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Review Article

Defining Value in the Post-COVID-19 Era: Understanding Strategy and Competition in Healthcare

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The Value 1.0 era was marked as the period in which delivering value to the patient became the aspirational goal of healthcare systems. During this period there was tremendous research devoted to defining value and more importantly, determining which activities and services were considered high value. After the COVID-19 pandemic, there will be an acceleration by providers to implement high value care as resources will be limited and patients will be seeking out providers who can efficiently delivery high value care. The Value 2.0 era will be defined by providers determining which high value activities and services they will offer, and more importantly, which ones they will not offer. Developing a unique value proposition to sustain a competitive advantage is a fundamental principle of business strategy. Understanding the essential tenets of strategy and competition from the business world can be helpful for providers as they navigate the Value 2.0 era.

INTRODUCTION

Peter Drucker, the famous management guru, once said "The fundamental goal of any business is to return value to its customer" (Drucker 1954). When Drucker first made this statement, it marked a turning point in the management literature. Prior to Drucker's statement businesses were concerned mainly with making a high volume of products and operational efficiency. The demand for products was so great that ensuring quality and value was not a significant priority.. This was typified by the famous Henry Ford quote, "*Any customer can have a car painted any color that he wants so long as it is black*" (Ford and Crowther 1922). As resources began to shift and competition increased, the business community had to refocus its goal beyond just selling products to ensuring they were delivering services and products that the customer *valued*. Drucker's writings helped usher in a new era in management thinking by transitioning the focus of an organization from a volume mindset to one focused on delivering value.

The healthcare industry is undergoing a similar type of transformation. Once the COVID-19 pandemic is completed, many hospitals and providers will have fewer resources. They will not be able to provide all types of care to all patients. In addition the budgets of both the government as well as employers will be reduced, forcing payors to redirect resources to providers and narrow networks that can achieve the greatest value for their healthcare dollar. Porter and Teisberg's groundbreaking book "Redefining Healthcare" helped refocus the goal of the US healthcare system, towards achieving the greatest value for patients, with value being defined as health outcomes per dollar spent (Porter and Teisberg 2006). The publication of this book reflected a turning point in the healthcare management literature, shifting the focus from volume to value, and ushering in an era of research devoted to understanding what services can be considered of value in healthcare. The era from the publication of Porter and Teisberg's book to the present can be considered the Value 1.0 era.

The essence of the Value 2.0 era will be defined as the period in which services and treatments which are considered high value will be implemented. The limitation of resources brought on by the COVID-19 pandemic will accelerate this transition. Deciding which services and procedures to focus on requires strategic decision making. Understanding strategy and how to formulate a proper strategy for an organization will be helpful for providers as they enter the Value 2.0 era.

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Conflicts of Interest Statement for Dr. Sharan

Visit the Open Payments Data Page for Dr. Sharan

WHAT IS STRATEGY?

Every organization, whether it is a Fortune 500 company, hospital, or provider group, needs a strategy. When organizations do not have a strategy there could be an inefficient allocation of money and resources (Job, Glezos, and Sharan 2017). Having a strategy allows an organization to be disciplined and have a clear focus that leads to sustained superior performance. Often people equate strategy as just having a plan or specific tactics required to achieve a goal. “Our strategy is to grow by 3%”. “The strategy for our group is to capture more market share”. While it is important for an organization to have a plan – this is not the essence of strategy. The overall process of differentiating yourself, defining your uniqueness, and positioning yourself to gain a sustainable competitive advantage defines strategy. In an era of diminishing resources in healthcare along with an increasing number of providers performing similar services, differentiation through uniqueness is becoming increasingly critical.

DEFINING YOUR STRATEGY

Strategy consists of delivering a unique value proposition to meet the needs of a group of individuals (Porter 1998), such that you develop a competitive advantage. When developing a strategy the first step is to define which group of individuals’ needs you want to serve. For a provider or provider group the first question would be “Should we focus on patients mainly with spinal disorders or patients with any type of musculoskeletal problem?” Focusing on a group of patients with one disease (i.e. spinal disorders) allows the organization to develop expertise in that area, which then translates into superior performance.

Focusing on the unique needs of a segment of patients and delivering superior performance becomes even more important as the choices that a consumer has increases. If a business develops a unique product customers are more likely to pay a premium for that product. When the iPhone was first produced, it represented a novelty - there was no phone in the market that had similar functionalities. Increasing competition in the market forced Apple to create newer features that made the product more unique. Through increasing the functionalities that a customer values, Apple was able to charge a premium for newer versions of the iPhone. Older versions of the iPhone dropped in price because it no longer had uniqueness when compared to other smart phones. Apple’s strategy is based on constant improvements to consistently deliver value to its customer. This has helped Apple collect a premium for its product and sustain its competitive advantage.

When resources were plentiful in healthcare it was not critical for organizations to have a strategy based on uniqueness. As long as an organization was able to monitor its expenses it was able to financially survive since the cost-plus financing mechanism would reimburse providers for their expenses along with an additional margin. In addition, as patients did not have many choices for where they could get treated, a provider did not have to distinguish themselves.

