

The Health System as the General Contractor

Positioning your organization to grow with value-based care

What's at stake

The time to prepare is now

Recent signals point to the fact that health care provider market dynamics are beginning to shift, and this time, it is different. Market growth is slowing, and "purchasers"¹ are actively engaged in shifting toward value-based care (VBC) in an effort to tame escalating health care costs. As pricing power diminishes, health care providers may need to evolve for continued growth. Providers may have no choice but to consider new strategic roles centered on the assumption of performance risk to position for formation of "exclusive value-based networks." The result may be the rise of the "General Contractor" role.



General Contractors – Providers who take on performance risk, invest in population health, and focus on both lowering cost of care and enhancing care coordination across the entire continuum. They may be a hospital/ health system or a medical group, but will have the following characteristics:

- Significant regional scale: **Defined as greater than 20 percent market share** (see appendix);
- Convenient access to care through a robust primary care network and a variety of access points (e.g. telehealth, retail health, etc.);
- Efficient and cost effective operations;
- Exceptional quality outcomes;
- High levels of clinical integration.

Leveraging these capabilities and assets to deliver differentiated performance will allow General Contractors to increase market share. Few health care providers have these needed assets and capabilities to be a General Contractor today. There are countless examples of providers taking performance risks through either a joint venture or direct ownership of a health plan. The key difference between a General Contractor and those providers with a health plan is the focus on care delivery transformation, innovative population health models, and driving material reduction in utilization.

Health care providers should consider charting a course toward VBC adoption and the General Contractor role. Otherwise they may face significant competitive threats posed by a potential loss of first mover advantage impacting market share and a lack of long term relevance. Shifting toward a General Contractor structure requires enhancing clinical integration, achieving scale, and reengineering the core care delivery model. The time to prepare is now.

¹ "Purchasers" defined throughout this paper as self-insured employers, full risk health plans and government programs, including Medicare and Medicaid.

Health care providers should consider charting a course toward VBC adoption and the General Contractor role. Leveraging capabilities and assets to deliver differentiated performance will allow General Contractors to increase market share. While the pace of change remains unknown, the risk of moving too slowly is too great.

Instant Insights

Our take

Growth in health care costs cannot outpace inflation forever:

This time, it is different

Despite skepticism among some of broader adoption of VBC, it is more likely than ever to take hold due to the following:

- Slowing health care spending growth rates;
- Purchasers' willingness to consider new delivery models prompting a shift to VBC;
- Increasing consumerism enabled by technology and health information access;

After decades of exceeding the overall GDP growth rate, health care spending growth rates have slowed¹. While the slowing health care growth rate accelerated during the Great Recession of 2008-2009, the longer term trend of slowing growth has remained consistent even after the start of economic recovery, pointing to a more fundamental shift. As a result, providers who previously relied upon consistent rate increases from commercial health plans (translating into rapid increases in purchaser spending) to remain financially viable, may no longer experience such growth.

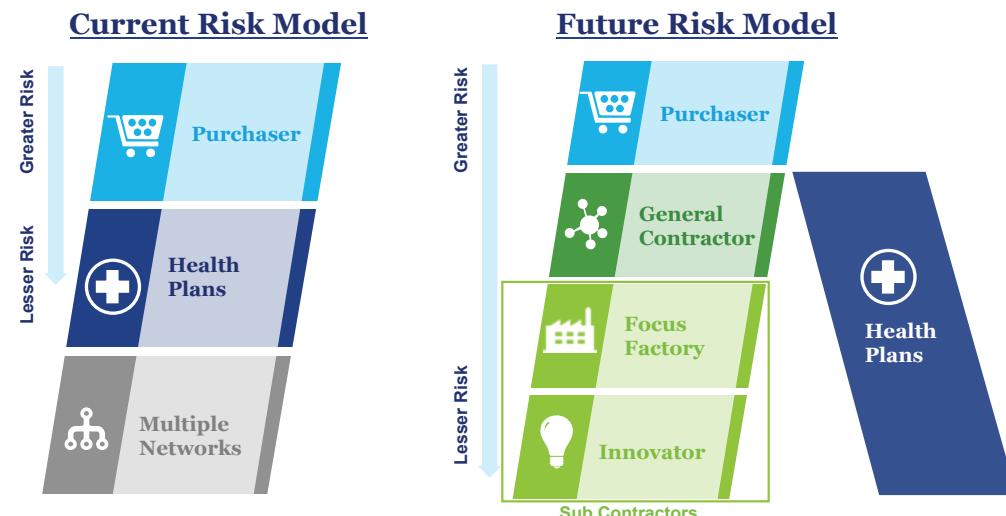
Regulatory initiatives and market changes are also driving several new care delivery and payment models that may fundamentally change the U.S. health care system. In addition to the Affordable Care Act (ACA) of 2010, the push toward value includes increasing demand, new competitors, and new technologies. Purchasers and their beneficiaries are the largest drivers of this shift toward value (see appendix).

