

Outwitting Uncertainty: Strategy Pivots in the Time of COVID

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As the uncertainty of COVID-19 continues to roil our society, hospital and health system boards and executives face perhaps the most difficult challenge of their careers: deriving insights about a volatile and risky environment, and translating those insights into significant pivots in strategy.

The unfortunate reality is that healthcare organizations have relatively little control over the external forces buffeting them today—for example, public policy related to preventing the spread of COVID-19, development of a vaccine, the state of the economy, or the behavior of the markets.

Lacking control over these environmental factors, boards and executives need to outwit the uncertainty. That requires developing scenarios for each factor based on its potential onset, duration, degree of effect, and on its potential effect of the basis of competition. It requires developing a menu of strategies that can help organizations weather changes and excel in new capabilities. And it requires a flexible roadmap to operationalize those strategies that is sensitive to inevitable fluctuations of a volatile environment.

Below, we offer observations about the nature of uncertainty executives are facing, the likely environmental changes, and the strategies organizations will need to make in order

sustain and improve their ability to serve communities in a hazy future.

The financial challenges brought on by COVID-19 will likely increase the need for vertical alignment and readiness for value-based care in healthcare organizations. As public payers and private employers demand greater affordability, health plans and providers will have a greater incentive to integrate.

The Nature of Today's Uncertainty

Healthcare has experienced major environmental changes in the past—Medicare's shift to payment by diagnosis-related groups in the 1980s, the explosion of electronic health records in the early 2000s, the market crash of 2008, and passage of the Affordable Care Act in 2010, to name a few. At each point, healthcare organizations struggled, but by and large



were able to adjust their strategies to stay competitive and sustain their missions.

However, the current crisis is different. COVID-19 brings with it a level and breadth of uncertainty that previous healthcare market changes did not. The pandemic is a clinical, economic, and social crisis that has and will continue to alter the normal course of business in fundamental ways, from organizational structure to care delivery processes and modalities. Intensifying the tumult have been a contentious 2020 election, louder calls for health equity, and changes to health policy.

For boards and executives, perhaps most important in outwitting uncertainty is questioning the conventional wisdom.

Each of these factors can emerge at a different time, exist for a different duration, affect specific populations differently, and hit with varied intensity. **Exhibit 1** on the next page shows an example of how scenarios might be developed to model the impact of just three environmental factors.

Key Board Takeaways

Uncertainty in our society means that hospital and health system boards and executives must translate insights about a volatile and risky environment into pivots in strategy. To outwit the uncertainty, boards should:

- Understand the environmental factors fueling the uncertainty and develop scenarios for each based on its potential onset, duration, degree of effect, and its potential effect of the basis of competition.
- Develop various strategies that can help their organization weather changes and excel in required new capabilities.
- Create a flexible roadmap to operationalize those strategies that is sensitive to inevitable fluctuations of a volatile environment.

One important way in which all of these environmental factors are likely to affect healthcare is by disrupting the traditional vertical value chain: the patient’s path from primary care provider, to specialist, to diagnostics, to hospital. For years, this chain has been highly vulnerable due to gaps in coordination and communication, problems with timeliness, and overall lack of consumer orientation. In recent years, retail and tech companies have sought to disrupt this value chain by giving consumers new and easier access points to the healthcare system.



could be an inflection point for either damaging disruption or overdue improvement.

Three Long-Term Market Effects

Among the many possible market effects of this uncertain environment, we highlight three as among the most likely to emerge and the most important drivers of strategy.

1. Heightened Consolidation

COVID has reduced hospital margins and strained capital capacity, with an economic recession waiting in the wings to exacerbate those financial problems, and both the duration and recovery curve unknown.

Organizations that entered this period with relatively weaker balance sheets and capabilities are likely to find themselves seeking support through some form of partnership or transaction. Smaller physician groups in particular—buffeted by hits to revenue and expenses—may seek the safety of scale through affiliation with a health system. Organizations emerging from the initial COVID impact with moderately strong balance sheets may see opportunities to partner in order to fill capability

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The current pandemic has exacerbated the stress on this traditional value chain. The volume of testing required, the volume of patients requiring urgent inpatient care, the inability of patients to obtain care in traditional locations, and through traditional modalities—all of this highlighted the problems with healthcare’s sequential, in-person oriented, gatekeeper model. As the effects of the pandemic continue to roil healthcare, legacy healthcare provider organizations could see this fundamental structure of healthcare delivery change, which

Exhibit 1: Sample Environmental Impact Scenarios—Potential Performance With and Without Management Intervention

Illustration of Net Revenue Impact



— With management intervention — Without management intervention

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or market gaps. And organizations with scale and balance sheet strength will be in an excellent position to invest in profitable business lines and acquire additional hospitals, while exiting under-performing business lines and facilities.

