

Health System Planning in a Disrupted Future

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Digital industrialization has disrupted entire industries over the last two decades, introducing new players and business models while threatening established companies. This disruption is pronounced as innovators unlock the value of digital capabilities and convert technology from a cost center to a differentiated strategic asset. While the healthcare industry has been slower to evolve than some, it will not be spared from a similar digital industrialization. Indeed, its effects are already beginning to emerge in a number of healthcare domains and its impact will only increase in both breadth and depth over time. Hospitals and health systems must choose to develop these capabilities as a reaction to the emerging future context or proactively embrace and leverage them to define the organization's future.

Hospitals and health systems are grappling with this emerging reality and the associated uncertain future. However, for most providers, digital healthcare delivery is one of many important strategic priorities rather than a critical and central area of focus. As a result, organizations are engaging in a host of "digital pilots," many of which lack the underlying strategy and rollout plans to drive an enterprise-wide digital transformation. While most expect it will take several years before

digital transformation materially impacts healthcare delivery, they also acknowledge the significant degree of change needed within their organizations considering the scale of the potential disruption that digital transformation represents.

Challenges Known and Unknown

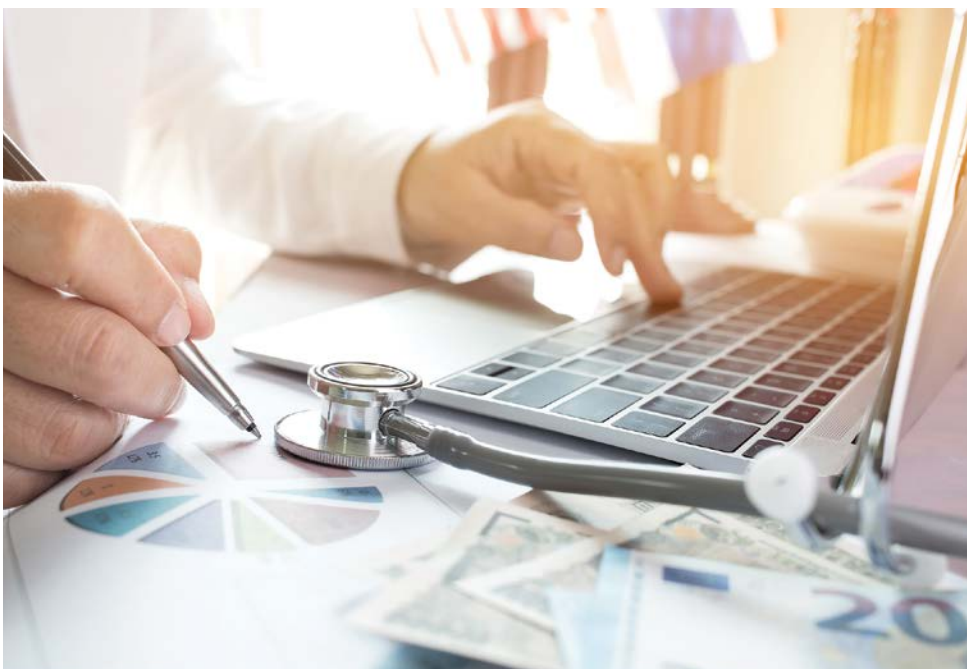
Healthcare providers face a challenging strategic landscape even before considering the threat of disruption. Continued uncertainty related to government-based funding sources and pressure from commercial payers to hold the growth rate in check have amplified the need for hospitals and health systems to better manage costs in order to maintain financial viability. Yet, at the same time, incremental investments to replace aging facilities and acquire leading-edge medical equipment and core information technology systems point to the need for *more* capital spending, not less. Even as an aging population's increased utilization is straining existing acute care capacity, new entrants, many private investor-backed, are descending on the growing healthcare outpatient environment with new urgent care

Key Board Takeaways

- Inventory your current digital platform and programmatic goals.
- Assess the current healthcare market landscape in your market and define market requirements in your planning horizon.
- Develop an organizational viewpoint and investment philosophy for the role of digital, and your vision for the organization in that emerging context.
- Incorporate digital into your planning approach, through one of three ways:
 - » Develop a discrete digital plan to augment existing enterprise strategy.
 - » Refine your enterprise strategy to incorporate digital plans.
 - » Develop a new integrated enterprise strategy oriented around digital.
- Explicitly define what success looks like, including specific metrics, timelines, and ROI, to track your digital efforts' progress and results.

centers, walk-up clinics, diagnostic imaging, surgery centers, and physician enterprises, introducing entirely new forms of healthcare competition.

