
*The journey and
the destination*

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Helping hospitals
and health systems
unlock the strategic
value of technology

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Executive summary



The healthcare industry remains mired in uncertainty, and technology investments represent some of the largest and riskiest bets providers are placing. If these bets are to pay off, they have to be placed with an eye toward the overall destination of a hospital, a health system, or a physician group. Whether a provider aims to lead in complex care, access, or value, the technology must follow.

Getting to a destination requires discipline about which opportunities the organization should — and should not — pursue, which in turn leads to a corresponding set of technology priorities and capabilities that the organization will need to build. By first determining the destination, providers can systematically focus on a few capabilities, giving greater clarity to management teams and IT functions, and empowering the organization to generate dramatic gains in operational and financial performance.

The promise — and the challenge — of technology

The New Health Economy is here, but not everyone is reaping its rewards. In this environment, technological breakthroughs, analytical tools, and policy shifts are combining to reward quality over quantity and to empower consumers as direct participants in their own care. Every individual, employer, insurer, and public-sector payor wants more value — defined as better health that is obtained more conveniently, securely, and affordably.

This shift is presenting major growing pains for many providers. Hundreds of rural hospitals are vulnerable to closing. Health systems are still catching their breath from the latest EMR implementation or struggling to digest an acquisition. Even the industry giants are warily eyeing the growing power of payors and employers, while worrying about regulation, disruption, and security.

Capturing value in the New Health Economy requires investing in technology and new capabilities to manage risk and change behaviors. Hospital and health system executives understand this, yet they face a dizzying range of technology choices, amid scarce resources and little organizational patience. Every choice has consequences, every day matters, and every dollar counts. Fortunately, there is a way to make technology choices and operate in a thoughtful, coherent manner.

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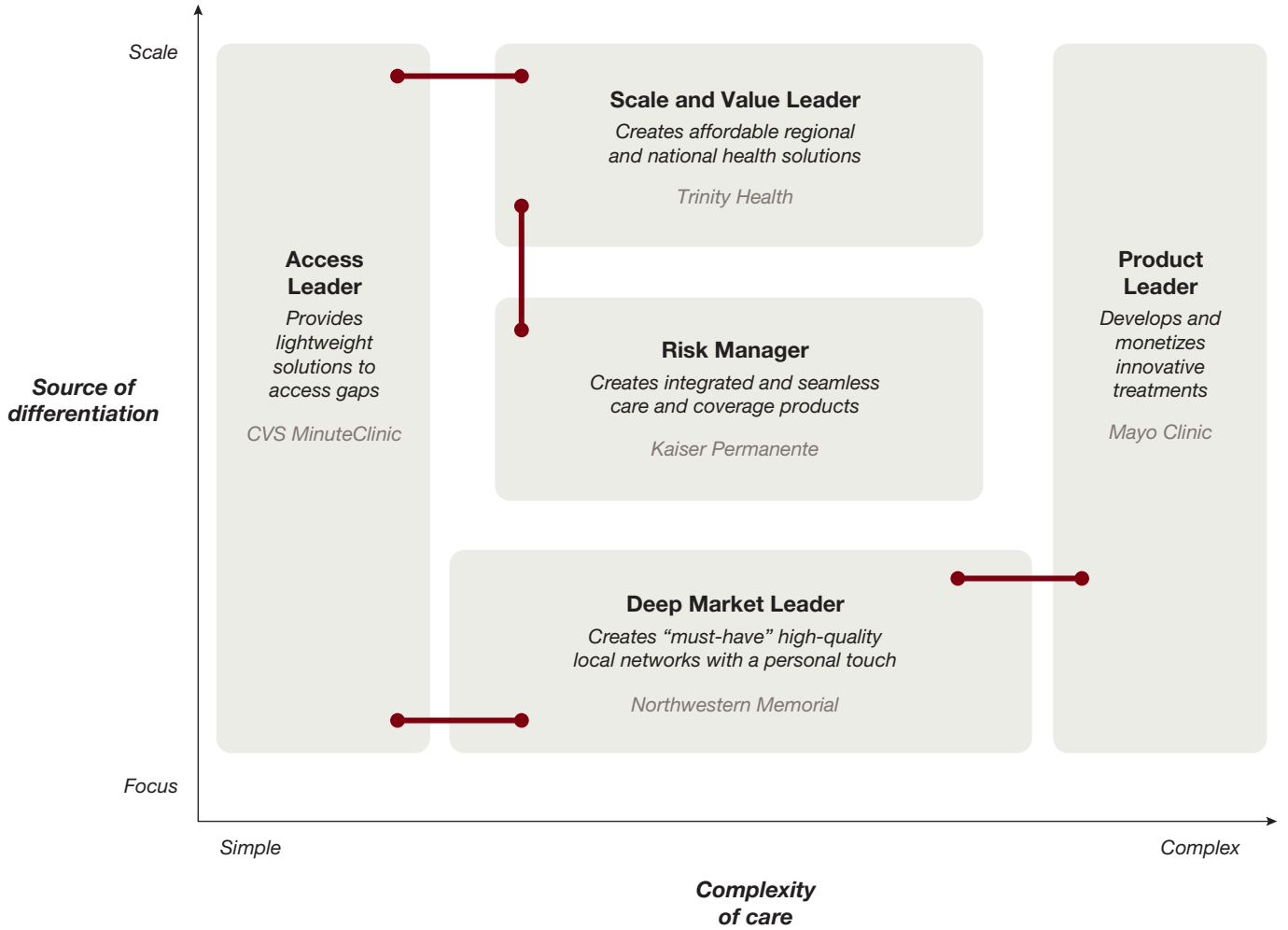
Five coherent destinations

