

# Healthy Growth

An Economic Impact Analysis of Nashville's Health Care Industry

NASHVILLE  
HEALTH CARE  
COUNCIL

A Joint Project of the Nashville Health Care Council  
and the Owen Graduate School of Management,  
Vanderbilt University

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# Section 1: Executive Summary

The economy of the Nashville metropolitan region has enjoyed healthy growth for most of the past three decades, thanks in large part to the city's emergence as the center of an entrepreneurial health care industry - one that continues to grow, expand into new niches, and pioneer new business models.



## **FOLLOWING ARE SOME KEY FINDINGS OF THE STUDY:**

### Health care is the largest industry sector:

Health care companies employ more than 86,000 people in the Nashville area. These companies generate billions of dollars in revenue and provide the single largest share of the city's economic vitality. In fact, Nashville's health care companies account for \$4.1 billion per year in annual payroll, the single largest source of payroll in the region among non-government industry sectors. Those payrolls fuel an estimated \$11.8 billion in direct and indirect spending within the Nashville economy and result in another 55,000 jobs.

### Nashville is home to health care entrepreneurship:

The city is home to more than 3,000 health care providers, facilities, and management companies, employing hundreds of thousands of people locally and globally. The cluster of health care management and related companies that call Nashville home continues to grow, with approximately 20 new start-up companies operating on a national level each year (for the years 1995 - 2000). Over the past 30 years, three new industry segments were founded - including hospital management, freestanding outpatient surgery centers, and physician practice management groups.

### The cluster represents a diversified mix:

Nashville long ago diversified from being primarily in the hospital management business; today, Nashville is home to 51 health care management companies that operate at the national and international levels, and also has 619 companies that provide a wide range of products and services for the local, national, and global health care industry. (These numbers exclude the local providers of health care, such as doctors' offices.) Nashville continues to foster a diversified health care industry. Just of few of the strong growth segments include hospital management, ambulatory and outpatient surgery, disease management, biotechnology, and health information technology.

### Nashville impacts the national health care scene:

The significant national and international reach of companies that call Nashville home is apparent beyond the city limits. Wall Street recognizes Nashville's prominence as the home of health care, as illustrated by the fifteen publicly traded health care companies based here that have attracted significant amounts of equity and debt financing - nearly \$23 billion from 1994 to 2001. In addition, Nashville-based health care management companies own or manage 2,342 operating sites outside the Nashville area, with approximately 300,000 employees at those sites.

As this report details, in a little more than three decades, the Nashville area has created an industry and built an empire of health care management and health care-related companies that helped fuel the city's economic growth and will continue to do so for the foreseeable future.



## Section 2: Background – Nashville Emerges as a Health Care Industry Capital

How Nashville emerged as a health care industry capital is a study in the power of an idea, and of what happens when entrepreneurs, capital, and talent converge at the right time and in the right place.

In 1968, the first two hospital management companies were founded - Hospital Corporation of America (HCA) and Hospital Affiliates Inc. Their early successes led more entrepreneurs to start health care businesses, and today, health care is the Nashville area's single largest industry sector by a variety of measures.

Health care, of course, was not invented in Nashville. But neither was the automobile invented in Detroit. However, just as "Motor City" established itself as the right place for the home of automobile manufacturing, Nashville in the last three decades has earned its reputation as the hometown of the health care management industry cluster.

Harvard Business Review author Michael Porter says there are four basic reasons cities emerge as industry "clusters." Nashville's emergence as the home of the health care management industry and its growing strength in related health care sectors can be tied to one of Porter's causes for a cluster to develop: the early successes of industry pioneers spawns further development of the industry. A self-reinforcing cycle expands the breadth and the scope of the industry as successful companies attract suppliers and support businesses and spin off both new companies and entrepreneurs launching start-ups.

Over time the cluster accumulates information and knowledge that can spawn specialized training, research, and infrastructure businesses built to serve the main industry. It's a cycle that continues to occur in Nashville.

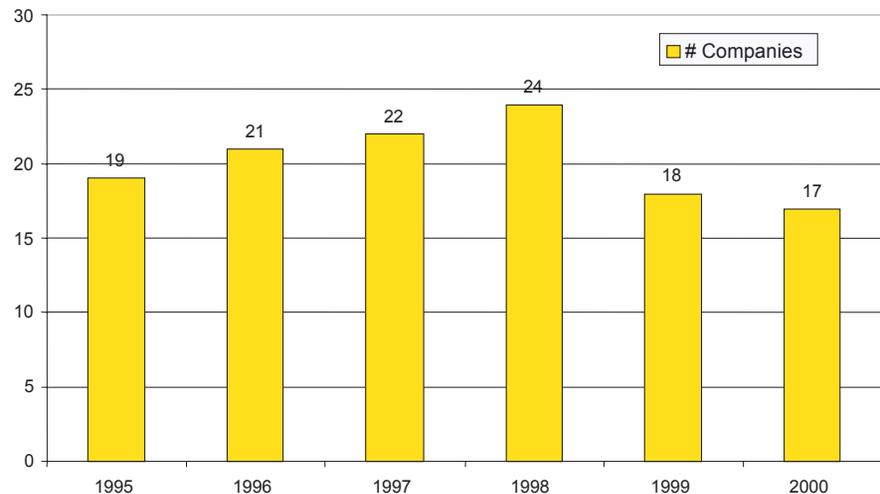
Before 1968, Nashville had a strong local health care scene. Two medical schools and a variety of hospitals served the middle Tennessee region. The 1960's saw the creation of the federal Medicare and Medicaid programs, which, by helping a rapidly aging population more easily afford health care, caused a spike in demand for health care services.

