

# Beyond the Second Curve

Reimagining Value-Based Care

A case for rethinking how to  
define, create, and capture value



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Many health systems spent the last decade developing capabilities and structures to coordinate non-integrated networks and enter into value-based contracts in the pursuit of value creation through clinically integrated networks and accountable care organizations. This period, catalyzed by the Affordable Care Act (ACA), was referred to early on as the “second curve of healthcare.”

However, the resulting value realization, in the form of increased quality and/or decreased cost, has been difficult to measure and was generally unattained. Many health systems made considerable investments in infrastructure that has not yet created meaningful consumer value or driven major improvements in cost or health outcomes as a result. At the same time, this immeasurable whitespace in healthcare — the gap between consumers’ expectations of the way things should be and the way things are — continues to expand, and the focus on addressing this gap is accelerating. New entrants (retailers, technology companies, and investors) are developing new approaches to generate value for consumers and funders of healthcare by offering low-cost, convenient care options. They are experiencing meaningful uptake.

Today, health systems need to redefine the meaning of value in healthcare. They should expect that other entities are also trying to do so, competing for the value created in this process — which is likely to come at health systems’ expense. The industry must now rethink the considerable investments in these value initiatives moving forward. Health systems must commit to a new strategic approach in order to make further progress in value and realize the resulting returns.

## THE PROBLEM

Non-traditional healthcare entities pose a considerable threat to health systems, given their ability to design targeted healthcare solutions for specific segments without the encumbrances that many non-profit healthcare entities face, given their missions. At the core, the mission of non-profit healthcare entities is to serve as the comprehensive healthcare providers for their communities. As such, these health systems take on the financial burden of serving the uninsured and underinsured, and of maintaining a comprehensive system of care, including aspects of care that are not profitable independently. Transitioning these legacy systems of care from a fee-for-service model to a value-oriented model in an incremental manner is challenging because of the interwoven nature of healthcare delivery.

These same challenges contribute to the persistence of high costs and low perceived value in the nation’s largest industry, fueling new entrants. Non-traditional entities are seeking to capture the value void in new and innovative models by going directly to the source of the opportunity and partnering with funding entities to receive compensation for addressing those needs.

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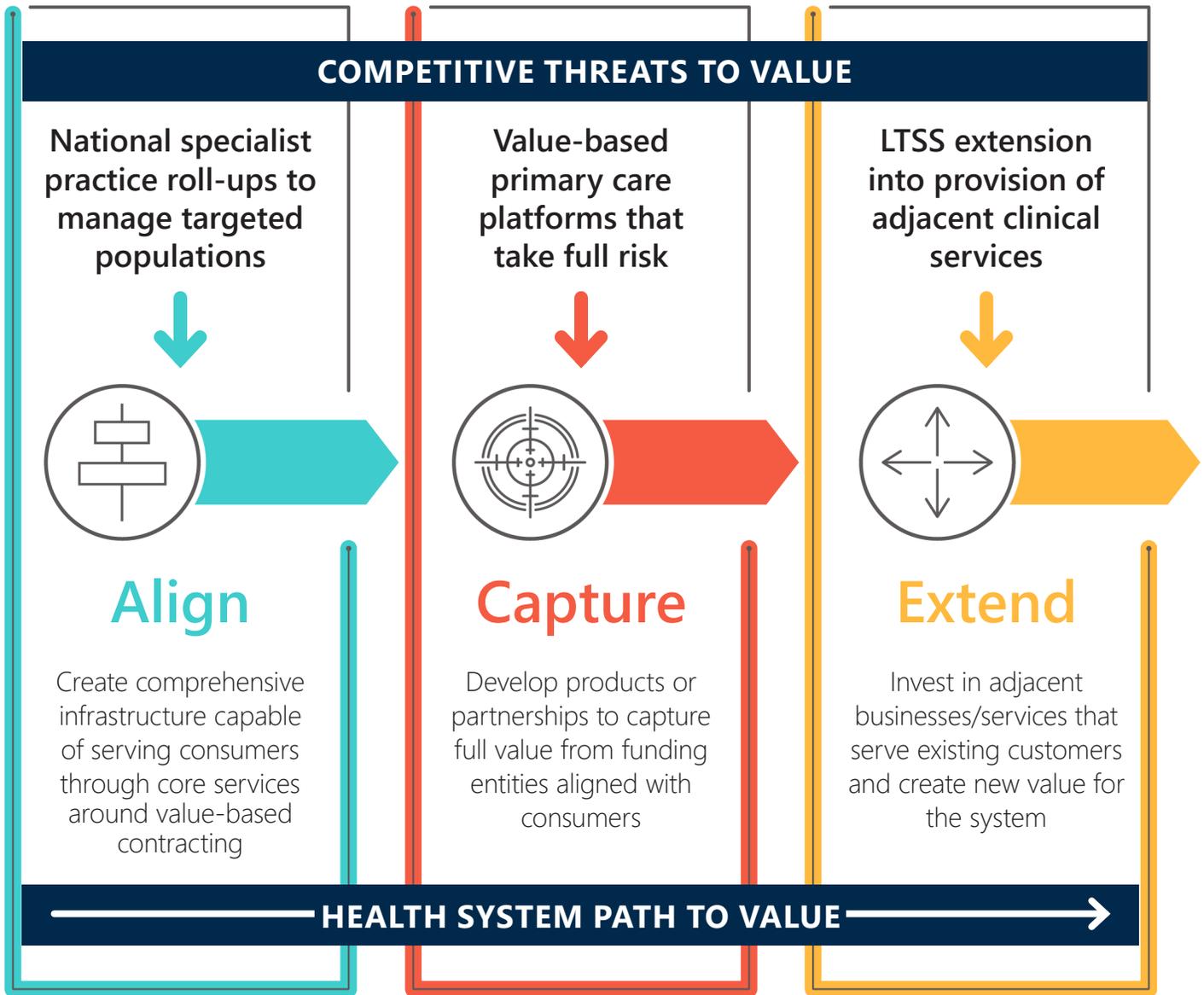
Today, there is an expanding set of industry examples that illustrate this trend. Below are select examples of non-system entities across key industry domains and how we are seeing their businesses re-orient toward value-based needs in the marketplace.

