Cracks in the Foundation

BY 4SIGHT HEALTH'S
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Cracks in the foundation: 5 structural defects are undermining nonprofit healthcare

Everyone who works in healthcare understands one simple fact: It's a business. But we can't ever forget it's also a business with a soul.

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One person who inspires me with that message is Naresh Trehan, a globally renowned cardiothoracic surgeon and founder of Medanta, India's premier destination for advanced care. Trehan's approach shines through on his company's website (medanta.org). Under the heading "Where Healthcare Meets Hospitality," for instance, it's summed up with the statement: "At Medanta, you will instantly discover that you are so much more than just a patient."

Think of the connection between the words *hospital* and *hospitality*. I think that's a connection every U.S. nonprofit health system should take to heart.

5 SYSTEM DEFECTS STAND IN THE WAY

The problem is that, despite their mission-based orientation and nonprofit tax status, it seems most nonprofit health systems have lost their way. Paraphrasing Shakespeare, the devil can quote mission statements for his own purposes. The relentless organizational imperative to optimize revenues under fee-for-service medicine has fragmented care delivery, triggered unsustainable cost growth and severed vital connections with American consumers.

What went wrong? I submit it is the unfortunate consequence of long-standing structural defects that have prevented nonprofit health systems from better serving customers. To recapture their "lost souls," nonprofits must address five structural defects, described below.

It won't be easy: There's an interplay among these structural defects that compounds the disfunction they have caused. Yet only by overcoming them can a nonprofit effectively respond to healthcare's rapidly evolving marketplace and achieve true long-term sustainability. It is a *just cause* for the nonprofits because it's about improving care delivery value and community health. Let's take a closer look at each of these defects and the challenges they pose.[a]

1 ARTIFICIAL ECONOMICS

In normal markets, intrinsic demand for products and services drives supply. Healthcare reverses the equation. Facility and practitioner supply drives demand for diagnostic and treatment procedures. More cardiac surgeons generate more cardiac procedures, irrespective of intrinsic market demand.[b]

Nonprofit health systems cannot fight gravity forever. Systems clinging to business models based on artificial economics risk losing customers to value-based healthcare companies better positioned to serve those customers' needs. Nonprofits that embrace transformation, consumerism and value will gain market share the old-fashioned way, by earning it.

a. In future columns, I will discuss each defect in greater detail and the efforts that will be required to address it.

b. See, for example, Chapter 4 of Brownlee, S., *Overtreated: Why too much medicine is making us sicker and poorer*, Bloomsbury USA, 2007.

2 MISMATCH BETWEEN NEEDS AND SERVICE

The U.S. healthcare system is not providing the healthcare services that Americans need. According to the CDC, 90% of the nation's healthcare expenditures fund chronic disease and mental health treatments.[c] Moreover, the U.S. healthcare system's massive over- and under-emphasis on treatment and prevention respectively contribute to national declines in health status and life expectancy.[d]

Consequently, Americans do not receive the vital primary care, health promotion, behavioral health and care management services they require to sustain their well-being. Far too often, they don't access care until health crises strike.

More of the same crisis-care delivery will yield more of the same dismal health outcomes. Failure to meet Americans' basic healthcare needs makes providers vulnerable to more agile competitors that deliver appropriate and timely care services at competitive prices.

3 BRITTLE BUSINESS MODELS

Health systems rely on centralized, high-cost platforms (e.g., hospitals) for routine treatment and diagnostic services. This business model optimizes revenues under fee-for-services payment, but it is inefficient and asset-heavy. It fragments care delivery, causes excessive medical errors and frustrates consumers and caregivers alike.

Hospitals have a relatively mature service mix. Most mature industries decentralize to lower costs, to be closer to customers and/or to increase customer convenience. It's the natural pattern of market evolution, and nonprofit health systems are not immune. To remain competitive, nonprofits must decant routine services to more convenient, lower-cost virtual, retail and home-based delivery modalities.

Nonprofits have been slow to adapt to shifting market dynamics because of their expansive facility investments and high labor costs. The *brittleness* of their business models is a strategic liability. It leaves their market positioning vulnerable to disruptive healthcare businesses, particularly those that reduce demand for acute care services.

4 REGULATORY HEADWINDS

Absent COVID-19, the biggest 2020 healthcare news stories were the adoption of expansive data interoperability and pricing transparency regulations. These promarket regulatory initiatives level the competitive playing field and reward value-based service providers.

Overall, the regulatory climate is becoming hostile to health systems. More promarket, proconsumer policies make it difficult for them to continue business practices that, despite being profitable, contribute to health disparities, reduced patient convenience and higher costs.

5 INADEQUATE LEADERSHIP

Boards of nonprofit health systems tend to be large, voluntary, philanthropic and lacking in needed expertise. They often cannot provide sophisticated business guidance and adequate oversight. Compounding the challenge, the nonprofits' executives work under management contracts that incentivize short-term fixes, not long-term repositioning.