No one would attempt to be a champion sumo wrestler and also a top marathon runner. Still, many hospitals attempt a similar feat in trying to be all things to all people, fragmenting their resources in the process. We believe there are five coherent destinations for hospitals and health systems.

- **Product Leaders** such as the Mayo Clinic will excel in selected clinical areas, delivering the most complex and cutting-edge treatments. (We call this group Product Leaders because we believe that healthcare will increasingly shift to a set of products for specific care episodes, rather than isolated procedures.)
- **Access Leaders** such as CVS MinuteClinic will offer only simple care but focus on reaching the widest possible population.
- **Scale and Value Leaders** such as Ascension Health and Trinity Health will use their unparalleled national reach to deliver unbeatable value.
- **Risk Managers** such as Kaiser Permanente will create integrated offerings that combine care and financing better than anyone else.
- **Deep Market Leaders** such as Northwestern Memorial Hospital will make themselves indispensable as the “gold standard” network within a particular region.

Exhibit 1 (next page) shows these five destinations plotted across two dimensions. The first is the complexity of care, determined by the types of patients the organization wants to serve and the types of services it can offer them. The second dimension shows how the organization will differentiate itself to create value — from intense focus on a particular geography, segment, or condition to an extremely broad network and array of services.

Exhibit 1
Five potential strategic destinations



— Coherent hybrids

Source: Strategy& analysis

Of course, most health systems do not have the luxury of starting from scratch, nor do they operate in a competitive vacuum. Existing strengths, aspirations, and market dynamics may cause an organization to aim for two destinations at once, which can make them what we call coherent hybrids. For example, the Mayo Clinic might seek both national leadership and local depth. However, not every combination makes sense, because different destinations require dramatically different investments in physicians, research, facilities, and capabilities. For example, being both a Product Leader and an Access Leader would entail conflicting priorities; partnering with another organization might be an easier option.

These are not theoretical choices. Strategy& research has found that coherent companies — those with a clear strategy, supporting capabilities, and aligned products and services — show better financial performance. Among providers and payors, coherent organizations grow five times as fast and are three times as profitable as incoherent ones, according to Strategy& research. In large part, these companies succeed because they have the discipline to stick with what they're good at and avoid chasing market fads. For example, Product Leaders double down on innovation to improve their complex care services, and Access Leaders create multiple touch points and a smooth patient experience. By contrast, players that lack this discipline end up going in all directions and getting nowhere.

Realizing the promise of greater coherence, growth, and margins begins with a conversation among senior executives — and it is frequently a conversation about technology. Critically, however, this conversation needs to consider technology and strategy in tandem: how technology can enable strategy and how strategy can provide clearer priorities for technology. Coming out of this conversation, the business and the technology road maps should be the same, leading to the same destination.

