

Successful Strategic Planning for a Reformed Delivery System

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Hospitals and health systems continue to consolidate and purchase physician practices; payment reform and quality initiatives are kicking into high gear; 123 new accountable care organizations are being rolled out; and workforce supply issues are emerging or reemerging. These are just a few of the challenges that call into question the enduring value of strategic planning in an environment characterized by increased uncertainty and greater and faster change. Can—or should—we try to plan for three to five years into the future when we do not know how healthcare reform will really affect the field? Shouldn't we be completely focused on immediate needs and initiatives?

While addressing the most pressing and immediate concerns and hot spots tends to be a natural response, leading organizations recognize that strategic planning, and the focus and prioritizing that it calls for, is more important now than ever before for several reasons:

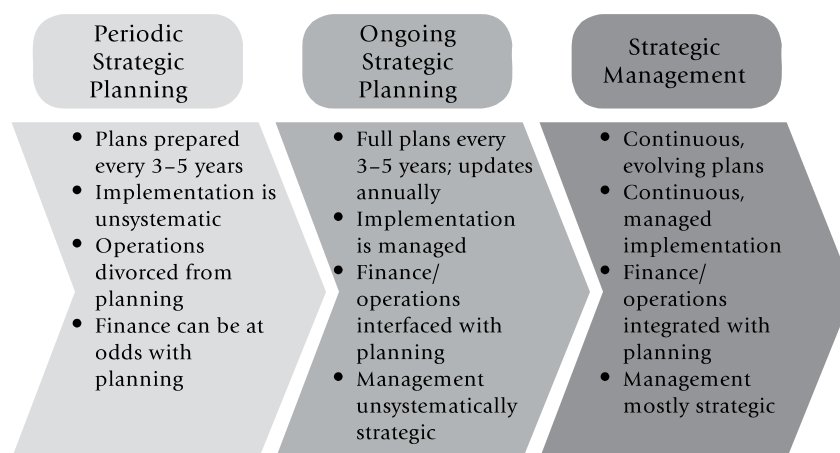
- Increasingly scarce resources require short- and long-term allocation perspectives.
- The larger, more diverse, and more geographically dispersed organizations currently being formed benefit greatly from the alignment that results from strategic planning.
- Uncertainty and fast-paced change call for adaptability, which research demonstrates is greater when there is a clear direction, strategy, and alignment among organizational leaders.

To maximize the yield from strategic planning in these turbulent times, the strategic planning process is being adapted to be more relevant to contemporary organizations. Healthcare leaders are advancing strategic planning from a periodic exercise to a more continuous and integrated (with other key management functions) strategic management process (see Figures 1 and 2). This type of process is dynamic and increases an organization's capacity to deal with "curveballs," emerging developments and threats, and change in general.

ADDRESSING HEALTHCARE REFORM AND OTHER ENVIRONMENTAL CHALLENGES

A framework that identifies and describes key attributes of major environmental challenges affecting nearly all healthcare providers today is shown in Figure 3. Healthcare reform challenges are significant and complex, with major direct and

FIGURE 1
Transitioning Your Strategic Planning Process to Strategic Management



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FIGURE 2
Annual Strategic Management Process Components

	QUARTER 1		QUARTER 2		QUARTER 3	QUARTER 4
STRATEGIC PLAN ELEMENTS	Environmental assessment update	Organizational direction review	Strategy formulation update	Action plan update	Input to capital and operating budgets	Interface with finance and operations during budget and annual management plan preparation
					Review and adjustment as needed	
ACTION PLAN ELEMENTS	Ongoing implementation of plans developed Quarterly (at least) leadership review of progress and adjustment as needed					
OPERATIONAL ELEMENTS	Ongoing review and testing of “opportunities” against strategic plan Adjustment of plan’s strategies and actions as needed					

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indirect financial implications, particularly as commercial insurers follow the lead of the federal government in payment reform. In all likelihood, future reimbursement rate increases will lag health cost inflation by at least a few percentage points. This factor alone forces providers to significantly reduce costs while upping their competitiveness to try to maintain or increase revenues—a twofold challenge.

While historically strategic planning in healthcare has focused nearly exclusively on growth through increasing share and enlarging the market, strategic planning today includes five new imperatives (see Figure 4):

1. **Sufficient scale and scope or niche play:** Organizations will need to scale up or focus in order to survive in the future. For most, scaling up will involve inorganic growth through mergers, acquisitions, and new partnerships. In major metropolitan areas, a limited number of consolidated organizations will emerge, probably with annual revenues in excess of \$2 billion. These organizations will be the ones that can meet the integration, alignment, and value challenges that result from healthcare reform.
2. **Cost competitive:** Being cost competitive has never mattered before, but with new underlying financial pressures, all organizations will need to continually reduce costs for the foreseeable future by about 3–5% annually. Competition for patients will also increasingly be based on ability to provide value (quality + service ÷ cost).

