E-Briefings

Volume 16, No. 1 • January 2019

New research and expert opinions in the area of hospital and health system governance.

Healthcare Forecast: 10 Trends (and Implications) Board Members and Senior Leaders Need to Know

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Looking forward, we see several key trends emerging that will affect hospital and physician providers. Expenses will continue to increase faster than revenue, and pressures will continue to push providers into delivering better value for the money spent. Physicians and patients will become more engaged in healthcare with both having incentives to manage costs and spending. New start-up companies, digital platforms, telehealth, and data analytics will have a more significant impact on healthcare delivery than in prior years. Hospitals and health systems will focus on new payment methods, new care models, increasing market share, driving down costs, and driving better value through improved quality outcomes and an enhanced patient experience. Some trends represent threats, others opportunities, but all must be factored into strategic plans and boardroom discussions. What follows is our list of the top issues that providers should consider this year.

1. Provider Shortages: Physicians, Nurses, and Allied Professionals

The baby boomers are finally retiring and/or cutting back on their workloads. To address the shrinking workforce, technology and automation solutions are coming to the fore. A range of companies have introduced digital tools to deliver care, such as telehealth and virtual visits that both improve access and enhance throughput. These technologies are getting an additional boost by CMS, which is starting to reimburse providers for virtual services, recognizing their potential to enhance access and reduce total costs.

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In the boardroom:

- Monitor workforce vacancies in key professional positions and ensure that attention is focused on effective recruitment and retention activities.
- Update succession plans for key leadership positions including physicians, nurses, allied

Key Board Takeaways

Questions for the board to consider include:

- What is our strategy regarding optimal size for our organization in terms of overall revenue, geographic footprint, and breadth and mix of services to offer?
- How will we significantly differentiate ourselves relative to our competitors?
- Where do we stand on the transition continuum of fee-for-service to value-based payment models? What is the anticipated pace of change, and what strategies do we have to protect and increase patient volume and revenues as the shift occurs?
- Do we have appropriate strategies to continuously improve quality and patient experience?
- What can we do to make two-sided risk and value-based payment a core competency? How can we lead in areas such as ACO/CIN and bundled payment performance with physicians as partners vs. as competitors?
- How can we become more meaningfully engaged in the community, especially to appropriately address social determinants of health with other partners and stakeholders?

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professionals, C-suite leaders, and board members.
- Ensure that your strategic plan addresses how telehealth and digital care capabilities can improve productivity, access, throughput, and patient convenience, at a lower cost.

2. More Vertical Integration: Opportunity or Threat?

We have seen many health systems already vertically integrate into the post-acute care (PAC), ambulatory, physician practice, and health plan space, including direct contracting with employers. Non-traditional players are also vertically integrating in market-disruptive ways, such as Walgreens acquiring Humana, Amazon acquiring PillPack, CVS acquiring Aetna (in process), Apple buying medical groups, and Walmart and others opening health centers in their stores. There is a strong push for new market entrants to invade three areas: 1) providing additional and non-traditional access points, 2) integrating to reduce costs, and 3) improving convenience and the patient's experience. There will also be more consolidation in the industry as vertical integration threatens and alters traditional referral patterns.

In the boardroom:
- Some providers have taken a "partner" approach to new market entrants, such as contracting with Walmart and others to staff in-store clinics, or to open their own "minute" clinics in retail spaces. Assess the feasibility of non-traditional access points, relationships, and technology (telehealth) as appropriate in your market.
- Consider selling underperforming assets or business ventures.

3. Continued (Extreme) Focus on the Consumer

As baby boomers age into Medicare and millennials begin to use healthcare more, hospitals and health systems are actively targeting the consumer and trying to create stickiness to their brand and services. Successful healthcare organizations are pursuing strategies that include a dynamic, interactive patient Web portal, "live chat" assistance online, membership clubs (discounts), apps, easy access, and direct engagement with the consumer. An essential capability will be enabled consumer access to their electronic health records to schedule appointments, pay bills, receive test results, access health articles, and learn of educational or screening opportunities. As more people sign up with high-deductible health plans, pricing and cost will impact a growing percentage of the population. While price transparency has not grown as fast as predicted and consumers have been slow to use transparency tools, employers have been taking up the slack. More employers are using this data to justify direct contracts with health systems. These deals remove third-party payers and added administrative costs from the equation, creating customized plans with high-value networks or centers of excellence for their employees to use. Not only do these networks reduce the number of non-appropriate procedures, they also compress variations in common procedure costs.