As a result, the boards tend to be strategically defensive, support status-quo business practices and defer to management on major organizational decisions. They prefer full operational ownership and control, making consolidation difficult. They resist risk-based strategic partnerships. Consequently, they rarely advocate for transformative efficiency improvements and/or repositioning.

Given healthcare's turbulent operating environment, the nonprofits' boards need to become

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Approximate number of CABG surgeries performed by Medanta Heart Institute in India since it was founded in 2009, testifying to how patients have responded positively to the humanity of its approach

c. CDC, "Health and economic costs of chronic diseases," page last reviewed June 23, 2021.

d. Venkataramani, A.S., O'Brien, R., and Tsai, A.C., "Declining life expectancy in the United States: The need for social policy as health policy," *JAMA Network*, Feb. 16, 2021.

more responsive to organizational and community needs — and more proactive in setting strategy and establishing greater accountability for performance, community benefit levels and communitywide health status.

AN UNSUSTAINABLE MODEL DEMANDS CHANGE

Nonprofits are at a crossroads, as they face an existential threat from the five structural defects outlined here. If they are to respond and ultimately thrive, their management and board governance must align to transform entrenched and counterproductive business practices.

Indeed, if I were to point to a single defect to our healthcare system that we can address immediately, it's our inadequate leadership. There's never been a greater need for strong leadership. Investing in high-value care delivery that overcomes systemic defects will require tough resource allocation decisions.

But there's also a more fundamental need. We cannot forget the *soul* of healthcare when making those decisions. I would urge all leaders of nonprofit health systems to embrace the message of visionaries like Naresh Trehan: Let's make *hospitality* the centerpiece of the healthcare we deliver. If we do that, while also delivering better outcomes at lower costs, our nonprofits will thrive in concert with our communities for generations to come. ▮

About the author

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Editor's note: In future columns, David W. Johnson will discuss each of the defects described here in greater detail and the particular efforts that will be required to address it.

Cracks in the foundation Part 2: Overcoming healthcare's **artificial economics**

The first thing to do when you're stuck in a ditch is to stop digging.

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This piece is the second in a series of six columns in which David Johnson addresses five structural defects undermining nonprofit healthcare. He outlined all five defects in the first column of the series, which debuted in the February issue of *hfm*.

It's evident that our healthcare system is beset with growing costs and inequities in access to healthcare. And most support the goal of achieving true cost effectiveness of health for all Americans. More of the same approach will yield more of the same dismal outcomes. It's time to stop digging and confront healthcare's structural challenges.

Take heart. Our history as a nation — and as a species — shows that solving big problems is one of our strengths, even if there are bumps along the way. But finding solutions starts with the willingness to question status-quo practices.

Let's consider the major driver of our healthcare industry's current disfunction: artificial economics based on the industry's own special twist on the law of supply and demand.

HEALTHCARE'S ARTIFICIAL ECONOMICS

In normal markets, intrinsic demand for products and services at given prices drives supply. Healthcare reverses the equation. The supply of healthcare facilities and practitioners propels demand for diagnostic and treatment procedures. More cardiac surgeons generate more cardiac procedures, irrespective of intrinsic market demand.

Although unique, *supply-driven demand* for healthcare services is not new. In the early 1960s, economist Milton Roemer observed, "[S]upply may induce its own demand in the presence of third-party payment."

Medicare's creation in 1965 incorporated the third-party payment mechanisms that Roemer feared. Distortive and artificial supply-driven demand governs healthcare economics to the present day.

Sixty-plus years since Medicare's creation, third-party, fee-for-service (FFS) payment subverts value-driven healthcare service delivery by doing the following:

- Compensating *reimbursable care* whether it's appropriate or not
- Discouraging *appropriate care* when it's not reimbursable
- Complicating treatment approvals
- Increasing administrative costs
- Distorting the buy-sell relationship between providers and consumers

Complexity and gaming dominate the intricate dance between payers and providers. Market concentration enables some payers and providers to gain concentrated pricing power. Monopolistic and monopsonist behaviors warp industry supply-demand dynamics and steal vital societal resources.

Healthcare's artificial economics have created an inefficient, error-prone, wasteful and often ineffective delivery system that ignores consumer preferences. FFS payment induces supply-driven

demand, inflates prices, fragments service provision and complicates billing mechanics. Illustrating the point, most hospitals are failing to comply with new price-transparency rules.

Meanwhile, adherence to healthcare's artificial economics has enriched health systems. But that benefit comes at a cost, because it also makes them vulnerable to value-based offerings that deliver better outcomes at lower prices. Disruptive companies promoting retail and virtual care delivery are threatening profitable acute care service lines.

History is not destiny, however. Health systems that engage consumers, embrace transparency and optimize performance will thrive within healthcare's evolving marketplace. They can win market share by delivering tangible value to consumers.

