TURNAROUND

THE STORY OF ONE COMPANY BROUGHT BACK FROM THE BRINK

JOHN STRANGE
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PROBLEM: By 1995 St. Luke's Hospital & Regional Trauma Center had lost significant market share to its primary competitor, and saw itself heading for the inevitable lose-lose: sell or die.

John Strange, chief financial officer at St. Luke's since 1992, was preparing to leave the hospital when the CEO suddenly departed, and the board of directors asked him to step up. "The former CEO was a cost-effective leader, but didn't want to invest in growth," Strange says. "We needed to grow."

Strange's knowledge of St. Luke's unique market fueled his belief that St. Luke's could stage a comeback. "I looked at the map and said, 'Boy, this hospital could create a system around itself. We cover 500,000 people, but geographically it's a huge area. The market was pretty open and the hospital had a good reputation, so it looked like an opportunity."

STRATEGY: The strategy charted by the St. Luke's board was to grow the physician business, a course Strange admits was a bit controversial. Tactics included increasing physician salaries, opening new clinics and forming a corporation, CareNorth, to join with independent clinics, enabling a single signature with insurers.

The strategy worked too well in the beginning—due to startup clinic costs. "We didn't have significant financial controls in place," Strange says. "In 1998 we made a decision with the board to retain a consulting firm, and reduced 130 FTEs."

That painful decision paid off. "We worked on increasing sales at the same time as reducing costs," explains Strange. "We started to produce a bottom line."

OUTCOME: Since 1996, St. Luke's has brought itself back to life. Gross revenues have grown from $800,000 to a projected $523 million for 2002 in the hospital's clinic division. "It's a function of growing the physician business," says Strange.

This time around, there is a tight ship. "Last year 11 physicians moved over from our competitor, but we only added one person in billing," Strange says. "We've really created some efficiencies."

Gary Peterson, M.D., vice president of Medical Affairs, says the physician-friendly atmosphere is key. "Doctors are granted a lot of latitude to customize their practices."

Wells McGiffert, chairman of St. Luke's board, was always optimistic about the prognosis. "As we spent down our reserves it became a bit painful, but in the moves we made, we made them all right. We stuck to our guns and never deviated," he says.

Strange credits the board's commitment. "It was their dream and my dream, and we put it together. Now that we've got it warmed up, it's time to really grow it."

—NAN BAUROTH