



Pursuing Post-Pandemic Growth Opportunities

By **John Poziemski**, Managing Director, and **Scott Christensen**, Senior Vice President,
Kaufman, Hall & Associates, LLC

The COVID-19 pandemic underscored the value of scale. “Health systems’ scale and geographic reach have proven a big advantage in battling the COVID pandemic,” noted two commentators on the *Health Affairs Blog*, giving them “the flexibility to re-program their facilities to cope with COVID surges” and the ability to use their purchasing power “to wring personal protective equipment (PPE) from a paralyzed supply chain to protect their frontline workers.”¹

Other factors over the past two years also have intensified the imperative for growth:

- **Workforce decentralization:** As the workforce has decentralized, broader geographic range could prove valuable in several ways:
 - » As employers have a more widely dispersed workforce, with more employees working remotely or on a hybrid schedule, they will look for providers who have both depth and geographic breadth in their network offerings to ensure convenient access to services.
 - » For health systems, workforce decentralization provides new opportunities for workforce recruitment and retention across a broader geography, especially for services that are delivered remotely (e.g., back office, IT, and telehealth) and have few geographic constraints.
 - » For frontline care delivery roles, which remain intensely local in nature, greater geographic range and scale can expand the pipeline for new talent and offer new advancement opportunities within the organization.
- **Inflationary pressures:** Wage inflation and higher supply costs are pressuring income statements, making the need to realize efficiencies of scale more important than ever.

1 Jeff C. Goldsmith and Ian Morrison, “Health Systems Made a Big Difference in the COVID Fight: Time to Reconsider Their Social Impact,” *Health Affairs Blog*, March 9, 2021.

- **Payment diversification:** The limitations of fee-for-service payments, exposed during service shutdowns in the early months of the pandemic and ongoing fluctuations in volumes, has renewed the focus on diversifying payment portfolios by pursuing value-based care opportunities and growth in the number of covered lives.

In this article, the third in a four-part series on post-pandemic strategic options, we offer some considerations for health systems seeking growth opportunities.

Setting the Goals for Strategic Growth

While numerous factors are making the case for growth compelling, health system leaders should identify their specific goals in pursuing a growth strategy. These goals could include building the health system's relevance in its markets, enhancing its capabilities, or both.

→ Key Questions for Board Members

As board members work with the executive team to define the organization's desired destination, key questions include:

- How do leaders envision the health system five or 10 years down the road? How will it look different than it does today?
- How might the competitive dynamics within the market change? Should the health system adopt an offensive or defensive response to new market entrants?
- How will the changes that leadership envisions impact the current operating model? Will a new operating model or organization structure be required?
- Where do possible synergies exist today that could help propel the organization toward its future state?

A growth strategy can increase a health system’s relevance in several ways. It can:

- Make the system more attractive to healthcare purchasers—especially local and regional employers—by broadening its network offerings across a wider geography
- Enhance its ability to attract high-quality partners, including specialty physician groups, primary care practices, digital health providers, and health plans
- Strengthen efforts to recruit top clinical and operational talent
- Provide preferential access to capital and credit markets

A growth strategy may also focus on increasing health system capabilities, including:

- Clinical excellence and breadth of service offerings
- Greater economies of scale, resulting in lower costs per unit of service
- Infrastructure investments in IT and health analytics
- Value-based care competencies and access to covered lives

These goals—and potentially others—establish the reasons *why* a health system is pursuing growth, and they will vary depending on local market conditions and opportunities, existing strengths and capabilities, and the organization’s mission and vision. Critical to goal-setting conversations is the question of destination, and we offer some ideas on questions that can help define this destination in the “Key Questions for Board Members” sidebar.

It is worth noting that while large health plans and certain specialized providers and healthcare start-ups have adopted national growth strategies for their care delivery models—backed by significant capital resources or private equity funding—most not-for-profit health systems remain focused on regional growth opportunities. There are unique challenges inherent in a national strategy, but health systems’ focus on regional growth may expand as they increasingly find themselves competing with these highly capitalized national companies.

Plotting a Growth Strategy

Once the *why* of a growth strategy has been defined, focus can shift to the *how*. There are two important considerations that should frame these conversations. The first is that a growth strategy requires fortitude. Expansion into new markets or service lines may not be met with immediate success, and the organization should be ready and

able to commit the time and resources needed to build its presence and customer base.

The second consideration is that success in one market does not beget success in another market—leadership must be sensitive to unique market realities that may require a modified or new approach. There have been several instances, for example, of established, integrated delivery systems that have struggled to export their model to new markets that do not share the same characteristics as their original markets. Careful analyses of potential expansion markets can also help leadership identify and prioritize those that may be most receptive to the organization’s value proposition.

The organization’s value proposition will help define its point-of-entry strategy for new markets. For example, the organization may offer clinical capabilities or services not currently available in the new market, or it may be able to offer services at a more compelling price point. In either case, these services would be the focus as the organization seeks to gain a foothold for growth in the new market.

Leadership should assess multiple potential pathways for growth. These include independent organic market expansion; growth through partnership with another provider organization, health plan, or other partner; inorganic growth opportunities through acquisitions; or a combination of these approaches. Multiple factors may influence these decisions, including:

- Ultimate scope of desired presence in the new market, based upon a well-informed point of view on the future of healthcare in that market
- Market characteristics, including the current competitive structure of the market, the number and size of local employers, and demographics of the local population
- Strength of the organization’s brand—and potential partners’ brands—within the new market
- Resources available to fund the strategy
- Prior experience in executing successful organic growth strategies, partnerships, or acquisitions

Finally, strategic planning should factor in the likely competitive response to the organization’s entry into the new market. The odds for success will be more challenging in markets where strong, well-capitalized competitors exist. In these

cases, a strong payer partnership or a strategy based on direct contracting with large local employers may help improve the odds for success.

Conclusion: Taking a Long-Term View

A successful strategy for growth defines a long-term view of the organization's future. It will take time to reach the destination agreed upon by executive leaders and the board, and require both patience and discipline, but careful planning will help identify the steps that will measure the health system's progress and ensure that it remains on course.

The Governance Institute thanks John Poziemski, Managing Director, and Scott Christensen, Senior Vice President, Kaufman, Hall & Associates, LLC, for writing this article. John can be reached at jpoziemski@kaufmanhall.com and Scott at schristensen@kaufmanhall.com.