The creation of both HCA and Hospital Affiliates Inc. brought a new approach to the business of running hospitals. In an era when hospitals were owned by local physicians, charities, or local governments, HCA and Hospital Affiliates pursued the concept of accessing capital markets to gain financing for purchasing existing

hospitals, and building new hospitals in under-served communities, to create a large hospital management/ownership company that would achieve efficiencies and economies of scale. Soon, other companies flourished, including General Care Corporation, which built a chain of hospitals by using physician joint ventures to a greater degree than HCA and Hospital Affiliates. HCA acquired both Hospital Affiliates and General Care in 1980 and 1981, creating the world's largest hospital company - with hundreds of hospitals that HCA either owned or managed, as well as several other health care related services entities. Later in the same decade, HCA spun off three separate companies, including its psychiatric hospital division, its contract management division, and HealthTrust, a group of 104 acute medical-surgical hospitals.

Growth and change at HCA and in Nashville's health care industry in general provided the city with a stream of entrepreneurs and executives seeking new opportunities - and starting new companies. Just a few of the companies that have emerged in Nashville since the early to mid-1980's include the following: ClinTrials Research, Quorum Health, Equicor, Surgical Care Affiliates, Renal Care Group, PhyCor, American Retirement Corporation, Community Health Systems, American Healthways, and Health America Corp. The start-up wave continues: From 1995 through 2000, at least 121 health care and related companies were started in the Nashville area, with 17 to 24 new companies started each year.

Health Care Company Start-ups



Source: The Nashville Health Care Council maintains a database of health care companies operating in Nashville. This chart shows the number of companies reported as starting in a particular year.

### Professional Infrastructure and Customers

Nashville's increasingly diversified health care industry continues to fuel the growth of related companies in such areas as architecture, construction, banking, legal services, venture capital, real estate, property management, billing and claims processing, advertising, public relations and marketing services, consulting services, health information technology, and others. Other companies help health care companies manage specific departments and functions of hospitals, help physicians manage their practices, and help health care organizations manage patient populations with certain diseases. The growth of the Nashville health care management industry also continues to attract branch offices and operations of suppliers to the industry. Nashville-based entrepreneurs continue to pursue ideas for new ways of doing business in health care. Their success breeds more success and attracts both talent and money, turning Nashville into the capital of the nation's health care industry and forging a very broad professional entrepreneurial culture.



## Section 3: Nashville's Health Care Industry - Major Components & Size

Nashville's health care industry is the largest private-sector segment of a diverse metropolitan regional economy that also includes a large and notable music business, a healthy manufacturing and distribution sector, and a sizable tourism industry. The hallmark of Nashville's health care industry is the unparalleled concentration of health care management companies, which account for 7,164 local employees and \$477.6 million in payroll in 2001.

The region's overall health care industry generates a total economic spending impact of \$11.8 billion and total employment of more than 140,000. For this report, 3,061 health care and related businesses and organizations in the 8-county metropolitan area that make up the Nashville area were identified - not counting government agencies that administer various health care programs at the State and local level.

### Health Care Industry in Nashville MSA

	Number Establishments	Number Employees (Local)	Payroll (\$000's) 2001 Estimate
<b>Health Delivery<sup>1</sup></b>			
Ambulatory/outpatient	2,166	27,638	1,206,323
Hospitals	29	23,251	1,223,621
Nursing & Residential Homes	196	9,985	212,747
<b>Management Companies - Health Delivery<sup>2</sup></b>	51	7,164	477,587
<b>Related Infrastructure<sup>2</sup></b>			
Services and Information	162	5,256	356,498
Medical Products	389	5,966	188,041
Health Insurance & Related	21	2,261	126,365
Financial Services & Capital	26	196	29,898
Education & Research	10	4,495	228,269
Publishing & Trade Associations	11	80	3,573
<b>Total</b>	<b>3,061</b>	<b>86,292</b>	<b>4,052,921</b>

<sup>1</sup>Number of employees, number of establishments, annual payroll, by county, U.S. Census Bureau, 1999 County Business Patterns, Major Industry Group (www.census.gov). Payroll adjusted for inflation using Medical Care Services CPI adjustment (www.dol.gov).

