

# SURVIVAL OF THE FITTEST: HOSPITALS IN TRANSFORMATION

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*The current healthcare environment is marked by intense pressure, rapid change and deep regulatory uncertainty. U.S. hospitals are struggling to adapt to this tumultuous and increasingly complicated environment. And they are failing at an alarming rate, with 21 hospital closures in 2016 and five in the first two months of 2017 alone.*

*The current climate inspired PNC Healthcare and Willow Research to examine the trends and challenges in healthcare from the perspective of hospitals and health systems. Through qualitative and quantitative research with hospital executives across the country, the study examined how changes in healthcare today are impacting these institutions and what they are doing to survive.*





This article focuses on the quantitative survey results and includes “color commentary” from the qualitative research to shed additional light on these topics.

In this paper, we look at:

- How hospitals are transforming themselves
- Where they are making progress and where they are falling short
- The challenges that remain
- What it will take to survive and who will survive

In order to fully understand the seismic shift in healthcare, the next stage of our research will examine the evolution of two other significant players in the industry: payers and employers.

### How Hospitals Are Transforming Themselves

In the face of market and regulatory pressures, hospitals are charged with reducing healthcare costs while simultaneously improving healthcare outcomes. Indeed, many of their activities today revolve around addressing one or both of these goals.

To accomplish these objectives, hospitals are placing more responsibility on the patient, changing the very definition of success from volume to value, and at the same time transforming their organizations from independent, siloed structures to interdependent, complex systems.

#### **Shift to Patient-Centered Care:**

The shift to patient-centered care (consumerism) is well underway in U.S. hospitals today. As healthcare shifts from reactive to preventive care, consumer engagement becomes paramount to success. At the same time, consumers are demanding more control over their own healthcare decisions, giving a competitive advantage to those institutions that successfully make the shift to a patient-centered model.

**Volume to Value:** Incented by CMS (Centers for Medicare and Medicaid Services) and other regulatory pressures, hospitals are making the move from fee-for-service to value-based care. In other words, they are beginning to work from a model that makes a hospital’s financial health dependent on how well it can keep patients healthy and out of its beds. Needless to say, this is a major paradigm shift that turns their traditional revenue model on its head, and requires creativity and realignment of their traditional approach to healthcare delivery.

#### **Independence to Interdependence:**

In an effort to reduce costs, improve outcomes, and make that shift from volume to value, hospitals are transforming their organizations from relatively simple, independent healthcare institutions to more complex integrated systems that include physician practices, specialty providers, urgent care clinics, partnerships with technology companies, and even integrated delivery networks that combine the payer and provider within a single organization.

In short, U.S. hospitals today have embraced change and are hard at work on a number of specific initiatives to help them make the shift to patient-centered care, from volume to value, and from independence to interdependence. We took a closer look at what they are doing, how far they have come, and what they are struggling with along the way.

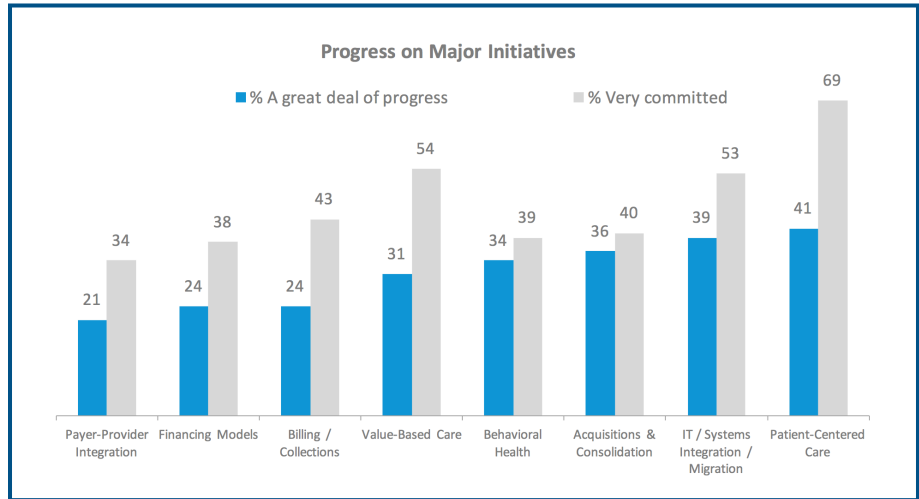
### Progress on Major Initiatives

Our qualitative research uncovered eight major initiatives that hospitals are focused on right now — ranging from strategic acquisitions to day-to-day billing and collections practices. In our quantitative survey, we asked providers to rate their organizations in terms of their commitment to each initiative and how far along they are toward their goals.