Yet today's challenges are increasingly representing yesterday's war as digital industrialization begins to alter the value chain. The future will bring entirely new competitive threats from three domains: healthcare delivery (both legacy and new providers), healthcare financing (payers), and consumer health (via major technology companies, including Amazon, Apple, Google, and Microsoft). Where healthcare is currently constructed around producer capital, assets and outputs, the future value chain centers on end-user activity, accountability, and personalized experiences. On-demand global service will be the new norm as production, distribution, and consumption converge via technological- and data-driven access and operating models that connect across both digital and physical mediums. From a consumer or patient standpoint, digital interaction is becoming the norm as people engage in online searches to obtain health information before engaging with healthcare organizations. (For an example of how rapidly digital industrialization can change an industry, see sidebar, "Lessons from the Blockbuster Video Experience.")



Lessons from the Blockbuster Video Experience

Blockbuster Video's rise and fall provides several lessons that parallel the potential threats and opportunities that digital industrialization poses to health systems and hospitals. Founded in 1985, Blockbuster swiftly grew to dominate the video- and videogame-rental industry. By 1991 it was a multi-billion dollar company that had forced many smaller chain and independent competitors out of business and become ubiquitous with video rentals. Even then, however, Blockbuster's Wayne Huizenga (founder of Waste Management and owner of several Florida professional sports teams) worried about the threats posed by new technology such as cable television video-on-demand services and sold the company to Viacom for \$8.4 billion in 1994.

Viacom did not fear new technology; rather, it could almost be said that its Blockbuster leadership team scarcely even acknowledged digital threats until it was far too late. The presciently named Netflix, founded in 1997, bested Blockbuster in several ways and ultimately drove the latter into

bankruptcy by 2010. Blockbuster essentially failed to realize what business it was in. The company saw itself as a DVD rental business; in fact, it was a physical distributor that acted as an intermediary between content creators and consumers.

Netflix initially also served solely as an intermediary (minus the significant expense of brick-and-mortar stores), acting akin to an e-tailer by mailing out a seemingly bottomless selection of DVDs and videogame disks to customers from its handful of distribution centers. As Netflix grew, Blockbuster dug in its heels on its physical rental business, introducing a DVD-by-mail service in mid-2004. At this point in time Netflix was looking to bring the "Net" portion of its name into play. It initially planned a hardware launch that would allow customers to download movies overnight to a device before scrapping this plan when it saw how Internet

bandwidth had increased to allow YouTube to provide streaming content, which Netflix itself began to offer in 2007. By 2010 its streaming business had become the single-largest source of nighttime Internet streaming traffic. The next year it expanded upon its practice of exclusively licensing the digital rights to certain titles by introducing Netflix Originals—brand-new, exclusive content that further redefined the company while Blockbuster filed for Chapter 11 bankruptcy protection.

Where did Blockbuster err? Its chief failing was that the company underestimated the pace of change, thinking it had years to adapt to the dual threats posed by innovative competitors like Netflix and Redbox, who introduced retailer-based DVD rental kiosks across the nation. As recently as 2008 CEO Jim Keyes remarked that Blockbuster considered mega-corporations like Wal-Mart and Apple to be its competition rather than the small upstarts that were

quickly eroding its business, misidentifying the real threats. The company also failed to acknowledge how central convenience was for its customers' consumption of media, as their preferences quickly changed to "streaming first," despite the objectively inferior viewing quality experience and lack of "extras" relative to those offered by disk-based media. For most viewers, "good enough" picture and sound quality was all it took to alter their habits, especially as it began to enable entirely new means of consumption, including on smartphones, tablets, and computers. (Similarly, healthcare consumers today desire more than hands-on care; health is also about information, decisions, and behaviors that are not the exclusive domain of providers.) Most importantly, Blockbuster chose to *do* digital rather than *be* digital; it invested in mail fulfillment, streaming, and even in-store download kiosks in response to competitive threats and went out of business at a time when Netflix was still primarily in the disk-mailing business.