HEALTHCARE'S NEW MATH

Delivering value-based care is easier said than done. It requires:

- Cultural transformation within health systems that places consumers at the heart of organizational activity
- Managerial mindsets that link service provision with consumer needs
- New metrics to measure engagement, satisfaction, efficiency and costs
- New math, as illustrated in the exhibit below

Moving away from artificial to value-based economics requires a new underlying mathematical premise

Old Math	New Math
Revenues (flexible) — Expenses (less known) Margin	Revenues (fixed) — Expenses (essential) Margin
Purpose: Getting paid as much as possible	Purpose: Creating value

Source: 4sight Health

In traditional healthcare economics (old math), revenues are flexible and subject to manipulation. This accounts for health systems' enormous investment in revenue cycle capabilities. In FFS medicine, health systems win by optimizing revenues, not controlling costs: "Getting paid as much as possible" is the organizational mantra.

By comparison, in well-functioning markets (new math) the supply of products and services offered adjusts to intrinsic levels of customer demand at specific price points. Prices for commodity products and routine services are highly elastic. Higher prices reduce demand. Lower prices increase it. As the healthcare marketplace becomes more transparent and competitive, prices for routine care will coalesce around fixed *price points*.

Profitability requires effective expense management. Robust cost-accounting capabilities drive constant performance improvement, tight pricing algorithms and efficient resource utilization. Winning companies distinguish themselves by their ability to create value. They deliver high volumes of high-quality products and services at low prices with exceptional customer experience (think Amazon).

In the land of the blind, the one-eyed person rules. Health systems that abandon artificial, volume-driven economics and embrace real, value-driven economics will redefine the healthcare marketplace. They will gain customers, market share and brand strength by becoming more transparent, aligning prices with costs and delivering value to customers. As they transform themselves, these revolutionary health systems will harmonize mission and performance. They will sustain themselves by enriching the American people with kinder, smarter and more affordable healthcare services.

GRAVITY WINS

Most healthcare services are routine. They occur frequently, have predictable outcomes and invite standardization. Fighting against

7 strategies health systems can use to transform U.S. healthcare

Here are seven strategic stances that health systems can take to overcome their historic dependency on fee-for-service medicine, volume-based business models and revenue-first managerial mindsets:

1. Accept that healthcare's artificial supply-driven economics will **disappear over time** and that routine healthcare services are subject to commodity pricing.
2. Focus on delivering **better care outcomes** at a lower cost by employing robust cost-accounting capabilities.
3. Proactively seek risk-based contracts and partner strategically to **expand organizational reach** and capabilities.
4. Create seamless, **customer-friendly interfaces** to guide consumer decision-making.
5. Emphasize **convenience**, accountability and customer experience.
6. Engage caregivers and employees in the just cause of **delivering better health**.
7. Design new metrics that **capture value creation** broadly and specifically.

commodity-based pricing for routine services is like fighting against gravity. It takes enormous energy and is doomed to failure.

To paraphrase a quote often attributed to Mark Twain: "It's not what you don't know that will kill you. It's what you think you know for sure that just ain't so."

Healthcare incumbents believe current payment practices will continue for the foreseeable future. It just ain't so.

The shift to risk-based payment models (full-risk bundles for episodic care and capitation for population health) normalizes healthcare's supply-demand dynamics. With revenues largely fixed, health systems will generate profits in two ways: by delivering routine services efficiently at scale; and by delivering appropriate care services that promote prevention, engagement and community well-being.

Over the coming decade, consumers will exercise more control over their healthcare decision-making. They won't need navigators. Technology and consumer-friendly applications will provide the information, guidance and access that consumers require to make smarter healthcare purchases.

Once unleashed, American consumers will become heat-seeking missiles for the value-based care services they need and want. As the healthcare marketplace normalizes, consumers will use well-honed purchasing instincts to find and reward higher-value providers.

A LESSON — AND A CHALLENGE — POSED BY MARKET LEADERS

Cutting-edge health systems will build business models that deliver routine care efficiently and profitably. These are the organizations that are out in front when it comes to questioning the status quo. They will get ahead of the curve by giving customers the high-value care they increasingly demand. They will unleash their workforces to deliver on the promise of better healthcare for customers. Imagine the power of this focused effort.

These health systems will gain market share the old-fashioned way — by earning it. ▮

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Cracks in the Foundation (Part 3): Overcoming healthcare's **services-need mismatch**

At the top of my reading list last summer was *The Hospital: Life, Death and Dollars in a Small American Town* by Brian Alexander. I expected Alexander's book to portray the ups and downs of a rural hospital fighting for survival. It does that superbly.

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This piece is the third in a series of six columns in which David Johnson addresses five structural defects undermining nonprofit healthcare. He outlined all five defects in the first column of the series, which debuted in the February issue of *hfm*.

Surprisingly, *The Hospital* also chronicles the daily travails of local residents seeking vital care services they desperately need. Among them is Keith Swihart, an affable, hard-working, heavy-set man who struggles to care for a special-needs son, afford insulin and ward off medical bill collectors. Diabetes ultimately costs Keith his right foot and most of his eyesight.

