Value chain reorganization:
How CEOs can influence a more integrated, resilient ecosystem
Reshaping the value chain is a requisite in today’s market

Collaboration across the health care system is essential to a high-performing value chain. This allows information, money, products and services to flow effectively among all stakeholders — each adding value as they engage the landscape.

COVID-19 has proven that traditional health system infrastructure, processes and functions are unable to achieve this flow at the level the market needs. It made long-standing concerns like cost, inaccessibility and inconvenience intolerable. Consumers are experiencing failing health while many stakeholders face severe economic fallout. And with the ongoing threat of further disruption, there is an extreme demand for health plan leaders and providers to identify more effective alternatives.

The benefit of partnerships is clear. The mandate for digital connectivity and intelligent processing is urgent. The upside is that scalable innovations are entering the market every day. Like the media and financial industries before it, health care is about to undergo a rapid redesign.

Value chain struggles to meet modern demands

The industry is facing a vast set of challenges that have been exacerbated since the onset of COVID-19.

48% of Americans said they or a family member have skipped or delayed medical care because of the pandemic.¹

An estimated 60,000 family practices have closed or significantly scaled back their operations.²

Up to 25% of hospitals across the United States are at risk of financial failure.³

27 million consumers are shifting out of commercial coverage, but only 12.7 million qualify for Medicaid.⁴

An estimated 800,000 health care workers were still unemployed in June 2020.⁵

The average consumer pays anywhere from 13% to 20% of their income on health care costs.⁶
Assessing supplies, products and services for viability

Maintaining stability in the current environment requires a stark inspection of current operations. CEOs should look to:

**Utilize predictive tools**

No one in health care can afford further risk to the safety of their employees, members or patients. Nor can they afford swings in pricing, unreliable supply sources or fraudulent vendors. Using digital supply chain tools with predictive analytics, it is now possible to anticipate shifts in demand and track the flow of inventory as it moves through the enterprise. These capabilities allow greater flexibility to move away from historical allocation models.

**Manage your supply chain**

An estimated 60% of executives have no knowledge of the items in their supply chain beyond the tier 1 suppliers. Operational viability will strongly depend on a CEO’s deep knowledge of their supply chain. This includes estimating available inventory, assessing consumer demands and anticipating shortages. After identifying immediate risks for disruption, assessing tier 2 and onward suppliers can help establish preferred, trusted vendors.

Localizing your supply chain offsets some of these complexities. And using technologies such as IoT provides transparency through real-time track-and-trace. By standardizing technology and protocols, leaders can secure supply chain procurement and establish a more localized and tightly vetted supply chain.

**Focus on flexible staffing**

Talent is always a key differentiator, with salaries accounting for 54% of spending in health organizations. During COVID-19, hundreds of thousands of health care workers were laid off while emergency rooms struggled to find staff. Organizations that already had telehealth and other digital channels in place were best equipped to engage with consumers and redeploy their staff. Being able to nimbly adjust staffing models and site of service — whether in-person, via telehealth or through a portal — is now a required capability.

**Promote alternative care channels**

Meeting consumers wherever they need care has reached new priority levels. Due to economic and safety concerns, consumers have pulled back their engagement. As a result, many are seeing their chronic conditions worsen or are leaving acute conditions unattended. Anticipating risk and guiding consumers into alternative channels is imperative to managing health concerns and keeping people well. This requires a quick pivot to in-home and other remote offerings as consumer households become the epicenter of care.

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**Reshaping supply chains, products and services to meet fluctuating market demands**

1. How can you leverage data and technologies to strengthen supply chain relationships and support on-time supply deliveries?
2. How might managed services help you gain broad-based improvements?
3. Do you have a short list of partners that can protect you from market fluctuation and reduce your financial risk?

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Health care dollars must become more consumer-centric

As health care spending and cost structures shift, consumer demands must take center stage. CEOs should look to:

- **Rebuild cost structure to accommodate consumers**
  Millions of Americans remain unemployed. An estimated 27 million consumers are shifting out of commercial coverage, but only 12.7 million qualify for Medicaid. Many people find the rates on their state exchange too costly and have joined the ranks of the uninsured. Even more are under-insured, paying anywhere from 13% to 20% of their income on health care costs. With federal and state budgets stretched, government payment rates will likely adjust. As the market demands price-based costing, incremental adjustments will not come in time. Health plans and providers have no choice but to radically reconceive their cost structure to make health care affordable.

- **Partner to improve population health strategies**
  Fee-for-service revenue dropped off a cliff may not return to pre-COVID levels. Without a vaccine or a swift economic recovery, revenue attached to elective procedures or fee-for-service revenue will stay at risk. Government health plans and large commercial insurers have been moving toward capitation for nearly a decade as cost limits became an economic obligation. And the government’s role remains uncertain as coverage shifts and the potential for disease resurgence grows. Combining their areas of expertise, health plans, providers and emerging technologies can come together to deliver quality care at a significantly lower cost.

