Beyond the hospital walls

Post-acute care opportunities and strategies
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With every healthcare provider in the U.S. moving to some form of value-based care, post-acute assets and capabilities will become a more integral part of any strategy. Delivering consistently high outcomes at a predictable cost will require providers to exert greater control over the post-acute elements of the healthcare continuum, which is where a lot of the cost is consumed and a lot of the variability is introduced. Although in the past, post-acute assets and capabilities have not always been mission critical to the core business of running a healthcare facility, a coherent post-acute program supports the overall enterprise strategy rather than distracting from it. Post-acute services can help advance an organization’s mission, create better outcomes and experience, optimize capacity, and unlock new profit pools.

Playing in this space, however, requires resources, scale, and know-how. In this report, we examine what it takes for a healthcare organization to craft a coherent, differentiated, and sustainable post-acute strategy for the value-based world. The organization should begin the process with an evaluation of its own priorities and strengths, and then determine how it can best meet the needs and realities of the external market.
Growing in size and importance

As the healthcare ecosystem is being reconfigured by demographics, changes in coverage and reimbursement practices, and technological breakthroughs, post-acute care is moving from the periphery to the epicenter. The demand for post-acute care is growing — but so are the expectations for greater value. Meanwhile, supply is struggling to keep up through consolidation and innovation.

Post-acute care sites have a number of uses. One, as the name suggests, is to manage the aftermath of an acute episode. Various forms of rehab and recovery account for about 50 percent of the post-acute spend.\(^1\) However, it is the other uses of these assets that are fueling the demand — namely, delivering chronic and terminal care, at 40 and 10 percent of total spend, respectively.\(^2\) Demographics will remain the major driver of growth as people live longer, developing more chronic diseases as they age. With more than 25 percent of Medicare spend consumed in the post-acute setting,\(^3\) the market is too large to ignore.

The nature of the demand itself is also changing. Public- and private-sector payors all expect improved outcomes at a predictable, affordable cost. These expectations are increasing pressure on the post-acute settings. For example, a health system that enters into a population health arrangement will be expected to manage the full cost of care, including the nontrivial post-acute component. Meeting the budget will require health systems to be nimble in transferring patients to the right post-acute setting. Similarly, for organizations that pursue the bundle path toward value-based care, post-acute settings will also play a key role. Post-acute care can constitute as much as 50 percent of the bundle in-scope cost,\(^4\) and be a major source of variability; for example, post-acute spending accounts for 73 percent of regional Medicare variability.\(^5\) In fact, the greatest adopter of bundles so far has been the skilled nursing facility (SNF) sector, with more than half of that sector participating in the Centers for Medicare & Medicaid Services Bundled Payments for Care Improvement initiative.\(^6\) As more advanced bundled care models emerge, we anticipate that the post-acute sector will lead the way.
Finally, as the role of the consumer as a healthcare decision maker and payor continues to grow, consumers will also exert greater pressure on the post-acute providers to be transparent about cost and quality, and to deliver a more integrated, user-friendly experience.

The providers of care, aided by an army of intermediaries and tech companies, are rising to the challenge. The industry continues to consolidate, with Kindred Healthcare’s acquisition of Gentiva Health Services, completed in February 2015, as a recent example. The next round of consolidation may be internal as well as external, with health systems looking for greater integration of their existing post-acute assets and greater scale benefits. Recent efforts by Ascension Health are an example of such internal consolidation. Investments in post-acute care are rising, and the industry is responding with innovation; an example is the effort by CareCentrix to create a broad network of post-acute offerings including home care, sleep management, infusion, wound care, and durable medical equipment, all wrapped in a coordinated program.
Every provider needs a post-acute strategy

Post-acute assets and capabilities can help advance an organization’s mission, create better outcomes and experience, optimize capacity, and unlock new profit pools — but playing in this space requires resources, scale, and know-how. Every organization would benefit from clearly defining its stance in the post-acute space. Will your organization participate? If so, how? The range of choices can seem bewildering. There are multiple post-acute settings, each with its own set of required capabilities, minimum efficient scale, and performance criteria. Should your organization partner with another entity — the way Cleveland Clinic did with Kindred — or go it alone, as Ascension did? Arriving at a coherent, specific, differentiated, and sustainable post-acute strategic posture requires marrying the internal priorities and strengths of the organization with the external market realities (see Exhibit 1).