Overall, hospitals have made tremendous advancements compared to just 10 years ago or so, when they were largely focused on cash flow and payer contracts.

As the graph above shows, hospitals have made the most progress on patient-centered care, IT integration, and acquisitions and consolidation.

While committed to value-based care, they are not as far along as they would like to be on this initiative. This must be because making the shift to value-based care requires a complete realignment of incentives, values, success metrics and even billing practices.



Indeed, hospitals have made relatively little progress on updating their billing and collections models or finding innovative ways of financing their initiatives. However, as we note later, they recognize the need to streamline and improve their billings and collections as they depend more and more on patient self-pay.

Despite all of the buzz about payer-provider integration (or integrated delivery networks), it is a priority for only about one-third of hospitals, and even fewer are far down that road.

Though there is general consensus about priorities, our research found a tremendous amount of experimentation as hospitals try to figure out the best way to execute on these various initiatives.

In this report, we take a closer look at different approaches to a few of these initiatives.

### Patient-Centered Care

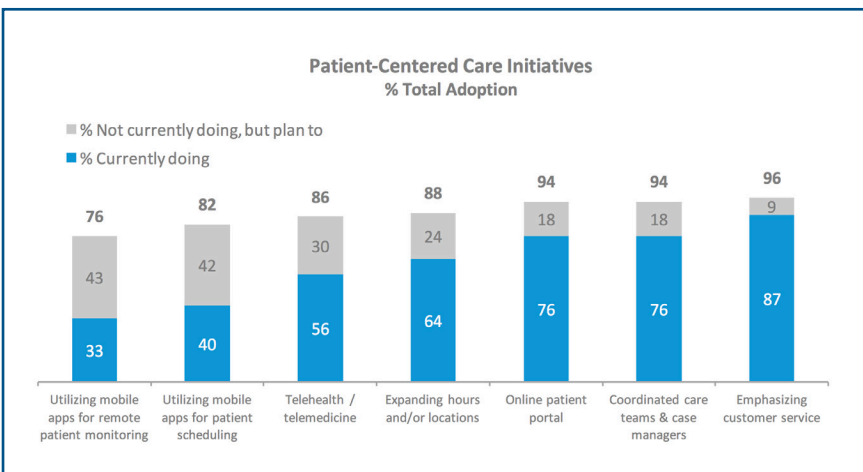
So far, a lot of the focus in patient-centered care has been on improving the patient experience by emphasizing customer service and establishing coordinated care teams and online patient portals (see graph below).

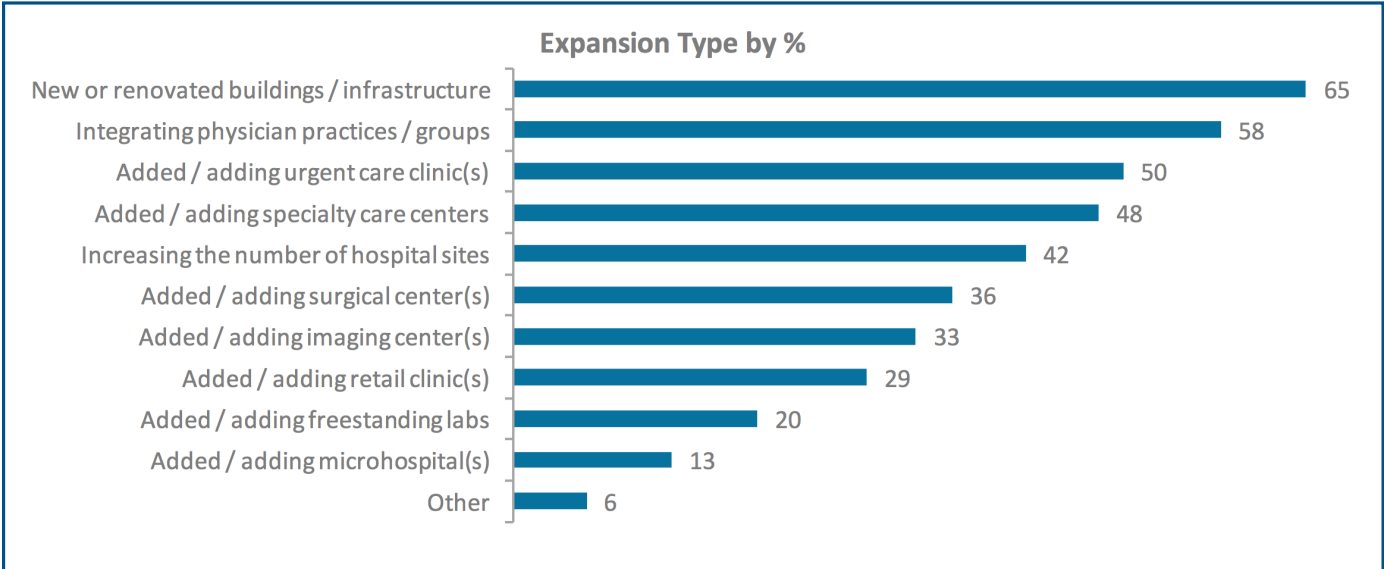
The latest big trend in patient-centered care is in digital health initiatives, such as expanded use of mobile apps and telehealth.