In the boardroom:
- Ensure your organization is focusing heavily on the consumer experience, and consider the following questions:
  - Do we have a robust social media plan?
  - Do we use technology, digital tools, and processes to facilitate ease-of-access and increase patient engagement and value?
  - Can consumers access appointments, information, test results, take care of administrative tasks, and "comparison shop" as easily as they can rent a car, buy an airline ticket, or book a hotel?
- Monitor what your competitors are doing in these areas and provide better consumer solutions.

4. Slowing Pace of Consolidation

While consolidation among providers will continue, the pace may be slowing, as the most advantageous targets have already been taken. In addition, research has thrown a wet blanket over the fast pace of mergers/acquisitions because the goals of lower costs, increased revenue, and scale needed to move into the value-based care/payment world, have remained elusive. Poor performers or those in bad markets will find it much harder to attract partners/buyers, which will almost certainly lead to an increasing number of bankruptcies. (We still believe that one out of 10 hospitals is at risk of closing in the next five to seven years.) Hospitals lacking critical mass or relevance in their markets will have to redefine their purpose and restructure themselves to be more of an ambulatory provider that utilizes telehealth, digital tools and apps, artificial intelligence (AI), and possibly a Federally Qualified Health Center (FQHC) or Rural Health Clinic (RHC) designation in order to capture supplemental funds needed to stay open.

In the boardroom:
- Be vigilant in creating financial projections that model multiple scenarios including shifts in payer mix, case mix index, declines in inpatient volume, shifts to outpatient settings, increases in expenses, and other variables.
- Develop contingency plans (including ambulatory or PAC services) to respond to changing market dynamics in advance of potential changes.
- Engage in strategic discussions that include whether to grow, align, divest, or take other action as an integrator or integratee.
- Determine what "control" and "independence" mean for

the organization relative to the mission and future vision.

5. Growing Applications of Artificial Intelligence/Machine Learning Are Here

AI platforms will improve productivity by automating certain non-clinical tasks such as appointment scheduling and no-shows, revenue cycle, billing, claims, eligibility verification, and supply chain process. AI will also assist clinicians in improving diagnoses and the development of treatment plans. Areas attracting particular interest include diagnostic imaging, drug discovery, cancer care, risk analysis applications, and infection prevention and/or clinical decision support. These AI applications can run on cloud-based platforms (such as those offered by Google, Microsoft, Amazon, and IBM Watson). The cost of AI will start to come down over time, and major health systems and academic medical centers will increasingly be able to afford and leverage AI. Keep an eye on the four companies mentioned above and Alibaba (China) and Tencent (China).

In the boardroom:

- Monitor developments in AI. Be willing to pilot applications that could improve operational efficiencies and patient experience.

6. Branding and Co-Branding: More to Come

Hospitals and health systems must continue to develop and refine their brand. For academic medical centers and specialty hospitals, this is their holy grail. With a strong brand, healthcare organizations are able to charge fees for clinical trial participation, access to clinical protocols, use of name, access to telehealth services, and consults and business development support. In particular, we expect name brand cancer centers will continue to co-locate in hospitals and extend their reach into a growing number of local markets. As patients get more sophisticated and discerning about where they get their care and from whom, branding will become more important. Expect specialty hospitals and academic medical centers to push hard on improving their brand, with a focus on quality outcomes and patient experience scorecards, followed by a significant effort to build reputation and name recognition.

Hospitals and health systems must continue to develop and refine their brand.

In the boardroom:

- Explore the potential benefits of aligning with a nationally recognized organization for high-end complex services (or, if you are one, expand your influence and the benefits you can provide to patients in other geographic markets).
- Ensure that your strategic plan addresses "brand management" in ways that attract more volume and create brand loyalty to high-value services.

7. Value-Based Care and Payment Models Will Continue to Grow Significantly

There are now nearly 700 commercial and Medicare ACOs providing care to approximately 9.4 million beneficiaries. The CMS bundled payment initiative now has around 7,000 participants. There are approximately 42 states with Medicaid/CHIP programs that are planning patient-centered medical homes, and 27 states making medical home payments. Commercial health plans have also moved in this direction, including Anthem, Aetna, Humana, Cigna, and United Healthcare. Even some employers have directly contracted with health systems and their affiliated physicians using value-based contracts. Leadership at CMS has also stated many times that they are moving payment systems to risk-based methodologies. Moving to value-based care is no longer an option, and hospitals and health systems must prepare for new models that will require two-sided risk.

