



Health system check-up - assessing endurance capabilities





We in the healthcare industry find ourselves searching for solutions amidst a maelstrom of change. The issues we are facing have been building over time – changing demographics, reimbursement reform, increasing consumerism, and innovative market entrants.

And now all players, no matter how large or historically successful, are being forced to carefully navigate these challenges not just to thrive but simply to survive. This need to stay relevant in the changing marketplace is prompting large investments and shifts in business strategy. While bold moves are to be expected and in many cases are necessary, even more foundational to business continuity is a clear and truly comprehensive view of the risks your organization faces and your readiness to tackle them.

RESPONDING TO EMERGING ISSUES IN HEALTHCARE

Changing demographics

Community Paramedics Program @ North Memorial Health Care caters to the frail elderly population by offering paramedics who can treat patients in their homes, and transport them to the ER only if needed.

Reimbursement reform

Remedy Partners creates clinical and financial data analytic programs to assist providers in creating successful bundled payment programs.

Increasing consumerism

ZocDoc allows patients to see doctors' open appointment times and book instantly online, make informed choices with verified reviews, and stay on top of important checkups with tailored reminders.

Innovative market entrants

Oscar Health, a health insurance company founded in 2012 and headquartered in New York City, sells individual health insurance plans that focus on using technology to make purchasing insurance and obtaining healthcare services easier and cheaper for its members.

THE RISKIEST *ACTION* IS INACTION

Before we start sprinting to new business strategies, let's walk through the variety of factors that must be considered before enacting a strategic vision. Only by first comprehensively understanding your organizational maturity can you expect to face the strategic challenges across the healthcare landscape and ensure you are positioned to successfully deliver on the organization's core mission – the care your patients need. The rapidity of change we are seeing in the healthcare industry makes it critical to analyze your organization's position and chart a path forward now, before available options disappear.

While political change and a variety of unknowns make it hard to predict what the future holds, as chaos theoretician Edward Lorenz wrote, “only one thing can happen next.”¹ Success requires knowing the possibilities for what that one thing could be, and having a plan for those possible outcomes.

KEY POINT

¹ Edward Lorenz, The essence of chaos, (1993)