Only 39, Keith hobbles to endless medical appointments and treatments. An effective diabetes management program could have kept Keith active and productive. Instead, as he spirals downhill, American society funds Keith's enormous treatment and disability costs. What a monumental and preventable tragedy.

HEALTHCARE'S PROFOUND SERVICES-NEED MISMATCH

There are countless Keith Swiharts living in America, especially in low-income urban and rural communities. U.S. healthcare is not providing them with the basic care services they need to lead longer, healthier and happier lives.

Inadequate access to coordinated social and healthcare services underlies expansive differences in life expectancy, exceeding 20 years between wealthy and poor communities. Despite medical advances, U.S. life expectancy has declined consistently on both an absolute and relative basis since 2014.[a]

By the early 1990s, sedentary lifestyles, greater portion sizes and processed food consumption had triggered massive increases in obesity and related chronic conditions. In response, the Centers for Disease Control (CDC) added "Prevention" to its name in 1992.

Even with more preventive care, the CDC estimated in 2020 that, as of 2018, more than 42% of U.S. adults were obese.[b] Meanwhile, chronic disease and mental health conditions account for 90% of the nation's healthcare expenditure.[c]

It doesn't have to be this way. Providers are ideally positioned to engage and help Americans improve their well-being and to promote healthier communities.

Elevating health promotion to equal status with disease treatment, however, runs counter

a. Venkataramani, A.S., O'Brien, R., and Tsai, A.C., "Declining life expectancy in the United States: The need for social policy as health policy," *JAMA Network*, Feb. 16, 2021.

b. Hales, C.M., Carroll, M.D., Fryar, C.D., and Ogden, C.L., "Prevalence of obesity and severe obesity among adults: United States, 2017–2018," CDC National Center of Health Statistics, *NDHS data brief*, February 2020.

c. National Center for Chronic Disease Prevention and Health Promotion, "Health and economic costs of chronic diseases," CDC, page last reviewed March 9, 2022.

to medical practice, culture and economics. Overcoming legacy behaviors and attitudes will require full-throttled commitments to improving *social determinants of health*.

HEALTHY MULTIPLIERS

The antiseptic phrase *social determinants of health* mechanically captures the immense importance of education, housing, food security, transportation and other social factors in promoting well-being and enhancing human potential. But the words fail to stir the blood. "Social" as a modifier of "determinants" is far too limiting.

The exhibit on page 42 displays the numerous and complex interconnections that foster longer, healthier lives. It shows that social and economic factors, health behaviors and the physical environment drive 80% of health outcomes in the United States. Yet America disproportionately invests its healthcare resources in clinical care, which accounts for only 20% of outcomes. More of the same investments will only yield more of the same dismal health outcomes.

By contrast, enhancing social determinants can catapult disadvantaged individuals and communities into sustained well-being and higher productivity. The terminology describing these transformative investments should capture its inherent vigor and enormous potential.

A descriptor superior to *social determinants of health* is *healthy multipliers.* It is clean, active and progressive, describing the real initiatives — i.e., the multipliers — that embody the essence of what's required for healthy living.

The idea of *healthy multipliers* also represents the strategic shift that health systems must make to combat the nation's chronic disease pandemic. Former Cleveland Clinic CEO Toby Cosgrove observed that "the state of our nation depends on the state of our health." For the nation to prosper, America must become healthier. As is happening in Philadelphia, that requires health systems to promote community-wide health through targeted initiatives.

PIVOTING TO HEALTHY MULTIPLIERS

Stephen Klasko, MD, former CEO of Jefferson Health in Philadelphia, believes health systems "shouldn't be limited by the natural order of things." So he approaches strategic planning in a novel way. He looks ahead 10 years, imagines a desired future and works to achieve it.

Translating his beliefs into actions, Klasko reset Jefferson's strategy in 2017 by "placing health equity at the center of everything we do." Leading by example, Klasko linked 25% of his incentive compensation to reducing health inequities.[d] Jefferson Health then took the following concrete steps, among others, to improve health status in Philadelphia's low-income communities:

- Established the Philadelphia Collaborative for Health Equity
- Partnered with Temple to reduce disparities in stroke outcomes

