

A Real Crisis Demands Real Strategies

The reality of 2009 is not just tougher-than-normal times. It is a crisis: an unstable and decisive moment with the distinct possibility of a highly undesirable outcome, to paraphrase the Merriam-Webster's dictionary. If any positive spin can be put on the economic situation, it is that medical science defines a crisis as a turning point for better or worse; a return to normal health is possible—if appropriate interventions are performed.

Identifying interventions to restore providers' financial health is a strategic challenge. Strategy is the realm of changing the way business is done, of reallocating resources to accomplish different outcomes. (The challenge of tactics, on the other hand, is to find the best possible use of current resources to achieve existing objectives.) Strategy involves making tradeoffs to move an enterprise purposefully in new directions, shaped by anticipated changes in the marketplace.

Anticipating Change

The current economic crisis illustrates the old adage that the only certainty is change. The modern era offers no precedent for simultaneous recession and financial collapse of global proportions. Nobody has a scientifically defensible prediction of how bad this crisis will get or how long it will last. The only consensus among economists is that the final outcome will not be a return to business as usual. For success in the next economy, whatever its specific characteristics may be, enterprises will need to find new and better ways of relating to their suppliers and their customers.

Providers of health care will not be exempt from the challenging—but ultimately rewarding—task of adapting their business models to new economic realities. Financial executives in hospitals and medical groups need to anticipate the long-term impact of changes in the marketplace and to reallocate resources strategically. In particular, they need to be active participants in redefining services and mandating operational transformation.

Across-the-Board Won't Cut It

At a time when the medical marketplace demands strategic change, the common tactical practice of across-the-board cuts needs to be abandoned. Identical reductions in all operations do nothing to change the business model at a time when new economic circumstances are changing the requirements of future success. Spreading financial pain equally across the enterprise only downsizes the status quo; it does not force essential strategic changes in service mix or production methods.

Consequently, providers with the best chances to survive the current economic crisis and to thrive in the new medical marketplace will make disproportionate changes in their resource allocations. Cuts will not be equal. Some service lines will be eliminated (yes, zeroed out) to liberate funds for existing programs and/or new offerings that are responsive to anticipated changes in supply and demand. Selected programs will incorporate the exciting clinical advances created by 21st century medical science and technology—accelerating the shift from one-size-fits-all care to personalized, predictive medicine and putting providers on the digital information highway.

For example, a strategically focused hospital that has been providing obstetrics as a loss-leader would terminate birthing services and transfer the savings to a new telemedicine program that cost-effectively takes care of patients in their homes. A medical group that has become bloated with support staff to process paperwork would eliminate clerical

positions as necessary to afford investments in technologies that enhance the productivity of caregivers. Competing hospitals and medical groups that have invested in overlapping technologies would finally recognize the need to become efficient together through merger or acquisition. Providers and payers would form strategic partnerships that eliminate the perverse incentives of traditional reimbursement and create real-time data bases for performance improvement.

A Whole New Marketplace

These examples of truly strategic change will seem unrealistic, or even ridiculous, to many healthcare executives who have done well over the past several decades. However, the future will not be kind to change-averse leaders (an oxymoron in 2009) who plan to ride out the economic storm until the marketplace returns to normal. Health systems cannot successfully continue business as usual, even on a smaller scale.

This recession is likely to last for several years, with no identifiable source of subsidies for any industry to stay the way it was before the crisis. (As proof, look at the latest Congressional response to pleas for money to save the American automobile industry.) Further, purchasers are serious about getting better value for the money they spend on health care. Finally, politicians who talked about expanding coverage as candidates in 2008 are now talking about spending less on health care as elected officials in 2009.

Providers cannot count on getting more money because the economy has stopped growing for the foreseeable future. The bottom line is that the current crisis compels strategic financial planning—beginning with the difficult task of purposefully reallocating resources to create a new business model for a new medical marketplace. ☞

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