Exhibit 1
Defining the post-acute strategic posture

<table>
<thead>
<tr>
<th>Internal considerations</th>
<th>Strategic choices</th>
<th>Market characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>How are we differentiating ourselves and assuming risk?</td>
<td>Where in the post-acute continuum should we focus?</td>
<td>How quickly is the market moving toward value-based care?</td>
</tr>
<tr>
<td>How will post-acute care support our strategy/mission and create value?</td>
<td>What performance levels must we deliver?</td>
<td>How much post-acute capacity is in the market?</td>
</tr>
<tr>
<td>What population segments are most critical for us?</td>
<td>Should we build, buy, or rent?</td>
<td>Does the available capacity perform at the level we need?</td>
</tr>
<tr>
<td>How much post-acute care do we need and what kind?</td>
<td></td>
<td>Can we integrate the available capacity?</td>
</tr>
</tbody>
</table>

Source: Strategy&
First step: A look in the mirror

As with any strategic decision, the post-acute strategy will be most effective if it supports and reinforces the enterprise strategy. In recent years, organizations establishing clear strategies have been able to set themselves apart from the pack — for example, by emphasizing convenience and access or clinical leadership in select specialties. And now that public and private payors are pushing providers to move from the fee-for-service model to a value-driven model, no strategy is complete without a road map for such a transition, whether by way of bundles, population health, or both.

The enterprise strategy has direct implications for the post-acute network and capabilities. A national clinical leader might look to its owned or contracted post-acute network to help deliver superior outcomes that last long after the patient is discharged — likely as a part of a healthcare bundle. An integrated regional player might leverage its post-acute network to address the full needs of the patients for whom it has accepted accountability, as a part of a population health arrangement. A national health organization might use the post-acute facilities as an important differentiated revenue stream that leverages the full national scale. The enterprise strategy dictates what the post-acute network is for — whether it is to achieve the lowest cost of care in the region, the best experience, the highest share of wallet, or one of many other potentially related but ultimately distinct strategic imperatives.

Another element of the enterprise strategy that has bearing on the post-acute strategy is the definition of the market. A sound enterprise strategy clearly stakes out the targeted geography and the highest-priority customer segment(s) — based on both the mission and the margin. In turn, the post-acute strategy defines the right post-acute assets to support the chosen market. For example, a post-acute network in a rural market might look quite different from one in a densely populated urban center. Similarly, a health system with a large Medicare population is likely to direct its post-acute efforts toward chronic and terminal care and aging-in-place programs — whereas an organization serving employers might focus on recovery and getting folks back to work quicker.

The market definition helps determine not only what kind of post-acute care is needed but also how much. Having a forecast for the volume of care needed is a key component of strategic planning. Ideally, the forecast should not just be based on the current per capita utilization but should also account for future operational improvements and the ongoing migration of care to a lower-acuity setting. Any existing internal post-acute capacity can be deducted from this projected demand. With clarity around strategy, target market, and expected demand, the
priorities and aspirations of the institution are established — and the
time comes to temper them with external realities.

Second step: A look out the window

The market assessment involved in setting a post-acute strategy is
relatively straightforward. First, it is important to determine the speed
with which the market is migrating toward value-based care — as this is
also the speed with which post-acute care gains in strategic importance.
For an organization contemplating assuming Medicaid risk and being
approached by employers for direct contracting, solving the post-acute
question is a priority — along with learning to do risk stratification. In
slower-moving markets, a provider might have the luxury of lead time
to become the post-acute “first mover” — or to develop a “beautiful
friendship” with a post-acute partner.

Armed with an internal demand projection, and having made
assumptions about overall regional demand, a provider then faces a very
practical question of whether there is enough actual and planned capacity
in the region to meet this demand. If so, creating new capacity is more
likely to embroil the provider in competition with the incumbents —
and the provider had better be ready for a fight. If there is not enough
capacity, the post-acute question becomes all the more pressing.

Of course, as many horror stories about elder care illustrate, not all
post-acute capacity is created equal. Simply having enough SNF beds in
the region is not enough; the beds have to be accessible when patients
need them, and deliver the quality, the experience, the cost, and the
information that patients need from them. Unless a provider can
integrate the existing post-acute assets into its extended network
of facilities for nursing, home care, hospice care, and the like —
operationally, clinically, experientially, and informationally —
it will not be able to achieve its overall strategic objectives.

