

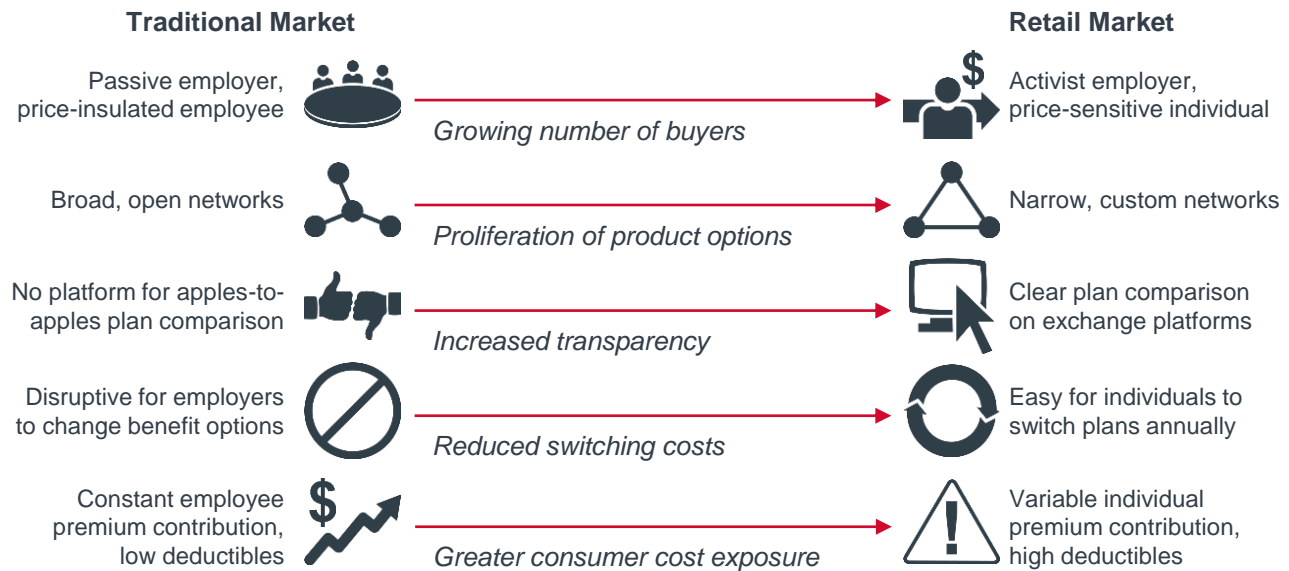
Surviving the **Retail Revolution** in Health Care

Competencies of Winning Hospitals and Health Systems

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The retail revolution is transforming the health care business. And we're not just talking about those retail clinics surfacing on nearly every street corner. In this case, we're talking about two profound changes far more disruptive to hospital and health system economics: the emergence of a new retail insurance market and the growth of retail shopping for care. No longer insulated from market forces, only the savviest and most adaptable provider organizations will survive.

Characteristics of a Traditional vs. Retail Market



Which providers will emerge as “winners” in this new retail market? With increasing frequency and urgency, hospital suppliers and service providers are asking us to help them answer this critical question—to guide them toward the institutions most worthy of additional long-term investment and strategic support. Many assume that size and brand prestige are essential to winning in this emerging health care ecosystem, but we don't necessarily agree.

Instead, we believe that winning health systems will come in varying sizes and locales, but they will all share five characteristics; more specifically, provider organizations able to thrive in the coming decade will excel at **five competencies** only now coming to the forefront as business imperatives:

- 1 Strong business acumen**
- 2 Expansive cost accounting**
- 3 Success in mixing volume and value-based contracts**
- 4 Highly aligned network of care sites**
- 5 Clearly-defined consumer value proposition**

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Competency #1: Strong business acumen

While this first competency may seem obvious, the reality is that health care delivery has been largely shielded from traditional retail market forces until recently. The emergence of price sensitive consumers, narrower networks, lower plan-to-plan switching costs, and population health-based payment models heighten the burden on health system leaders to define and implement new, sustainable growth strategies. To survive and thrive, winners will require:

- A disciplined and adaptive leadership team,
- Well-aligned strategy and investment priorities, and
- A data-driven performance culture

Such business fundamentals, which leaders in other industries have historically taken for granted, are now non-negotiables for health care provider organizations as well.