In the boardroom:

- Focus on improving quality and the patient experience.
- As payment and care models evolve, make sure that management adjusts operational processes, tools, and incentives to engage physicians.
- Care model changes should align with market and payment shifts as economic risk is included in payment models.

8. Cost Reduction and Management Activities

Many organizations will see volume growth remain stagnant, at best. Market share movement is becoming more difficult than in the past. Per capita inpatient admissions are declining, and outpatient growth is being driven by payment models and economic incentives that encourage physicians to redirect business to ambulatory centers. Therefore, health systems must have standardized staffing, cost-center benchmarking, and best practice tools to assist with reducing costs. Analyzing work and patient flow to optimize resources must be a primary focus. We have also seen more aggressive moves by healthcare organizations to reduce their drug costs (greater leverage by pooling buyers, substituting generics, strict adherence to drug formularies, etc.).

Additionally, for those health systems that have clinically integrated networks (CIN), some have taken advantage of Hospital Quality and Efficiency Programs (HQEP) to align and engage physicians to

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reduce costs primarily through the reduction of resource use, staffing, patient and work flow, etc. These HQEP programs are a tool to provide economic incentives for physicians to reduce costs.

In the boardroom:

- If you have a CIN and have not yet done so, explore implementing an HQEP initiative to identify key areas where physicians and the hospital can align incentives to achieve cost and quality improvement.
- Track per-unit revenues and costs (benchmark and trend horizontally), total cost of care, contribution margin by service line, and other financial metrics to identify trends and areas of focus.

9. Declining Utilization: A Significant Trend That Continues

As more providers adopt clinical protocols and digital tools, as well as optimizing the use of allied health professionals, per capita admissions are now flat to declining for entire market areas. Instead, care is shifting from inpatient to ambulatory and home health sites of care. Lower cost sites like post-acute care providers have been effective in reducing costs and utilization. Many organizations use hospitalists, case managers, intensivists, laborists, and SNFists to effectively manage down the resource consumption, while improving quality outcomes and patient experience. Health systems should plan on continued lower overall volume and seek to have a robust strategic plan in place to gain market share and/or be an aggregator in the market to buy/merge and reduce the excess capacity in the market.

In the boardroom:

- Monitor shifts in your inpatient use rates (as well as payer mix). Use financial scenario modeling to estimate economic impacts; use this information to adjust your cost profile and strengthen strategic marketing and growth initiatives.
- Focus on developing new clinical care models with quality, outcomes, and economic incentives for physicians.
- Explore alignment options with other organizations if there are perceived opportunities to grow market share, reduce duplication, and create economies of scale. Be willing to make tough choices.

10. The Genome Impact Is Arriving

Genomic information has the potential to improve healthcare outcomes, patient experience, and total costs. The proper use of genome information will require the use of electronic health care/medical records, data warehouses, AI diagnostic and treatment algorithms, and possibly integration with resources from the Precision Medicine Initiative. Early success has been identified in prenatal and newborn patients, and soon professionals expect that it will be useful with childhood and adult patients. Genomic analysis has been used as a screening tool that can more precisely characterize health conditions and improve medication and therapy selection. Expect to see children's hospitals and academic medical centers to be leaders in this area, with some partnering with pharmaceutical companies to further advance treatments using genomic information.

In the boardroom:

- Monitor developments as discoveries and applications of genomic science become more prevalent and beneficial. Assess potential applications, alliances, and opportunities to co-brand in these areas as appropriate.
- As a board, be prepared to address potential ethical and other concerns that may arise.

The View Ahead: Governance Concerns and Opportunities

Governing boards will be faced with more complexity, as well as challenges and exciting opportunities that will require thoughtful consideration of non-traditional services, alliances and partnerships, decisions about allocating resources, and making choices consistent with the mission. Maintaining and strengthening alignment across all stakeholders will be essential in order for the board to meet its fiduciary duties and successfully guide the organization in this rapidly changing healthcare environment.

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