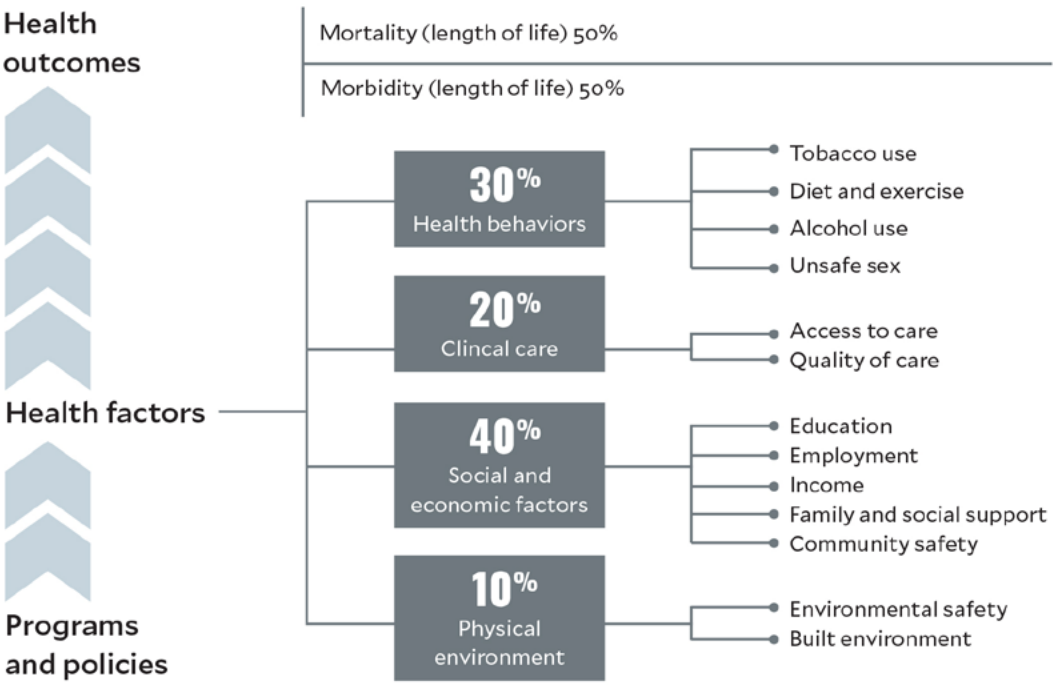
d. Advisory Board, "Steve Klasko on diverging from the 'natural order of things' to move health care forward," Daily Briefing, Nov. 2, 2021.

Checklist for remedying the services-need mismatch

Here are seven strategic steps health systems can undertake to overcome services-need mismatches:

- Document and measure care gaps.
- Make consumers' health and well-being the organizational priority.
- Understand the cultural dynamics linking poverty and poor health.
- Partner with like-minded organizations to promote healthier communities.
- Prioritize holistic primary care, preventive and mental health services.
- Address disparities in healthcare outcomes.
- Invest expansively in healthy multipliers.

Key drivers of health outcomes in the United States



Source: University of Wisconsin Population Health Institute, "What works for health: evidence for decision-making," 2014.

- Partnered with Novartis to reduce disparities in cardiovascular diseases
- Launched #realtalk to promote COVID vaccinations in African American communities

These initiatives are healthy multipliers in action. Outcomes matter. Jefferson funds digital health companies that *make a real difference* in promoting health equity. As Klasko recently commented: "... it's about getting rid of food deserts by drone-delivering food or using community health partners to really help the 5% of people who end up using 50% of the resources."

Health systems are complex organizations with expansive investments in facilities, labor and technology. As Jefferson Health illustrates, embracing healthier outcomes, equity and well-being is liberating. It enables health systems to engage productively with their communities.

Absent this commitment, the yawning services-need gap will widen, health disparities will increase and the state of the nation's health will worsen. Embracing health as an organizational imperative is clarifying. It's what management guru Peter Drucker meant when distinguishing between "doing things right" and "doing the right thing."

Doing the right thing requires health systems to make absolute commitments to putting consumers' interests first. Those that do so will gain market relevance. Those that don't will lose it.

Let's apply "Klaskoian" logic to health systems' current reality. Healthy multipliers will gain increasing importance during the next 10 years. Doesn't it make strategic sense to invest in them now? The answer is beyond obvious. ▮

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Cracks in the foundation (Part 4): Overcoming U.S. health systems' **brittle business model**

U.S. health systems' reliance on centralized, high-cost platforms (e.g., hospitals) to deliver routine care is baffling to me. Sure, this approach optimizes revenues under fee-for-service (FFS) payment, but it is inefficient and asset-heavy. It fragments service delivery and promotes overtreatment. It makes their business model brittle and exposes them to market failure.

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This piece is the fourth in a series of six columns in which David Johnson addresses five structural defects undermining nonprofit healthcare. He outlined all five defects in the first column of the series, which debuted in the February issue of *hfm*.

Hospitals largely go dark on nights and weekends. No other capital-intensive industry uses its facilities on such a limited basis. Underused assets add to operating costs and dilute value.

Given their expansive facility investments and high labor costs, health systems do not adapt quickly to shifting market dynamics.

To build less brittle, more consumer-centric delivery platforms, health systems must decant procedures to more convenient, lower-cost locations as they pursue full-risk contracting.

Consumers vote with their wallets. So a health system's long-term sustainability depends on providing services that consumers want and need at competitive prices.

It also requires full engagement with Big Tech to optimize consumer experiences. As other industries have demonstrated, adaptive, omnichannel platforms are the most effective channels for engaging consumers.

Massive investment in digital health technologies is fueling development of omnichannel capabilities inside, outside and beyond provider networks. The marketplace is reorganizing to disrupt commodifiable healthcare services. New competitors are emerging to steal customers.