Currently though, employers and third-party payers are aggressively trying to decrease their total healthcare costs to providers and hospitals. Instead of a cost-plus mechanism, payors are trying to pay for health care services that can consistently deliver value for their members and not pay for services that are of low value. As a result, many providers are beginning to eliminate clinical programs that are not profitable or eliminate services where they can not consistently deliver superior performance. Determining which programs to eliminate represents the type of strategic thinking that will be required in the future. Ideally an organization should maintain programs in areas where they could they deliver superior performance in a manner that gives them a competitive advantage.

WHAT IS VALUE? WHAT IS A VALUE PROPOSITION?

Every individual, whether it be a customer looking for a smart phone, a teenager looking for a new pair of sneakers, or a patient dealing with acute sciatica, has a unique set of needs. Understanding what these individuals’ unique needs are determines value. A value proposition is the *promise* of meeting those needs.

Porter and Teisberg defined value as health outcomes/ the cost expended to achieve the outcomes. It is important to understand though that value in healthcare is multi-dimensional. For a patient with acute sciatica, although they are looking for pain relief, they may also value quick access to a provider and a reasonable cost of treatment. For a patient with a chronic condition such as diabetes, along with the treatment of their disease, they may also value the ability to self-monitor their disease through independent tools. Defining which needs you want to serve (i.e. pain relief, quick access, low cost) can help determine where to allocate resources and provide a **focus** for the organization.

Healthcare is a service industry, like many others in the economy. Generally, in a service industry there are four unique value propositions (Sharan et al. 2015). These are: 1.) Offering a lower cost service or product, 2.) Providing convenient care (i.e. prompt access), 3.) Delivering an exceptional experience, and 4.) Offering the highest quality product. When there are no competitors in a region an organization does not need to differentiate itself. As the number of competitors increases, providers should understand their core capabilities and determine which of these unique value propositions they can deliver in a consistently successful manner. If a provider can focus on an unmet need for a group of individuals (i.e. prompt access to care through same day or next appointments) then they could develop a competitive advantage by delivering on those unmet needs. As resources become limited attempting to meet all the needs of a group of individuals will only lead to a failure in strategy.

WHY IS COMPETITION IMPORTANT IN DEFINING YOUR STRATEGY?

Strategic thinking begins with understanding how to deliver a unique value proposition to a group of individuals. Competitive advantage is achieved by delivering those needs in a far superior manner so that individuals/customers/patients will choose your service or treatment over others. Often though, competitive advantage can be achieved easier by focusing on an unmet need for a particular group of individuals. For example, currently an unmet need in healthcare is the proper coordination of care between providers. Many times patients will ask their care providers to communicate and coordinate their treatment plan among themselves. The causes of this disconnect are multi-factorial including the fact that the predominant organizational design in healthcare is provider centric (Sharan and Weinstein 2016). Many hospitals will have a Department of Orthopedic Surgery or Department of Medicine. For most patients with an isolated orthopedic condition, this type of organizational structure is adequate, as most conditions do not require the input of multiple providers.

For many conditions though, adequate care requires the input of multiple providers. From a service perspective patients want to minimize the number of visits they have between providers, along with the time in between visits. Developing a disease based organizational design (i.e. service line approach) such as an Arthritis Center or Spine Center can offer a competitive advantage to organizations. Coordinated care still represents a significant unmet need in healthcare, especially in orthopedic surgery. Moving towards a service line approach can give an organization a strategic competitive advantage by providing a patient with a particular condition care that is efficient, seamless, and cost effective, with an overall better experience.

Prompt access to care remains a value proposition that is unmet in many parts of the country. For practices that want to maintain a competitive advantage having a clear phone number and mechanism to get patients in to see the appropriate provider (i.e. within 24-48 hours) can help meet these needs. From a management perspective competing to deliver prompt access is an effective strategy that fulfills a unique value proposition (i.e. convenient care); from a clinical perspective prompt access often leads to overall better clinical outcomes. Understanding how prompt access leads to a successful clinical and management strategy is an example of Value 2.0 thinking.

DIFFERENT LEVELS OF STRATEGY

Traditionally competition among healthcare providers occurred at the level of hospital systems. The surrogates of competition are advertisements. Many ads are created that mention the quality of care of a hospital, furthering its brand. It is clear though that real value for a patient is created at the level where a medical condition is being treated (i.e. patient-doctor relationship). Competing at the level where value is created is more likely to lead to meeting the needs of a patient. Understanding the different levels within an organization where strategy could be executed is helpful for providers.

CORPORATE STRATEGY

The corporate unit is defined as the organization as a whole. GE is a company that runs multiple different businesses (IT, airplanes, finance, etc.). Corporate level strategies require overseeing all the different business units to ensure complementary fit of all activities. In healthcare the analogy would be a hospital and health system. From a management perspective a hospital can be considered a collection of strategic business units (SBU) or service lines that work together. Each SBU has a different customer with different needs. In the context of value, a patient entering a hospital with a cardiac condition is looking for a different set of outcomes than a patient who recently suffered from an acute ankle fracture.