The Three Dimensions of Digital Healthcare Delivery

Digital healthcare delivery encompasses three dimensions: healthcare consumers, care teams, and business units. Health systems must serve the needs of healthcare consumers through a comprehensive, digitally enabled delivery network. They must also deliver exceptional patient-centered care through integrated digital care models while seamlessly and cost-effectively coordinating business operations through a cohesive digital operating environment.

As has already happened in other industries, healthcare delivery will move away from traditional care delivery networks limited by geography to integrated, patient-centric digital networks that can effectively deliver

care anywhere. Technology start-ups are swiftly emerging in several areas, including pharmaceutical fulfillment and delivery, on-demand care, and chronic care management. Patients need to be able to receive convenient, real-time, on-demand care in both physical spaces (e.g., walk-in clinics) and virtual ones, and obtain access to pharmaceuticals through present-day methods as well as more futuristic ones (e.g., drones that deliver pill packs). Providers entrenched in traditional operating models are at a disadvantage against technology companies that can quickly create new digital services and offerings without the expensive encumbrance posed by legacy physical assets and personnel.

Digital care models represent a fundamental shift away from the traditional linear, physician-centric model of care in

which a patient is expected to navigate a sequential series of discrete, often uncoordinated, healthcare professional interactions. The digital care model supports better real-time coordination and collaboration among myriad healthcare providers and changes the paradigm such that tech-enabled and augmented care teams, with a more diverse set of skillsets, can seamlessly assist the patient with all of their health needs.

Health systems and hospitals are just beginning to tap into the potential offered by the integrated digital operating ecosystem, which improves upon traditional functional models through efficient, cross-functional, data-driven processes. Initial efforts aimed at quick returns on investments are emerging as organizations determine which processes can be efficiently rewritten

and improved. Many have already invested in upgrades to their technical infrastructure and now need to shift their focus toward how best to realize value from these investments. Opportunities also exist to digitize processes even in areas where the infrastructure may not be as sophisticated. Other industries have demonstrated how legacy IT infrastructure can be leveraged and retained in these efforts; for example, airlines quickly revamped the flight check-in and boarding pass processes and made them app-centric through the development of overlays and new interfaces that tie in to their legacy IT systems. Online scheduling and claims automation are just the beginning of what can and will be done in healthcare; smart environments and new communications and collaboration tools are also on the horizon.

Planning and Visioning

As hospitals and health systems plan for their digital future, it will be important to consider the full range of capabilities that will be at their disposal. They will also need to contemplate how to enable sustainable advantage in the short-term competitive landscape and the long-term business model. Not every capability will be relevant for every provider, and even if they were, capital constraints will necessitate careful planning to prioritize these initiatives over a long-term planning horizon. While virtual care tends to dominate much of the digital discussion, it represents only one of five key care delivery capabilities that must be considered



collectively when developing impactful digital solutions:

- Virtual care (communications-enabled care delivery at a distance, like e-visits, video consultations, and telemonitoring)
- Patient self-service (technology that empowers patients to manage their own health and treatment, such as direct scheduling, self-triage, and patient-directed referrals)
- Connected solutions (smart devices that drive decision support, monitoring, and interventions, including wearables, smart diagnostics, and care environment sensors)
- Personalized care (tailored, effective treatments and customized experiences, like genomic data and patient interaction preferences)
- Automation, artificial intelligence, predictive analytics, and machine learning (technology that eliminates or automates entire processes and/or business functions)

Data will underlie the development of these capabilities and simultaneously become an essential byproduct as they are deployed and adopted by patients. Of course, it is not enough to simply generate, collect, and analyze data; data must drive insight. Leading business-to-consumer e-commerce companies already excel at the practice of using complex integrated datasets to target “recommendations” based on the deep customer knowledge they possess. The power of this predictive insight applied in healthcare presents enormous promise for enhancing care outcomes and delivering a radically improved and individualized healthcare experience.

As the healthcare industry increasingly feels the effects of digital industrialization, hospitals and health systems must consider their current state realities and how to respond to them. They must also proactively define and advance the organization toward a viable position in the future health and healthcare context. A robust combination of strategic planning and strategic visioning is needed to survive and ultimately thrive.