## Non-System Entities Are Evolving Their Businesses to Meet Value-Based Needs in the Marketplace

| NON-SYSTEM BUSINESS MODEL (BY DOMAIN)  | EXAMPLES   | VALUE-BASED GOALS AND ADJACENCY EXTENSION   | THREAT STATUS                         |
|--|--|---|---------------------------------------|
| <p>PRIMARY CARE</p> <p>Value-based primary care platforms</p>                | <p>Village MD</p> <p>Oak Street Health</p> <p>Iora Health</p>                            | <p>Manage full capitation of given population to reduce unnecessary utilization and redirect care to lower-cost settings</p>  | <p>Quickly emerging</p>               |
| <p>SPECIALTY CARE</p> <p>Specialty-based practice roll-ups</p>               | <p>HOPCo</p> <p>DuPage Medical Group</p>   | <p>Direct care to owned assets/lowest-cost sites of care, manage tertiary and quaternary referrals, and manage chronic patients within the specialty</p>                      | <p>In progress, maturing</p>          |
| <p>LTSS</p> <p>Extension to clinical services</p>                            | <p>InnovAge</p> <p>Others emerging</p>   | <p>Extend companies providing home- and community-based services (HCBS) and long-term services and supports (LTSS) into greater risk, care management, and care provision</p> | <p>Nascent, anticipated in future</p> |
| <p>TECHNOLOGY</p> <p>Virtual health platforms that enable health at home</p> | <p>Landmark</p> <p>Teladoc</p> <p>Contessa</p>   | <p>Provide care in home and other lower-cost care settings through novel methods enabled by technology</p>  | <p>Quickly emerging</p>               |
| <p>HEALTH PLANS</p> <p>Vertical integration into care delivery</p>           | <p>Aetna</p> <p>Humana</p> <p>United Healthcare</p> <p>Blue Cross</p> <p>Blue Shield</p> | <p>Build out care delivery capabilities, including acquiring physician groups and building digital capabilities to steer members to lower-cost care settings</p>              | <p>In progress, maturing</p>          |

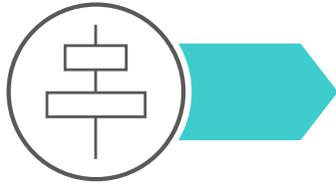
Given this, health systems must determine how best to create value from the networks they've created in both traditional ways (through alignment with health plans) as well as novel approaches of utilizing the network to extend the health system's reach into new markets alone or in partnership with others (including these new entrants). The graphic below illustrates how health systems can build on their core network alignment strategies to capture and extend value in contrast to how non-traditional entities are expanding their business models to solve narrow problems and extract outsized value from their efforts. They focus on discrete profit pools that are underserved by existing comprehensive networks.