While widespread adoption has been relatively slow, telehealth is on the move. The vast majority (86%) of hospital executives reported that their organizations are already engaging in telehealth or have plans to do so in the near future.

Hospitals are using telemedicine for immediate diagnoses and consultations with specialists (e.g., “Telestroke”), to expand their ICU coverage (“TeleICU”), and to conduct virtual office visits (especially common in the fields of behavioral health and dermatology). Telehealth has the added benefit of expanding patient access to specialists, particularly in rural areas where there may be physician shortages.

Health systems are also partnering with technology vendors in developing or expanding use of mobile apps, such as patient scheduling (e.g., Zocdoc), monitoring patients with chronic diseases, and communicating with patients through text (e.g., TapCloud).





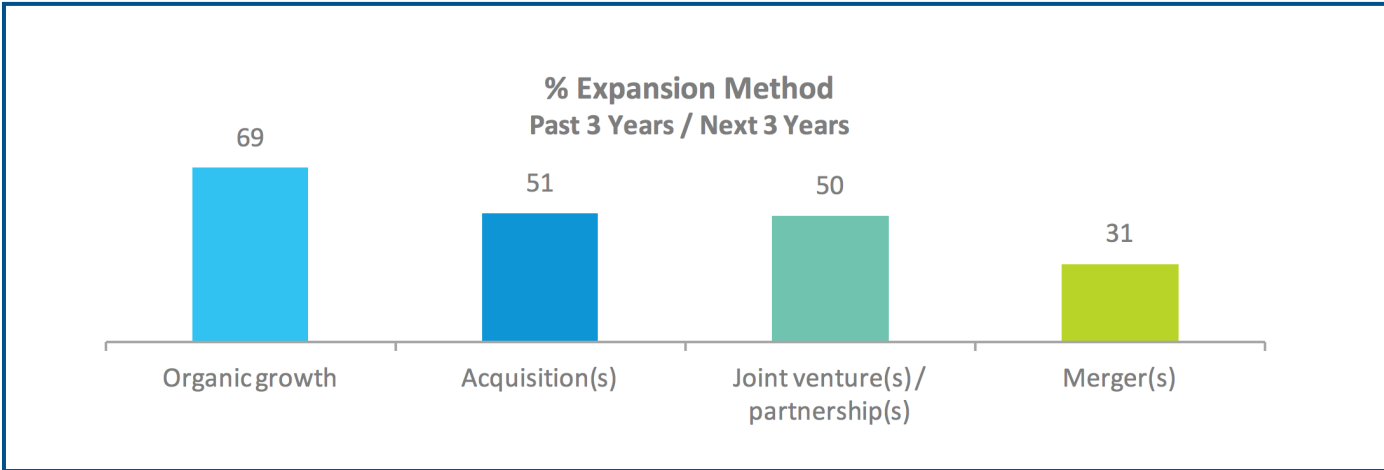
**Acquisitions and Consolidation**

Not surprisingly, there has been a lot of focus on growth lately as hospitals move from isolated institutions to integrated systems. Indeed, every single hospital we interviewed in the qualitative phase is currently involved in some kind of acquisition or merger. The majority have been involved with multiple acquisitions over the past few years, with still more to come, and many are also involved in joint ventures/partnerships and other affiliations.