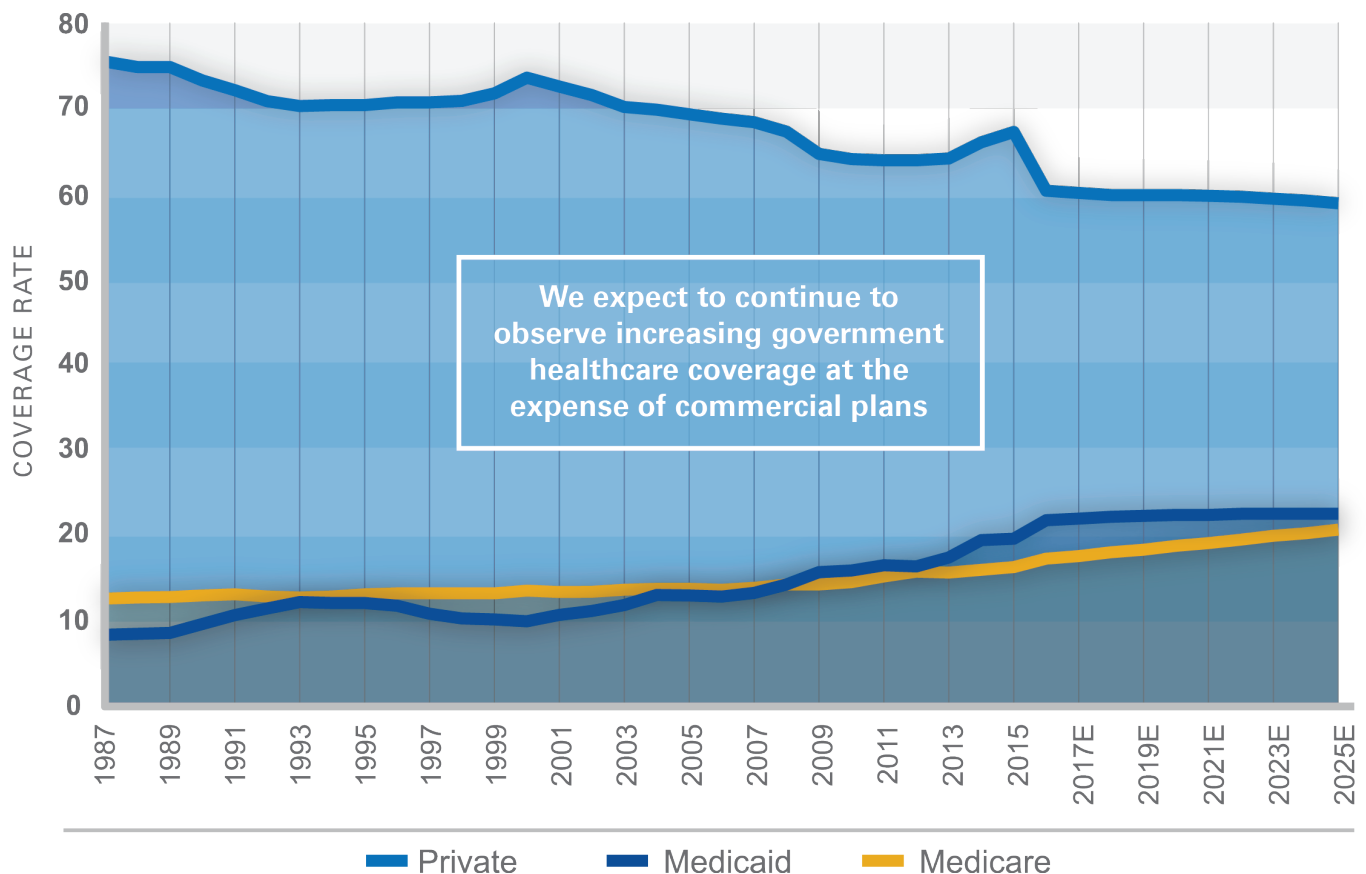


Industry Challenges

While the recent election and in progress regulatory changes bring an element of uncertainty to the industry, there are a number of trends relentlessly marching forward and demanding change from all players. All healthcare providers

need to consider the financial risk posed by coverage shifts. Both the aging population and healthcare reform have contributed to a shift in coverage from commercial to government plans. Medicare and Medicaid coverage have increased over the past ten

US health insurance coverage rate, 1987 – 2025²



² Carmen DeNavas-Walt, Bernadette D. Proctor, Jessica C. Smith, Poverty, and Health Insurance Coverage in the United States: 2008, September 2009; Carmen DeNavas-Walt, Bernadette D. Proctor, Jessica C. Smith, Income, Poverty, and Health Insurance Coverage in the United States: 2010, September 2011; Carmen DeNavas-Walt, Bernadette D. Proctor, Jessica C. Smith, Income, Poverty, and Health Insurance Coverage in the United States: 2012, September 2013; Jessica C. Barnett and Marina S. Vornovitsky, Health Insurance Coverage in the United States: 2015, September 2016; U.S. Census Bureau, Projections of the Population and Components of Change for the United States: 2015 to 2060, (2014); U.S. Census Bureau, Health Insurance Enrollment and Enrollment Growth Rates, Calendar Years, 2009-2025, (2014)

years, with a commensurate reduction in the private health insurance coverage rate. Furthermore, population trends suggest that Medicare coverage will continue to increase drastically as baby boomers age, with the Medicare aged population more than doubling between now and 2060.

U.S. Population by Age, 2015-2030³

IN MILLIONS

	2015	2020	2025	2030
65 years and over	47.8	56.4	65.9	74.1
25-64 years	168.8	173.4	175.6	178.2
Under 25 years	104.9	104.7	105.6	107.1
Total	321.5	334.5	347.3	359.4

From 2015 to 2030,
we will see a

55%

increase in the
65 years and older
category

This shift in demographics means an increased percentage of reimbursement coming via government programs, with more patients sitting in lower margin business, and more patients likely to suffer from costly chronic disease states. Not only does government reimbursement carry the financial risk of reduced margins and continued risk related to regulatory compliance requirements, the embedding of quality and value in both government and increasingly, private payor reimbursement models, raises concerns related to provider capabilities around internal quality and financial

management and monitoring. All of these elements increase the risk of regulatory non-compliance and required reporting for reimbursement.