Competency #2: Expansive cost accounting

Among the business fundamentals health system leaders must get right: knowing what things really cost. They must understand, at a deep and nuanced level, what every person, patient, product, and procedure really costs to the system. They must develop much more sophisticated methods for tracking fixed and variable expenses, direct and indirect costs, and the true economic impact of treating patients across different sites of care.

Expansive, accurate cost accounting is fundamental to two strategic necessities for providers. First, it enables health system leaders to make the kinds of difficult pricing and contracting decisions required to succeed in a retail health care marketplace.

- Should they accept significantly lower prices from a commercial payer to join its narrow network?
- How should they price a bundled payment contract for a suite of orthopedic procedures?
- What MRI prices for consumers paying out-of-pocket will be competitive and profitable?

Second, such cost accounting illuminates opportunities to reduce variation, improve efficiency, and rethink vendor contracts. With pricing pressure only poised to intensify from payers, employers, and retail consumers, only those health systems able to dramatically lower their cost structure without compromising quality will survive.

Competency #3: Success in mixing volume and value-based contracts

There's no question that, to survive, health systems must cater to a far more demanding customer. Whether it's payers, employers, or patients, they're all looking for more affordable, high-quality, accessible care. One means of catalyzing such higher-value care is through the adoption of performance-based payment models. Today, virtually every health care provider maintains a mix of traditional fee-for-service payer contracts and value-based arrangements that delegates some level of cost and quality risk to back to providers.

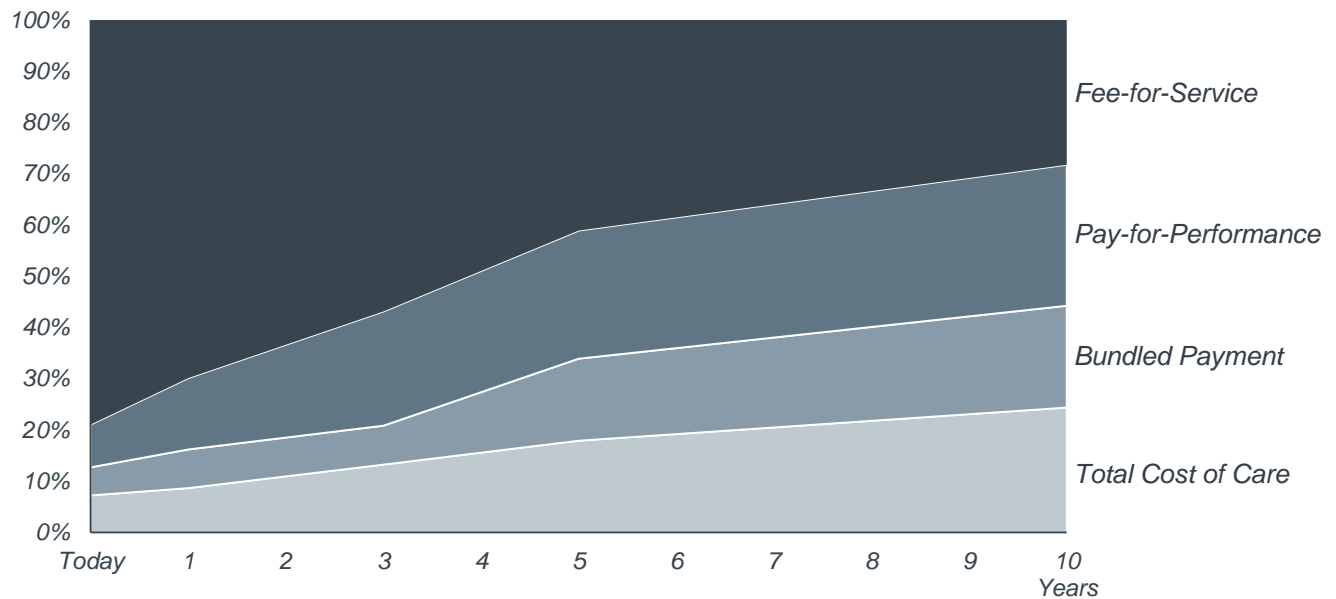
The shift to accountable payment models is happening quickly, albeit not as quickly as some gurus initially projected. Looking to accelerate that shift, CMS recently announced plans to grow the percentage of Medicare payments using value-based reimbursement models to 30% by 2016 and 50% by 2018. But even with that accelerated timeline, most markets are unlikely to have clear tipping points at which health systems will seamlessly shift from one set of growth strategies to another. Unfortunately, they're going to have to live with that ambiguity for a while; winning organizations will be nimble and agile enough to survive amidst that duality. Critically, they will need to prioritize investments that make sense in both a volume- and a value-based world.

