



Seismic shifts lie ahead for the hospital sector. How will changes in business models and policy, technology advances and innovation affect the sector? Rita Numerof, Co-founder and President of Numerof & Associates, and Kenneth Raske, President and CEO of the Greater New York Hospital Association, discuss the impact of technology, innovation, business model changes and policy shifts on the hospital sector.

EIU: Where do you see the greatest opportunities for innovation in the hospital sector right now?

RASKE:

Technology has been a tremendous factor in changing the healthcare delivery system. Hospitals were late to come to the dance compared with other sectors like finance and banking, but in the past decade we have really rolled up our sleeves and the investments in information flow have been extraordinary—as has technology in terms of the science and the art of medicine. Robotics is an example, as well as devices and implants and different types of surgery, let alone the development of more powerful ways of looking into the body.

NUMEROF:

The biggest opportunity is for hospitals to think about fundamentally redefining their business models, their go-to-market strategies and the kinds of capabilities they have internally. There are new opportunities in technology that allow care to be delivered outside the traditional walls of hospitals. It's not about abandoning fee-for-service prematurely—because that will drive organizations financially into a ditch. But rather, it's about beginning to think about the investments they need to make to manage total cost of care across the continuum as opposed to just looking at episodes of care.

EIU: How might hospital-sector consolidation and partnerships help organizations to succeed?

RASKE:

The fundamental driving variables for these systems, developments are two fold: one, economies of scale by reducing duplications on, for example, billing departments and informatics and standardization across the system; two, market share and the ability to be in a better negotiating position with payers. And the talent is going to be a lot different as you move into greater systems development, so the training of tomorrow's executives is going to have to reflect that.

NUMEROF:

The reality is that when integrating large organizations or bringing smaller, nimble organizations under a larger umbrella, maintaining that nimbleness is extraordinarily hard. The flip side is that affiliations and partnerships with like-minded organizations, where contracts have real teeth, can be extraordinarily efficient. Nimble affiliations put together in the right way will be more effective than large, merged organizations.

EIU: Do you believe that shifting to value-based care is the right strategic move for hospitals?

RASKE:

Yes. We know that the alternative, the fee-for-service model, is terribly broken—to maximize revenue, you increase prices or increase quantity or both—neither of which are to the benefit of the payer or the recipient. So, that model needs to be reworked and value-based payment, based on level of risk you're ready to assume, is critical.

NUMEROF:

Absolutely, it's the right strategic move. The devil is in the details about what that means and how it's operationalized. But if you get out of the view that everything is bricks and mortar and heads-in-beds—and if you look at total cost of care and move to broader payment systems—that might have a big impact on health outcomes. Organizations that do it well, that engage with their consumers, and segment them effectively (because one size will not fit all) are going to get better outcomes—and that's going to drive more business to their door.

EIU: How is policy uncertainty influencing the way hospitals shape their business strategies?

RASKE:

Major capital investments are in the three-to-five year range and sometimes up to a decade in the making. As hospitals think about the new frontiers they have to address—more ambulatory investments, more out-of-hospital and follow-up-care investments, investments in electronic medical records and transfer of information and monitoring outside the hospital—all these things require huge investments of capital. So, what we want to see out of the discussions in Washington is policies that do not detract from the business model trajectory of the hospital community.

NUMEROF:

Policy will continue to evolve and smart organizations will focus on the goals they need to achieve, which are transparency and accountability for care across the continuum that matters to consumers, to payers and to employers. Finally, it allows real competition and choice. If hospitals focus on that goal and are serious about delivering a better consumer-centered set of products and services, they'll be prepared to guide policy and will be able to deal effectively with whatever policy issues they confront.

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