The rapidity with which quality-based reimbursement is being adopted by payors has also added urgency to how quickly providers bolster internal capabilities to manage their quality and outcomes in order to stabilize revenues. Regardless of uncertainty around the immediate future of reimbursement regulations, fundamentally, individuals in the industry are committed to guaranteed outcomes at predictive prices.

³ U.S. Census Bureau, Projections of the Population by Sex and Selected Age Groups for the United States: 2015 to 2060, (2014)

Aside from these payment shifts, patients are also requiring new capabilities from providers, becoming more demanding when it comes to how they receive care. Consumerization, which has already transformed so many other industries, has made its way to the healthcare industry at last and its focus on convenience and cost reduction has aided the growth of a number of new market entrants.

TODAY'S PATIENTS ARE:



Cost conscious when it comes to healthcare spending and, particularly with the growth of high deductible plans, are looking for pricing transparency and value for money



Expecting mobile and easy patient-provider communications



Interested in maintaining healthy lifestyles that will keep them well



Looking for health education and information from sources outside of the traditional provider visit



Eager for convenient treatment alternatives that suit their lifestyles, like conveniently located walk-in clinics



Increasingly connected and digital, uploading and monitoring personal health and lifestyle data and willing to share that data with providers to support their care



SECTION SNAPSHOT

VOLUME

Focus is primarily on higher volume in a traditional fee-for-service environment

LACK OF CONSUMER-CENTRICITY

Operated as the medical services provider with limited focus on the customer experience

Limited understanding of changing patient needs

FROM

ADVERSARIAL

Payors and providers have a tenuous relationship and primary focus is on maximizing their individual margins













LIMITED USE OF TECHNOLOGY

Limited exchange of patient data; outdated or inefficient procedures and technologies

All of these factors are resulting in an evolving relationship between care delivery and cost-of-care with many providers responding to these shifts by increasing their risk-bearing capabilities. Not only are providers evolving, but innovative organizations are entering the market with creative solutions , creating increasing competition for existing providers. While recent political

changes have cast some uncertainty on the timing and nature of healthcare regulation, the forces described above are relentless and will continue to shape the industry. Perhaps now more than ever, organizations need to clearly understand their preparedness and strategic options to identify optimal investments while building in some flexibility to respond to potential future scenarios.

Creative Solutions

 Overall Wellness	 Patient Education	 Self Diagnosis
 Insurance	 Remote Monitoring	 On Demand
 Booking	 Telemedicine	 Concierge
 Personal Health Records	 Medication Management	 Ongoing Management

VALUE

Increased focus on margins through cost/risk/profit sharing leveraging value-based reimbursement models

HIGHLY CUSTOMER FOCUSED

Increased focus on providing best customer experiences and improving patient satisfaction

Empathizing with patient needs, empowering front-line managers to improve patient stays

TO

COLLABORATION

Increased payor-provider collaboration to improve patient outcomes leveraging population health management tools

GROWING RELEVANCE OF TECHNOLOGY

Increased utilization of AI, evidence-based medicine, advanced surgical technologies, connected devices in care coordination



Opening your eyes to your capabilities and your options

The ramifications of the trends changing healthcare today have prompted many organizations to initiate investments, change business models, or opt for inaction due to uncertainty. **But because healthcare challenges are wreaking such overwhelming change, organizations have to realize the full complement of risks they face and understand their ability to address those risks in order to develop a sustainable strategy.**

FIVE HIGH IMPACT AREAS:

- 1 **Financial situation**
- 2 **Market profile**
- 3 **Operational capabilities**
- 4 **Customer needs**
- 5 **Brand and relationship strength**

We believe charting a clear path forward starts with assessing and quantifying the organization's maturity in terms of position and capabilities across five high impact areas that are key to addressing the strategic challenges in healthcare today.

