Metrics for Success: As Four Forces Disrupt Healthcare, Hospitals Deployed New Strategies for 2024

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Imagine that it's December 2024. The past decade was a period of high urgency for the nation's hospitals and health systems, but also a period of great opportunity. What major forces were reshaping the industry and what strategies did providers deploy in 2014 for success in 2024 and beyond?

This article is part of our "Metrics for Success" series, which looks at how the hospitals and health systems of 2024 will measure their performance.

Force 1: Healthcare Moves toward a New Business Model

As a result of its unsustainable costs and inordinate share of gross domestic product, the U.S. healthcare system rapidly moved during the decade toward a new business model to improve health, enhance care access and outcomes, and lower costs.[1]

This model transforms the delivery system from hospital-centric *sick* care to an outpatient and Web-centric system that emphasizes community-based *health*care. The new model puts consumers, employers, and payers at the top of the system, able to select a "Health Company" to manage and provide care for them under value-based arrangements. These purchasers select a company based on its ability to guarantee a specific level of performance at a specific cost for services in all settings.

Strategies for Success

Leaders of successful hospitals and health systems in 2014 understood the new business model, the disruption it would bring to hospital business during the next decade, and the need for transformational change. Committed whole-heartedly to the new view of healthcare, they recognized that not all hospitals would be able to assume financial and clinical risk for service provision, playing a role as the controlling hub of healthcare delivery in their communities. Instead, some organizations would play a supporting role as a niche provider or major participant that provides a single service or portfolio of services within a delivery network.

Based on the role they envisioned for their organizations, executives and directors developed a comprehensive, go-forward strategic plan—one that would ensure sustainable transformation. The plan was grounded on an accurate assessment of core organizational and leadership competencies and competency gaps, a clear strategic direction, and realism about the scale necessary to succeed in a delivery system focused on service value rather than volume. The leaders knew that inaction or inadequate action could impair the organization's ability to effectively reposition itself for the longer term, so they worked aggressively to move their organizations toward the new model.

Force 2: Managing a Population's Health Becomes the Decade's Top Business Challenge and Opportunity

Population health management (PHM) is the care management function of the Health Company. It occurs when a healthcare system or network of providers works in a coordinated manner to improve the overall health and well-being of patients across all care settings under a risk-bearing financial arrangement.[2]

Managing the health of a population, and assuming the financial and clinical risk for doing so, represents a profoundly different model of care delivery and financing. Under 2014's traditional fee-for-service model, most hospitals and health systems focused on providing patients, on a person-by-person basis, with the best care possible from the best clinicians available through the organization's facilities.

In contrast, the new model for 2024 requires organizations to reach into the community to meet the populations' health promotion, maintenance, and care needs at home and in other settings. Attention is on keeping consumers well and managing the problems that may develop—particularly chronic conditions. Care teams provide needed services in the least-intensive setting possible.

Strategies for Success

Early in the decade, leadership of successful provider organizations answered the question, "What role(s) do we want to play in PHM and which population segment(s) do we think we can most effectively serve ourselves or through partnerships with other organizations?" They understood that PHM opportunities were not equally attractive. Patient populations and market opportunities could be defined or segmented in many ways.

To answer this question, the leaders therefore thoroughly assessed the clinical and business environments of their specific hospitals, and market, payer, plan, and organizational realities. Based on their desired role and target population(s), they determined the scope of services to be provided, and the delivery network that would maximize wellness and minimize illness for the targeted population(s). They moved quickly to shape that network and to "right-size" the distribution of services across the network.

Arrangements with payers and employers would provide the financial backbone for an organization's PHM initiatives. Leading providers thus moved their contracts with payers to value-based arrangements as rapidly as feasible. They gained early experience in managing risk and the health of a defined population, and applied that experience to new contracting arrangements as the decade progressed.

Force 3: Non-Traditional Competitors Emerge, Targeting and Depleting Hospitals' Low-Intensity Business[3]

Attracted by the new business model and increased consumerism in healthcare, a wave of new competitors emerged. Retail companies such as Walgreens vied to be the Health Company enrolling patients in their regions, capturing the revenue stream,

1 M.E. Grube and K. Kaufman, "Inflection 2.0—The Real Change Begins," *Kaufman Hall Point of View,* August 2013 (available at www.kaufmanhall.com).

2 G. Hill, G. Sarafian, and S. Hagan, *Population Health Management: Hill's Handbook to the Next Decade in Healthcare Technology,* Citi Research Report, May 14, 2013.

3 K. Kaufman, "The Growing Attack on Hospitals' Low-Intensity Business," *Healthcare Finance News,* August 8, 2014.

and then providing or contracting for the needed services. CVS Health used non-physician clinicians to treat minor medical complaints in its 900 walk-in clinics. Companies such as MDLIVE offered prompt video consultation with physicians for non-emergent conditions.

Gaining market share during the decade, these companies offered low-intensity services at low costs and high levels of convenience and customization. Many consumers bypassed expensive, inconveniently located hospital facilities, preferring their care through Web-based e-visits or in urgent care centers and convenience clinics closer to where they live, shop, and work. Hospital emergency departments, outpatient centers, and physician offices lost volume or were at significant risk of doing so in many communities.

Strategies for Success

Some organizations could carve out a strategy to deliver high-end services only, but for most hospitals and health systems, an effective outpatient and virtual strategy would be critical to continued market relevance. Successful hospitals and systems invested early in such a strategy, focusing on a retail approach to service delivery. The approach commenced through in-depth analysis of the hospital's market and competitive environment. A strategic plan quantified the organization's vulnerability in the low-intensity space and identified opportunities to develop a sustainable presence in an increasingly retail-driven market.

The plan also identified the infrastructure required for a robust delivery system that would firmly position the organization in the ambulatory sphere, and determined how and where those pieces would be assembled. Leaders recognized that the existing hospital chassis would not likely have the right assets in the right geographies for cost-conscious customers.

Use of virtual and mobile diagnostic and treatment modalities also were an important competitive strategy, particularly for healthy patients and those with chronic diseases. The organizations invested in employees with technology, marketing, and service know-how to meet the changing needs of activated consumers.

Force 4: Consolidation and Partnerships Continue to Accelerate

The level of merger and acquisition activity among hospitals and systems accelerated as organizations sought to attain the financial, operational, and clinical synergies required to manage population health. Additional consolidation (including larger deals) was required for organizations to remain relevant, assemble the intellectual and financial capital required to succeed, and absorb and manage risk.

Strategies for Success

Vigorously pursuing partnership options was perhaps the most important activity in which a hospital or health system's board and management team engaged during the past decade. Partnerships were an imperative, in fact, for fulfilling fiduciary and management responsibilities.

Forward-thinking healthcare executives and directors in 2014 envisioned their organization's role in the disrupted business environment, and moved rapidly while there still was time and flexibility to gain the intellectual capital, human resources, and infrastructure to be an ongoing force in their communities in 2024.

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