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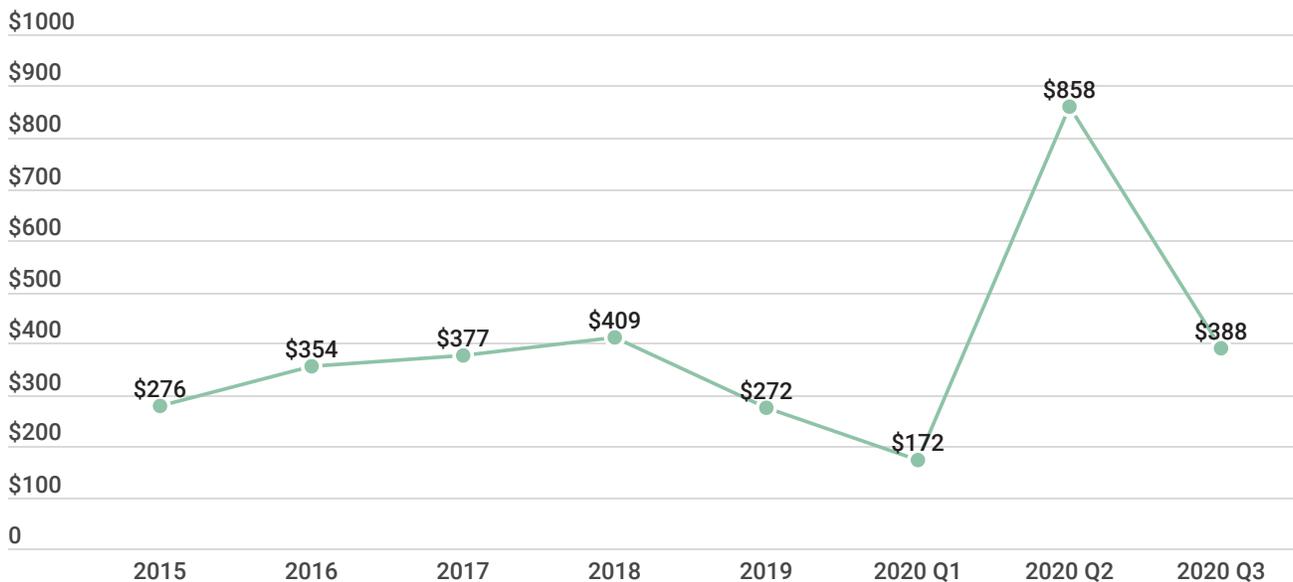
Payers, many of whom experienced a windfall as a result of falling medical loss ratios during the pandemic, will adapt to changes brought on by consolidation. As part of their long-term strategy, national and regional plans



will consider new lines of business, such as the individual insurance market, to recoup their commercial membership losses while the economy recovers. They will also be evaluating partnership options with smaller plans.

We are already seeing an intensified push for scale. In the second and third quarters of 2020, we are seeing historic highs in the average size of seller by revenue.

Exhibit 2: Average Seller Size by Revenue among Announced Hospital Transactions (\$ in Millions)



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2. Vertical Alignment and Readiness for Value-Based Care

The financial challenges brought on by COVID-19 will likely increase the need for vertical alignment and readiness for value-based care in healthcare organizations. As public payers and private employers demand greater affordability, health plans and providers will have a greater incentive to integrate. This may involve expanding existing relationships or developing new partnerships to increase the number of covered lives across the most profitable lines of business, such as commercial and Medicare Advantage plans. Together, payers and providers have a common goal to pursue innovative, value-based care models that achieve greater affordability of care. In addition, large payers that are flush with capital due to delayed care during first months of the pandemic are seizing the opportunity to move deeper in to the provider space through acquisitions. We are also seeing an uptick generally in cross-sector collaboration, such as Walgreen’s expanded partnership with VillageMD, a primary care network with 1,000 clinics.

3. Consumer-Oriented Care Models

Another likely long-term effect of COVID-19 is a shift in care models from an in-person orientation to a much fuller integration of telehealth and in-person care.

