

Healthcare *E.R.* **A Call to Pursue Both Evolution and Revolution at Once**

The need for transformation in the healthcare industry is urgent and enormous. But how can healthcare organizations strive to provide better, more cost-effective care going forward while also positioning themselves for a future that may look very different from today?

Organizations in healthcare are confronting these two fundamental and contradictory challenges at once. The first challenge is so daunting, urgent, and resource-intensive that it is consuming most of the thinking, money, technology, and work being applied to “fixing” the healthcare system. The second challenge poses an even greater threat and potential reward, yet goes largely unconsidered because it comes from beyond the sightlines of traditional healthcare concerns.

To be vital players in the healthcare market of tomorrow, organizations will need to make significant progress on both these challenges at the same time. Call them Challenge “E” and Challenge “R.” Challenge E is evolutionary in nature, and represents the incremental improvements in process so critical to increasing the efficiency and reducing the cost of care delivery and administration. Challenge R is *revolutionary* in nature, and represents the arrival of disruptive innovations in service and approach that have the potential to completely overturn traditional healthcare models and markets.

To understand the nature of Challenge E and Challenge R as it relates to their own circumstances, healthcare organizations must ask themselves 2 open-ended questions:

1. What business are you in *today* and what improvements can you make that will improve the performance of your organization along current service lines?
2. What business will you need to be in *tomorrow* to achieve the next level of success and what are the steps you need to take to realize that future?

These questions are fundamental to the success of all leading organizations in any industry. They are particularly imperative in industries undergoing rapid transformation.

Challenge E: The Pursuit of Better Health

In healthcare, the need for evolutionary transformation is clear. Even as the system is being wrenched into a new configuration via national policy, the industry is dealing with formidable pressure to reduce costs by \$1 trillion and provide services to 40 million new consumers all while improving care quality.

The solution is to drive high-impact improvements in three realms: care delivery, business operations, and connectivity.

Leading healthcare organizations are fully engaged in this pursuit of Better Health. They are examining work processes to assess where targeted improvements in work flow and administration can have a significant impact on efficiency, costs, quality, and service. They are investing in technology systems that reduce administrative burdens and errors, tighten coordination among all stakeholders, and improve the ability to make better

decisions at the point of care. They are redesigning their business models to implement new payment and care delivery systems that will achieve higher quality outcomes. They are putting more emphasis on patient engagement and satisfaction to meet the expectations of a new breed of individual consumer.

By implementing these changes and executing well-considered strategies, leading healthcare organizations are fortifying themselves to withstand the pressures mentioned above and positioning themselves to thrive in an evolving healthcare system. Organizations that are waiting for the landscape to become more clear are increasing the risk that their inefficient administrative and care delivery systems will be too bloated and substandard to survive.

This process of performance improvement must be continuous and never-ending. However, success in the emerging healthcare marketplace is not guaranteed even for organizations that meet Challenge E. Indeed, it is possible that dramatic enhancements in current approaches will fail to beat competitive challenges from entirely different business models that deliver new or better sources of value.

Challenge R: The Pursuit of Disruptive Innovation

Disruptive innovation, as defined by Clayton Christensen, is not an improvement in product or business processes along traditional performance dimensions. Instead, it is an innovation that helps create a new market or value network while eventually supplanting or displacing an old one. Every industry is vulnerable to disruptive innovation. However, vulnerability is heightened when stability has become stagnation, unmet needs are high, inefficiencies abound, and new circumstances allow for the entrance of non-traditional competitors.

Because of regulatory restrictions, free market impediments, and tradition, the US healthcare industry has been relatively safeguarded from disruptive innovation for many decades, but that is changing rapidly.

The industry is bloated and inefficient, consuming 17.3% of GDP while producing outcomes that are substandard in aggregate. Despite the turmoil and change of recent years, the traditional model of healthcare delivery and administration remains in place. Because reimbursements have largely been tied to a fee-for-service versus fee-for-value model, little attention has been paid to results, to customer satisfaction, or to opportunities to compete for new business. Meanwhile, patients have been passive consumers with few options as to where they receive care, and little concern for costs or comparative value.

The introduction of sweeping regulatory reforms, the economic pressures already mentioned, the arrival of non-traditional suppliers, and a burgeoning consumer consciousness is prying open the system and catalyzing disruptive innovation in care delivery and business models. This is about to place very different competitive pressures on traditional healthcare organizations via new healthcare products and services, and even new markets.

Disruptive innovation is by nature unanticipated. When it arrives the full potential of its impact goes under-appreciated until the threat is difficult to counter. Yet, as the work of Clayton Christensen has shown, the cycle of disruption follows a consistent pattern.

