COVID Could Bring Demand-Side Disruption

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For all of Jeff Bezos' talk about customer-centricity, the disruption Amazon has brought is not based on customer demand, but on Amazon's supply.

Customers did not demand Alexa, Amazon Prime, or 100 million products from one portal. Rather, Amazon supplied innovations that consumers didn't know they wanted. But once they got a taste of these innovations, consumers flocked to them. The same is true for other consumer-focused giants like Apple and Google. Consumers didn't demand a phone that doubled as a hand-held computer and digital communicator, or a search engine that returned millions of results in a second. Most of us couldn't have dreamed of such things. But once the iPhone and Google search were supplied to us, they were so useful that they became necessities. And once Amazon shopping, the iPhone, and Google search proved their worth, the resulting demand migration disrupted the nation's economy.

In the space of just weeks, the COVID-19 pandemic has radically changed consumer behavior. In most cases, the virus has dramatically increased the speed of adoption of behaviors that were at various stages of taking root: meal delivery rather than eating in a restaurant, grocery delivery rather than wheeling a cart through a store, streaming events rather than attending in-person, online learning a client's place of business.

The effect of supply-side disruption has been unprecedented in the world economy. However, the short-term effect of this disruption on healthcare has been limited. Disruptors like Amazon have not yet caused a major change in any healthcare organization's core delivery model. Demand-side disruption, on the other hand, could have a much more direct and powerful effect. If, as a result of the COVID-19 pandemic, a significant number of patients chose to receive healthcare in a very different way, that could create the need for rapid and fundamental change in the healthcare delivery and care models, which in turn would create a serious potential strategic problem for healthcare organizations.

Key Board Takeaways

The board should work with management to:

- Identify who is responsible for assessing and responding to the disruptive effects of COVID-19 and other causes on an ongoing basis.
- Ensure the board understands how COVID-19 could affect future demand for services, particularly telehealth.
- Think through how this change in demand could influence future financial position, capability needs, and strategy of the organization.
- Consider how COVID-19's demand-side disruption could affect the organization's geographic market for antitrust purposes.

Example: Increased Adoption of Telehealth

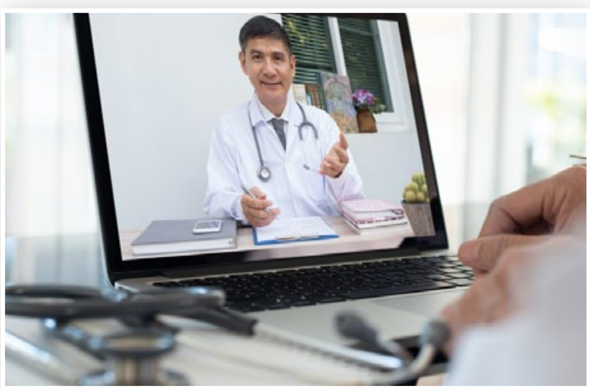
One of the best examples is telehealth. Despite billions of dollars flowing into telehealth start-ups and product development, and the increased options for telehealth, adoption has been slow. As of 2019, only 20 percent of hospitals reported having video visits widely available,[1] only 22 percent of physicians had used telehealth,[2] and less than 10 percent of patients had used virtual visits.[3]

With the COVID-19 pandemic have come numerous forces moving providers and patients toward telehealth options: lack of capacity for providers to handle people suspected of having the virus or to handle people with other conditions, reluctance of patients to be in a healthcare facility during the pandemic, and increase in payment for telehealth services among government and commercial payers.

Forrester is predicting more than 900 million telehealth visits will occur in 2020, compared with its original estimate of 36 million.[4] Anecdotal accounts of the rising in telehealth use have been equally startling. "We were seeing approximately 10–20 patients a day on our telehealth platform prior to the COVID-19 pandemic," Ken Samet, President and CEO of MedStar Health told us in a recent interview. "Right now, we're flying past 500 patients a day, and we're on our way to 1,000 patients a day."[5]

Providers, too, may have become more open to telemedicine. Claude Deschamps, M.D., President and CEO of the University of Vermont Health Network Medical Group, told us recently, "It has been a big 'a-ha' moment for many providers that they can do a lot of their work via telemedicine."[6]

The question for any organization seeing these kinds of radical changes in consumer demand is whether that change will last beyond the pandemic. When it comes to telemedicine, we have every reason to believe that there will be a permanent change in demand. As the pandemic winds down, a greatly increased number of consumers will have used telemedicine and appreciated its far more convenient access and agreeable experience. And consumers will have appreciated the additional safety they feel by not entering a facility populated with other sick people. Many more clinicians will have conducted virtual visits and found it a viable and effective means of care. And payers and policymakers may permanently lift constraints on telehealth reimbursement.