With in-person visits all but shut down except for emergencies, the U.S. healthcare system was forced to rely on telehealth for contact between patients and clinicians. In April 2020, at the height of the pandemic’s first wave, commercial insurance claims for telehealth¹ jumped more than 8,000 percent. Multiple organizations have reported that their three-year telehealth plans had to be implemented in weeks rather than years. The results overall were positive; numerous studies indicate both patient and provider satisfaction with the convenience and experience of telehealth.

Even with the return of in-person care, providers and insurers share the responsibility for making telehealth a permanent, prominent, and thoughtfully integrated part of healthcare delivery. This includes not just video visits, but monitoring and other diagnostics in the home or at convenient locations near the home, systematic remote care planning and follow up, and evaluation of the effect of these care models on health outcomes and total cost of care. The potential improvements in access, convenience, experience, and affordability are important to the stability of the health system as a whole; to consumer, provider, and employer satisfaction; and to the competitive position of individual organizations. Expect that providers, payers, and non-traditional players such as retail chains and

big-tech companies will all be working hard to position themselves as critical points in this new, more consumer-oriented value chain.

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Four Strategy Pivots

Together, these foundational shifts in market conditions signal the need for healthcare leaders to make significant course changes to stay resilient, competitive, and relevant. Following are four no-regret strategies to stay ahead of uncertainty.

1. Recognize your customers’ requirements during each “purchasing event”

An organization’s future success depends on how well it responds to the needs of various customers at different decision points, or “purchasing events”—for example, when employees select health plan products and provider networks from options offered by employers, or when a consumer with a non-acute health problem decides whether to

Exhibit 3: Four Strategy Pivots



¹ Pifer, Rebecca, “Telehealth claims dipped second month in a row in June: Fair Health,” *Healthcare Dive*, September 3, 2020.

call a primary care physician, visit an emergency room, or visit a retail or urgent-care clinic.

The rise of virtual care during the past few months proves that access on demand is a new requirement for success.

Competitive differentiation in this area requires a robust payer strategy, built in part on meaningful payer-provider partnerships. Integrated health systems may have an advantage here, particularly if they view their health plans as a dominant driver of revenue in the future.

2. Actively Pursue Population-Based Economics

The COVID-19 crisis has been a stark reminder of the shortfalls of relying exclusively on fee-for-service payment. Organizations that are committed to population-based models are faring better because their revenues, costs, and margins are spread across their entire system and depend on covered lives, not patient volumes.

Hospitals and health systems that are well positioned for the future realize that where their profit pools are generated today may not be where their profit pools will exist in the future. Understanding how to best fund their strategy in light of this uncertainty is critical.



Organizations must find a way to maximize their performance in value-based arrangements, which represent a growing proportion of their total revenue. As health systems pursue a more population-based strategy, they also need to consider diversifying their revenue base, either geographically, by service lines, or both.

Providers also need to review their lines of business and think about how their payer mix and revenue mix will shift as enrollment shifts. To grow the business, organizations will need to capture more covered lives. When considering their strategy, it is essential that organizations accurately model various operating scenarios. This will help provide the agility needed to stay ahead of the transformation.

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3. Understand and Manage the Total Cost of Care

To be successful during this time of transformation, every



provider organization will need to know how its total cost of care compares with its competitors' (as well as market averages). Yet many organizations are operating completely blind to this key performance measure.

Every organization should understand what level of performance it must achieve on its total cost of care metrics to remain competitive in its market. This benchmark can inform strategic decisions, such as how products are priced, which providers are included in the network, and what services are available to patients.

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4. Rethink Access and Care Models

The rise of virtual care during the past few months proves that access

on demand is a new requirement for success. When consumers reach out to a provider, they want to start addressing their health needs right away. Virtual health can address this need for immediacy while breaking down geographic boundaries that impede patient access to care.

Expanding virtual care services will be easiest for payers and large health systems that have the IT infrastructure and resources to further invest in telehealth technologies. However, mid-level health systems may not be able to offer on-demand services using their own clinicians. Instead, they may have a strategic advantage if they partner with third-party platforms to meet their customers' growing demand for virtual visits and other remote services.

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Letting Go of Convention

For boards and executives, perhaps most important in outwitting uncertainty is questioning the conventional wisdom. Traditionally, healthcare provider strategy has been largely incremental—measured steps to modify the status quo over a time horizon of multiple years. The uncertainty facing our society as a whole and healthcare in particular has wiped out the notion of incrementalism while it has crushed so many conventional notions about how our society and economy function. Successful organizations will be the ones that not only study these effects but are willing to rapidly move their strategy to whatever new direction, and at whatever new pace, that this new environment demands.

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