<sup>2</sup>Number of employees and annual payroll obtained from survey of individual Nashville-based health care companies (NHCC Survey).

Medical Products, Wholesale, Retail and some Manufacturing estimates are obtained from 1999 County Business Patterns, and payroll is adjusted for inflation using medical care services CPI.

For a description of the types of companies in each sector, see Section 6 for Categorization Scheme.

### Total Economic Impacts<sup>1</sup>

<b>TOTAL PAYROLL IMPACTS</b>	<b>\$5,934,601,000</b>
<b>TOTAL EMPLOYMENT IMPACTS</b>	<b>140,692</b>
<b>TOTAL SPENDING IMPACTS</b>	<b>\$11,816,387,000</b>

<sup>1</sup>Includes direct, indirect, and induced impacts. Input-output model results generated by IMPLAN Model (MIG, Inc.). Conducted by the Business and Economic Research Center at MTSU.



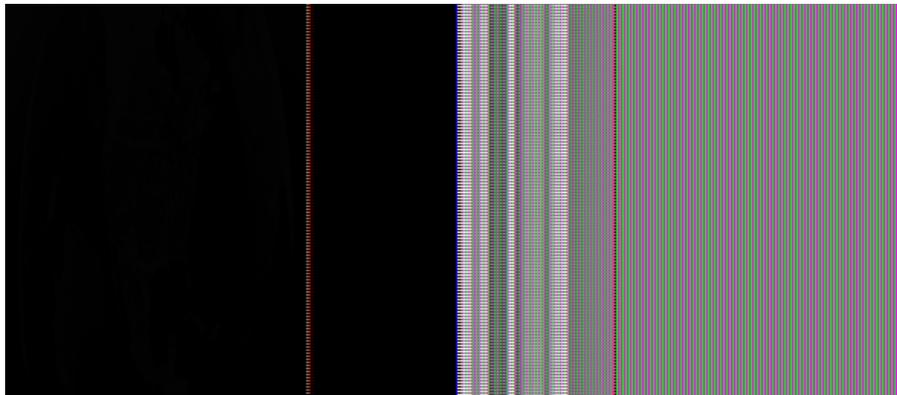
# Section 4: Nashville's National Reach – Health Care Management Companies

More than half of all for-profit hospitals in the nation are owned by companies that call Nashville home.

In fact, four of the eight largest for-profit hospital companies (ranked by number of staffed acute-care beds) have their headquarters in Nashville, including the largest of these companies – HCA Inc. Nashville-based companies also hold a commanding presence nationally in a number of other industry segments, including ambulatory surgery and dialysis treatment. In all, Nashville is home to 51 companies that own and/or manage a variety of health care facilities/organizations operating on a national basis, including:

- » Hospitals
- » Ambulatory/outpatient care providers (e.g., dialysis centers)
- » Assisted living facilities
- » Behavioral health care facilities
- » Clinical labs and testing services
- » Diagnostic imaging providers
- » Home health care facilities
- » Long term care services
- » Occupational health providers
- » Physician practice organizations
- » Rehabilitation facilities

These companies - the core of the Nashville-based health care industry - currently operate 2,342 locations outside of Nashville, employing 301,017 people.



**Health Services Delivery Management Companies\* Headquartered in Nashville MSA, 2001**

Industry Sector	Number of Companies	Total Number of Operating Sites Outside Nashville MSA	Total Number of Employees at Non-Nashville Sites
Ambulatory	24	1,035	18,984
Hospital	12	412	248,968
Long-term Care	7	328	22,007
Clinical Outsourcing	8	567	11,058
<b>Total</b>	<b>51</b>	<b>2,342</b>	<b>301,017</b>

\* Companies included meet 4 criteria: (1) headquarters located in the Nashville MSA, (2) at least one operating site outside Nashville, (3) responded to the NHCC Survey, and (4) own/operate organizations or departments delivering health services.

## Section 5: How Nashville Stacks Up – Comparisons to Other Markets

Nashville is a leading health care industry city based on three key measures: personal income generated by the health care industry, the number of publicly traded health care companies, as well as the debt and equity capital raised by these public health care companies.

**Personal income:** In the Nashville metropolitan area, 8.4 percent of all personal income is derived from the health care industry, according to 1999 data from the U.S. Department of Commerce's Bureau of Economic Analysis (BEA). It calculates Nashville's personal income from health services in 2001 at just under \$3.2 billion.