Competitive Threats in Value Creation: Value activities by non-system businesses

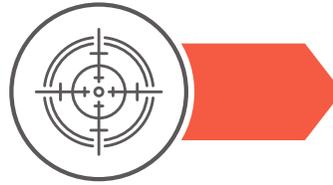


Health systems have materially advanced their networks and created alignment in their markets. To continue to advance value within their communities, they must build on those networks through explicit value capture and value extension activities, either in sequence or simultaneously.

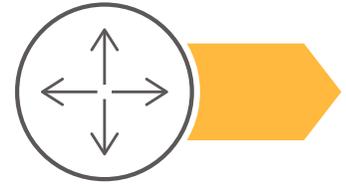
## Health System Activities That Enable Value Creation



### ALIGN



### CAPTURE



### EXTEND

|             |   |  |  |
|-------------|---|--|--|
| SYSTEM GOAL | Align physicians in the market and gain new financial share without investing or acquiring  | Develop explicit structures to realize value from network essentiality through funding channels  | Deploy capabilities into new value-creating revenue streams within existing markets  |
| STAGE       | Mature  | Varied   | Nascent  |
| THREATS     | Other providers   | Health plans and non-traditional businesses  | Non-traditional businesses   |
| QUESTIONS   | <ul style="list-style-type: none"> <li>How do we align incentives through contractual models? How do these models improve care and outcomes?</li> <li>How do we create alignment in the community with other providers?</li> <li>How do these activities strengthen our core business?</li> </ul> | <ul style="list-style-type: none"> <li>How do we increase our essentiality to payors, employers, and individual purchasers in each segment?</li> <li>What are the implications to our network strategy and care model?</li> <li>How do these structures incentivize the system to create new value?</li> </ul> | <ul style="list-style-type: none"> <li>How do we extend our business model into adjacent areas that demonstrate new value?</li> <li>How do we redefine our role to the consumer?</li> <li>What consumer needs do we serve today, and how can we identify new needs on the same consumer base?</li> </ul> |

## THE SOLUTION

As an expanding healthcare delivery marketplace continues to redefine “value,” health systems have an opportunity to drive this conversation. Doing so will require a reframing of what it means to deliver value-based care beyond its historic definition into novel concepts.

### We propose health systems consider the following three strategies:

#### 1. Redefine value-based care delivery within the enterprise.

Scrutinize efforts to date. Ensure they are producing demonstrable outcomes for patients, that the health system is benefiting strategically, and that “value” is truly an enterprise imperative reinforced by many activity systems. This will ensure that the system appropriately incentivizes and experiments with business model innovations by rethinking historically reliable revenue streams.

#### 2. Meaningfully pivot toward managing risk.

Health systems must be more deliberate about capturing the value of the network through explicit payor-related activities. Historic value-based care activities have created the foundation to manage risk, but many systems have not done so and are not being funded accordingly. If health systems are going to invest in creating greater value, they need to capture it. Concurrently, health systems can directly broaden the purchasing community’s appreciation for value-based care. Systems need to be able to describe to brokers, employers, and individuals why they should embrace value-based products and demonstrate that the resulting improvements are clear and nonmarginal.

#### 3. Pursue tangible partnerships with non-system healthcare entities.

Health systems are being pressured by non-traditional healthcare entities to innovate. These organizations seek to materially change how healthcare is delivered, how much it costs to deliver it, and who captures the value resulting from the cost savings. Entities across the spectrum are identifying ways that they can take their model and find new adjacencies to exploit with it to create real value. Health systems must understand the important and evolving role of these models and prepare to compete against or partner with them.

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As the future state of the ACA itself continues to be uncertain, one thing is not: While the ACA catalyzed these activities, they will continue to be propelled by the expanding presence of the value whitespace. So long as there is a perceived opportunity, new entrants will continue to accelerate their entry into healthcare to create and capture value.

## Health systems are best positioned to drive this change.

Because of their deep-seated, trusted relationship with the patient, oversight for the full continuum of care, and access to robust health data, health systems are best positioned to drive this change. However, they must act quickly to pivot their care delivery business model to create value that meets the purchasers' and consumers' evolving needs.

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## About The Chartis Group

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