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Growth in All Risk-Based Contracting Models

Average Estimated Hospital Revenue Breakdown

n = 88



A winning provider's playbook of "no-regrets" strategies must include tactics for eliminating avoidable spending without destroying profitable fee-for-service business opportunities. Two such examples likely to signal that a health system is thinking like a winner:

- Improving access to convenient, cost-effective care, and
- Ensuring that all patients get the full complement of necessary, evidenced-based care for their age and clinical profile

Both strategies optimize fee-for-service opportunities where appropriate, while still establishing the infrastructure to reduce unnecessary utilization and improve care for complex patients.

Competency #4: Highly-aligned network of care sites

Such "no regrets" investments only make sense if they help *align* the care delivery network. That alignment supersedes the need to consolidate (through M&A) across multiple hospitals, ambulatory sites, and post-acute facilities – and it often supersedes the need to employ even a majority of the physicians in the network. There are multiple paths to alignment, but it is *alignment*, not ownership or employment, that is likely to predict a health system's future success. The reason is simple: a highly aligned network enables the fluid transfer of patients and information across a variety of care settings. It is absolutely essential for providers looking to accomplish two requirements for winning in a retail environment: capturing covered lives while improving both access and coordination.

Successfully aligned networks improve access. Winners must set up care networks that offer patients less hassle and more effective care transitions. Winning health systems will approach access as a comprehensive strategy to see the right patients, at the right locations, for the right services in a convenient, timely, and cost-effective manner. Compared to their peers, these health systems will invest disproportionately in the technology, processes, and staff needed to deliver on this ambition.

Source: Accountable Payment Survey; Advisory Board interviews and analysis.

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Successfully aligned networks also improve the flow of information. They make it easier for multiple clinicians to consult with each other, armed with relevant clinical data at their fingertips (thereby also reducing unnecessary tests and procedures). They engage patients directly in their own care, providing the necessary educational materials and at-home support to inform decisions and increase the likelihood that patients will comply with recommended treatment protocols. Winning health systems are not only investing in necessary tools and technologies, but they're also actively looking for ways to disrupt traditional care models – often in partnership with industry.

Competency #5: Clearly-defined consumer value proposition

After years of academic discourse about the rise of the health care consumer, the “retailization” of the insurance market means that these consumers will play a significant role in every health system’s future success. People have more choice in where they receive health care, and they have more accountability for the financial implications of these choices. As performance-based payment, data transparency and patients’ share of health care expenditures escalate, the urgency for providers to figure out how to win and retain these customers will only increase.

But most health systems know very little about what those consumers really want – and what drives their health care decisions. The Advisory Board Company has recently completed two consumer surveys to help our members better understand how consumers choose at the very front end of the health care continuum: primary care. Those surveys revealed that convenience, access, and respect trump just about all other variables, including reputation and health system affiliation.