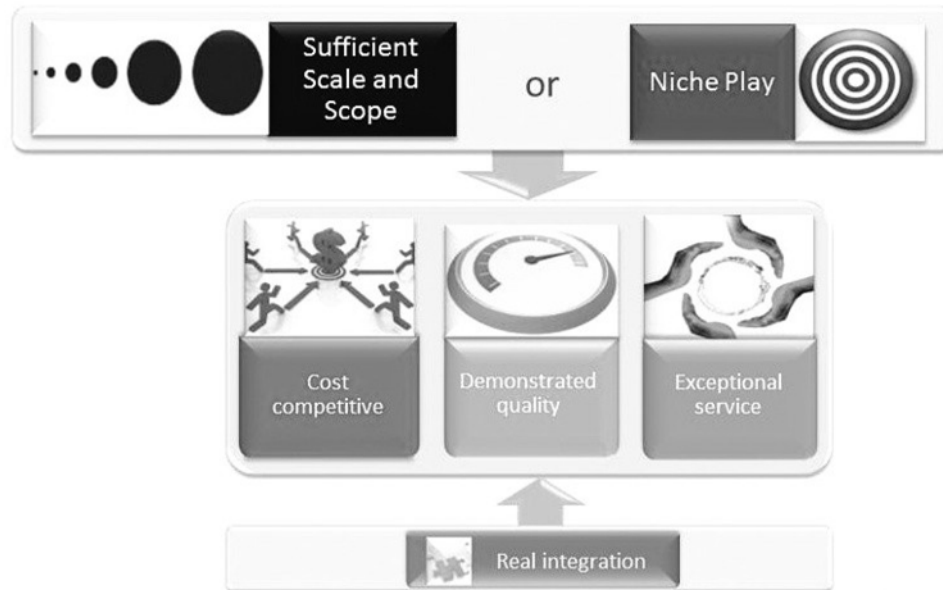
FIGURE 3

Future Industrywide Development Assumptions: Main Drivers of Industry Change, 2014–2018

Driver	Direct Impact	Major Implications for the Future, 2014–2018
1 <u>Economic decline and slow recovery</u>	<ul style="list-style-type: none"> Federal and state budget deficits, funding cuts and cost-containment efforts Reduced capital access 	<p><u>Horizontal integration:</u> Hospital/system consolidation</p> <p><u>Vertical integration:</u> Continuum of care including insurance products</p> <p><u>Physician alignment:</u> Employment; large physician groups</p> <p><u>Payer consolidation:</u> Commerical payer consolidation</p> <p><u>Value competition:</u> Relative cost and quality performance</p>
2 <u>Healthcare reform</u> <ul style="list-style-type: none"> Payment for value Transparency and technology requirements Coverage expansion Medical loss ratios and tax increases for payors Declining reimbursement 	<ul style="list-style-type: none"> Competing on value Substantial new overhead Increasing proportion of provider volume from low-margin patients Cost-shifting from insurers to providers and patients Real integration 	
3 <u>Increasing competition</u>	<ul style="list-style-type: none"> Limited population growth expected Increasingly large, well-heeled competitors Increased marketing and ambulatory network developments 	

The ultimate implication is the widespread proliferation of tightly integrated (and eventually closed or near-closed) systems.

FIGURE 4
Strategic Imperatives to Win Under Healthcare Reform







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3. **Demonstrated quality:** Quality is part of the value challenge, and it is increasing in importance with reimbursement impacts from the federal government and the initiation of quality incentive-based contracts with certain payers. As quality measurement improves, the focus will shift to outcomes and away from the current structure and process measures.
4. **Exceptional service:** Also part of the value challenge, a focus on exceptional service has caused nearly all organizations to materially raise their game over the past 10 years. Since healthcare is fundamentally a service business, rigor in this area will continue to be a key aspect of competitive success in the future.
5. **Real integration:** Success in dealing with cost competitiveness, quality, and service challenges in particular will necessitate not just having all the players or parts of a system of care but knitting them together in a truly integrated manner across the continuum. As healthcare organizations move toward population health approaches and are called on to take financial risk for the populations covered, the ability to provide an integrated, patient-focused product will be critical.

STRATEGIC PLANNING IN ACTION UNDER REFORM

How one health system approached the strategic imperatives challenge is illustrated in Figure 5. This organization consolidated clinical and service quality into one imperative. The figure illustrates a number of aspects of its strategic challenge, most notably in the

FIGURE 5**How Can We Best Address the Four Strategic Priorities in the Next Five Years?**

Priorities	Our Influence/Control Over Future State	Our Gap (Current vs. Future)	What Is Required to Address Gap	Estimate of Our Current Position in the Metro Area ^a	What Is Our Organization's Desired Future Position? ^a	Strategies to Accomplish Priorities
Demonstrated quality and exceptional service	Primarily internal		Commitment exists; step up efforts	5	→ 8-9	<ul style="list-style-type: none"> Standardized care Physician support and engagement Culture change Board support of changes required Focus and execute
Cost competitive	Primarily internal		Commitment exists; continued strong emphasis needed	6	→ 7-8	
Real integration	Both internal and external		Commitment exists; step up efforts	4	→ 9	
Sufficient scale and scope	Both internal and external		Time for building scale is long; need to start soon	2	→ 7+	Inorganic growth/system building or joining

^a1 = bottom 10th percentile; 5 = average; 10 = top 10th percentile.

estimate of its current position, in the leadership team's view of the desired future position, and in the key strategies to accomplish these priorities: standardized care, physician support and engagement, culture change, board support of (difficult and politically sensitive) initiatives and decisions, and focused execution (note that the key strategies for the first three priorities are the same; see column 6 in Figure 5).

As the leadership of this healthcare system discussed, the strategic imperatives for most healthcare organizations today will be similar. How well they are addressed, and how quickly, will distinguish the successful organizations from those that struggle.

CONCLUSION

Strategic planning, or better yet, *strategic management*, is an increasingly important discipline in today's rapidly changing healthcare environment. Addressing the challenges of healthcare reform is paramount, and the interplay of other market dynamics poses additional complications. Strategic management allows leaders to exert a greater degree of control or influence over these external forces and steer their organizations toward a new future, even though it may have many uncertainties.

For more information about the concepts in this column, contact Mr. Zucker-
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