



How Changes in Health Care May Affect Your Strategy

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Agenda

- Global Construction Trends
- Drivers of health care construction
- Health care construction trends and statistics
- Year 2020 – Future health care construction market scenarios

(See article "How Changes in Health Care May Affect Your Strategy")

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Global Trends Impacting Construction

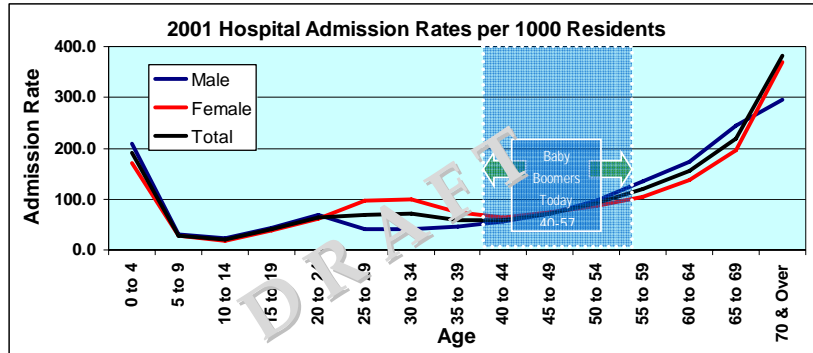
1. Technology
2. Globalization
3. Capital Constraints (Public Agencies)
4. Skill Shifting
5. Diversity
6. Governance
7. Urban Restoration / Renewal
8. Redefinition of Construction
9. International Terrorism
10. Consolidation
11. Customer Sophistication

Drivers of Health Care Construction

1. Aging Demographics
2. Financial Constraints of Hospitals
3. Nursing Shortage
4. Technology Adoption and Integration Speed
5. Government Reimbursement/Regulation
6. Facility Age



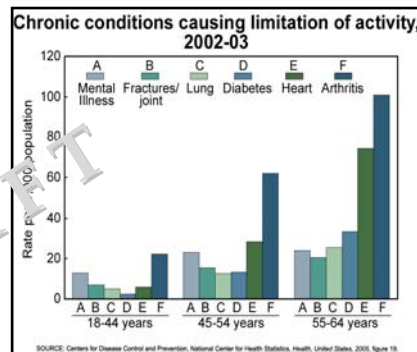
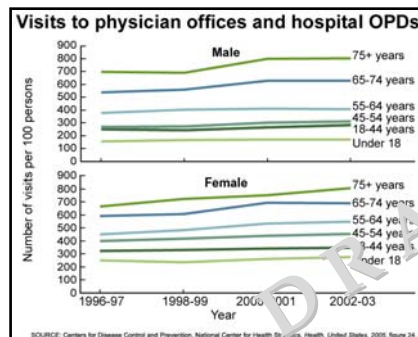
Aging Demographics (1 of 2)



Strategic Implication

- Accelerating demand and movement toward alternative delivery systems focused on speed.

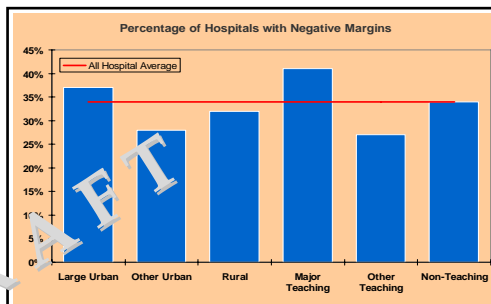
Aging Demographics (2 of 2)



Hospital Financial Constraints

Strategic Implication

- As failing hospitals are acquired or die, business model moves toward specialization and segmentation of services



Source: MedPAC Report to Congress, March 2003, study completed by Virginia Commonwealth University.

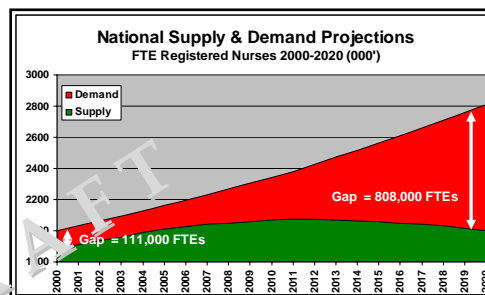
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Nursing Shortage

Strategic Implication

- Training, education and attraction of skilled staffs
- Aggressive pursuit of labor saving technologies



Source: National Center for Health Workforce Analysis, data on supply trends drawn from the 2000 National Sample Survey of Registered Nurses; Bureau of Health Professions, <http://bhpr.hrsa.gov/healthworkforce/reports/inproject/default.htm>

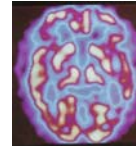
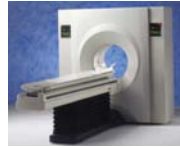
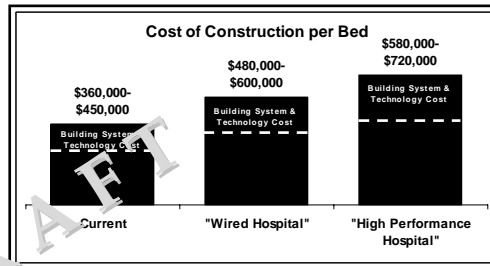
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Technology Adoption and Integration (1 of 2)

Strategic Implication

- Shift of power toward manufactures
- Mixed impact on length of stay



Source: Marshall and Swift: Health Care Advisory Board Interviews and analysis. Innovations Center – DOD Health Facility Executive Steering Committee Meeting, Re-Envisioning the Acute Care Enterprise Toward the Health System of the Future, pg 11.