An effective assessment requires understanding both external factors exerting pressure on the organization as well as the organization's internal capabilities to respond to those factors through posing qualitative questions and taking quantitative measurements. The goal of the assessment is to understand the organization's position on a maturity scale in order to formulate an optimal

and realistic strategic vision. A careful balance must be struck to ensure the assessment is both comprehensive enough to consider the full spectrum of challenges facing your organization today but concise enough to quickly hone in on the areas of highest importance. While our assessment methodology includes a variety of qualitative and quantitative measures, the following illustrates a selection of the most critical elements a provider must evaluate in order to craft its strategic plan.

In their book “Immunity to change how to overcome it and unlock the potential in yourself and your organization”, Robert Kegan and Lisa Laskow Lahey state



That ‘change makes us uncomfortable’ is now one of the most widely promoted, widely accepted, and underconsidered half-truths around.... it is not change by itself that makes us uncomfortable; it is not even change that involves taking on something very difficult. Rather, it is change that leaves us feeling defenseless before the dangers we ‘know’ to be present that causes us anxiety.

By developing a deeper understanding of the risks they face and the capabilities they possess or can develop to address these risks, healthcare systems can overcome this defenseless feeling and be well prepared to face the future uncertainties.





FINANCIAL SITUATION

In assessing your organization's financial situation, key questions and measurements are designed to determine your organization's financial position, the maturity of your revenue cycle, and an understanding of your revenue sources. Your organization's maturity in these areas will inform your strategic path through implications on your ability to support investments, manage evolving payment structures, and how products and services may need to be designed and deployed to maximize returns from your revenue sources.

1a

What is the ability of your organization to sustain minimal margins / losses in the near to medium term?

1b

How satisfied is the organization with the performance of its revenue cycle?

1c

To what extent is your organization involved in profit / risk sharing?

1d

What is your organization's payor mix both by revenue and percent of patients?

FINANCIAL QUESTIONS



MORE INFORMATION

Although managing costs have been on the docket for many years, it continues to be of central importance to any strategic plan. In the United States, administrative costs accounted for over 25% of hospital expenditures – a percentage that has increased annually over the past decade.⁴ Engaging in new reimbursement models may cause administrative costs to continue to grow, which will require high levels of revenue cycle maturity to remain sustainable.

25%

**of hospital expenditures are
administrative costs in the
United States**

⁴ David U. Himmelstein, Miraya Jun, Reinhard Busse, Karine Chevreul, Alexander Geissler, Patrick Jeurissen, Sarah Thomson, Marie-Amelie Vinet, Steffie Woolhandler, A Comparison Of Hospital Administrative Costs In Eight Nations: US Costs Exceed All Others By Far, Health Affairs, (2014)



MARKET PROFILE

Assessment points related to geography are focused on understanding the make-up of your current and target population as well as the changing demographics impacting that population. We also aim to understand the dynamics of the market in which you play. Organizational maturity across the geography assessment points will shape the directions in which you can focus and / or expand services.

2a

What is the organization's market share by revenue? By beds? Admits? How has it changed over the past 5 years?

2b

Who are the competitors and payors in your market, and how does the competitor-payor dynamic impact your ability to direct patients and revenue?

MARKET QUESTIONS



MORE INFORMATION

With the acknowledgment that population health at both the community and consumer level is becoming increasingly important for provider strategies, hospitals' demand for population health expertise overwhelms the supply.

Nearly 60 percent of health system and hospital CEOs ranked population health as the hardest skill set to find within the broader healthcare field, according to a 2014 American Hospital Association survey.⁵

Further, nearly half of executives polled identified community and population health management as a talent gap within their organizations. Some health systems are filling this gap by creating new C-suite positions: 10 percent of executives indicated their health system had a chief population health manager. Even where population health is a part of a broader strategy, the organization must understand its resources on hand and ability to effectively manage population health.