Balancing the desired and the possible

With clarity around internal priorities and external realities, the post-
acute strategy begins to come together. First, it becomes possible to say
which of the various types of post-acute care sites will be most critical to
the provider based on its target market. Second, it becomes possible to say
what level of performance the post-acute network has to deliver to
support the provider's promise to the market. This performance will
depend heavily on how tightly the post-acute assets are integrated and
on how good the organization is at developing and operating continuum-
spanning care models. Finally, it becomes possible to determine how to
source the necessary assets and capabilities — i.e., whether to build, buy, or partner. Here, the question of volume becomes important once again, because post-acute assets vary in terms of both capital and scale intensity. For example, our research indicates that home health agencies typically need to operate with at least US$1.5 million in revenue to generate sufficient scale, provide recurring profitability, and allow for adequate investments in technology and quality monitoring.

In the era of shrinking margins and credit downgrades, every dollar counts. Investing the next dollar into post-acute care — instead of primary care, research, health information technology, marketing, or a million other uses — needs to have a sound strategic and business justification. In the next section, we identify four post-acute strategic postures that we believe to be the most coherent.

**Coherent strategies at every scale**

**Post-acute specialists:** Our experience suggests that the organizations with the greatest right to play and right to win in the post-acute space are the specialists. These are organizations that play to their strength and build high-performing networks of post-acute assets that constitute their primary business and reason for existence. These “post-acute specialists” can focus on one form of post-acute care (as Amedysis did with home care) or play across multiple settings (as Kindred did through its acquisition of Gentiva). In the case of home health and hospice operations, such as the various visiting nurse organizations, these providers generate scale locally through sufficient agency size (thus densifying routes and optimizing clinician productivity in terms of visits per week), but have clustered agencies both “deep” in a market and “broad” across markets to generate additional corporate-level scale. The scale of the post-acute specialists allows them to be the most efficient option on the market for traditional à la carte referrals.

However, although market-leading efficiency is now necessary, it is not a sufficient condition for success. The winning post-acute specialists will be those that are the most *interoperable* — that is, able to plug seamlessly into another provider’s population health network or bundled solution. A further bifurcation will likely occur as some post-acute specialists contract with population health providers for blocks of capacity while other post-acute specialists become population health managers themselves, serving as a de facto medical home and “discharging” patients to the hospital in extreme cases.

**Acute experts:** On the opposite end of the spectrum from post-acute specialists are the “acute experts.” These organizations focus all of their resources and bandwidth on running and operating excellent acute
care facilities and providing complex, cutting-edge acute care. These organizations differentiate, serve their mission, and win by achieving superior outcomes in acute care. They are interested in post-acute care insofar as it helps ensure a better outcome — helping to explain why Cleveland Clinic would partner with Kindred for its post-acute needs.

**Local scale champions:** Since healthcare is still largely a local affair, a number of deep market players have emerged that we call “local scale champions” due to their ability to deploy dense and diverse local networks to meet most of the medical needs of their patients. An example of such an organization is Presence Health in Illinois, with its network of SNFs, long-term acute care hospitals, and home health capabilities — aligned to the catchment area of its hospitals. Population health is often a key part of the mission for local scale champions, and post-acute care is the integral part of serving this mission — enabling the organization to control the care across the continuum. The new imperative for local scale champions is to ensure that their post-acute network is optimally configured, deployed, and integrated, so that its full potential can be leveraged. Once the network is firing on all cylinders, it can also be made available to other organizations — such as acute experts.

**National scale champions:** Though local scale is important in healthcare, national scale also has benefits — allowing “national scale champions” to achieve superior performance by leveraging shared services, economies of scope, and the ability to serve national employers. For a national scale champion, the post-acute strategy in each region may vary based on the relevant market characteristics, such as available capacity and the speed of transition toward value-based care. However, the organization could benefit from stitching its post-acute assets around the country into a true network — as Ascension is doing — in order to ensure consistently high standards and leverage the shared services and the shared identity. Being stronger nationally will make national scale champions more competitive locally.

Although these four strategic postures are the most coherent, hybrids are possible — as, for example, when acute experts seek local scale. Post-acute care presents an undeniable opportunity to differentiate, diversify, and manage risk, utilization, and cost. The key is to take a position — whether to participate, where, how, and why.

The demographic shift and the shift to value may be slower in some markets than in others, but they are real and inevitable. An observation by the writer William Gibson comes to mind: “The future is already here, it’s just not evenly distributed.” Hopefully, your post-acute strategy is ready.
Endnotes


4 Client data from a Strategy& provider project.

5 Data from post-acute care management company NaviHealth, 2015.


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