About The Chartis Group

The Chartis Group is an advisory services firm that provides management consulting and applied research to leading healthcare organizations. The firm is comprised of uniquely experienced senior healthcare professionals and consultants who apply a distinctive knowledge of healthcare economics, markets, and organizational dynamics to help clients achieve unequaled results.

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The changes underway in US healthcare financing and delivery will cause local healthcare markets to look significantly different in the future. As a result, the defining characteristics of future market leaders will differ from the strategies and characteristics reflective of past success. Nonetheless, significant uncertainty remains about the pace and nature of the transition that will occur in each market. Health systems are challenged to determine the timing and depth of the investments they should make to develop and implement value-based capabilities and contracts. Providers risk premature revenue reductions if they move too quickly and deterioration of their longer-term market position and sustainability if they do not adequately invest and prepare for this shift.

Health systems have an increased need for proactive and engaged strategic thinking in times of unprecedented uncertainty. Organizations that are able to identify and implement new market strategies during periods of rapid change have the opportunity to 'disrupt the market' and emerge, or enhance their position, as market leaders. This paper describes The Chartis Group perspective regarding effective strategic positioning, which is based on a fundamental underlying philosophy that organizations have the ability to shape their market and their future.

Healthcare delivery is ultimately local, warranting a market-based, tailored approach to health system strategic positioning. While some systemic changes are spurred by national policy and reimbursement shifts, value-based healthcare economies emerge at different paces and in different forms in every market. As such, there are no universal solutions, strategies or case studies that guarantee a winning outcome. Rather, as health systems navigate the transition to a value-based environment, strategic positioning forces answers to the following questions for each provider’s specific situation:

1. WHEN will the transition to value-based reimbursement occur?
2. WHAT factors will drive the transition?
3. WHO will move the market toward value?
4. WHERE will that leave us?
5. HOW do we succeed?
WHEN Will the Transition to Value-Based Reimbursement Occur?

In effective strategic positioning, understanding the timing of market transitions is critical. Premature shifts can reduce revenues and severely damage financial performance. However, waiting too long can put an organization at risk of falling behind competitors and becoming irrelevant. Market projections using traditional demographic and hospital utilization trends are no longer sufficient due to current changes in fundamental economics and care delivery. The Chartis Group developed the Pace of Change™ Index to understand the market’s evolution and provide context for providers’ options for migrating from volume to value. The Index highlights the speed at which the economic shift will occur in a region relative to other US markets and indicates the urgency with which local providers must be ready to compete in the new environment.

The Pace of Change™ Index is based on a number of qualitative and quantitative measures related to market fluidity (i.e., the number of lives expected to switch insurance products), consolidation and integration within and across healthcare sectors, and cost pressures. Slower markets allow providers more time to optimize the economics of a fee-for-service model while developing the capabilities needed for value-based reimbursement and care. Faster moving markets are likely to see more drastic declines in hospital and specialist utilization and revenues over the next five years. In general, the faster the market’s Pace of Change™, the more rapid the growth in risk- and value-based insurance products and the convergence of payors, health systems and physicians seeking to secure networks and covered lives and reduce the total cost of care for their populations (Figure 1).

**FIG. 1** Driving Forces and Implications of Market Pace of Change™
Applying the Pace of Change™ Index score to financial projections enables healthcare leaders to plan for transitions in hospital economics. Two recent multi-hospital regional health system clients, each with approximately 1,700 beds, are located in distinct urban markets within the same state and scored “Moderate” and “Fast” respectively on the Pace of Change™ Index. Applying those scores to each system’s volume, utilization, and reimbursement rates, the health system in the moderately-paced region was projected to see a decline of 11% in total hospital revenues over the next five years, while the similarly sized system in the fast-paced market was projected to experience a 26% decline in hospital revenue over the same time period.

Similarly, markets that initially seemed comparable based on traditional indicators were found to have markedly different scores on the Pace of Change™ Index scale. An examination of five urban markets – each with three main competing health systems, one or two dominant payors, and a regional healthcare service area of roughly two million people – highlights the importance of understanding the specific factors driving each market’s transition in order to correctly design strategies for value-based reimbursement (Figure 2). A market-based approach to strategic positioning enables healthcare leaders to better “time the market” based on local dynamics. It can also help prevent premature reductions in utilization and margins while preparing for likely transitions.