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The journey

In our experience working with hospitals, the process of getting to the right destination — and continuing to thrive once there — typically consists of several stages. The first stage is marked by a lack of clarity about priorities and direction. Organizations may suffer from “IT fatigue.” The most critical thing to do at this stage is to pick a strategic direction, commit to it, and determine what that decision means in terms of the necessary scale and capabilities. The great news is that having a clear and specific destination allows an organization to focus on bolstering just a few specific areas, instead of trying to be the best at everything.

Having hit the road, an organization might find itself at the second stage: impatience to get to the destination more quickly and efficiently. This optimization phase is usually marked by strong competitive pressure and dissatisfaction with IT responsiveness and efficiency. The hard work at this stage includes “sweating” the existing assets; integrating acquisitions; and making smart choices about which assets and capabilities to build, buy, or outsource.

Finally, once organizations reach their destination and begin operating at a high level of coherence and performance, they do not stand still. Intent on avoiding slow growth and declining margins, the best leaders stay ahead through relentless innovation, expansion, and transformation — with IT as a critical enabler and sometimes even as a means of unlocking capital to fund subsequent measures. Their secret is that they have found a way to innovate profitably, expand without huge capital investments, and transform continuously without taking their eyes off the destination.

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A packing list for success

As they consider their destination, hospitals and health systems can be sure of one thing: No matter where they start and which destination they are heading toward, they need some baseline IT capabilities. We suggest the following packing list.

First, getting to the destination securely requires strong authorization and authentication processes and rules regarding data storage. As the organization advances, so do security challenges — requiring an ability to protect complex care networks that include multiple and diverse providers and digital channels. In addition, completing the journey efficiently is a matter of technology optimization: having the right technology solutions and infrastructure to meet the business needs, no more and no less. Finally, companies require a robust IT operating model, responsive and strongly governed, that meshes with their strategy and that has a well-developed road map for implementation, including deadlines, milestones, and interdependencies.

Prioritizing capabilities

In addition to completing this packing list, which applies to all providers, healthcare organizations have to make some decisions regarding which capabilities they will need to prioritize. We believe that all health systems must have certain major capabilities regardless of their destination. However, the choice of destination determines which of these capabilities need to be excellent, on par, or merely good enough (*see Exhibit 2, next page*).

Innovation. Innovation is the defining characteristic of Product Leaders and a huge part of their business model — especially once they start commercializing their inventions. This does not mean that Access Leaders or Scale and Value Leaders do not need to innovate. On the contrary, coming up with channel and process innovations is key to their success. They just don't need to go toe-to-toe with Product Leaders on research labs and tissue registries.

Exhibit 2
Supporting and foundational technology capabilities

Supporting capabilities

Innovation

Advanced care model innovation

Channel innovation

Process innovation

Next-generation technologies

Technology commercialization

Patient engagement and experience

Self-service and automated tools

Loyalty/reward programs and tools

Patient/clinician collaboration communities

Clinician education and mobility tools

User experience

Virtual health and tele-health

Tele-care

Specialty consultations

Remote monitoring

In-hospital monitoring

Advanced care models

Financial reconciliation and reimbursement platforms

Care model and network design and administration

Outcomes/quality management

Account management

Interoperability

Health information exchanges

Optimized integrated systems

Medical device integration

Analytics

Clinical analytics

Business and operational analytics

Consumer analytics

R&D analytics

Accountable care analytics

Enterprise data management

Foundational capabilities

IT operating model

People, process, governance

Agile delivery model supporting innovation

Security

Information and network security

Vendor risk management and disaster recovery

Technology optimization

Modular and flexible infrastructure

Streamlined core platform (electronic health records, ancillary systems)

Source: Strategy& analysis

Patient engagement and experience. Deep Market Leaders and Product Leaders are also most likely to invest in a differentiated patient experience and engagement. And although Access Leaders and Risk Managers might have a higher-touch approach, they could use technology to offer self-service options and games.

