

Seeing opportunities, not barriers: seven strategies for thriving in a market with COVID-19

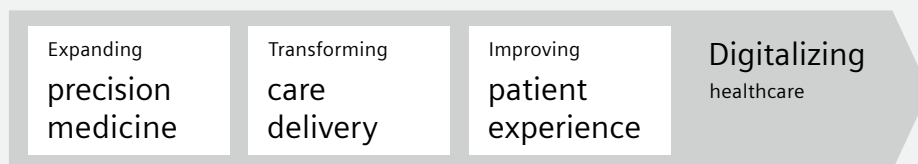
A thought leadership paper authored by ECG Management Consultants –
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Preface

The Insights Series

The Siemens Healthineers **Insights Series** is our preeminent thought leadership platform, drawing on the knowledge and experience of some of the world's most respected healthcare leaders and innovators. The Series explores emerging issues and provides you with practical solutions to today's most pressing healthcare challenges.

We believe that increasing value in healthcare – delivering better outcomes at lower cost – rests on four strategies. These four principles serve as the cornerstones of the **Insights Series**.



The New Normal

The New Normal is a special edition of our **Insights Series** focusing on the COVID-19 pandemic. This series provides recommendations on how to confront the current SARS-CoV-2 outbreak and its implications, as well as strategies and ideas on how to emerge from the current crisis stronger, more resilient, and better prepared to address the healthcare challenges that lie ahead.

Please visit [siemens-healthineers.com/insights-series](https://www.siemens-healthineers.com/insights-series)

Executive summary

In the face of the COVID-19 pandemic, we have seen providers, payers, and regulators work in partnership to rapidly shift operational models and set aside regulatory barriers and red tape to enable clinicians to practice at the top of their license, deploy virtual health technology, and marshal scarce resources.

Now, many in the industry are realizing that once we are on the other side of this crisis, we may never return to business as usual. We have a deep financial hole to climb out of, and ECG Management Consultants conservatively estimates that the financial impact of COVID-19, net of government stimulus, has been a collective reduction of approximately 5.6% of net income for all US health systems before losses from employed medical groups, as of this writing.

How we view and fund public health in the US, and how hospitals, health systems, and our clinical workforce position themselves for the future, may be quite different from the healthcare world as we knew it just a few months ago. Healthcare leaders need to be thinking about this “new normal” now to address two essential questions:

1. What are the implications for our organization in the immediate aftermath of this crisis?
2. How can we position our organization to thrive under these implications?

The challenge

Implications that will shape future strategies

COVID-19 and the related economic issues will present myriad strategic challenges as well as opportunities for organizations. Among these, several major implications will reset C-suite and board agendas over the next 12 months. Seven strategies may provide a clearer path to thriving in this changing environment.



The solution

Financial positions are compromised, prompting market repositioning

Financial positions are compromised, prompting market repositioning. Revenue has rapidly declined on rising costs, driven by the loss of elective procedures and outpatient services. Many health systems are taking a practical and conservative view that volumes will come back slowly; there will be a backlog of cases that need to be addressed in the coming months, resulting in something of a surge, though many other cases may be deferred due to continuing concerns around COVID-19. Some expect that payer mix will erode as unemployment spikes and the economy struggles to recover, causing further margin pressure for hospitals.

Providers must stabilize their operations and rebuild their financial position in a sustainable manner. Some providers will seek refuge via consolidation or partnerships. Others will seize the opportunity to pursue strategies that seemed too aggressive just a few months ago.



Strategy one: Aggressively renegotiate health plan contracts

Even with support from the CARES and Families First Coronavirus Response Acts, providers will experience revenue shortfalls of roughly two years' worth of operating margin, with some faring much worse. Payers have not experienced the financial hardship that hospitals have; they need to be part of the solution. Providers should reopen contracts and pursue terms that address rates, care management fees, and payer investments in public health.

Public support for hospitals and healthcare providers is at an all-time high, and the endorsement of large employers and the broader community will be essential

to providers when requesting financial support from payers. Those payers making strategic plays to preserve membership will be staying close to employers and will need to stabilize their provider networks.

In addition, health systems should partner with payers on commercial and Medicare Advantage products to secure more of the premium dollar in value-based contracts. This crisis has demonstrated the imperative of effectively managing at-risk patient populations and ensuring they receive preventive services and care in the most appropriate settings. Providers should share in those risks and rewards.



