centers has grown from fewer than 100 in the early 1980’s to nearly 700 today. The reasons for this growth are:

- They are recognized as part of the continuum of care;
- They are a powerful vehicle for increasing clinical volumes, revenues, and overall market share;
- They can generate substantial new revenue, both clinical and retail; and,
- They boldly proclaim a hospital’s commitment to improving the health status of the community.

With proper planning and an intense focus on clinical integration, medical fitness centers can assist hospitals in achieving numerous objectives. From a cardiology standpoint, imagine being able to show the community that you have been willing to spend millions of dollars to keep people’s hearts healthy. That’s market differentiation.

Mark heads the Consulting Services Division of Healthplex® Associates and is a Fellow of the American College of Healthcare Executives. A former hospital CEO with more than 10 years of consulting experience and over 250 hospital clients in the medically based fitness industry, Mark is a recognized pioneer in the industry.

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