Deloitte.

Growth and scale
Not just important, now critical for survival

No matter how effective a health plan is today, it may not have the reach or capabilities to remain competitive tomorrow. If you're like some plans, in particular those that are moderate in size or limited in geographic reach, you'll need to grow—into new sectors, new service areas, or both. With only 9% of U.S. health plans with more than 1 million covered lives[1], everyone is weighing questions of scale, and growing may involve adding competencies you don't have today.

Purely organic efforts to sell more of the same things to the same people won't necessarily produce the desired revenue and earnings results.

The need to grow doesn't dictate the way to grow. There's a range of choices. But purely organic efforts to sell more of the same things to the same people won't necessarily produce the desired revenue and earnings results.

Many plans already operate in the government-funded sphere to some degree, either with Medicare, Medicaid, or both. But no matter where your starting point lies, government program segments are a high growth priority. As government programs grow, the roughly even split between government and commercial business is expected to shift toward 70/30 or beyond in favor of public-sector segments. As exchanges come online, a market that was once 90% group-based is expected to soon find up to half its customers in non-employer-sponsored accounts[2]. It's safe to say many plans will likely need a broader approach to non-employer businesses such as, Medicare, Medicaid, health insurance exchanges, and individual lines.

These challenges vary depending on whether your current footprint is national or local. Local, typically not-for-profit plans may need to cover larger regions than they do now if they want to win Medicare and Medicaid business. The Centers for Medicare & Medicaid Services (CMS) has identified 26 Medicare Advantage regions. That's a steep climb if you serve only a handful of counties today, and it points to the likelihood of mergers, collaborations, or joint ventures that may be a tough sell for leaders accustomed to doing business on a small scale. Local plans may also have to defend their books of business from large, national plans moving into the individual exchange market—and in the competition, the larger plans can afford to be more selective about whom they serve and where. National, for-profit plans may also need to focus on government programs in order to grow, and will likely need to consider where capabilities may be lagging.

Dimensions of growth plans should consider
Horizontal? Vertical? Or through diversification?

There are three main vectors for growth: horizontal (remaining within the core insurance product), vertical (expanding to serve different parts of the health care value chain), or through diversification (adding products or services outside the traditional boundaries of the health care industry). No matter where you aim, there's also a choice of how to get there: through collaboration, alliance, or outright merger.

Horizontal growth focuses efforts on new geographies, new products, and new customer segments you can serve. The government and individual markets are the ones with greater potential right now, and many non-profit plans are using this model to create joint ventures and partnerships large enough to capture government business. Whether targeting new geographies or promoting innovative offerings, you may need a gap analysis to know what human and technology capabilities your new service will require.

[1] "Unlocking value in health plan M&A: Sometimes the deals don't deliver," Deloitte Center for Health Solutions, January 2013.

[2] "Impact of Health Care Reform on Insurance Coverage: Projection Scenarios Over 10 Years – Update 2012," Deloitte Center for Health Solutions, October 2012; Congressional Budget Office (CBO); Kaiser Family Foundation.

Vertical growth will take you into other areas of the health care value chain, such as through tighter integration with the provider community. That starts with identifying new ways to serve your existing customers' health needs, then working with (or competing with) pharmacy benefit managers, providers, hospitals, or even life sciences companies to serve those needs. Plans acquiring hospitals is currently the most prominent example of vertical growth. No matter what your strategy, adding a new business model will likely add administrative complexity.

Growth through diversification focuses on maximizing member offerings. It takes advantage of competencies you already have and applies them in new ways that lie outside the traditional boundaries of the health care industry. Ideally, your organization will be an early-mover into this new space, offering innovative products and services not typically offered by a health plan. For-profit plans may base these moves on global market presence and high-end analytics capabilities. For non-profit plans, diversification may include affinity products and reinsurance. Plans of most sizes may find new market value in existing capabilities like social media or financial services. The asset here is your customer base. The potential lies in the needs they have outside health care—and the trust you've earned to serve those needs.

Not just bigger. Different.

Building a sustainable growth model.