⁵ Shannon Barnett, Molly Gamble, Heather Punke, Emily Rappleye, Ellie Rizzo and Tamara Rosin, 10 challenges and opportunities for hospitals in 2015, December 30, 2014

OPERATIONAL CAPABILITIES

There are a number of important internal capabilities that providers need to survive and thrive, but our assessment focuses in tightly on those most critical to an evolving provider business model. Our analysis in this arena is designed to measure capabilities across population health management technology, finance technology, and overall organizational governance. These areas are the most indicative of your ability to support increased risk bearing.

3a

How is the organization investing in care management, care coordination, population health, and clinical integration?

3b

Does the organization have risk management capabilities (actuarial, patient profitability, etc.)? How mature are these?

3c

How has your vision statement been updated to reflect current significant industry changes?

3d

Does your governance structure account for new business models and ventures?

OPERATIONAL QUESTIONS



MORE INFORMATION

In discussing Accountable Care Organizations (ACOs), Johnathan Niloff, MD, McKesson's CMO acknowledges the variety of care management capabilities required but often lacking, impacting the success of ACOs:



You need a good quality program, specifically to manage your quality metrics and close your gaps in care. Virtually all of the value-based programs have a component of achieving quality metrics as a part of them.

A number of them include achieving certain quality metrics. Managing quality and the appropriate systems and programs in place to meet your quality metrics are always a high priority.

You need really good programs around managing and coordinating care across the continuum. You have to implement a true coordinated care model that centers around a primary care medical home model as one of the organizing components of that cross-continuum coordination-of-care model.

You need a methodology to identify high-risk patients and then a care management program to manage the care of those high-risk patients. It's a well-known phenomenon that a small proportion of patients always account for a disproportionate share of costs, so one can get a lot of return from focusing on those high-cost patients.

You need analytics to understand the key drivers of your total cost of care and to be able to manage those drivers. It's important to have good capabilities around understanding practice pattern variation and programs in place to manage the behavior change for those physicians who are significant outliers with respect to either the quality or cost of care.



Taking a step back from the complexity of ACO and risk bearing arrangements, the exploration of new contracting vehicles, growth of partnerships, and use of vendors, have wildly expanded the number of contracts that providers must manage. In addition to advanced operational capabilities needed to deliver on risk bearing agreements, core competencies around robust contract management continue to play an important role.



CUSTOMER NEEDS

The rise of consumerization requires that close attention be paid to the needs of the customer when developing any strategic plan. Our assessment seeks to understand the communities which you serve, your current and planned patient engagement strategy, and patient experience. This will illustrate the areas of innovation needed to retain and grow your consumer base.

4a

How are you utilizing customer data and research to acquire and retain customers?

CUSTOMER QUESTION



MORE INFORMATION

Increasingly, consumers desire easy access to quality care at an affordable price. According to a KPMG External Consumer Survey, access to quick primary care is considered "important to extremely important" by >95% of the respondents.⁶ Additionally, to be able to see the physician at a convenient location and with flexible scheduling options is considered "important to extremely important" by ~90% of the respondents. In order to meet this demand, hospitals and health systems are partnering with national pharmacies and retailers to establish walk-in retail clinics, as well as extending office hours and expanding urgent care offerings.

⁶ KPMG – Patient Access



BRAND AND RELATIONSHIP STRENGTH

Surviving amidst new market entrants and newly deployed strategies by your competitors will hinge on your ability to stand out in the market and partner for success. Assessing both your internal strategy in these areas as well as market indicators allow you to have a realistic view of your current position and identify a path to strengthening as needed.

5a

How does your organization work with physicians? (Own? Partner? Etc.) What is your plan moving forward to work with physicians?

5b

What is the strength of your brand amongst stakeholders, including physicians, patients, and other providers?