The quantitative study revealed that 91% of respondents have expanded in the past three years and/or plan to do so in the next three years, with most doing both.

Hospital executives are busy with capital projects, integrating physician practices, adding urgent care and specialty care centers, and increasing hospital sites — all leading to a more integrated healthcare model.

In terms of the method they use for expansion, organic growth leads the way, followed by acquisitions and joint ventures.



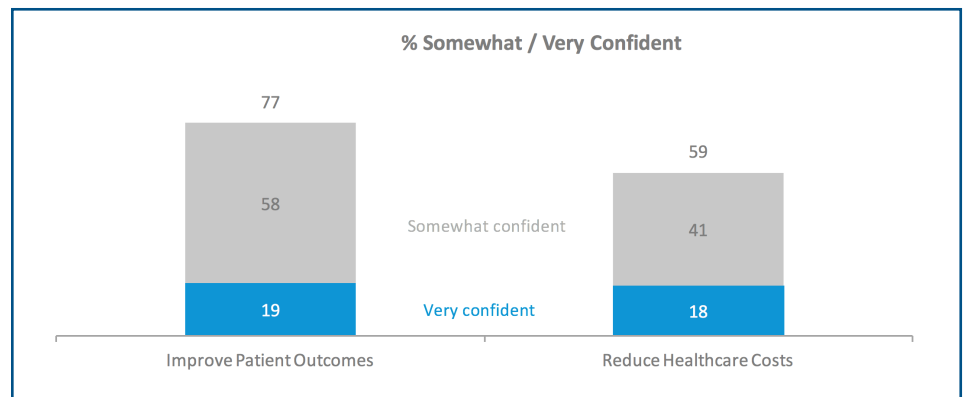
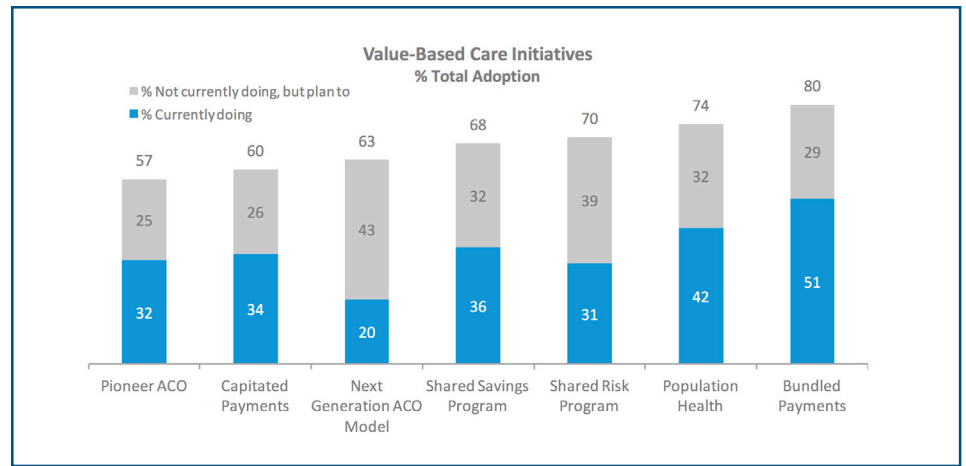
*“There’s a lot of waste in healthcare with overutilization and receiving batteries of tests and doing things that aren’t necessary, keeping patients too long, that type of thing. Under this new commercial model that we have moved to, the intent is to reduce utilization, strive for highest quality outcomes at the lowest cost. It’s going to be challenging. It’s totally different from how we’ve been successful in the past, but we feel it’s the right thing to do.”*

– CFO, Western Health System

### Value-Based Care

In the qualitative research, we learned that most hospital executives embrace the shift toward value-based care and understand the rationale and need to move away from a fee-for-service model. However, it is a major paradigm shift that requires a fundamental change in their definition of success.

Hospital systems are still relatively early in the transition to value-based care, and are experimenting with different models to control costs and improve outcomes. Bundled payments and population health are the most



widely adopted value-based care initiatives today, though many are also testing out shared risk and shared savings programs, capitated payment models, and Accountable Care Organizations (ACOs).