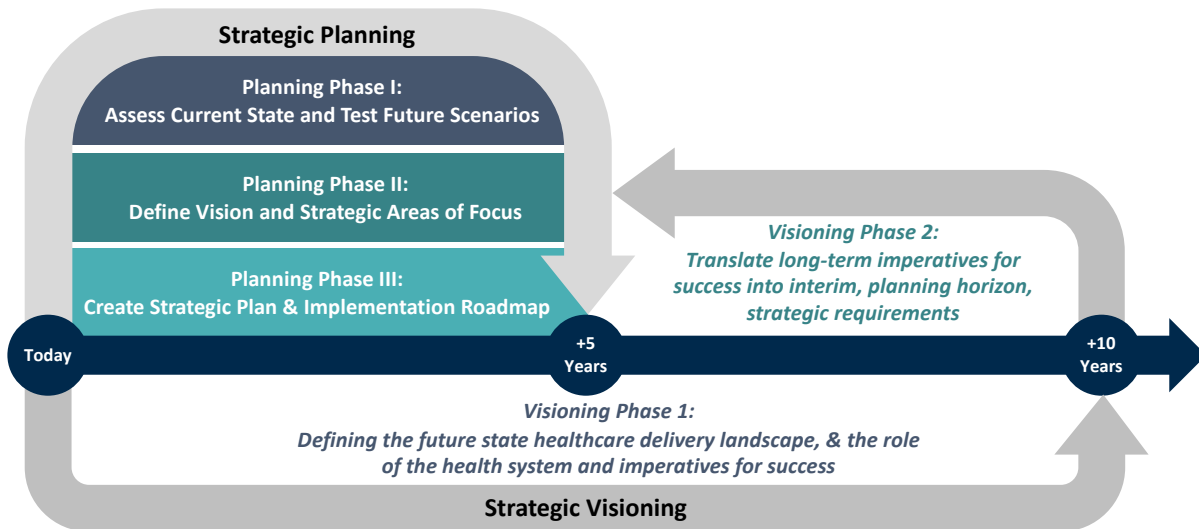
As shown in **Exhibit 1** on the next page, strategic planning moves the organization forward along a fairly predictable set of pragmatic, phased activities:

1. Assess the current state, identify trends, and articulate future scenarios.
2. Define the organization's direction and strategic areas of focus.
3. Create the enterprise strategic plan, associated digital tactics, and a granular implementation roadmap.



Exhibit 1. The Two-Pronged Strategic Planning Approach

Health system planning must consider both the practical current state realities, as well as meaningfully move the organization toward a materially different interim position in the emerging digital delivery ecosystem.



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Doing so will allow an organization to maximize its present-day strategic position, while simultaneously defining a viable, broadly supported path forward. At the same time, hospital and health system leaders should consider the strategic market context over the next decade or more to ensure their organization is positioned for continued relevance in the disrupted future. Organizations will need to:

1. Define the future-state healthcare delivery ecosystem and the role it will play relative to other converging ecosystems (i.e., healthcare financing and consumer health ecosystems).
2. Determine the future role of the organization and articulate the requirements (or “what must be true”) for it to fulfill that role.
3. Translate long-term organizational requirements into a discrete strategic roadmap, defining specific initiatives, timing, and sequencing to reach the transformed future.

The Path Forward

There is no single “right” path forward to the future, but there are

a number of key considerations that every healthcare organization should be thinking through to define how they will exist in a fundamentally different future. Organizations should begin by developing a shared understanding of where they are in the transformation process. Most health systems have a range of pilot programs under way, but many lack clarity around how those pilots will be monitored, assessed, and, if deemed effective, rolled out more broadly. A formalized and structured plan is essential to ensure strategic differentiation in the current context, but also to ensure the outcomes taken collectively are moving the organization toward the role it intends to play in the industry’s transformed future.

To succeed, digital health must be an enterprise-wide initiative, with a consistent organizational focus, supported by the entire leadership team. It requires a shared organization-wide viewpoint over both the short- and long-term planning horizons, as well as a sustainable investment philosophy linked to a specific ROI. Because everyone is impacted by (and accountable

for) digital health, the organization must be structured and incentivized as such. Success must be explicitly defined and measured through specific metrics, timelines, and ROI targets to track progress and results throughout the journey. There are many ways for an organization to undertake the development of its digital strategy, including creating a discrete digital plan that augments the current enterprise strategy, refining the enterprise strategy to incorporate digital plans, or developing a new integrated enterprise strategy that is oriented around digital health. While the specific approach can vary, digital health’s prominent presence on the agenda is essential. ●

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