An irresistible consumer force confronts immovable hospital business practices. Something is going to give. For resistant health systems that cling to a brittle FFS-driven business model, that something is customers.

COMMODITIZED SERVICES

Whether health systems realize it or not, their service mix is relatively mature (as depicted in the exhibit on page 52) and subject to commodity pricing. The evolving healthcare marketplace is tailor-made for companies expert at delivering high-volume, low-margin, high-quality services.

Mature industries with commodifiable services typically decentralize to improve customer access, convenience and affordability.

Nonetheless, despite having a maturing service mix, most health systems still prioritize centralized service delivery.

NEW COMPETITORS

This situation has made traditional health systems vulnerable to more-efficient, customer-friendly competitors, including those offering virtual, ambulatory and home-based care services.

COVID-19 has accelerated the adoption of these remote and virtual modalities. Meanwhile, payers are giving consumers incentives to receive routine care outside of acute care settings, including palliative care to improve end-of-life well-being and reduce end-of-life care interventions, which are a major revenue source for health systems.

Competitors are lining up in this environment. Retail giants Amazon, CVS, Walgreens and Walmart are expanding their platforms to encompass routine healthcare services. Newer competitors like Teladoc, GoHealth Urgent Care, RAYUS Radiology and dozens more are emerging to standardize and commoditize routine diagnostic and treatment services. Consumer-oriented market plays by disrupters thrive when they encounter the following:

- Frustrated customers
- High levels of routine/commodity goods and services
- Low entry barriers for new competitors
- Excessive numbers of suppliers/providers
- Inefficient and inconvenient service delivery
- High-friction, low-transparency transactions
- Entrenched status-quo operating practices
- Underdeveloped technology platforms

Healthcare has these characteristics in abundance. With massive private equity and venture investment flowing into healthcare services, health systems can anticipate increasing competition for routine service provision, which will limit their capacity to charge premium prices for routine services.

Perhaps even more threatening is the emergence of disruptive health-oriented businesses, such as Oak Street Health and Oscar Health. These companies develop robust primary care relationships with their customers that position them to coordinate and channel care delivery. In their purest form, enhanced primary care companies accept full financial risk for their members' care costs. They emphasize holistic care delivery to drive better outcomes and reduce the need for acute care treatments.

7 strategies for a healthcare system transformation

Here are seven strategies health systems can undertake to develop more robust and decentralized care delivery modalities:

1 Determine which service components require full ownership and control, and invest in them to create market differentiation.

2 Identify vulnerable and salvageable business segments, and reconfigure these to compete within transparent, decentralized marketplaces.

3 Sell assets to third-party owners, such as real estate investment trusts (REITs), to reduce ownership risk and liberate investment capital, and where appropriate, enter sale-leaseback arrangements.

4 Develop comprehensive virtual, retail and home-based delivery capabilities within consumer-friendly, omnichannel platforms.

5 Partner and/or contract with specialized service providers to amplify and expand care offerings, build brand strength and engage consumers.

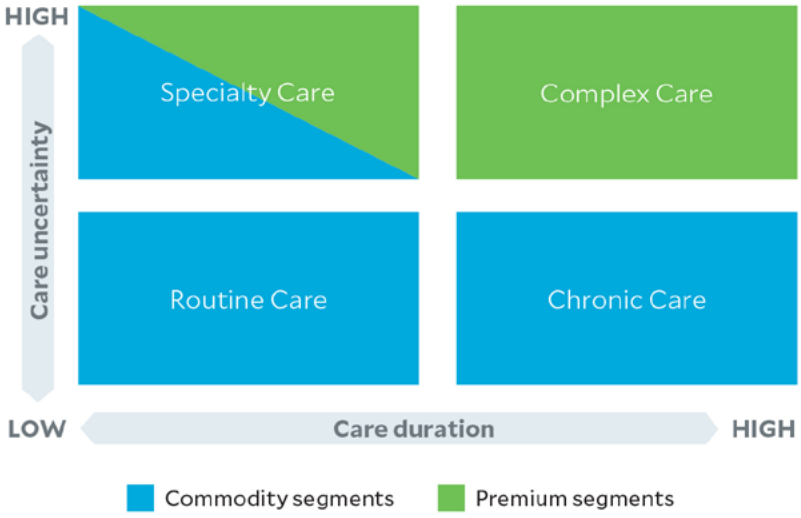
6 Develop enhanced primary care capabilities.

7 Position to undertake full-risk contracting.

NEXT PAGE

Care delivery matrix: right care, right time, right place and right price

High-volume, low-risk treatments constitute a substantial majority of healthcare treatments. Retail providers are positioning to capture market share for routine, non-acute chronic and some specialty care through convenient, low-cost, customer-friendly service offerings.



INTEGRATED PLATFORMS

The ability to deliver such customer-friendly services requires an integrated platform.