Corporate strategy requires overseeing all the service lines and promoting growth for these SBUs. Advertising and marketing are often done at the corporate strategy level. When a hospital advertises it helps to increase its brand. This helps to increase the perception that the hospital delivers higher quality care, attracting more patients. Purchasing a new technology (i.e. DaVinci robot) is often a corporate strategic decision used to increase the brand of the hospital. Patients will often perceive hospitals with the latest technology as a location that delivers the highest quality care.

In healthcare much of the strategic focus has been at the corporate level. It is clear though that value is not created at this level. Purchasing a DaVinci robot does not ensure that a patient will receive a hip replacement that does not dislocate. Increasingly there has been a shift in strategic thinking in healthcare towards the business unit level.

BUSINESS UNIT

The business unit is a section of the corporation comprised of individuals and resources focused on a particular customer segment that uses a certain product or service. In GE the healthcare unit can be considered a business unit, separate from the airplane unit. In a hospital the orthopedic department would be considered a business unit. Creating this type of division is critical because the resource needs required to deliver value are different for an orthopedic department than a cardiac department.

As insurance companies and self-funded employers continue to look for high value providers they are less willing to pay a premium to hospitals due only to its brand. They are aggressively looking for providers who can consistently perform a hip replacement on a patient with a low infection and low readmission rate. As data on outcomes becomes more transparent, payers will be more inclined to encourage patients to receive care at hospitals that deliver high value care at the level of the medical condition (i.e. business unit) and not the corporation.

Porter and Teisberg point out that competition in healthcare has often been at the wrong level, often competing at the corporate level and not at the business unit level. This has resulted in the current gap in the achievement of value for patients. As the business unit is closer to the customer, they point out that in other industries competition at this level has resulted in increasing value for the customer. For example, the need to deliver a better smart phone has resulted in dramatic improvements for telecommunication technology. In other industries the constant focus to deliver greater value for the customer has resulted in relentless improvements for the end user. For leaders in healthcare who are making decisions regarding the allocation of resources, understanding at which level and how value is created will allow them to make a more disciplined focus on strategic decision making.

THE LOGIC OF STRATEGY

The amount of money that employers can devote to healthcare insurance and expenses is decreasing. Businesses are trying to choose insurance companies that can keep their workforce healthy at the lowest cost. Some businesses are directly contracting with providers (i.e. Walmart, Lowe's), minimizing the functions of a third-party intermediary.

As a result of these pressures insurance companies are using their internal data to determine which providers can provide the highest value care to its members for a specific medical condition. The current logic states that high quality care leads to lower costs of care for the entire episode of a medical condition. For providers, survival will depend upon the ability to demonstrate a superior performance in the treatment of disease (where value is created). Demonstration will come through measuring outcomes that matter to patients. For those providers who can demonstrate their ability to consistently deliver highest value care for a particular disease or condition, insurance companies and employers will attempt to navigate their members and employees towards them through changes in benefit design. To succeed in this environment providers should closely scrutinize their core capabilities and determine which medical condition they can treat in a consistently superior manner.

While focusing on the treatment of a disease is important, providers should understand that there are other value propositions where they could achieve a competitive advantage as well (i.e. prompt access, coordinated care, positive experience). If providers do not believe they can maintain a competitive advantage in the treatment of a condition or disease they should consider either closing down that service line or referring those patients to another provider. The capital costs of maintaining inferior programs will make it unsustainable to continue treating certain conditions. Ultimately the goal of a successful strategy should be to consistently meet the needs of a group of individuals in a superior manner. In the context of strategy, this sustained performance should help the organization maintain a competitive advantage.

CONCLUSION

Competitive advantage is achieved when an organization focuses on the unmet needs of a group of individuals (i.e. patients with a particular medical condition), and successfully delivers those needs in a unique manner. Traditionally orthopedic surgeons have tried to differentiate themselves through performing a novel surgical procedure. The assumption is that this novel surgical procedure is higher quality than the usual standard of care. Unfortunately, there are very few surgical procedures that can be considered to be so unique in orthopedic surgery to give a provider a competitive advantage.

Realizing that value for a patient is multidimensional, orthopedic surgeons can achieve competitive advantage by focusing on other value propositions and getting superior results in those areas (i.e. giving care which is convenient, delivering lower cost care, giving care with an exceptional experience, and/or delivering high quality and coordinated care).

By focusing on a unique area of service delivery, this will help surgeons avoid the commodity trap. As the competition for resources increases, accelerated by the COVID-19 pandemic, avoiding the commodity trap for orthopedic surgeons will become increasingly important. Differentiating yourself through successfully treating a medical condition in a unique and superior manner or consistently meeting the needs of a group of patients through delivering a unique value proposition will be the hallmarks of the Value 2.0 era. Doing so will give that provider or group of providers a competitive advantage, which will in turn lead to more patients with that medical condition returning. Peter Drucker understood this intimately when he began to advocate to the business world the importance of transitioning from a volume mindset to a value mindset. The Covid-19 pandemic will only accelerate this transformation further in healthcare.

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