FIG. 2  Pace of Change™ Matters: Five Seemingly Similar, Yet Very Different Healthcare Markets

Five Markets Seemingly Similar...
- Regional service area population: ~2 million
- Competition: 3 or more health systems
- Payors: Blue Cross & United dominate

...Yet Vastly Different

Milwaukee
Fast

Baltimore
Moderate

Jacksonville
Moderate

Birmingham
Slow-Moderate

Tulsa
Slow
As shown in Figure 3, Tulsa is slow because it has little to no activity along any of the six dimensions; Milwaukee is fast, as several dimensions are leading the rapid transition simultaneously. Baltimore has started to transition, in part driven by changes in the statewide hospital rate setting methodology. However, the rate setting environment limits the value of scale in negotiating hospital rates, thereby slowing the pace of consolidation. In some of these markets, a catalytic event occurred which accelerated the transition to value. Understanding the market Pace of Change™ Index score allows providers to proactively strategize, anticipate, or create the catalytic event in a market.

**FIG. 3** Pace of Change™ Matters: Market Factor Variation and Impact on Transition to Value

<table>
<thead>
<tr>
<th>Market Factor</th>
<th>Milwaukee</th>
<th>Jacksonville</th>
<th>Baltimore</th>
<th>Birmingham</th>
<th>Tulsa</th>
</tr>
</thead>
<tbody>
<tr>
<td>RSA Population</td>
<td>Approximately 2 million people in regional service area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health System Competition</td>
<td>Three or more health systems competing in regional service area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payor Dominance</td>
<td>Blue Cross and United dominate payor market share</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Contract Prevalence</td>
<td>High and growing</td>
<td>Emerging</td>
<td>High and growing</td>
<td>Little to none</td>
<td>Emerging</td>
</tr>
<tr>
<td>Public Exchange¹</td>
<td>Federal</td>
<td>Federal</td>
<td>State-run</td>
<td>Federal</td>
<td>Federal</td>
</tr>
<tr>
<td>Medicaid Expansion²</td>
<td>NO</td>
<td>NO</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Consolidation of • Physicians</td>
<td>Highly Consolidated</td>
<td>Consolidated</td>
<td>Average</td>
<td>Fragmented</td>
<td>Fragmented</td>
</tr>
<tr>
<td>• Hospitals</td>
<td>Average</td>
<td>Average</td>
<td>Consolidated</td>
<td>Fragmented</td>
<td>Fragmented</td>
</tr>
<tr>
<td>• Payors</td>
<td>Fragmented</td>
<td>Average</td>
<td>Average</td>
<td>Highly Consolidated</td>
<td>Fragmented</td>
</tr>
<tr>
<td>Cost Position</td>
<td>$$$$</td>
<td>$$</td>
<td>$$$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Catalytic Event</td>
<td>Competing narrow networks launched</td>
<td>Dominant payor establishes health clinics</td>
<td>State policy dampens emergence of value payments</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Market Pace of Change™</td>
<td>Fast</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Slow - Moderate</td>
<td>Slow</td>
</tr>
</tbody>
</table>

**WHO Will Move the Market Toward Value?**

Understanding which local organization or catalyst will most likely lead the transition is critical to defining each health system’s strategic options. Traditional approaches to assessing the market position and strategies of competing health systems are insufficient. Rather, an analysis of the strategic position and likely moves of all players in the regional healthcare “eco-system,” including government organizations, policymakers, employers, payors and providers, is required. Evaluating the potential change agent(s) provides insight to both offensive and defensive moves that can be made in advance of, or to counteract, the likely catalyst. In this manner, strategic positioning allows organizations to influence their own position as well as the Pace of Change™ Index score in a market.
Providers that anticipate the moves of others and can plan for various scenarios have the most influence and opportunity to leapfrog others, particularly in slower markets. Anticipatory strategic planning also identifies opportunities for one’s own organization to be the market catalyst. For example, many health systems that currently provide significant value in their markets are not rewarded for this performance under fee-for-service reimbursement models. These health systems may be able to advance their strategic position by preemptively pushing the market toward value-based payment models and obtaining revenue streams for managing care and for achieving value-based contract cost and quality performance objectives. Proactively understanding the roles of participants across healthcare market segments aids in identifying the potential “first mover” poised to speed the market transition and allows executives to plan accordingly. The ability to influence one’s market is typically diminished once the catalytic event occurs. Figure 4 highlights catalysts that accelerated the Pace of Change™ in select markets. Providers that anticipated these occurrences and planned accordingly have fared better in those markets than those who waited to be pulled toward value-based care and found themselves scurrying to catch up.