Typically, a new disruptive innovation is either low in margin, poor in quality, or insufficiently dominant to seem threatening at first. Established players may even initially benefit from this arrival because it allows them to focus on more complex, more prestigious, or higher quality products and services that earn greater margins. Indeed, they can become even better at what they already do well. However, as new competitors grow market share for their disruptive innovations and improve those processes, they begin to encroach on the territory of the traditional market. Eventually, established players find that they have been displaced by competitors they did not previously consider a threat.

The irony is that the leaders of an industry – the most efficient, strategic, and dominant players – are often the most vulnerable to the surprise of disruption. Their own competence – the ability to focus on improving the processes that distinguish them as elite – makes them blind to changes on the periphery. In other words, the most highly regarded health system, the best physician or outpatient clinic, or the leading health plan may be the last to notice when a disruptive competitor has arrived.

To meet Challenge R, healthcare organizations must ask: How do you shift from being a passive victim of disruptive innovation to an organization that actively pursues a revolutionary improvement in value delivery?

Furthering E While Solving R

While new technology, new market conditions, or new consumer behaviors might make disruptive innovation possible, the leverage for that disruption is derived through deep insight into the “jobs” customers hire products or services to perform for them. It is then met by developing a new product, service or solution that supports that job while delivering superior value along one or multiple dimensions.

Established industry leaders are in close contact with their customers and typically vigilant about assessing how well they are meeting those needs through the framework of their existing business model. In this sense, being customer focused means doing an even better job at what they are already doing very well. While this approach answers Challenge E, it may utterly fail to anticipate the threat of Challenge R. Disruptive innovations satisfy needs that industry leaders and often customers themselves did not know existed. This is why the development of disruptive products and services, business models, and markets is so surprising.

<<insert examples>>

To survive and thrive through periods of great change, organizations must answer Challenge E and Challenge R at the same time. But how can today’s healthcare organizations continue to deliver excellence through their established business models while also discovering entirely new services or markets?

The answer is to develop an acute understanding of value as it is perceived by the customer and to use that insight to examine the very nature of your business and what customers hire you to do for them, and what they *could* hire you to do for them tomorrow.

The customer, as Clayton Christensen has revealed, is not necessarily seeking the exact service being provided. Rather, the customer is focused on satisfying a “job-to-be-

done” that may or may not be well met by the particular service. Especially in tradition-bound industries, that overlay is often poor. The business may believe it is delivering excellence, yet the customer’s needs may be only partially met, if at all. The customer may be unaware of the exact nature of this dissatisfaction until a new service, offering, or market delivers the value that has been wanted all along.

For example, in the traditional healthcare business model, the needs of a patient with a sickness, injury, or complaint may be met through a visit and a referral. However, as the patient sees additional specialists or has X-rays or tests done, what he or she truly values may not be the excellent delivery of each service in turn, but the overall improvement in health, or the clear understanding of a condition, or the communication taking place between providers to coordinate that care for better outcomes. Another patient, in different circumstances, might value convenience, or wellness, or even the price of services. Different services, business models, or even markets might serve each of these patients dramatically better.

For example, one health system, taking the traditional view, might see its patients as its customers and act very much in line with all other hospitals in its market. Another, understanding that it is in the business of supporting physicians, might distinguish itself by delivering what physicians value so that they can better meet the needs of their own patients; this in turn draws the best physicians into the system who better meet patient needs. A third health system might realize that its excellence in cancer care or joint replacement offers an opportunity to deliver those services in new markets or under different financial or delivery models thereby meeting needs competitors did not know existed.

An independent pharmacy might be at a loss as to how to work more efficiently at lower margins until it recognizes that its best customers are aged patients who value guidance and connection over efficiency. By shifting its business model, it can better meet those customers’ needs. A physician clinic, understanding that its patients want all healthcare concerns addressed in one hub, might transform from traditional fee-for-service care to a patient-centered medical home. One health plan might realize that its real advantage comes from its ability to design networks that bring more individualized plans to the retail market. Another might see an opportunity to partner with providers to bring wellness programs to community centers.

Healthcare organizations are particularly new to the challenge of seeing value in the varied and nuanced needs of their customers. They are also hidebound in how they offer products and services. For an established leader to solve for Challenge R it is necessary to ask: *What business are you really in today, and what business do you need to be in tomorrow to achieve better health for your organization and the patients you serve?*

Leading Through Evolution and Revolution

Every industry is fundamentally shaped by organizations that introduce disruptive innovations. Every industry is dominated by organizations that continue to improve on excellence in established lines. Organizations that thrive in current markets while pioneering new markets are oriented in their leadership, their culture, and their business model to be performance leaders and innovation leaders at the same time.

Often, these organizations arrive as disruptive innovators. However, they fortify their leadership by constantly improving performance in that new line while continuing to discover new sources of value and meeting those with additional disruptive innovations.