1 Paul Crnkovich and Dan Clarin, *2019 State of Consumerism in Healthcare: The Bar is Rising*, Kaufman Hall.
2 Mandy Roth, "Physician Telehealth Usage Wallops Early EHR Adoption Rates," *HealthLeaders*, April 15, 2019.
3 Heather Landi, "Only 1 in 10 Patients Use Telehealth As Lack of Awareness Hinders Adoption, J.D. Power Survey Finds," FierceHealthcare, July 31, 2019.
4 Bertha Coombs, "Telehealth Visits Are Booming As Doctors and Patients Embrace Distancing Amid the Coronavirus Crisis," CNBC, April 4, 2020.
5 "Interview: Kenneth A. Samet, President and CEO, MedStar Health: Preparing a Health System for the Surge," Kaufman Hall.
6 "Interview: Claude Deschamps, M.D., President and CEO, UVMHN Medical Group: Leading a Medical Group Through the Surge," Kaufman Hall.

In the case of telehealth, the COVID-19 pandemic may have moved the healthcare industry rapidly into a state that, before the virus, seemed a point in the distance. This kind of rapid disruption could have varying and hard-to-predict consequences.

A rapid rise in telehealth demand would have implications for the healthcare workforce and training. It could mean a reduction in the number of facilities and real estate needed. It could have major economic impact if telehealth reimbursement is not commensurate with reimbursement for in-person visits. It would place new demands on hospitals for investment in technology and talent.

The rise of telemedicine could have deep implications for the competitive landscape. Healthcare's long-held state as a cottage industry could change as digital access removes geographic boundaries. Well-known centers of excellence could draw market share from local providers by offering care digitally. Broad-based companies that currently provide many hospitals' telehealth on a white-label basis could gain visibility as their own national brands of telehealth.

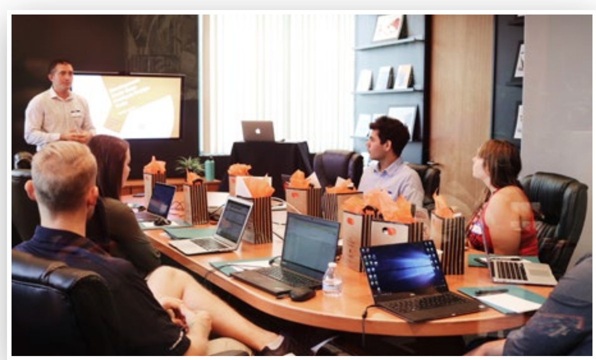
Telemedicine is only one example of how a rapid and unprecedented change in consumer behavior caused by the COVID-19 pandemic could speed the disruption of healthcare and many other industries. At a time when organizations are financially weakened by the virus' economic damage, they could find themselves needing to make major strategic pivots to a future that only a few weeks ago seemed at least somewhat distant.

Demand-Side Disruption's Impact on Governance

As fast and furious as supply-side disruption has been, demand-side disruption may force even faster strategic thinking and a more furious response at a time when such a response is especially difficult to model and deliver.

Demand-side disruption and its discrete elements affect corporate governance in at least four significant ways.

First, it is an additional homework assignment for the board's strategic planning responsibilities, whether exercised directly or through a strategic planning committee, as that is where oversight of disruption and its competitive implications typically rests. Through either conduit, the board is expected to provide meaningful input to management on disruption and its competitive implications. This input would extend to both approval of strategic and other disruption-responsive plans, and of management's implementation of such plans.



Second, the board and management should reach an understanding of each other's respective roles in responding to disruption, demand-side oriented or otherwise. While it would certainly be expected that management, through its corporate strategy function, would have a greater appreciation for the implications of disruptive threats, the law charges the board with responsibility for the organization's long-term sustainability.

Third, the board (or responsible committee) should acknowledge the potential impact of demand-side disruption on the organization's geographic market for antitrust purposes. To the extent that telemedicine and other manifestations of demand-side disruption expand the competitive footprint in which the organization and its physicians compete, it could ultimately lead to greater transactional opportunities.

But fourth is the need to be cautious about director overload. Pandemic-prompted governance issues have been poured upon the board in firehose proportions. Healthcare boards are (appropriately) being forced to simultaneously address a textbook-broad set of fiduciary responsibilities. While the responsibility to consider demand-side disruption is a legitimate fiduciary duty, it will need to fight for attention on a wildly overcrowded board agenda. Thoughtful management will pick the appropriate opportunity, and venue, to present this important new concept.

The Governance Institute thanks Ken Kaufman, Chair, Kaufman, Hall & Associates, LLC, and Michael Peregrine, Partner, McDermott Will & Emery LLP, for contributing this article. They can be reached at kkaufman@kaufmanhall.com and mperegrine@mwe.com.