Virtual health and tele-health. Virtual and tele-health capabilities are essential for Access Leaders, Product Leaders, and Deep Market Leaders, but in somewhat different ways. For an Access Leader, these capabilities add more touch points with patients and more convenience. For Product Leaders, they extend the reach of star physicians and destination programs and allow the Product Leaders to partner with local systems via tele-consults. A Deep Market Leader might be on the other end of such a partnership, allowing it to tap into the advanced care of the Product Leader.

Advanced care models. Every destination will require advanced care models that replace the traditional volume-based approach to healthcare. Some providers may opt for a next-generation fee-for-service model with quality rewards and penalties, others will offer new versions of employer-centric bundles, and still others will develop capitated population health solutions. All of the capabilities discussed above will be necessary but not sufficient to deliver and administer these advanced models. Depending on which model they pursue, providers will need additional capabilities to manage the network and risk, distribute payments, track results, and engage public-sector and private-sector payors in new ways.

Interoperability. Interoperability — connecting diverse clinical assets, information exchanges, and devices to deliver an end-to-end outcome and reduce costs — is also gaining in importance. Scale and Value Leaders and Risk Managers need to excel in this area. Other players must be interoperable as well, but they don't need to lead the pack.

Analytics. Of course, the ability to deliver high-tech services, or even to know whether a high-tech or high-touch approach is more effective in a given case, depends heavily on analytics. Here again there are choices to be made. Risk Managers must excel at patient stratification and targeting, Scale and Value Leaders must perfect their ability to dynamically deploy capacity, and Product Leaders must dredge through lakes of big data in search of clinical insights.


Exhibit 3 (next page) shows some of the building blocks for each capability.

Providers will need additional capabilities to manage the network and risk, distribute payments, track results, and engage public-sector and private-sector payors.

Exhibit 3

Priority capabilities for specific destinations

	Product Leader	Access Leader	Scale and Value Leader	Risk Manager	Deep Market Leader
Innovation	Most critical differentiator by supporting advanced treatments and procedures	Important to develop new touch points and channels for customers	Important to improve processes and reduce waste	Important to improve targeting and engagement	Important to improve the patient experience and strengthen brand
Patient engagement and experience	Critical for competing with other destinations	Critical to increase patient loyalty and retention, through high-tech, low-touch services	Can be good enough to keep patients in-network	Can be good enough to retain patients	Most critical differentiator
Virtual health and tele-health	Important to extend reach to new geographies	Critical to maximize access and allow customers to serve themselves	Important to shift care to lower-cost settings	Helpful in allowing longer-term monitoring of patients	Helpful in creating additional touch points
Advanced care models	Key in creating bundled or productized solutions	Useful in participating in direct primary care	Critical for managing to a tight per-member, per-month budget	Essential for a population health model, with some bundles outsourced	Necessary for building a preferred / "gold" network
Interoperability	Necessary to connect to local partners	Necessary to avoid care fragmentation	Critical in building a care continuum	Useful in connecting to care continuum	Helpful in linking to Product Leaders
Analytics	Important for creating and pricing new products	Critical in managing/shifting access	Critical in managing capacity for top efficiency	Critical for managing utilization for the population	Important for optimizing footprint

 Most critical differentiators for each destination

Source: Strategy& analysis

Pre-departure checklist

The array of destinations, stages, and capabilities may seem overwhelming in complexity, but it is rich in opportunity. As your organization embarks on this journey, we believe that a simple checklist is in order — to make sure that you know the answers to the most critical questions.

- Why will patients and customers choose me and continue choosing me?
 - How can I define and get paid for value?
 - How can I open up to more patients and customers without increasing my physical footprint?
 - How can I make better decisions, faster?
 - How can I make my technology a differentiator?
 - How can I maintain and monetize my leading edge?
 - What are the capabilities in which I must lead, and how far off is my current performance?
 - Is my current IT plan going to get me to my strategic destination?
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Conclusion

In the New Health Economy, technology is critical in helping all market participants capture greater value. But the range of technological options — and the pace of change — can be dizzying. We believe that success comes from management teams defining the right destination for their particular circumstances, and then building the technology and capabilities needed to execute. This process requires making some tough decisions, and having the discipline to see them through. However, it leads to strategic clarity and helps organizations become more coherent, leaving them better equipped to thrive in a dynamic market.

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