

Strategic Options in the Wake of COVID

By Ryan Gish, Jeff Kilpatrick, and Mark Grube, Kaufman, Hall & Associates, LLC

As hospitals and health systems move toward a post-COVID-19 future, answers to an array of questions remain unknown. What is the path of COVID, and future surges? When will non-urgent patients return and in what numbers? How severe will the economic effects be on the community? How will consumer demands change? How will the competitive landscape change? When might the next black swan event come?

As challenging as these questions are, even more challenging is determining a strategic course for an uncertain future—a course that could, and likely should, be far different than the organization's pre-COVID path.

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There is no going back to the past. As they work to set a strategic course for their organizations, boards and senior leaders must make an unshackled assessment of what the new landscape could look like. They must have true imagination in determining how each organization can help build a better

future state, and be prepared to do hard and creative work in inventing that future.

The New Landscape

As tempting as it is to envision the post-COVID landscape as some recognizable permutation of the existing healthcare delivery system, leaders need to challenge themselves to see COVID as a true black swan event that could substantially change the basic environment. As one CEO told us, "We don't even remember what air travel was like before 9/11 at this point. We've just accepted it."

In the new environment, we can assume that cost-efficiency, safety, access, and preparedness will be among the new pillars of success. A brief look at just three elements of care delivery illustrate some of the potential dramatic differences.

Care models. COVID will likely change many basic aspects of traditional hospital care models. Virtual care will be a far greater element of care delivery, and consumers will expect a very high degree of convenience and sophistication in those services. A recent NRC Health survey showed that consumers are already wanting alternative care delivery options.¹ Of those surveyed, 60 percent said they are interested in phone calls, 57 percent in virtual visits,

Key Board Takeaways

Planning for a post-COVID future requires boards and senior leaders to explore their strategic options with imagination and invention. They must make an unshackled assessment of organizational capabilities, what the new landscape could look like, and the characteristics needed for success. Questions to ask include:

- What degree of damage have we suffered?
- What is our forecast for the next 90–120 days? The next year?
- What is the status of our clinical and non-clinical workforce?
- What options do we have for changing our cost structure?
- What is the financial and strategic position of others in our market? Our region?

51 percent in online patient portals, and 41 percent in text messaging, instead of attending an in-person doctor's appointment for non-emergency needs. Care sites will be segmented differently, with new concerns about space for infectious patients. A greater proportion of care and diagnostic services likely will move to outpatient sites. The typical health system ambulatory footprint will be very different. Mid-level practitioners will have expanded roles, and care rationalization and efficiency will move to new levels.

Cost structure. Hospitals are taking a financial hit of a dimension that is hard to grasp. Kaufman Hall data show that in April 2020 alone, outpatient revenue declined 50 percent, inpatient revenue fell 25 percent, and margin dropped 174 percent compared to April 2019. The American Hospital Association estimates that total hospital losses from COVID will be more than \$200 billion. These staggering losses ensure that hospitals will need a very different cost structure moving forward. It is likely that the hospital workforce will be smaller, especially among administrative services. Many non-clinical employees will continue to work from home. Hospital real estate holdings will shrink. Major structure and process changes will be imperative.

Scale will be even more of a competitive differentiator. Organizations with the financial strength that scale brings will have emerged from COVID with the most strategic options. Financially



¹ NRC Health, *Consumer-Sentiment Data on the Coronavirus Pandemic*, May 2020.

strong organizations will develop the capabilities needed for the new environment. They will have greater ability to tolerate the risks inherent in the post-COVID environment, and they will have greater influence in important payer and government policy decisions.

Larger, more financially strong organizations will take advantage of the opportunity to grow. At the same time, organizations with less financial wherewithal will align with market leaders or, in some cases, restructure or close. Organizations with superb telehealth capabilities, including non-traditional regional and national competitors, will have a far stronger position than previously.

Organizational role. In defining a role for this future landscape, organizational leaders must begin by setting aside allegiance to previous strategies. A new world requires fresh eyes and what Amazon's Jeff Bezos calls a "beginner's mind."

With that context, leaders will need information: What degree of damage have we suffered? What is our forecast for the next 90–120 days? The next year? What is the status of our clinical and non-clinical workforce? What options do we have for changing our cost structure? What is the financial and strategic position of others in our market? Our region? Organizations will need to develop a clear point of view about the future environment, and the characteristics and capabilities needed for success. They will need to undertake



an honest—possibly humbling—assessment of their capabilities for that environment.

Hospital and health system boards and senior leaders should view their core missions in light of the likely future environment: Does this new world present new opportunities to influence social determinants of health? To dramatically improve the efficiency of health-care delivery? To create a more accessible and engaging experience of healthcare? To prepare for the next black swan event?

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Then comes the hardest work of all: identifying strategic options to make a meaningful difference in the new environment. For example:

- How can the organization best serve its community by honing its capabilities for the safest, most efficient, most convenient care within its local market?
- Should it focus on enhancing its employed clinicians?
- Should it complement its capabilities with those of another hospital or system through some form of partnership?
- Should it reach out to non-traditional partners—such as retail pharmacy chains or big tech players—to round out its consumer-facing services and non-hospital footprint?
- Should it take a regional view—furthering its strength, capabilities, and relevance by joining a regional leader or by forming a new system?
- How should payer and employer relations change?



Imagination and Invention

In the past, assessing strategic options had a certain analytical bent. Market share, financials, competitor data, and a list of established strategic paths came together to yield a handful of options for the future. Today, while data and analysis continue to be vital—in fact, they need to be more sophisticated than ever—the COVID upheaval has elevated the task of assessing strategic options.

Imagination is the ability to bring forth a new idea—to look into the future and see its elements in a new combination and with a new outcome. *Invention* is the hard and smart work of building what the mind imagines into a new reality, mastering existing tools and materials, building new ones, and creating new structures and processes to yield new outcomes.

In the COVID crisis, assessing strategic options requires imagination and invention. Hospitals have been hit hard. They have been hit so hard that there is no going back to their previous state of being. However, with the loss of the existing world comes the possibility of creating a better one. It is a time for hospital leaders to imagine a better future and get down to work inventing it.

The Governance Institute thanks Ryan Gish, Managing Director, Jeff Kilpatrick, Managing Director, and Mark Grube, Managing Director and National Strategy Leader, Kaufman, Hall & Associates, LLC, for contributing this article. They can be reached at rgish@kaufmanhall.com, jkilpatrick@kaufmanhall.com, and mgrube@kaufmanhall.com.