For example, Marriott's Bonvoy website is an expansive and engaging omnichannel platform that entices customers to book all their travel arrangements in this one convenient location. Bonvoy offers 30 hospitality brands tailored to personal preferences. It augments hotel choices with aligned partner offerings (car rentals), unique experiences (jungle dinner, anyone?), credit-card perks and a robust loyalty program.

Marriott and other big hotel chains developed these omnichannel platforms to counteract the competitive threats posed by travel exchange companies such as Travelocity, Hotels.com and Airbnb.

Like hotel chains, health systems need robust platforms to maintain market competitiveness. These platforms link capabilities within integrated service delivery networks to offer products and services seamlessly to consumers.

In consumer-oriented marketplaces, health systems will differentiate themselves through brand strength, price and customer experience. Their performance, cash flow and profitability will depend on delivering superior outputs at lower costs with great customer service.

That's why leading health systems are expanding their service lines and delivery channels to decentralize care delivery. For example:

- Mayo Clinic and Kaiser Permanente have invested in Medically Home Group to bring robust hospital-at-home capabilities into their care networks.
- Hartford HealthCare has reorganized its services within a seamless, consumer-friendly digital platform, producing some of these services internally and offering others through strategic partnerships (e.g., with GoHealth for urgent-care services).

As these examples illustrate, integrated platforms enhance the value of health systems' offerings by assembling, curating and aligning the right mix of owned, partnered and/or outsourced services. They overcome existing business model brittleness by reorganizing to deliver the right care to consumers at the right time in the right place at the right price.

They win by giving consumers the care services they need at affordable prices. It's not complicated, but it takes commitment and perseverance to design and run retail business models that do so effectively. ▮

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Correction: In David Johnson's column appearing in the April issue of *hfm*, the exhibit "Key drivers of health outcomes in the United States" was incorrectly attributed to 4sight Health. The correct source is University of Wisconsin Population Health Institute, "What works for health: evidence for decision-making," 2014.

DAVID JOHNSON

Cracks in the foundation (Part 5): Overcoming **regulatory headwinds**

On Sept. 22, 1962, a young Bob Dylan performed "A Hard Rain's a-Gonna Fall" for the first time at Carnegie Hall in New York City. Written at the time of the Cuban missile crisis, the iconic question-and-answer song bristles with symbolism and foreboding, anticipating a period of political and social upheaval that would define the decade.

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This piece is the fifth in a series of six columns in which David Johnson addresses five structural defects undermining nonprofit healthcare. He outlined all five defects in the first column, which debuted in the February 2022 issue of *hfm*.

Sixty years later, the nation is in embroiled in another period of political and social upheaval, while hospitals have been pushed to the center of the maelstrom by COVID-19 and other forms of industry disruption.

A hard rain will fall on hospitals that fight the strong regulatory headwinds aimed at leveling the competitive playing field for value-based service providers. Apart from COVID-19, the biggest healthcare stories of the past two years have been the adoption and impact of expansive data interoperability and pricing transparency regulations.

Most hospitals haven't gotten with the program. As evidenced by the AHA's recent "Cost of Caring" report, too many hospitals prefer to cry poverty and beg for more societal resources.

RESPONDING WITH MORE THAN JUST AN UMBRELLA

Healthcare executives rhapsodize on how free-flowing data exchange will enhance care outcomes, reduce administrative friction, improve customer experience and advance medical research. Yet few hospitals are embracing interoperability. Data systems still don't talk to each other. They often lack vital patient information.

On payment transparency, most hospitals are paying fines rather than reveal their negotiated treatment rates with commercial health insurers. In response, the Biden administration finalized a new rule last November that increases fines for noncompliant hospitals and prevents hospitals from impeding internet searches through source-code manipulation.

Regulatory pressures on health systems continue to increase. Last July, President Biden issued an Executive Order targeting noncompetitive hospital mergers, surprise billing and price transparency. In October 2021, the Center for Medicare and Medicaid Innovation called for all Medicare beneficiaries to be in risk-based accountable care organizations by 2030.

Overall, the regulatory environment is hostile to hospitals unwilling to embrace change. American society expects more public benefit from nonprofit healthcare than it currently receives. Rather than fight gravity, hospitals must embrace value and consumerism. They must turn those regulatory headwinds into tailwinds.

LEADING CHANGE

Darwin's theory of evolution asserts that a species' survival depends primarily on its

adaptability. Darwinian logic applies to hospitals. Those that adapt business practices that deliver better outcomes at competitive prices with great service will retain market relevance.

Historically, hospitals have been strategically defensive.[a] It's time to go on offense. It's time to embrace the new regulatory mandates on transparency, interoperability and anticompetitive behaviors. Healthcare leaders can and should use the new regulations to drive value-based care throughout their organizations.

Proactively disclosing prices will earn consumers' trust and better position service offerings. Health systems can apply the knowledge they gain from more accurate buy-sell transactions to identify pricing anomalies, stimulate organizational reforms and optimize resource allocation.