Traditional health care provider cost reduction initiatives, while important, may not be sufficient to meet purchaser requirements. This focus on value may result in a fundamental shift in how health care is purchased and delivered, and may drive changes in how health care providers are organized.

Evolving toward a General Contractor role: The drive for future growth

As purchasers of health care continue to push the market for new solutions to address the aforementioned challenges, providers that can transform and accept performance risk may be more effectively positioned to grow faster than the overall market. As the market evolves to align incentives, the responsibility for managing risk may shift to a subset of providers that can demonstrate a willingness and ability to deliver a more effective health care delivery solution. Provider organizations with the right mix of capabilities will be rewarded with increasing market share. Operating in this new environment will require providers to configure differently as a "General Contractor" role.

Figure 1: The evolving role of a provider organization



General Contractors – Providers who take on performance risk, invest in population health, and focus on both lowering cost of care and enhancing care coordination across the entire continuum.

Characteristics of the General Contractor

Not all providers will be attractive to purchasers as part of an exclusive network, including small health systems that may cause too much disruption for beneficiaries due to lack of access. Similarly, providers with scale but relatively high costs or those lacking clinically integrated networks may not have the capabilities to deliver a differentiated solution in a risk based environment. These providers will struggle to contract with purchasers. Some, with niche offerings, such as post-acute, are positioned to be sub-contractors.

Those in the best position to contract with purchasers as a General Contractor should have the following characteristics:

- Significant regional scale: Defined as **greater than 20 percent market share** (see appendix);
- Convenient access to care through a robust primary care network and a variety of access points (e.g. telehealth, retail health, etc.);
- Efficient and cost effective operations;
- Exceptional quality outcomes;
- High levels of clinical integration.

Health systems evaluating whether to pursue the General Contractor role should first determine if they possess the capabilities and readiness. If the role does not fit, providers may consider evaluating how they should best respond to potential impending disruption.

Figure 2: Deloitte definition of General Contractor

A general contractor is...	<ul style="list-style-type: none">• Able to provide sufficient and convenient access (inpatient, outpatient) for patients• An integrated network that supports care across the continuum• A network with differentiated value (cost / quality)• Willing to accept risk for a population of patients
But does not...	<ul style="list-style-type: none">• Require one monopoly / dominant player in each market• Have to directly own every delivery asset• Mean exclusively lowest cost• Have to assume ALL the risk alone
Indicators of Success...	<ul style="list-style-type: none">• Scale is sufficient, with 85-90 percent of covered lives within 15 minutes driving time of an affiliated high-value PCP• Care management infrastructure can manage overall cost inflation at rates below a relevant index• Able to measure and demonstrate value to payers• Contracted on a risk basis for at least 50 percent of patient visits

Potential benefits of the General Contractor role

A successful health care provider who re-organizes as a General Contractor will be well positioned in the market, due to having contracted with purchasers in exclusive long term relationships. The main benefits associated with successfully executing in a General Contractor role may include:

- Market Share Gains: Initial gains are likely as purchasers contract with General Contractors in exclusive VBC arrangements to expand their traditional market. Longer terms, reducing utilization and managing cost may create strong lock-in with purchasers.
- Stronger Physician Alignment: Two significant benefits may generate stronger alignment:
 - The ability to maintain or steer additional volume to affiliated practices in return for being part of the exclusive high performing network.
 - As utilization is reduced and savings generated, sharing in the savings has the potential to create tighter financial alignment.
- Brand Recognition and Loyalty: Improved quality, competitive cost, ease of access, and ‘one stop’ healthcare capabilities will enhance brand and customer ‘stickiness’.