Strategy two: Reshape service lines to bolster margins

Hospitals will need to create financial stability. Reshaping their clinical portfolio is a key step. Although health systems have aggregated hospitals over the past decade, and many have successfully transitioned from a holding company to an operating company model, most have shied away from consolidating service offerings. It is common to see the same system in the same geography duplicating resource-intensive services (e.g., open heart programs).

As the COVID-19 crisis subsides, health system leaders will have the opportunity (and for some, it will be a necessity) to consolidate their clinical portfolio, shed low-margin services, and reshape consumer expectations for how and where care is delivered. The political pushback (e.g., physician resistance, community expectations) that has long hindered this approach will likely be low. Leaders need to seize the moment to reshape clinical delivery systems into more sustainable, high-value enterprises.

Outpatient growth will accelerate

As the crisis abates, providers are likely to see a rebound of patient activity in the form of rescheduled elective procedures and physician office visits; however, consumers will seek facilities that feel safer in terms of potential for virus exposure (e.g., ambulatory settings as opposed to hospitals).

This will further accelerate the ongoing outpatient migration and force health systems to diversify their ambulatory assets, emphasizing the need to reconsider capital-intensive hospital investments and ensure efficient cost structures. Health systems may leave some revenue on the table due to site-of-service reimbursements differentials, but that's better than losing cases altogether to a competitor that can accommodate patients' and physicians' needs.



Strategy three: **Invest in building the ambulatory network**

Despite the criticism of being hospital-centric, health system leaders have known for years that an effective and robust ambulatory network is vital to long-term success. In light of the pandemic, there is even more reason to aggressively build an ambulatory network. Consumers will seek safe havens, and a tertiary hospital managing infectious populations will deter some patients from seeking care in that setting. Adding ambulatory sites to delivery networks makes it more feasible for health systems to offer a safe and convenient "COVID-19 free" environment to both patients and providers. Moreover, many ambulatory centers are struggling from the cancellation of elective cases, positioning health systems to acquire assets at a lower cost. Investing in ASCs, imaging centers, and other diagnostic/therapeutic centers also offers health systems the chance to further align with physicians through joint ventures and other alignment models.

Organizations that take advantage of this market opportunity to expand their ambulatory footprint can address short-term consumer fears about place of service, respond to growing consumer demand for greater convenience, and position themselves to expand market share.



Strategy four: **Revisit capital investment plans**

Most hospitals quickly pulled back capital investments as the crisis developed. Long-range financial plans need to be updated and run against multiple scenarios regarding future volumes and revenue streams. Accordingly, capital investments will require greater scrutiny, particularly those related to significant hospital facility improvements. Health systems should reevaluate capacity requirements, assess opportunities for capacity optimization and/or rationalization, and potentially divest or plan to wind down under-performing or unnecessary assets. Likewise, some hospitals may not survive the financial distress caused by COVID-19, and health systems will be presented with opportunities to evaluate acquisitions and partnerships. Historically, most hospital acquisitions have been approached with the thought (or obligation) of continuing inpatient services; there may be opportunities to consider redefining and rationalizing services.

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Telehealth will reshape medical group economics

It will be difficult to put the telehealth genie back in the bottle; adoption is surging already, and patients and providers alike see value in virtual healthcare solutions. Systems will need to make significant investments going forward to optimize their telehealth capabilities. That said, providers should be prepared for a decline in reimbursement per visit. Two factors will drive this:

1. Medicare and other payers will eventually reinstate a payment differential relative to face-to-face visits.
2. The visit mix will migrate to lower-paying codes (e.g., an in-person E&M visit will be replaced by an e-visit such as HCPCS 421).

To maintain current financial performance, most medical groups will need to increase visit throughput, reduce operating costs, or alter their economic model.



Strategy five: Change the economic and service relationship between physicians and consumers

Consumerism has been a buzzword in healthcare for the past several years, but financial pressures have inhibited many medical groups' ability to improve the consumer experience. With COVID-19 prompting a surge in digital health and intensifying consumers' desire for access, progressive medical groups have an opportunity to reduce their reliance on traditional fee-for-service payments and diversify their economic model. PCPs, in particular, need to seek additional financial relationships with patients, employers, and health plans that help pay for the consumer experience.

Millennial and Generation Z population segments are seemingly willing to pay membership or subscription fees that support convenience and on-demand use. Partnership fees via employers or health plans (typically in a per member per month form) are also a diversification strategy. For example, One Medical's adoption of this strategy has resulted in its membership/partnership revenue representing an increasingly larger portion of its total net revenue: 22%, 32%, and 48% of total net revenue for 2017, 2018, and 2019, respectively.¹

Achieving this additional revenue is more feasible than managing higher productivity expectations and the related implications (e.g., burnout, quality concerns, physician dissatisfaction). Whether through membership fees, partnership management fees, or some other service premium, providers can use this opportunity to introduce new relationships with consumers, both from clinical delivery and economic perspectives.