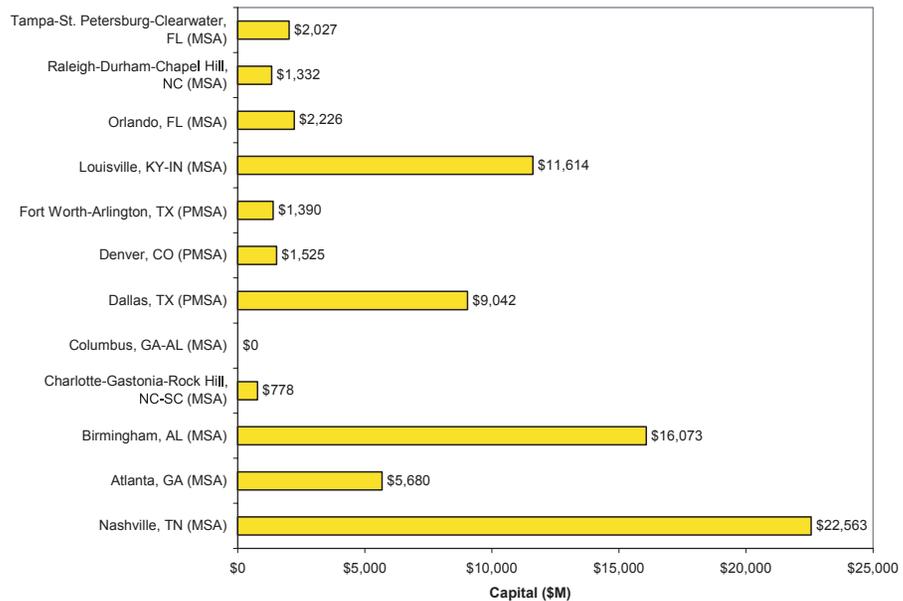
Atlanta derives the largest total of personal income from the health care industry - \$6.8 billion - but that is to be expected given Atlanta is almost four times larger than Nashville. That population differential puts Nashville's health care industry-derived personal income of \$3.1 billion in even stronger context. Likewise, Dallas, with three times Nashville's population, derives just \$6.3 billion in personal income from health care; Tampa-St. Petersburg-Clearwater, with double Nashville's population, takes in \$4.5 billion in personal income from health care, and Denver, with almost double Nashville's population, tallies \$3.6 billion.

**Public companies:** Nashville's health care industry has generated many public companies on the NYSE, NASDAQ, and AMEX exchanges - a total of 15 - and shares that number with Dallas. This places Nashville and Dallas ahead of Atlanta and Raleigh-Durham, the only other cities among the peer cities that had at least 10 public health care companies.

**Capital financing:** Nashville's health care industry strongly dominates other markets compared here in regard to capital financing raised - \$22.56 billion from 1994 to 2001. This capital raised by Nashville companies over the 8-year period represents almost one-third of the \$74.25 billion in capital raised in the 12 cities combined.

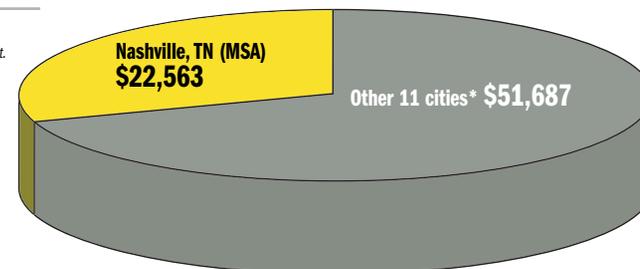
This section uses the following cities as a basis for comparison: Tampa-St. Petersburg-Clearwater, FL; Raleigh-Durham-Chapel Hill, NC; Orlando, FL; Louisville, KY; Ft. Worth-Arlington, TX; Denver, CO; Dallas, TX; Columbus, GA; Charlotte, NC; Birmingham, AL; and Atlanta, GA.

**Capital Raised by Health Care Companies, 1994-2001**



**Capital Raised by Health Care Companies, 1994-2001 (\$M)**

\*Other 11 cities include those used in accompanying chart.





# Overview

## the Nashville Health Care Council

### Mission

Founded in 1995 as a program of the Nashville Area Chamber of Commerce's PARTNERSHIP 2010 initiative, the Nashville Health Care Council is an association of health care industry leaders working together to further establish Nashville's position as the nation's health care industry capital.

A key objective of the Council is to foster the continued growth of Nashville's health care industry by creating a supportive operating environment for existing, start-up, and relocating health care businesses. Additionally, the Council provides senior executives with valuable information on operational and policy challenges facing health care companies, as well as networking and mentoring opportunities.

### More Information

The President of the Health Care Council is Matthew S. Gallivan.

For further information on Nashville Health Care Council activities or membership, please visit [www.healthcarecouncil.com](http://www.healthcarecouncil.com) or contact Council staff at 615.743.3140.

If you would like a copy of the complete economic impact study, please call the Health Care Council at 615.743.3140.