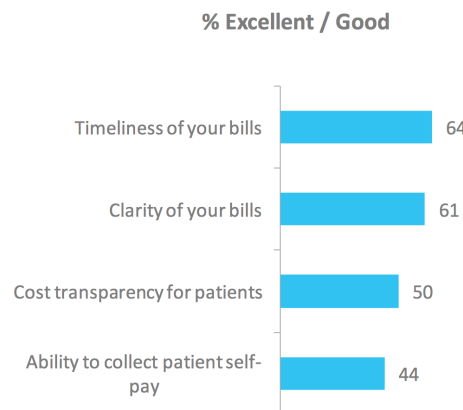
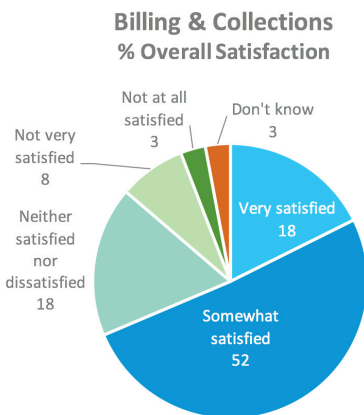
However, while hospital executives philosophically support the concept of value-based care and are investing significantly in that future, they are not entirely confident that it will lead to better outcomes and are even more

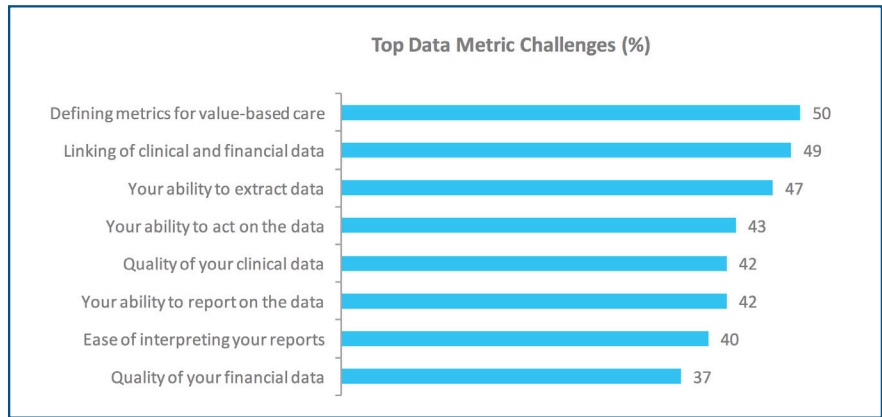
conservative in their assessment of its ability to reduce costs.

### Billing and Collections

As noted earlier, hospital executives are not making as much progress as they would like on their billing and collection procedures and recognize the need to update and streamline their processes. Indeed, fewer than one in five hospital executives are very satisfied with their billing and collection procedures. Shortfalls are particularly cited in the organization’s ability to collect patient self-pay and to provide cost transparency for patients.

As High Deductible Health Plans (HDHPs) have become more popular, patients are on track to become the biggest payer group, so hospitals will need to get better at collecting from them. Further, the lack of systems integration can really impede progress on billing and collections — which is explained in greater detail in the Threats to Survival section that follows.





“I’m going to label it “culture,” but it’s really starting to think less like individual silos and more in this network mentality.”  
 – CFO, Southwestern Health System

**Threats to Survival**

Our research identified four significant threats to a hospital’s long-term survival:

- Human capital
- Systems integration
- Value-based care metrics
- Controlling costs

The first challenge that hospitals face is **human capital**.

Hospital executives around the country say that they are having trouble recruiting and retaining good nurses and physicians, and are struggling to align their physicians and non-physician staff around their organization’s ambitious goals.

The physician-employee model is a major paradigm shift for both hospitals and doctors, and one that will require some innovative thinking and experimentation to get right.

The second major challenge is **system integration**.

- System integration is one of the greatest priorities and challenges for health systems as they expand their footprints. Yet, just half of health systems have a single integrated system today.
- Those with an integrated system are much more confident in their ability to survive than those who are still operating with disparate systems.
- Those who aren’t integrated yet say that it slows down many of their other major initiatives, such as value-based care and billing procedures that rely on integrated systems.