Costco began as a wholesale distributor before transforming its warehouses into retail stores for customers who were seeking wholesale prices and willing to pay lucrative membership fees. Now, it is becoming a major provider of financial products like mortgages for customers who value price and convenience over the full service and restrictive hours of a traditional bank.

Netflix disrupted the video industry by developing a convenient mail-delivery model that threatened dominant brick-and-mortar stores like Blockbuster. It destroyed brick-and-mortar competition when it augmented mail delivery service with the disruptive innovation of streaming video.

ESPN was the first cable network to devote itself entirely to sports. This met the untapped needs of sports fanatics while overturning the dominance of network channels. It became the most profitable channel in television when it disrupted the traditional business model and adopted a dual revenue stream of subscription fees and ad revenues. This profitability allows it to continue to improve on established lines while experimenting in new markets.

Amazon, Apple, Wal-Mart... the American economy is driven by organizations that meet Challenge E and Challenge R simultaneously. It is possible to do both at once, and the rewards for success are enormous.

In healthcare, this dual capability for transformation has been less important historically, yet the forces of disruption are becoming more intense every day, and adroit organizations are showing how to use this trend to their advantage.

Industry giant, Mayo Clinic has always been a leader in delivering high quality care at low cost. It is now experimenting with healthy living centers in retail settings like the Mall of America, where trained health “navigators” talk to customers about wellness, nutrition, and exercise. These centers do not resemble a traditional clinic in any way and appeal to those not concerned with sickness but with better lifestyles.

CareMore, a health plan in California, provides the Medicare Advantage plan to seniors, but does so through clinics that appear more like community centers than healthcare facilities. It has designed its integrated services around the recognition of areas where seniors see value. For example, it knows that 80% of seniors wish to die at home, while less than 5% actually do, and CareMore has fine-tuned its care delivery approach with this customer need in mind.

Bellin Health is a small health care system based in Green Bay, Wisconsin, with a 178-bed community hospital and a primary care practice staffed by 95 doctors. Yet, it has managed to reduce healthcare costs of local businesses by millions of dollars by building clinics at the workplace so workers can receive preventive care on site. Not only is it among the best health systems in the nation for quality and costs, but its onsite approach is becoming a model for businesses around the country.

Wal-Mart has taken the lead at reducing its employee health costs by seeking the best quality care anywhere in the country and negotiating innovative health plans. It covers the cost of travel, lodging, and food to any one of six centers of excellence including the Cleveland Clinic, Mayo Clinic, and Geisinger Medical Center.

Cleveland Clinic, the nation's leading provider of cardiac care, has formed a venture capital investment arm which has created 55 spin-off companies and more than 300 licensed technologies.

Riverside Healthcare, a national quality and cost leader based in Illinois, continues to innovate into new markets with specialty and community centers, as well as by bringing retail customer service expertise into its care facilities.

Trumm Drug, an independent pharmacy in Alexandria, Minnesota, leads its local market with excellent service, even as it has tailored new offerings to senior centers. Merwin Drugs, in Minneapolis, Minnesota, abandoned retail pharmacy altogether to become a leading long-term-care pharmacy.

Vigilance in performance improvement along traditional lines coupled with diligence in seeking new sources of value mark these leading healthcare organizations. Even as they are meeting the cost and quality pressures of today, they are pursuing entirely new growth opportunities for tomorrow.

Answering the Question

At McKesson, we are focused on improving the health of every sector along the care delivery spectrum, and we are committed to helping our customers improve their performance in their core operations while making innovative leaps that set them on a path for the next level of success.

For example, we provide world-class drug pharmaceutical distribution services and pharmacy systems to support retail pharmacies' core operations, while simultaneously offering next-generation connectivity solutions that enable retail pharmacies to unlock new sources of value with pharmaceutical manufacturers, payers, physicians and patients.

Our US Oncology Network provides clinical pathways, technology and specialty pharmaceuticals to support the core job of cancer treatment, while also providing end-to-end practice management support that helps oncologists perform the job of managing a successful business.

And we offer software and services that help payers optimize their current core claims management processes, while simultaneously offering emerging financial management solutions that will allow payers to reinvent the claims management process entirely.

<< insert additional examples and flesh them out >>

There is no question that cost, quality, and access challenges are forcing a determined, innovative, and even exhaustive focus on improving performance in all of today's established lines of care delivery and administration. This work must be done to improve the physical health of patients and the fiscal health of care organizations. To ignore this work by anticipating new business models at the expense of ignoring current challenges

would only exacerbate the challenges facing the healthcare industry. However, even diligent and operationally excellent healthcare organizations will only achieve a fraction of their full potential unless they also lead in the area of “new and different” innovation.

In what areas of unmet value should your organization be positioning itself now to achieve better health tomorrow?