¹ "2019 Annual Report," (1Life Healthcare, 2020), sec.report/Document/0001564590-20-013666

Health plan networks will become bigger competitors for health systems and their physician networks

Physicians and ambulatory providers will turn to health systems for financial support; however, many hospitals will not be in a financial position to provide the desired stability. This will open the door for health plans – flush with cash – to seek greater alignment with medical groups, ASCs, and other ambulatory providers. If successful, this will have the single biggest impact on how care is organized and delivered in a local market, with profound implications on provider networks, degree of plan directedness, and benefit design.



Strategy six: Partner with independent medical groups

Some health system leaders and boards were already leery about their mounting investments in employed physicians. However, leaders will need to rethink their capital deployment and look beyond the main campus. Securing market share (think members/lives, not inpatient discharges) will be critical. If payers continue to aggregate ambulatory providers, hospitals will increasingly become a commodity in a very lowmargin, difficult-to-manage business.

Over the coming months, many hospital leaders will be presented with an unprecedented opportunity to align with medical groups and ambulatory providers that historically have been staunchly independent. Doing so will feel risky, but remaining stagnant may prove even riskier as health plans secure even greater direction over who provides care and where. Health systems can reposition and bolster their ambulatory delivery network, though doing so will require leaders and board members to let go of a campus-centric mentality and embrace a geographically diverse ambulatory network.

Don't limit strategies to just employment or acquisition. Providers are seeking stability; health systems should be seeking alignment. Various tools besides employment, such as joint ventures (potentially with a payer) or professional service agreements, can be deployed to achieve the desired alignment.



Strategy seven: Restructure health system physician enterprise organizations

Most health systems have made adjustments to stabilize physician compensation during the crisis. Most also realize that physician compensation and the overall financial support required to maintain a health system physician enterprise will continue to be an issue going forward.

ECG's annual provider productivity and compensation survey indicates health systems' average investment per employed physician is now approaching \$240,000 per FTE. While hospital margins are facing greater pressure than ever, there is no better time for health systems to address the elephant in the room: the economic model of their physician enterprise organizations is not sustainable.

It's time for health systems to reevaluate their entire physician enterprise strategy. Everything should be on the table: provider mix, size, and distribution; revenue streams; economic relationships with consumers; productivity and compensation; staffing levels and operations; organization and governance; and even ownership structure.

Conclusion

A time for healing – and leadership

The US healthcare system will be forever scarred by the COVID-19 pandemic, but it will recover. The economy and healthcare will be critical platform issues in the upcoming 2020 elections, and the future of public health and healthcare funding and delivery will be the subject of much debate for years to come. Healthcare providers must not only have a leadership role in the unfolding national dialogue, but they must also take charge of defining their immediate future and design the elements of change that will create sustainable advantage.

Many providers and health systems will want to return to a historical normal or business as usual. For others, this experience may radically reshape their organizations. All will have a new appreciation for the fragility of the underlying healthcare economic model in the US, and weathering the financial shock will occupy C-suite agendas in the months ahead. Out of this pandemic will emerge many opportunities, and perhaps a few imperatives, that will be organization and market specific.

Navigating through this period calls for clarity of vision and bold action. It requires strong leadership.



Suggested follow-up on

[Siemens-healthineers.com/news/transforming-care-delivery](https://www.siemens-healthineers.com/news/transforming-care-delivery)

- Siemens Healthineers Insights Series, issue 7: Do one thing, and do it better than anyone else
- Siemens Healthineers Insights Series, issue 4: Achieve twice as much but only work half as hard
- Siemens Healthineers Insights Series, issue 2: Culture of diversity, respect, and inclusion
- Harvard Business Review: Transforming Care delivery to increase value



Information:

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All issues of the Insights Series can be found here:

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At Siemens Healthineers, our purpose is to enable healthcare providers to increase value by empowering them on their journey towards expanding precision medicine, transforming care delivery, and improving patient experience, all enabled by digitalizing healthcare. An estimated five million patients worldwide everyday benefit from our innovative technologies and services in the areas of diagnostic and therapeutic imaging, laboratory diagnostics and molecular medicine as well as digital health and enterprise services.

We are a leading medical technology company with over 120 years of experience and 18,500 patents globally. With about 50,000 dedicated colleagues in over 70 countries, we will continue to innovate and shape the future of healthcare.

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