IT integration is always important, but never more so than during this period of recent acquisition and consolidation. Beyond ERP/EHR systems talking to each other, it is important to consider how information coming from other sources is transmitted, digested, acted upon and reconciled. Though most are marching toward integration, it is not the panacea that many hoped for. Organizations continually involved in upgrading systems often neglect integration, whether due to lack of technical know-how or simply limited bandwidth.

A related and even more daunting threat is a lack of **meaningful value-based care outcome metrics**. The value-based care model that the healthcare industry is now committed to requires well-established, meaningful data metrics in order to fulfill the goals of lowering costs and improving outcomes. But hospital executives report gaps along the entire data continuum, all the way from defining what constitutes “meaningful,” to extraction, interpretation and action.

*“The challenge is that we have become data rich and information poor because we have so much information now from so many different places, but are we truly able to mine it and understand it properly to be able to use it to make decisions that affect our business? That is part of the journey of migrating from fee-for-service, where you just worry about generating volume, to fee-for-value where you actually worry about your outcomes.”*

– President, Eastern Health System

This industry-wide disorder was validated in the quantitative survey. Some organizations don’t know what to measure or how to measure it; others are data rich but can’t readily access or link the data points, while others struggle with how to act on the data to improve outcomes.

Importance Ranking	Most Important Survival Characteristics	Self-Assessment Report Card
1	Quality Medical Care	A-
2	Patient-Centered Care	A-
3	Low Operating Costs	C
4	Access to Capital	B
5	Integrated Physicians	B-
6	Brand Awareness and Reputation	B
7	Control Utilization	B-

**Controlling healthcare costs** is perhaps the most persistent threat the industry faces. Hospital executives say that the three most important factors in their organization’s survival are: providing quality medical care, being patient-centric and having low operating costs. When asked to assess their organization, executives grade themselves highly (“A”) on the first two, but average (“C”) when it comes to lowering costs.

U.S. hospitals have been forced to adopt cost controls in response to the ever-increasing financial pressure they face.

Almost every initiative we examined has, at its heart, the goal of reducing those costs, and, in this volatile climate, healthcare organizations that fail to address cost-control expose themselves to bankruptcy and closure. Those that remain standing are in a good position to survive as a result of their efforts in this area.

But as healthcare costs continue to rise, hospital executives recognize that — in the very near future — they will have to get even more thoughtful and creative in their journey to a solid bottom line.

**Who Will Survive?**

Hospitals have proven to be surprisingly adaptive and willing to take risks, as if their survival depends on it, which they believe it does.

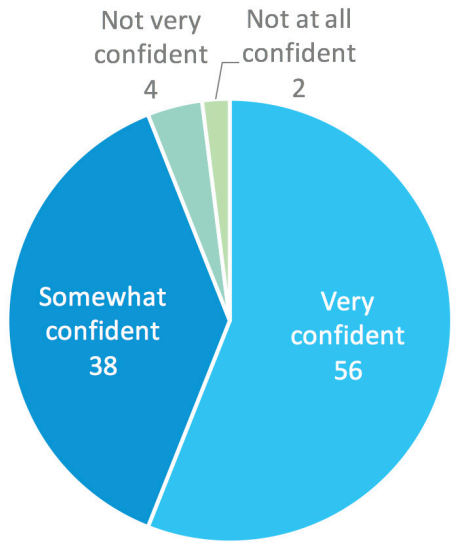
However, some health systems are better equipped for survival than others.