**FIG. 4 Examples of Various Organizations Accelerating the Transition to Value**

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Market</th>
<th>Market Accelerating Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policymakers</td>
<td>Boston</td>
<td>Massachusetts Attorney General releases report on Examination of Health Care Cost Trends and Cost Drivers³</td>
</tr>
<tr>
<td>Employers</td>
<td>Milwaukee</td>
<td>Business Health Care Group launches value-based health plan for the 135,000 employees and dependents of their 22+ member businesses in Southeast Wisconsin⁴</td>
</tr>
<tr>
<td>Payors</td>
<td>Detroit</td>
<td>Blue Cross Blue Shield of Michigan announces Value Partnerships, an umbrella program of several value-based payment initiatives, including the ACO-like “Organized Systems of Care”⁵</td>
</tr>
<tr>
<td>Health Systems</td>
<td>Chicago</td>
<td>Advocate Health Care signs three-year shared savings contract with Blue Cross and Blue Shield of Illinois, launching the AdvocateCare ACO, covering nearly 400,000 lives⁶,⁷</td>
</tr>
<tr>
<td>Physicians</td>
<td>Sacramento</td>
<td>Hill Physicians Medical Group, the largest independent practice association in northern California, Blue Shield of California, and Dignity Health form an annual global budget plan for 41,000 individuals covered by the California Public Employees Retirement System (CalPERS) attributable to Hill Physicians Medical Group physicians⁸,⁹</td>
</tr>
</tbody>
</table>

**WHERE Will That Leave Us?**

Healthcare executives need an accurate picture of their organization’s market position relative to others to successfully position themselves for the future. Traditional metrics used to measure market position in a fee-for-service environment provide little insight into market position in a value-based healthcare economy. To that end, leaders should expand their thinking to encompass a set of both traditional and “new world” metrics to understand their true market position in dimensions that will be increasingly important as the market transitions.
New world market measures are more prospective than retrospective, reflecting the key success factors required in a value-based economy. For example, traditional hospital markets are defined according to primary and/or secondary service area (PSA/SSA), based on where discharges originate; a “new world” view considers the prospective regional service area (RSA), based on number of reachable lives. The traditional view of market share is based on discharge volume, while a new world view is based on the percent of the total healthcare dollar captured by a network’s assets for a number of lives in the target RSA. Additional examples of traditional and new world metrics are depicted in Figure 5 below. The better the organization performs against these, the better positioned it is to influence the market, accelerate the Pace of Change™, and strategically position itself to succeed.

**FIG. 5 Traditional and “New World” Metrics Used in Strategic Positioning**

<table>
<thead>
<tr>
<th>Example Market Position Dimensions</th>
<th>Traditional View: Primarily Retrospective</th>
<th>“New World” View: Primarily Prospective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geography</td>
<td>Origin of Inpatient Discharges</td>
<td>Geographic Reach Required to Serve Desired Population(s)</td>
</tr>
<tr>
<td>Share</td>
<td>Percent of Inpatient Admissions</td>
<td>Percent of Total Cost of Care, Percent of Lives Served</td>
</tr>
<tr>
<td>Performance</td>
<td>Operating Income, Change in Inpatient Share</td>
<td>Quality, Patient Experience, Cost</td>
</tr>
<tr>
<td>Market Trend</td>
<td>Annual Change in Discharge Volumes</td>
<td>Pace of Change™ to Value-Based Healthcare Economy</td>
</tr>
<tr>
<td>Payor Contracts</td>
<td>Annual Rate Increases</td>
<td>Lives Secured Through Products</td>
</tr>
<tr>
<td>Physician Alignment</td>
<td>Number of Employed Physicians</td>
<td>Percent of Network Providers (Hospitals and Physicians) Clinically or Financially Integrated</td>
</tr>
<tr>
<td>Network Size</td>
<td>Number of Owned Hospitals and Ambulatory Locations</td>
<td>Number of Network Access Points and Breadth of Network Services Across the Continuum</td>
</tr>
</tbody>
</table>

**HOW Do We Succeed?**

Winning strategies historically focused on securing procedurally driven physicians to fill ambulatory and inpatient capacity and assets. Winning strategies for a value-based economy require coordination of care delivery across the healthcare continuum and increased involvement in the healthcare purchasing process to secure lives and more of the total healthcare dollar. Each organization’s unique approach to accomplish those goals will depend on its answers to the aforementioned questions regarding Pace of Change™, market dynamics and potential catalysts, along with the organization’s current market position based on new world metrics.