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Technology Adoption and Integration (2 of 2)

Strategic Implication

- Incorporate green building techniques into the design, construction, and operation of facilities

Percentage of hospitals using green design for construction projects

All construction projects	19%
New facility design only	23%
Renovation or expansion projects	7%
Don't know	17%
Not using at all	34%

Top 5 features being incorporated to address disasters, terrorism and mass casualties

Advanced security/lockdown systems	63%
Additional generator capacity	61%
Enhanced air pressure control and isolation capabilities	56%
Expanded emergency communications systems	51%
Extra space for decontamination/mass casualties	49%

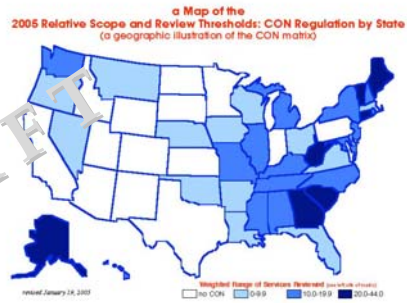
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Government Reimbursement/Regulation

Strategic Implication

- Significant uncertainty resulting in hedging and wave of demand for design and construction services



Facility Age

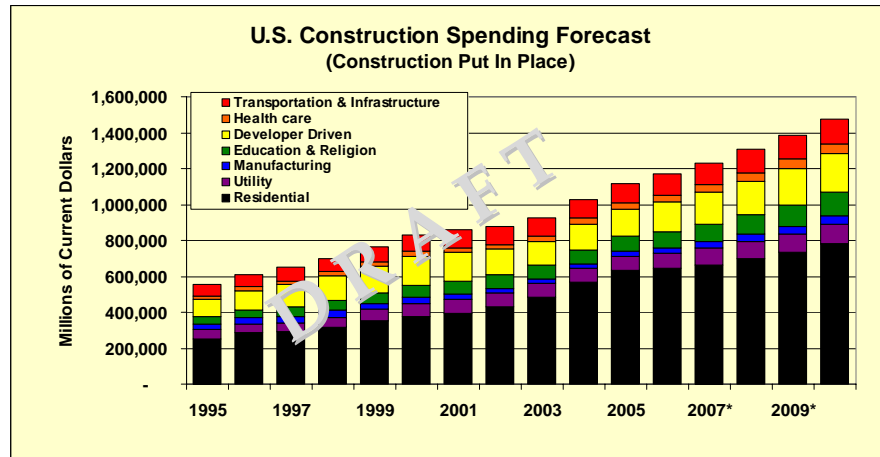
- 60% of hospitals need replacement or updating

Strategic Implication

- Accelerating demand for both new construction and maintenance



Construction Spending Breakdown

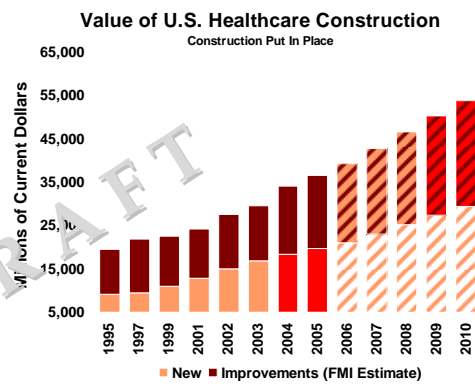


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Health Care Construction Forecast

- Demand strong – Baby Boomers aging
- Safety and environmental concerns
- Homeland security impact
- Funding concern due to potentially changing regulation, slowing spending



Source: FMI Research (The Healthcare construction category was redefined by the Federal Government in 2004 and a breakdown of improvements versus new construction is no longer maintained. FMI has estimated the amount of improvement construction. 2004 and forward are FMI forecasts)

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Hospital Construction Uniqueness

- Regulations
- Complex equipment
- Clean construction renovations
- Specialization



Pacific Medical Center, Turner Construction

“Hospitals are like miniature cities, they all have unique needs.”

Health Care Construction 2020 Scenario Descriptions

- Scenario A: Owners Self-Perform
- Scenario B: Owner Consolidation
- Scenario C: Manufacturers Expand
- Scenario D: Universal Health Care

Scenario A: Owners Self-Perform



Scenario

- Accelerating demand for healthcare construction drives owners to act as their own GC

Strategic Implication

- PMs, CMs, GCs who do not self-perform lose out as hospital staff hire subs or purchase a design/construction firm

Scenario B: Owner Consolidation



Pepper Construction, Bedford Regional Med. Ctr.

Scenario

- Stand-alone, small healthcare systems eliminated
- Market dominated by 3-5 large providers and large number of highly focused specialty facilities

Strategic Implication

- Large, national, and design-build service providers with internal A/E capabilities are advantaged
- Position on supply chain moved forward toward developer

Scenario C: Manufacturers Expand



Scenario

- High tech building systems and medical equipment are drive design
- Manufacturers expand their footprint

Strategic Implication

- Large manufacturers occupy space of PM, CM, ES, D services
- Financing, consultant services, and maintenance/ operations contracts commoditize design and construction

Scenario D: Universal Healthcare



Scenario

- Federal government takes over the system and rations healthcare in model of VA/Military system.

Strategic Implication

- Disadvantages nearly all players forcing the identification of niches where competition and profit margin are available.



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