This same logic applies to interoperability. By proactively sharing de-identified patient data, hospitals can attract innovative companies to help develop engaging, consumer-friendly digital platforms. Better outcomes, lower costs and superior customer experience will follow.

Finally, hospitals need to curtail anticompetitive behaviors. Far too many use market leverage to negotiate higher prices with commercial health insurance companies. Pursuit of anticompetitive behaviors, including mergers that result in higher treatment prices, is ultimately self-defeating. It stymies value creation and inhibits strategic repositioning.

In contrast, hospitals that deliver value-based services do not require anticompetitive tactics to solidify their market positions. Embracing regulatory policies that stimulate transformation is liberating. It frees health systems to concentrate on meeting customers' vital healthcare and health needs.

Promoting population health is a novel enterprise for most health systems. It requires new payment models, operating behaviors and outcome metrics. Moreover, population health is disruptive to traditional healthcare practices because it reduces the need for acute care treatments.

Implementing conflicting business models is complicated. It requires a form of *dual transformation*.

MANAGING TWO BUSINESS MODELS SIMULTANEOUSLY

As the healthcare marketplace transitions to value-based care delivery, all hospitals must streamline their transactional healthcare businesses to remain competitive. Some will also undertake community-based population health programs.

Despite requiring the same underlying capabilities, transactional healthcare and population-health business models operate in opposition to one another.

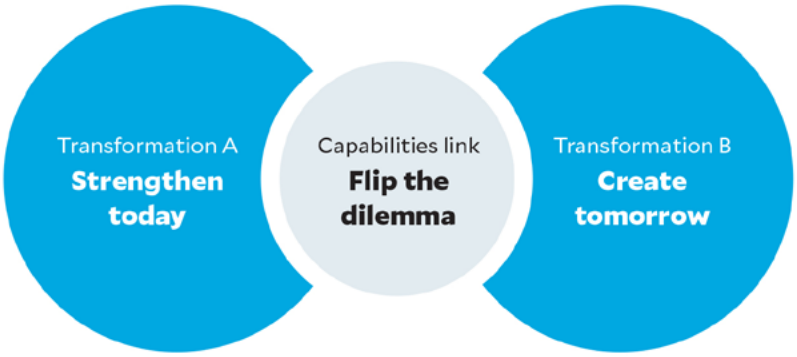
In transactional healthcare, higher volume translates into more revenue and profits. Transactional healthcare emphasizes volume and efficiency (per unit care costs).

Meanwhile, population health companies manage care costs within predetermined

NEXT PAGE

Dual transformation model

Dual transformation enables companies to manage the current business (A) while developing the future business (B). Effectively allocating capabilities (C) is essential to organizational success.



Source: Christiansen Institute, *How disruptive innovation can finally revolutionize healthcare*, Spring 2017

a. Porter, M.E., and Lee, T.H., "The strategy that will fix health care," *Harvard Business Review*, October 2013.

7-step transformation checklist for health system use

Here is a seven-step strategy that health systems can apply to convert regulatory headwinds into tailwinds:

1. Acknowledge that new regulatory policies challenge traditional operating practices.
2. Assess organizational compliance with new interoperability and transparency rules.
3. Implement these rules proactively to engage consumers and stimulate innovation.
4. Resist using market leverage to negotiate commercial treatment prices.
5. Streamline care delivery to become price competitive.
6. Determine whether pursuing population health is a strategic priority.
7. Practice dual transformation to implement population health if it is deemed a priority.

budgets. Unnecessary volume is a liability. Consequently, they emphasize health promotion, disease prevention, holistic care delivery and disease management to reduce acute interventions and optimize member well-being. Delivering the right care at the right time in the right place creates enormous societal value while aligning provider and patient interests.

As value-based payment models proliferate, transactional healthcare will diminish while population health will increase. Transactional healthcare will not disappear but will assume a commodity focus. Prices for routine services will coalesce at transparent market-based levels.

What is required, therefore, is for health systems to adopt a management model called a *dual transformation*, by which a company can transition its operating profiles during periods of disruptive change.[b] Under this model, as shown in the exhibit on page 53, a health system can reposition its traditional transactional approach to better adapt to the changing marketplace (depicted as "Transformation A") while applying the same capabilities (the "C" link) to develop a population health strategy in response to industry innovations and disruptions such as value-based payment (depicted as "Transformation B").

Dual transformation promotes more efficient operation of traditional businesses, even as they shrink, while nurturing and growing new businesses. There is no overlap in their operations. However, senior management ensures that capabilities flow to both businesses in sufficient measure to optimize organizational success.

THE PATH TO FUTURE SUCCESS

Rather than fight regulatory headwinds and the "hard rain" they create, health systems can embrace the new regulatory mandates. After abandoning anticompetitive business practices, health systems can proactively pursue value-based care delivery and community-wide population health. That will put wind in their sails and give them clear skies in their future. ∎

b. Christensen, C., Waldeck, A., and Fogg, R., How disruptive innovation can finally revolutionize healthcare, *Innosight*, Spring 2017.

About the author

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