The forecasted transition to VBC will likely impact the role health plans play as well. The traditional network development and risk management role played by health plans will be reduced as General Contractors develop “exclusive value based networks” to serve purchasers. General Contractors will take on performance risk, but may lack many of the capabilities traditionally provided by health plans who still play an important administrative role.

The path forward

Positioning within the market: A course of action

While scale and access are important, succeeding under the new basis of competition will require more than scale for scale's sake. Demonstrating cost savings and differentiated health and wellness outcomes for entire populations may require a high degree of incentive alignment and cooperation between providers across the entire care continuum – physicians, hospitals, post-acute facilities – that can most easily occur in highly integrated clinical networks. Providers with a low degree of clinical integration, regardless of scale, will likely find it difficult to manage cost in a risk based environment.

Therefore, a provider's relative positioning in its market with regard to market share and clinical integration is an effective way to assess the following:

1. How well-positioned it is for a movement towards the General Contractor role
2. What future market positioning may suit it best
3. What actions it should take as a result

The following framework, based upon Deloitte's analysis, can be used by providers and applied to their local market to understand their likely role and potential evolution to a General Contractor role.

Providers are especially incented to adopt the General Contractor role for VBC models if one or more providers in their market are located in the green area circled on the chart, which is labeled the "Zone of VBC Opportunity." Movement toward VBC may accelerate in a scenario where multiple providers enter this area and begin competing to be the first to market with "exclusive value-based" contracts. Assuming the providers in this scenario have adequate quality and cost performance, those providers located in this zone will be very close to attaining the clinical integration and market share needed to become a General Contractor.

Figure 3: Deloitte Market Positioning Framework²



Note: Matrix based upon Deloitte's analysis of market share, HHI data, spending, utilization, and integration data. See appendix.

Shift to the General Contractor role and VBC: The Time is Now

Many providers are taking a wait and see approach which poses many risks. If a competitor begins developing capabilities sooner and enters into exclusive contracts with purchasers, they will have the first mover advantage which will be a critical step in creating lock-in. The decision for a provider to shift toward VBC is a fine balance and important for the following reasons:

- Move too late: become a commodity provider and risk market share erosion.
- Move too soon: assume too much risk ahead of achieving clinical integration and enabling infrastructure and erode fee for service revenue streams.

Ultimately the transition point to VBC for each market will depend on a variety of local dynamics, including provider and purchaser dynamics. Adoption is starting in a few markets (see Figure 4) and these examples of VBC early adopters highlight the market situations that were favorable for developing a General Contractor organization.

Figure 4: Market Examples of General Contractor/VBC Adoption

Baylor Scott & White Health: Dallas, Texas	<ul style="list-style-type: none">• Baylor Scott & White Health (Baylor) are developing closer relationships with purchasers to offer competing products and transition to value-based payments starting in 2015. Baylor launched the Baylor Quality Alliance which has ACO contracts with Cigna, Aetna and Humana³.• Provider and health plan integration: Value-based collaboration is in its early stages. Three health systems account for 64 percent of market discharges while three health plans account for 63 percent of total enrollment⁴. Baylor owns a health plan but it is currently not participating in the Dallas market.• Clinical integration: IPAs make up the largest physician groups, but adult systems have moved to grow their employed physician bases and integrate clinically in recent years⁵.• Cost and utilization performance: Dallas's utilization is slightly below national median, while spend is above national median⁶.
CHE Trinity & Ascension Health: Ann Arbor and Detroit, MI	<ul style="list-style-type: none">• CHE Trinity and Ascension Health recently announced the formation of a joint company for managed care contracting, which will offer innovative products to employers and health plans beginning this fall. The clinically integrated network plans to offer pay-for-performance, shared savings and bundled payment arrangements through narrow networks⁷.• Provider and health plan integration: Five health systems have between 10 and 20 percent market share each; however, CHE Trinity and Ascension would offer products that reach a combined 28 percent share. Blue Cross Blue Shield of Michigan (BCBS Michigan) has 54 percent share of total enrollment and has a wide range of physicians (16,400) and hospitals (73) participating in initiatives to improve quality and lower cost⁸.• Clinical integration: Consolidation of physician groups and closer health system alignment has accelerated. Henry Ford Health System, through its physician network, is marketing itself as a narrow network to self-insured employers⁹.• Cost and utilization performance: As of 2010 Detroit's utilization and cost were above national medians¹⁰; however, BCBS Michigan announced that in three years it has saved \$155M through patient-centered medical home models and \$232M through hospital quality programs¹¹.