While there’s much that health systems are still learning about this new health care consumer, the rapid growth in on-demand retail clinics (like those found in CVS or Walgreens) and applications like Castlight and PokitDok—that provide cost/quality transparency and easy scheduling—highlight a few non-negotiables for providers developing a consumer-friendly value proposition. Winners must present:

- Transparent, understandable and competitive prices,
- Same-day appointment availability,
- One-stop shop service offerings, and
- Virtual care options.



Beyond those essentials, winning health systems must also differentiate themselves in ways that resonate with health care consumers (as well as with payers and employers). With myriad insurance products and narrowing networks, winning providers will position themselves to attract the consumer segments they are best equipped to care for. This will require **focus** and **prioritization**; some may pursue exclusive partnerships with large employers, while others may figure out how to optimally serve complex, co-morbid patients. Some may succeed as the flagship academic tertiary center, while others will win by aligning their infrastructure around trust, service, and family support. There is no singular winning strategy here, but the winners will all share the ability to articulate the *value* of choosing their providers and facilities for care.

Implications for Suppliers and Service Providers

What does all of this mean for you? Beyond the obvious conclusion that not all of your current customers will survive, we've identified six key takeaways for suppliers and service providers:

- 1. Assume that your customers' business sophistication will continue to rise.** Not only will they be more demanding, but the winners are going to be more data-driven and more strategic in their selection of products, services, and partners.
- 2. Seize opportunities to shift the conversation from price to cost.** Suppliers and service providers can stand out from the crowd by helping health system leaders gain greater visibility into true costs and uncovering new, sustainable cost reduction opportunities.
- 3. Support health care providers' development of care pathways** that help route each patient to right product, right procedure, and right setting of care (even if that setting is at home).
- 4. Follow the patients.** As more care is delivered outside the hospital, ensure that your product portfolio and personnel can help your health system customers deliver *and coordinate* care across multiple settings.
- 5. Help your customers deliver a convenient, consumer-friendly experience that stands out from the crowd.** Align your value proposition with the strategies that each health system has prioritized in their pursuit of a differentiated customer experience.
- 6. Health system winners will be made, not found.** There's no secret set of measurable attributes that can definitively identify future winners. No one likes this uncertainty. But it creates tremendous opportunity for creative, nimble suppliers to engage with important customers. Winning suppliers will identify ways they can help their customers excel at the five competencies that can improve their chances of not just surviving but *thriving* in the emerging retail health care marketplace.

How You Can Support Winners

	Provider Mandate	Opportunities for Industry Members
 Strong Business Acumen	Must develop and execute on a system-wide strategy to survive	Position firm as "thought partner" to guide organizational strategy, rather than fulfill narrow product need
 Expansive Cost Accounting	Need cost transparency to sustainably alter their expense structure	Uncover hidden cost reduction opportunities
 Success in Mixing Volume and Value	Must maximize accountable care success without destroying fee-for-service profit	Ensure appropriate patient utilization of services and care
 Highly Aligned Network of Care	Must align sites of care to provide expertise at the proper place and time	Enable timely expertise and cross-collaboration among care team and patients
 Defined Customer Value Proposition	Must provide a more convenient patient experience	Move from being convenient for the hospital to convenient for the patient

Additional Resources

Are you interested in learning more about how we can help you identify and partner with the winners?



Listen to our “[C-Suite Agenda 2015](#)” webconference



Download the [12 Surprising Truths About Engaging Hospital Purchasers](#)



Check out the tools, templates, and projects coming out of the [Sales Transformation Support Initiative](#)



[Register](#) for an upcoming 2014-2015 Health Care Advisory Board Meeting

FOR MORE INFORMATION

Email abhcic@advisory.com to contact your dedicated advisor

This “*Segmenting*” resource is part of a broader Sales Transformation Support Initiative which is intended to help suppliers and service providers better understand how to partner with their provider customers given the ever changing health care landscape. The Sales Transformation Support Initiative is a service offered to health care industry members through The Advisory Board Company’s Health Care Industry Committee.



2445 M Street NW | Washington DC 20037
P 202.266.5600 | F 202.266.5700

advisory.com