



## Executive Insights

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# Adapt To Thrive: Academic Medical Center Strategy for a Value-Based World

The migration to value — high-quality care at low cost — has been a top-of-mind issue for academic medical centers (AMCs) for years. The pressure continues to slowly mount.

Large, self-insured employers like Walmart, Disney, Boeing and many others nationwide are establishing condition-specific centers of excellence (COEs) with providers that can demonstrate evidence-based, standardized and efficient care. Employer coalitions like the Health Transformation Alliance are implementing local, high-value provider partnerships in pursuit of step-change reductions in cost. National payers are pursuing hardline tactics to lower provider payments. UnitedHealthcare recently announced that it would no longer pay for certain planned procedures in the hospital outpatient setting<sup>1</sup> — where [prices](#) can be about nine to 10 times higher than in an office setting — unless medically necessary. COVID-19 may be acting as an accelerant, pushing care into lower-cost, community-based and virtual care settings.

### Much ado about value

While all signs point toward a future environment of pressured revenues, especially from the “cash cow” commercial line of business, AMCs on the whole have continued to excel. Their brand names continue to draw patient volume, particularly for tertiary and quaternary care, and they are indispensable to payer

and employer networks that prioritize choice. Further, AMCs are poised to emerge from the COVID-19 crisis as winners, with their scale and brand strength giving them greater resilience in the financial downturn than that offered by smaller, “insurgent” competitors.

Wholesale change may not be necessary just yet, but targeted adaptation is a smart strategy. While many AMCs operate from a position of financial strength, it is an optimal time for them to critically evaluate their portfolios of services and invest in order to thrive for the future. Focused action in specific service lines that are commoditized and “shoppable,” or that present the greatest opportunity for competitive differentiation, will prepare AMCs for bigger changes that may be necessary down the road. A winning strategy must be thoughtful and service line-specific, ensure protection against current and future potential share loss from low-cost competitors, and capitalize on inherent advantages like reputation and medical expertise.

### Prioritize the highest yield service lines

AMCs should focus their near-term efforts on a few service lines that present the greatest degree of risk or opportunity. The answers to the following questions can help AMCs identify which service lines to prioritize for near-term action and investment, and how quickly to adapt.

- **How financially critical is the service line?** Answering this question can require some nuance. High-margin procedural

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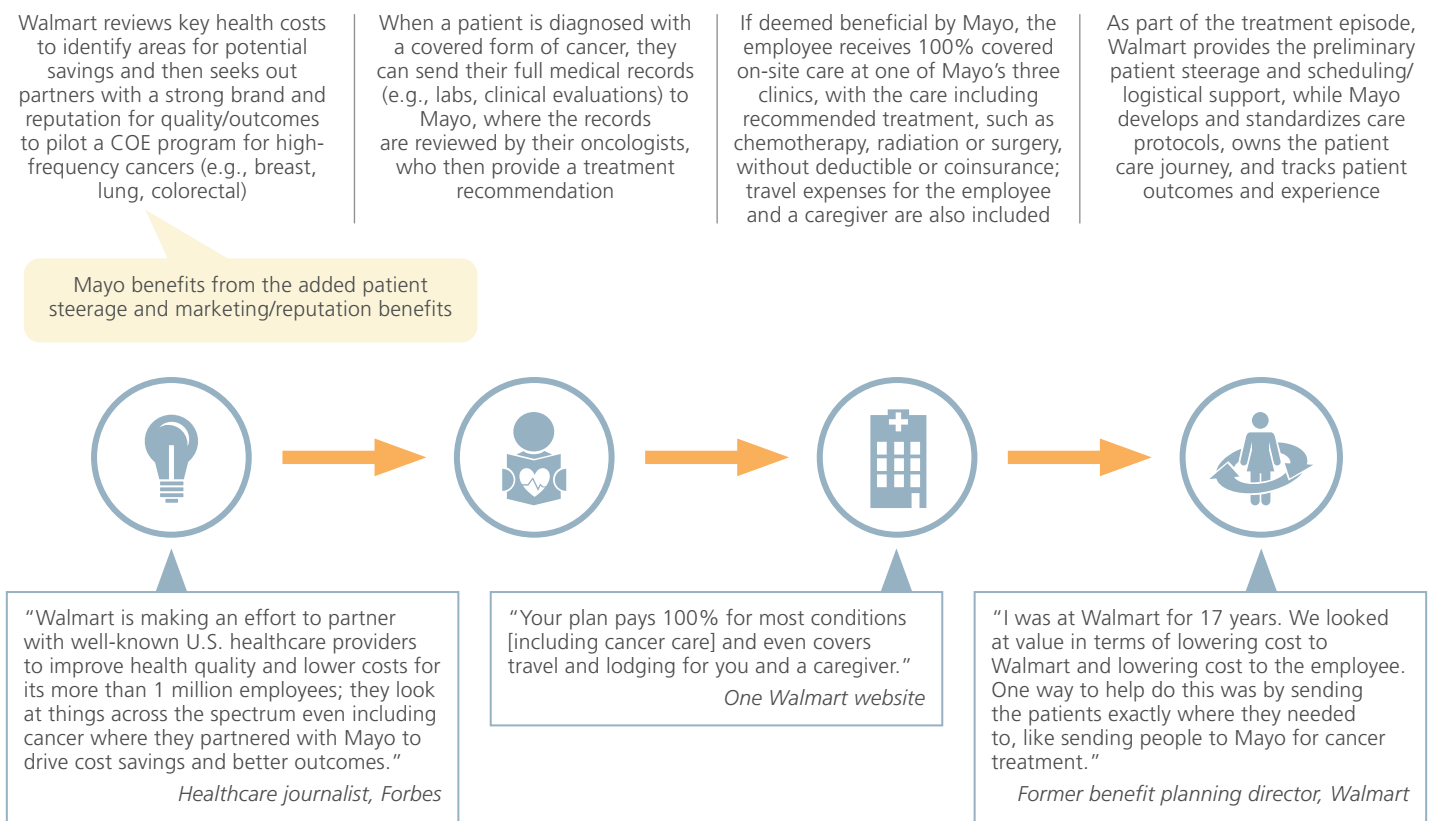
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specialties likely comprise a high percentage of an AMC's operating margins. However, upstream primary care and medical specialty care are critical to capturing procedural volume. Thus, answering this question may require an AMC to redefine its service lines to better map the patient journey from intake to discharge.