First-movers may be well-positioned to execute strategic affiliations, acquisitions, population health investments, and/or contracts with purchasers in order to lock in “exclusive value-based” contracts with the largest sources of covered lives before their competitors. Those competitors may also be in the Zone of VBC Opportunity, or they could be in the top right zone and more hesitant to adopt VBC models quickly enough. Based on a provider’s positioning within the Market Positioning Framework (see matrix on page four), distinct actions should be considered.

Figure 5: Actions to consider for each Market Position

Destination	Description	Implications
Build Risk Capabilities and Carefully Time VBC Shift	A provider well positioned in the local/regional market that has a high degree of clinical integration with scale and access to match	Well positioned to contract directly with purchasers and accept risk. Initial focus should be on building population health capabilities. However, timing is critical as transitioning from fee-for-service is riskier in this quadrant.
Seek Partners with Advanced Clinical Capabilities	A provider with a dominant market position for acute care assets but lacks a clinically integrated infrastructure	Well positioned from a scale and access perspective but do not have the capabilities or network to accept risk and reduce utilization; accepting risk from purchasers will be challenging.
Seek Partners that will Provide Sufficient Scale	A provider with advanced levels of clinical integration but lack scale and access	Purchasers are unlikely to contract with you directly because your system is not a comprehensive solution, it may be time to look for a partner.
Become a Sub-Contractor or Exit	A provider well positioned in the local/regional market that has a high degree of clinical integration with scale and access to match	Purchasers are unlikely to contract with your system because it lacks scale/access and/or breadth of clinical services, threatening your market position.

Bottom line: Start Preparing Now

Many health care providers lack the necessary capabilities required of a General Contractor today – they either are not sufficiently clinically integrated or lack the scale needed to compete effectively. The reality is that the market is most likely evolving in the VBC direction, but the pace of change is the key unknown. Adoption of VBC will be rapid in some markets and slower in others. During this period of uncertainty and in a competitive local market, the risk of moving slowly is too great. While the transformation to a General Contractor is substantial and may require significant investment in new capabilities, the time to prepare is now!

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Appendix

Drivers of the shift toward value from purchasers:

- Many consumers (45 percent), physicians (25 percent), and employers (29 percent) rate the health care system poorly¹².
- Employers are continuing to shift costs to employees in an effort to save costs. There was 55 percent growth in high deductible health plan enrollment from 2010 to 2013¹³.
- Employers are increasingly looking for higher quality care, with 23 percent offering a high performance network with their largest plan in 2013, up from 15 percent in 2007¹⁴.

Market share analysis:

To quantify where leading health systems are positioned relative to each other in similar market types, the top 75 Core Based Statistical Areas (CBSAs) were analyzed with market share against market concentration. This analysis determined the 20 percent market share threshold for General Contractors.

Top 75 CBSAs: Average Market Share by System				
Market Concentration	#1 Health System	#2 Health System	#3 Health System	#4 Health System
Low	21%	14%	11%	9%
Moderate	32%	22%	15%	10%
High	45%	29%	14%	8%

Methodology notes: Deloitte analysis of Market Concentration and Market Share data from the AHA All Hospital/ Medicare Cost Report.

Methodology definitions:

- Top 75 CBSAs are determined according to the number of admissions to hospitals within that CBSA.
- “Low” market concentration represents CBSAs with HHI below 1500 using AHA admissions data and FTC antitrust guidelines.
- “Medium” market concentration represents CBSAs with HHI between 1500 and 2500.
- “High” market concentration represents CBSA’s with HHI above 2500.

Analysis results

In low and moderately-concentrated markets, the number two and three health systems have, on average, between 9 and 22 percent market share, putting them significantly behind the market-leading system. In order to grow in a new VBC-based environment, these players may increasingly look towards affiliations, acquisitions and narrow networks to take on a General Contractor role and challenge the leading health system.

In highly concentrated markets, some second-positioned providers may already be positioned to take on a General Contractor role with the requisite clinical integration. Meanwhile, leading health systems across all markets may need to time their shift to a General Contractor role according to the competitive and purchaser dynamics in the market.

As a result, the analysis supported a minimum market share of 20 percent as an appropriate threshold for the General Contractor.

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