BRAND AND RELATIONSHIP
QUESTIONS



MORE INFORMATION

Yale New Haven Health System (YNHHS) has a long history of acquiring and integrating organizations. From a standalone academic medical center in the 1970s, it has steadily acquired physician groups and hospitals. Most recently, it took control of the 500-bed Catholic Hospital of San Raphael — a century old community hospital with a strong history and culture. Consistent with its thinking about past integrations, YNHHS focused on cultural alignment of the two entities.⁷

As the President and CEO, Marna P. Borgstrom, explains: “We did not want the acquired organization to experience the vacuum that can come from pulling it into the primary academic medical center, nor did we want to lose the legacy, values

and heritage of this wonderful Catholic organization. We undertook a concerted effort to align both hospitals’ values as an integrated organization. As we thought about it, we realized that this ought to include the others in our system: our physicians, the medical foundation, and our other hospitals.”⁸

Since the acquisition in 2012, a regionally integrated hospital network has developed alongside an integrated physician network. The organization’s revenue growth rate has remained high (10.3 percent CAGR over 13 years to 2013), it has absorbed US\$549 million of ‘free care’, Medicare and Medicaid shortfalls and bad debts in 2013 alone, and has averaged over 150 liquidity days between 2008 and 2013.⁷

⁷ KPMG, What Works in Healthcare: Partnerships, Networks, and Alliances

⁸ Marna P. Borgstrom. Interview by Stephen J. O’Connor, Journal of Healthcare Management, March/April 2014.



Developing your strategy

In the rush to implement solutions to address the myriad of industry challenges, organizations may forget that there is no one-size-fits-all solution. Not every provider is destined to own a health plan or become a fully integrated system, and in fact may find greater success with different models.

Assessing your organization across these five high impact areas is the foundation of understanding the options that best position you for success and dampens the noise of trendy moves.

Attempting to make broad strategic decisions without this understanding will leave you stumbling in the dark. Before making a big investment in a bold move, make a small investment in a comprehensive assessment that will help you make the right move before your field of options narrows.

FIVE HIGH IMPACT AREAS:

- 1 **Financial situation**
- 2 **Market profile**
- 3 **Operational capabilities**
- 4 **Customer needs**
- 5 **Brand and relationship strength**

CONTACT US

Dhan Shapurji

P. 312 665 6014

E. dshapurji@kpmg.com

Nikhil Sarathi

P. 404 578 4721

E. nsarathi@kpmg.com

CONTRIBUTORS



John Matthews

Strategy Principal

John leads the healthcare strategy practice at KPMG. In this role he is responsible for growing and overseeing KPMG's strategy business across provider, payer and life sciences. He has over 15 years HCLS experience, with particular expertise working with provider systems and payers on enterprise strategy and customer engagement.



Cynthia Ambres

Strategy Principal

Cynthia primarily focuses on business model transformation, including organizational and payment reform strategy, clinically integrated entity redesign and care continuum redesign strategies. Dr. Ambres has influenced all aspects of the healthcare industry, including hospital, health plan, and medical group management.



Dhan Shapurji

Strategy Managing Director

Dhan is an accomplished strategic health care consultant and thought leader with demonstrated success in delivering results in complex, challenging and chaotic environments. With 25+ years of industry experience, he has become a go-to-person for industry insights, trends and implications for eco-systems and enterprise-level next steps.



Nikhil Sarathi

Strategy Director

Nikhil is a Director in KPMG's Strategy Practice focusing on the Healthcare and Life Sciences sector. Nikhil has nearly 15 years of experience across the healthcare value chain (payor, provider, life science) and technology. Nikhil specializes in healthcare consumerization strategies, payor/provider collaboration models, platform economics, and technology driven care delivery enhancements.



Kristinne Canas

CoE Director

Kristinne is serving as the Americas Regional Executive for the KPMG Global Healthcare Center of Excellence (CoE). In her role, she has harnessed KPMG global healthcare professionals and service capabilities to assist clients around the world with providing quality healthcare under increasing economic and regulatory constraints.



Sara Levin

Strategy Manager

Sara is a Manager in KPMG's Strategy Practice focusing on the Healthcare and Life Sciences sector. Sara has over 10 years of experience across the healthcare value chain, with a focus on data and analytics. In addition to her time in consulting, Sara has worked at a healthcare provider and a payor.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates.

© 2017 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.