- **To what extent are purchasers (employers and payers) seeking high-value care options?** Purchasers are typically most focused on services (1) that comprise a high portion of their total medical costs, (2) for which total cost of care is measurable and comparable across providers, (3) for which there are legitimate high-value alternatives in the market, and (4) for which standardized, evidence-based protocols exist and can be applied in the majority of cases. For instance, many purchasers are interested in finding high-value total joint replacement providers. Conversely, given that cancer care is so complex (with extensive use of specialty drugs) and the costs so unpredictable, identification of a high-value provider is very difficult to do.

- **Where is share loss to lower-cost competitors already occurring?** To successfully adapt, it is critical to identify competitive entities that are winning share and to understand why they have been successful — whether they are lower cost, are community-based rather than hospital-centric, utilize technology/tools that streamline the patient experience, etc.
- **Where does the AMC have a “right to win”?** In addition to their brand strength, AMCs employ world-class clinicians who set national guidelines for care and conduct cutting-edge research. They have the opportunity to build on this inherent advantage to create differentiated service offerings for regional or even national healthcare purchasers. These might include specialty care COEs or second-opinion services that vet other institutions' diagnoses and treatment plans against the latest medical evidence. For example, Mayo Clinic has partnered with Walmart to create a cancer care COE. Mayo offers second-opinion services and on-site care when needed (see Figure 1).

Figure 1  
Walmart-Mayo Clinic Cancer Center case study



Source: Forbes; One Walmart; L.E.K. research and analysis

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- **Where is there organizational readiness to enact change?** This is perhaps the most important question for an AMC. A transformation strategy will likely involve new clinical protocols, patient workflows, implementation of new technology/tools and data measurement. In some cases, it may be further complicated by complex legal and financial relationships as well as divergent incentives between physicians and the health system. In other words, it is likely to be disruptive. Successful change management is contingent on buy-in from capable service-line leaders (both clinical and administrative) who can drive the broad clinician alignment required to operationalize a transformation strategy.

