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System Focus

Post-Pandemic Strategies for a Changed Healthcare Marketplace

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As healthcare organizations begin to move beyond the most severe disruptions of the COVID-19 pandemic, it is imperative that leadership and governance understand what has changed over the past two years and how these changes might influence their strategies going forward.

This article—the first in a four-part series that will examine post-pandemic strategic options for not-for-profit health systems—will outline major changes that have occurred since the pandemic began and discuss the implications of these changes for health systems.

What Has Changed

Although COVID-19 has been the dominant force in our lives since March 2020, it has not been responsible for all the changes that have occurred in the healthcare marketplace. Some of the changes highlighted below were underway before the pandemic struck; it may have accelerated these changes but did not cause them. In other cases, the pandemic has affirmed the wisdom of strategies pursued in the years leading up to the pandemic.

Vulnerability of the fee-for-service payment structure. One of the biggest changes resulting from COVID is the realization of how vulnerable health systems can be to operational and financial disruptions under the still prevalent fee-for-service payment structure. Kaufman Hall data for the first full month of the pandemic—April 2020, when many services were largely shut down—indicated that operating EBITDA margins for hospitals fell 174 percent on average from the same period in 2019.[1] The CARES Act was a financial lifeline for many hospitals and health systems; without it, many more

1 Kaufman Hall, *National Hospital Flash Report*, May 2020 (reporting April 2020 data).

organizations would have experienced extreme financial challenges as new surges of the virus continued to disrupt operations.

A permanent, upward reset of cost structure. The intense pressure that the pandemic put on frontline healthcare workers led to an estimated one in five healthcare workers leaving their profession.[2] Labor shortages are creating a need for higher-cost agency nurses, as well as wage increases across both clinical and non-clinical staff to help retain existing staff and keep up with wage competition, which for support staff, included industries outside healthcare. Ongoing supply chain disruptions have also driven up costs. While increases in supply expenses may subside as supply chains get untangled, it will be very difficult to unwind increases in labor expense.

Ongoing transformation of national health plans. The large national health plans—or BUCAH (for Blue Cross Blue Shield, UnitedHealth Group, Cigna, Aetna, and Humana)—have doubled down on a verticalization strategy that they began to pursue before the pandemic. In just one segment, home health, Humana has acquired Kindred

→ Key Board Takeaways

- Despite the major operational disruptions COVID-19 has created for health systems, the pace of change in healthcare has remained steady or, in some cases, accelerated during the pandemic.
- A primary focus is the intensifying battle among health plans, retail pharmacy chains, tech firms, new market entrants, and health systems to serve as healthcare's "front door."
- In response, health systems must:
  - Double down on their efforts to remain relevant to consumers as industry stakeholders try to win covered lives.
  - Pursue organic and inorganic growth opportunities to build the scale that has proved essential to financial sustainability and competitive advantage.
  - Consider new partnership models that reimagine the health system's role as a platform or convener for partners that offer specialized services more quickly, efficiently, or inexpensively than the health system can itself.

2 Ed Yong, "Why Health-Care Workers Are Quitting in Droves," *The Atlantic*, November 16, 2021.

at Home, with approximately 775 locations in 40 states, and UnitedHealth Group's Optum division has announced its plan to acquire LHC Group, a home health provider with a presence in 37 states and the District of Columbia. This strategy has enabled significant BUCAH revenue and margin diversification and growth even as BUCAH membership growth has been relatively modest. It also grows the care delivery services that commercial carriers can offer to members, all while helping them manage medical expenses.

Proliferation of new market entrants. The steady migration of care from high-cost inpatient units to ambulatory surgery centers, retail clinics, and in some cases, the home, has opened the door for new market entrants that focus on specific customer-centric services that can be provided without the high cost structure required to provide acute care. The need for high-touch services in areas such as behavioral health and home health—in some cases heightened by the pandemic—also created opportunities for new market entrants. In many cases, these new companies have secured private equity funding, which has enabled them to pursue aggressive growth models.

Decentralization of healthcare. The passage of the Affordable Care Act in 2010 intensified the conversation around integrated delivery systems and accountable care organizations that could provide healthcare services across the care continuum. What we have seen instead is a great decentralization of healthcare as provider and care delivery options have proliferated. This has been driven in part by the influx of new market entrants described above but also by the rise of digital platforms and personal technology devices that have allowed consumer-friendly virtual and "do-it-yourself" care delivery models to proliferate. Again, the pandemic—and the forced social isolation it caused—likely accelerated consumers' willingness to adopt these new models.

Affirmation of the imperatives of scale. This is not so much a pandemic-related change as a pandemic-related affirmation of strategies to build scale that many health systems were pursuing before the pandemic struck. Scale provided advantages of financial and human resources, geographic and market diversification, and risk mitigation that simply were not available to smaller, more local systems.

Implications for Health Systems

Perhaps the biggest implication of these changes is the intensifying battle among health plans, retail pharmacy chains, tech firms, new market entrants, and, of course, health systems to serve as the "front door" to healthcare. This is part of a larger battle to win covered lives and a higher share of consumers' medical spend. As consumer options for many services multiply, health systems will need to double down on their efforts to remain relevant, offering convenient, attractive care delivery options and competitively priced services. They also will need to carefully segment their efforts, winning both transactions covered under traditional fee-for-service payment models and what we anticipate will be a rapidly growing number of lives covered by value-based payment models.

Health systems will also need to pursue growth to build the scale that has proved essential to financial sustainability and competitive advantage. They must focus on both organic and inorganic growth opportunities and become more agile in moving into new markets and combining cultures with new partners. Growth must result in making systems more essential to payers and purchasers of healthcare services, including both groups and individuals.

Finally, health system boards and leaders should consider new partnership models that focus less on control and more on the health system's potential role as a platform or convener for partners that can offer specialized services more quickly, efficiently, or inexpensively than the health system can itself. Health systems have strong brand recognition and, in most cases, a longstanding presence in their community. They are attractive partners for new market entrants trying to establish their place in local healthcare ecosystems but will need to develop partnership structures that best accommodate the interests of both partners.

Subsequent articles in this series will explore strategic options and considerations for growth in value-based care, regional expansion, and partnership strategies that create an ecosystem tailored to specific market needs. We look forward to sharing our perspectives with you.

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