Once those questions are addressed, organizations have a solid understanding of where they are today and, more importantly, where their competitors and the overall market are likely to head. That holistic view provides a foundation from which leaders can identify their desired future strategic position – including a vision of the role their organization will play in the market years from now. A comprehensive view of current and future desired market positions allows healthcare executives to design

**Leaders should expand their thinking to encompass a set of both traditional and “new world” metrics to understand their true market position in dimensions that will be increasingly important as the market transitions.**
specific initiatives to bridge the gaps between the two. Those gaps, and subsequent strategies, generally fall into four categories, reflecting the requirements for success in a value-based environment:

1. **Provider network strategy** – developing the right breadth and depth of aligned providers across the continuum to access and serve the desired population.

2. **Payor strategy** – launching or participating in competitively priced health insurance products.

3. **Clinical transformation strategy** – designing and delivering healthcare services with demonstrable outcomes in service, cost and quality.

4. **Financial and operational strategy** – identifying and procuring the infrastructure needed to realize the future strategic position.

The extent to which an organization should focus on each of these dimensions depends on its current position, market dynamics and strategic positioning goal. With the desired strategic position in mind, leaders can define and prioritize the specific initiatives by examining a deeper set of questions along each dimension, as illustrated in Figure 6. The answers to these questions and prioritization of the resulting strategies will be different for each organization.

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**FIG. 6  Example Questions to Consider in Strategic Positioning Development**

<table>
<thead>
<tr>
<th>Strategic Requirements</th>
<th>Strategic Questions to Consider</th>
</tr>
</thead>
</table>
| **Provider Network Strategy** | • Are we able to lead the design and development of our own network or do we need to join or partner with another network?  
• What geographic gaps prevent us from reaching our desired population?  
• What gaps exist in the breadth or depth of services in our network along the continuum of care?  
• Is our physician network adequately sized by geography and specialty to serve our desired population?  
• How will we organize our network? What is the appropriate set of alignment mechanisms and legal entities? |
| **Payor Strategy** | • How far upstream in securing the healthcare premium dollar do we need to be?  
• Can we introduce products on our own or do we need partners?  
• What types of contracts are we / will we be best suited for?  
• What structure do we need to fully engage and share the risks and benefits with our physician and other network partners? |
| **Clinical Transformation Strategy** | • What care delivery model and set of care programs will allow us to coordinate and manage care for various populations within our network?  
• What new provider roles and resources do we need?  
• What will we measure and how will we reward performance to manage service, cost and quality?  
• How will we re-configure or re-size our asset base to better match the new care delivery model? |
| **Financial and Operational Strategy** | • What capabilities do we need and how do we get them?  
• What technologies or partners can advance our strategy?  
• What non-clinical efficiencies can we achieve and how do we achieve them?  
• What are the funds flows and economic models under these new contracts for our network providers?  
• Can we access the capital needed to fund the strategies and, if not, what alternatives should be considered? |
The Risk in Not Preparing for Risk

Strategic positioning is about an organization optimizing its unique circumstances to create distinctive value through proactive choices made and supported by disciplined implementation plans. Strategic positioning brings together in-depth understanding of a region, its market and economic dynamics, as well as an assessment of internal and competitor capabilities across the entire care continuum to achieve a vision and goal that is customized to the organization and its specific market circumstances.

Understanding the regional Pace of Change™ allows healthcare leaders to time the implementation of their strategies accordingly. The faster the market transition, the less time organizations have to plan and implement, and the more urgency to reach the desired strategic position. Those in slow markets have the benefit of slightly more time to find opportunities to influence the speed and dynamics of the local market’s transition – and even to be the catalyst by exerting leadership and control over it, advancing as a first mover and capturing more of the market opportunity.

Providers know that healthcare is changing and that they need to reposition their organizations to thrive in the new healthcare economy. Managing the transition will require balancing internal strategy and organizational strengths with external market dynamics. Leaders should move their organizations faster than the market when it is likely to yield an advantage. Holding back and not preparing for the shift will relegate providers to the sidelines, excluded from contracts and networks as the transition occurs.

In these times of great uncertainty a “wait and see” approach can be detrimental to future market sustainability. As you contemplate the strategy driving the future of your organization, consider the following:

1. WHEN will the transition to value occur in your market?
2. WHAT local factors or players are driving the transition in your region?
3. WHO will announce a strategic move that accelerates the changes in your market?
4. WHERE will you be positioned should various competitive actions or scenarios occur?
5. HOW can you impact your position and the market to succeed in the new healthcare economy?
References