- **Consider M&A opportunities**
  While COVID-19 slowed health industry M&A volume in Q2, M&A activity continues to occur broadly across all health industry sectors with 483 deals announced in the first half of the year. In addition, expectations are that the second half of the year will see an increase as organizations seek alternatives of increased scale or entry into new markets to navigate increased financial risk due to COVID-19. However, leaders should be careful not to assume that creating a larger organization offers protection from market risk. Instead, look to be part of a diverse, digitally supported ecosystem with the infrastructure to support further modernization.
Moving the value chain into digital systems

Every aspect of COVID-19 disruption — including testing and tracking the disease spread — has demonstrated a corresponding need for enhanced information collection, management and connectivity. But most of those needs are related to long-standing issues that have been brought into sharp relief. This crisis has shown the advantages of being ready and able to quickly shift to and properly manage digital operations. And the market is already moving with increased urgency, with telehealth positioned to grow into a $250 billion revenue opportunity.9

With consumers continuing to adopt digital health technologies, combined with government policies, there is a rising demand for data collection and data sharing. As more virtual health and digital tools come into use, health plans and providers need to find ways to integrate this growing volume of information into their systems and have the human resources to manage it.

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<th>Competitive value within any health care ecosystem is established when costs are radically reduced, and the products or services are most relevant to the population served. Competitive organizations in today’s environment are able to:</th>
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<tbody>
<tr>
<td>• Anticipate disease flare-ups, sudden staffing needs and supply chain demands</td>
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<td>• Rationalize products and services directly to the needs of the population</td>
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<tr>
<td>• Predict the impact of social determinants of health (SDOH)</td>
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<td>• Employ flexible staffing strategies across the organization</td>
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<td>• Keep clinical staff working at the top of their license</td>
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<td>• Support the shift of site of service to the home, telehealth and other low-cost, virtual channels</td>
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<tr>
<td>• Track changes in consumer behavior as new market entrants compete for market share</td>
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<tr>
<td>• Identify partners that complement their services, lower costs and improve the consumer experience</td>
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<tr>
<td>• Collect and share information across their organization, among key stakeholders and with their consumers</td>
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Intelligent information systems and the people who operate them will drive the entire value chain. Just as visiting a bank for financial services is a way of the past, so are mandatory visits to a health facility for in-person care. Sustainable health care will include data-driven platforms that improve connectivity across all participants.

Over the next several months, economics, disease resurgence, digital innovation and M&A activity across all sectors will continue to alter the health care landscape. The home is likely to gain ground as an epicenter of care. Digital pathways will become more of the norm for health plans, providers and consumers. There will be an increased demand for post-acute digital services at home and less investment in

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Defining a connected, digital health ecosystem

1. What are the benchmarks in your market for virtual-health enablement?
2. How well are you using predictive analytics to mitigate risk — in your staffing and supply chain and member/patient populations?
3. Are you extending clinical capacity through artificial intelligence and machine learning?
4. How can partnerships help you expand your capacity for data-driven operations?
fee-for-service relationships. And because health plans’ core competency is managing risk, they can actively seek solutions to help providers be successful during this time of disruption.

Rapid redesign will push value chain into a new era

The new health care value chain will include traditional and new market entrants. But all participants will be data-enabled, predictive, digitally supportive and continually adapting. Winning organizations will use these capabilities to meet the national economic realities. This will help prioritize consumer needs and preferences, improve health outcomes and demonstrate intrinsic value in every exchange.

This is a seminal moment of change. CEOs who do the work to adopt new digital capabilities and secure partnerships to support a consumer-centric value chain will earn their place in this new market.

NAVIGATING FORWARD

1. **Take immediate action to reconfigure your cost structure**
   - Explore supply chain, staffing and managed services opportunities
   - Embrace new technology to extend preventive, population health capabilities
   - Eliminate friction in the claim and payment processing functions

2. **Use consumer segmentation to rationalize products, services and delivery channels**
   - Leverage rich data to segment your offering by preferences, needs and health condition
   - Prioritize outreach for the chronically ill and those further subdued by SDOH
   - Map how you and your partners can simplify the consumer experience, from benefit selection through every care event

3. **Develop your ability to partner**
   - Examine the value chain and eliminate any redundancies in your offering
   - Create a list of potential partners that complement your value
   - Find new ways to come together to lower total cost of care and maximize benefit for consumers

4. **Accelerate governance and decision-making**
   - Monitor investments in virtual health and M&A activity, which can shift the competitive mix overnight
   - Be ready to quickly adopt new channels and operational protocols
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Contributing experts

**Eric Larsen**
President
Advisory Board Company

**Keith Shah, PhD**
Senior Vice President, Strategy and Growth
Optum Advisory Services

**Craig Savage**
Senior Vice President, Payer Practice
Optum Advisory Services

Sources