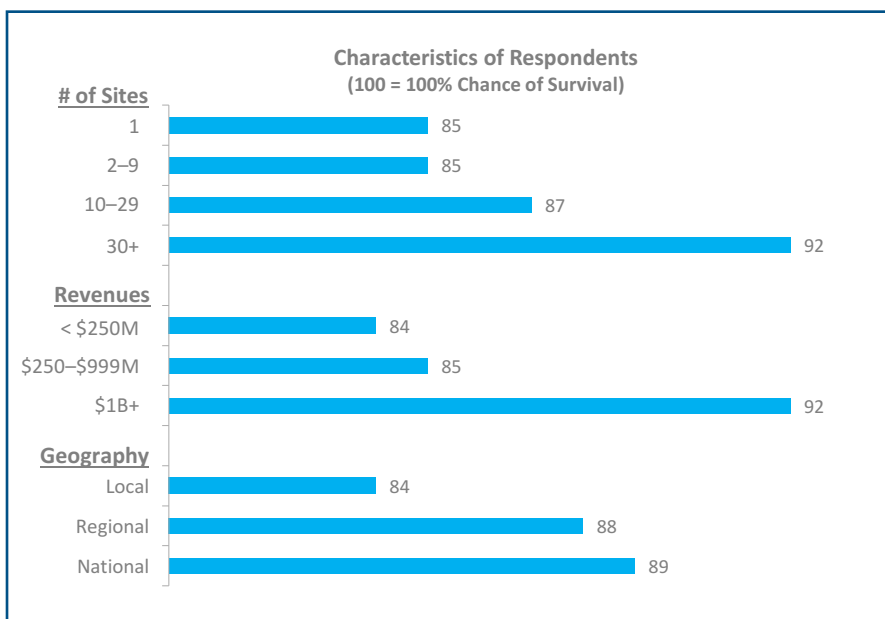
When asked what the number-one thing they need to do to survive is, hospital executives repeat the theme of keeping costs down while still providing quality medical care.

In order to separate out the weak from the strong, we asked the question: Overall, how confident are you that your organization will remain competitive or survive in the next 10 years or so?

Most hospital executives have confidence in their organization’s ability to survive in the foreseeable future. Interestingly, however, only a slight majority are very confident that they will survive in the next 10 years.

**Survival Confidence for Next 10 Years**





The chart above is a survival index prepared by Willow Research. An index of 100 means that segment has a 100% chance of survival.

This research suggests that growth and adaptability will be key to survival.

When asked about their future, larger hospitals — in terms of both sites and revenues — are more confident than smaller ones. National and regional systems are also more confident in their ability to survive than local systems.

In addition to scale and reach, survival is also dependent on progress on the initiatives outlined in this article.

Hospitals that have been making progress on patient-centered care, acquisitions, value-based care and

other major initiatives are more secure in their future. And, the more initiatives they are making progress on, the more confident they are in their future.

### In Conclusion

Hospitals that have survived thus far have shown tremendous flexibility and willingness to embrace the sea change in healthcare. They are transforming their organizations to prepare for a very different future, and this evolution seems to be making a difference in their likelihood of survival.

Of course, there remain significant challenges — the greatest being cost control. Hospital executives recognize that controlling healthcare costs is the most difficult, but also the most important task ahead. Doing so will likely require greater collaboration with physicians, patients and even payers.

And there is still immense uncertainty about the regulatory future, which may alter the environment yet again. However, our study suggests that hospitals today are more adaptive to change and uncertainty than we might have expected, and those that truly evolve will survive.

**You've got to be big enough**, centralized enough, and financially strong enough to be able to survive the rough times. You have to be able to raise enough capital and you have to be notable enough in the community to be able to raise philanthropy. You need to partner. Partnering allows you to expand your market area even though you don't get 100% of that revenue. I think the third is really a **data-driven organization**. You've got to constantly analyze the data and be willing to be mobile enough to make changes. Maybe the fourth is to be **in tune with your employees** and that includes your physicians. Making sure they are committed to the organization, they support the mission and feel that they're listened to and have input into what's going on.

– COO, Eastern Health System

## About This Study

PNC Healthcare and Willow Research examined trends and challenges in healthcare from the perspective of U.S. hospitals. Through five stages, this study examined how changes in healthcare today are impacting these institutions and what they are doing to survive.

The Hospital Study work began with a qualitative phase, conducted from October 2016 through January 2017. This phase included secondary research, interviews with healthcare futurists and thought leaders, interviews with members of PNC's own healthcare advisory board, and a series of in-depth interviews with 30 C-level executives from hospitals and systems across the country.

The quantitative phase that followed was based on interviews with a national sample of 312 hospital executives, including everything from small, single-site hospitals to large regional and national systems.

Respondents are C-suite executives, VPs and non-clinical directors who are involved in setting strategy for their organization. Online interviews were conducted in March and April 2017.

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### READY TO HELP

The next stage of our research will examine the evolution of two other significant players in the industry — payers and employers. Please sign up here for future updates: [pnc.com/healthcare](https://pnc.com/healthcare) to receive updates on that and other related studies.

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