## Incorporate core value-based elements

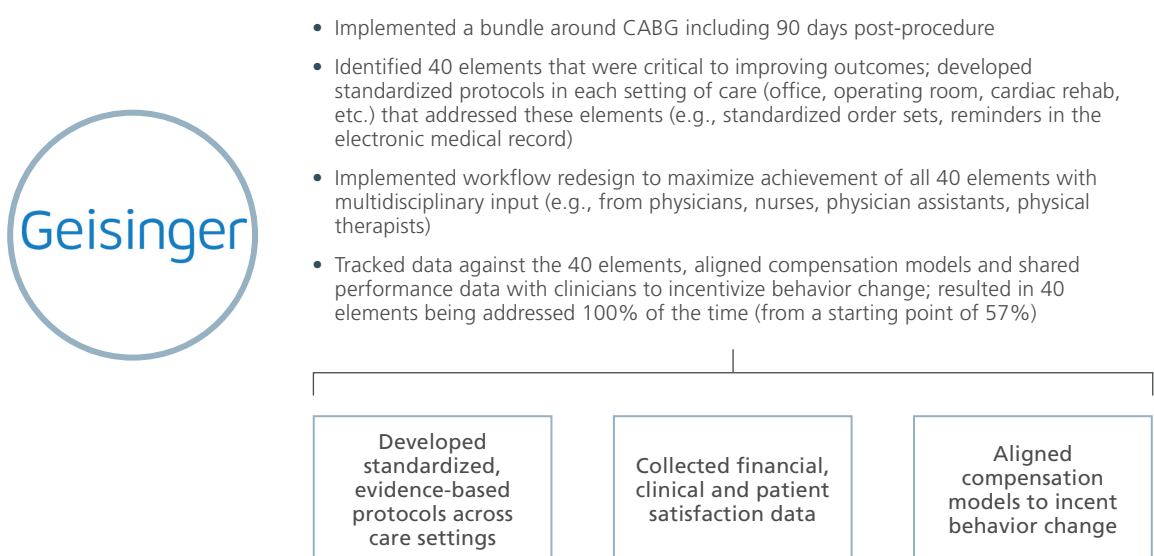
Any winning strategy must be designed around the specifics of prioritized service lines. However, regardless of the service line, there are a number of universal elements core to a successful value-based strategy.

- **Optimize facility footprint** — Deliver the right care in the right place at the right time. Stanford, for instance, developed an ambulatory footprint to treat a low-margin, clinically appropriate case mix in the community, freeing inpatient capacity for high-margin, complex cases. It also acquired a community health system, ValleyCare, in 2015, enabling treatment of low-acuity inpatient cases in the

community and reserving Stanford's inpatient capacity for highly complex cases (e.g., cancer care and transplants).

- **Organize into a care continuum** — A seamless patient experience is contingent on systemwide coordination. Cleveland Clinic has done just this, organizing itself into a continuum-of-care delivery model for various conditions. Multisite dashboards enable tracking of clinical, patient satisfaction and financial metrics across the system for a single condition. Scheduling and care coordination is centralized to facilitate optimal patient flow through the system, reducing patient wait times.
- **Espouse a culture oriented toward cost-efficiency and value** — Every dollar in costs saved will prepare AMCs for a potential lower revenue environment. Virginia Mason is the quintessential example of adopting a value-based culture. It applies the basic tenets of the Toyota Production System to minimize mistakes, waste and cost variation throughout the system, and it has leveraged its successes to develop multiple direct-to-employer condition-specific COEs and bundled payment contracts.
- **Align clinician incentives** — The best strategies have failed due to lack of clinician alignment; AMCs must ensure that clinicians benefit from any change that is implemented. Intermountain, for instance, adopted a capitated care model

Figure 2  
Geisinger's coronary artery bypass grafting (CABG) COE exemplifies the importance of systematically collecting and utilizing data from across the entire system



Source: PA.gov; Becker's Hospital Review; L.E.K. research and analysis

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in which physicians could share in savings they generated from their efforts to improve population health.

- **Collect data and measure total cost of care across the system** — Embedded in every aspect of value-based strategy implementation is the ability to collect, measure and act on clinical, financial and patient experience data. Geisinger (see Figure 2), which established the first national direct-to-employer CABG COE, used systemwide data to develop and price a five-stage treatment protocol, beginning at point of diagnosis. After launching its COE and bundled price, Geisinger continued to track longitudinal data on protocol adherence, quality and financial results, and to use this data to fine-tune its COE.
- **Share data with employers/payers and market results** — Mayo Clinic is the gold standard for marketing its results to build a national reputation for specialized care. It has developed standardized care protocols for a number of specialized episodes (e.g., transplants, cancer care) and tracks data at each patient touch point within the

episode to monitor clinical effectiveness, financial outcomes and patient satisfaction. It has effectively used this data to market its successes and attract a number of employer partnerships.

The march toward affordable, convenient care is slow but inevitable. Getting ahead of this trend while operating from a position of financial strength will position AMCs to continue to win over the long term. However, wholesale transformation is difficult and may not be immediately necessary. Prioritizing service lines that are at risk of market share loss or where AMCs have an inherent right to win can make this change more manageable. Initial wins will help generate valuable learning and drive organizational support for large-scale transformation down the road.

## Endnotes

<sup>1</sup>Modern Healthcare, Oct. 17, 2019, <https://www.modernhealthcare.com/payment/unitedhealthcare-outpatient-surgery-policy-threatens-hospital-revenue> (subscription access required)

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