Determining where and how to grow will influence the capabilities you'll need to get there—and vice versa. Your tactical to-do list depends on the direction and method of growth you've chosen. But those choices begin with an assessment of what you're actually able to accomplish. That self evaluation involves not only talent and skills, but also technology tools, and governance, as well as liquidity, since third-party growth strategies usually require cash.

For collaborations, partnerships, and joint ventures, your organization should be skilled at setting and communicating expectations, managing contracts, and setting boundaries. Arrangements like this are likely to find you competing in some ways and collaborating in other ways simultaneously, and that calls for strong controls.

Mergers and acquisitions (M&A), which fuse formerly separate entities, have been on the rise recently as some plans have turned to consolidation for growth and survival. In 2011, 20 managed care M&A transactions took place, totaling nearly $8 billion. More deals took place in the year after the Affordable Care Act (ACA) was enacted than in each of the three years prior.[3,4] Health plan M&A is likely to remain active due to the supply of target plans, sustained pressures, and continued opportunities.[5] However, Deloitte research that examined examples from a variety of industries found that 70% of transactions did not reach their defined synergy targets.[6] To thrive, organizations may need to consider aligning governance and management, creating the right new structure, and clearing regulatory hurdles. Organizations must integrate the combined financial, technological, and talent structures in a way that performs well and avoids conflict or duplication.

People and technology changes are a cause, not an effect, of growth

A new talent mindset for doing individual business on a bigger stage.

The health care system has been primarily group-centric for almost 70 years. Now health plans need to build more focus around serving the individual. That means reorienting the value chain—and making sure you have the capacity and skillsets necessary to master new products, services, processes, branding, and communications.

For horizontal growth, people challenges may be primarily related to scale and being able to do more of what you do already, but better and faster. When growing vertically, you may need to staff for entirely new skillsets. For example, embracing the ACO model and participating in the delivery of care means you'll need doctors, RNs, dieticians, and case managers. And when diversifying beyond health care, you may need to consider the skills that correspond with the new offerings.

No matter how or where you grow, the process itself should consider specific change management skills that you may not already have under your roof. Chief among these is effective collaboration—the mechanics of working together, in some cases with former competitors.

Are your platforms ready for more people, more regulations, and a faster pace?

As with people, the first technology challenge for a growing plan is to assess present capabilities and future needs. Investing for scale and moving from a group to an individual focus are likely to be great challenges for health plans. In addition, offering new products may expose you to new regulatory requirements. If you move into the government space, are you ready to satisfy CMS?

[3] Keckley, P.H., Copeland, B., Scott, G. "The future of health care insurance: What's ahead?," Deloitte Review, Issue 13, July 24, 2013.

[4] "The Managed Care Acquisition Report, Second Edition," Irving Levin Associates, Inc., 2012.

[5] "Unlocking value in health plan M&A: Sometimes the deals don't deliver," Deloitte Center for Health Solutions, January 2013.

[6] "Solving the Merger Mystery – Maximizing the Payoff of Mergers and Acquisitions," Deloitte & Touche LLP / Deloitte Consulting LLP, 2000.

Your technology footprint may have to add more than capacity. It may need new functions altogether. For example, in serving new or larger markets, you may need to add more consumer portals or mobile capability. When forging partnerships, you may need interoperability and data-sharing muscles where before you may have had firewalls. A broad-based gap analysis that compares your present technology capacities with the ones you'll need post-growth is an important first step in determining what investments to make.

Bottom line benefits

The market for health insurance is changing too much, too fast, for traditional models to survive. While the trend in the marketplace is for health plans to grow, Deloitte analysis of 44 health plan transactions between 2006 and 2012 found that fewer than half actually led to sustained improvements in comparative market value three years after the deal closed. This analysis suggests that it is important to pursue operational synergies—people, processes, and technologies—and execution of growth strategies in a focused way. And if you identify where you want to take your plan and map out a thoughtful way to get there, growth can pay tangible rewards, such as:

- Easier access to government-funded business
- More agility in capturing the new individual customer base
- Economies of scale traditionally associated with growth

To learn more, including steps you may take right now, please contact us.

Contact us

Ollie McCoy
Principal
Deloitte Consulting LLP
omccoy@deloitte.com

Dhan Shapurji
Director
Deloitte Consulting LLP
dshapurji@deloitte.com