

June 2024

## Resetting Enterprise Strategy: Making Choices and Following Through

**T**he highly publicized challenges that Walmart, Walgreens, and other businesses with narrowing healthcare aspirations have recently faced underscore the inherent difficulty of long-term success in an unforgiving industry.

From a business economics lens, this isn't a surprising revelation.

Healthcare is capital intensive, with highly skilled, high-cost labor requirements and regulatory restrictions, and health systems often don't control the pricing for the very complex services they offer. And inflationary environments, including the current era, exacerbate further the economic model. When economics don't align with their value propositions, for-profit businesses can always exit or scale back their healthcare presence. As organizations with a mission to care for their communities, not-for-profit health systems don't have this option.

We posit that these recent retreats from generalized healthcare delivery provide us with two core ideas:

1. If healthcare "disruptors" are stepping away from the market, we know the model itself requires tremendous rethinking to determine how to deliver these services in today and tomorrow's environments, and



**Dan Clarin**  
Managing Director



**Amanda Steele**  
Managing Director

2. Health systems must step up to the plate and be willing to approach these opportunities differently if they wish to see a different outcome.

Given these parameters, hospital and health system leaders must be willing to make difficult strategic choices and execute accordingly. In the wake of the pandemic and the macroeconomic and operational challenges that followed, though, enterprise strategy took a back seat to crisis management and operations for several years.

### The case for enterprise strategy

Strategy is a method for making a cohesive set of choices to support the future of a given enterprise. Given the



mission-based nature of not-for-profit healthcare, hospitals and health systems are often tempted to take the opposite course and attempt to be everything to everyone.

In this context, making choices is critical. Culturally, this may feel to be at odds with the roles our health systems play. Healthcare is inextricably linked to our communities, and for many it is a herculean effort to even ask whether and to what extent an organization needs to be differentiated, or focused in the services they offer (and how they offer them). Defining a distinctive value proposition is a difficult, but essential, task.

Healthcare leaders that can define where they need to go and align their organizations accordingly will always have a substantial leg up on the competition—and a better ability to fulfill their not-for-profit mission. Indeed, pursuing strategy as a decision-making exercise is the only way to execute priorities and deliver on the organization's brand, given that very few organizations are pursuing this path. In decades past, many organizations could survive and even thrive without defining a unique strategy, but the existential threats of the 2020s have erased that option.

Given the current challenges, health systems must be prepared to decide how to differentiate their organizations from their competitors moving forward, which requires asking difficult questions about the future direction of the enterprise. Organizations must then realign themselves to enable their future direction, an exercise that necessitates evolving their operating model, governance, scale capabilities, portfolio management, and other key elements accordingly.

## Designing a value proposition and setting priorities

In our experience, few healthcare organizations have been incentivized historically to commit fully to declaring a strategic direction and executing on it, especially if they have thrived in their markets. As a result, most health systems don't possess the muscle memory of making meaningful strategic changes or taking risks. Instead, most providers have leaned on incremental initiatives designed

**In decades past, many organizations could survive and even thrive without defining a unique strategy, but the existential threats of the 2020s have erased that option.**

to gain marginal market share, but without the potential to differentiate their organizations from their competitors.

However, given the current imbalance between the cost of healthcare services and the resources to provide them, organizations that are essential, well-regarded players in their markets today may not be in the future. Organizations that don't define and pursue a value proposition can face significant peril over time. Many observers argue that Boeing [gradually lost sight of its historic value proposition of high-quality, safety-focused aviation design](#), leading to an inattention to detail that culminated in highly publicized safety lapses.

To sustain their competitive advantage, organizations must be willing to identify their value proposition and then align the organization to implement. We are observing that more executive leaders and boards are embarking on difficult conversations about who they are to their patients, employees, and communities. We are also starting to see leading organizations embrace a strategic direction and answering the hard questions necessary to achieve it at the expense of an "all of the above" approach:

- Will we provide better services to our consumers?
- Will we provide the highest value to our consumers?
- Will we be the easiest healthcare provider for consumers to use?

Every aspect of current operations must be on the table during the strategic planning process. Otherwise, organizations run the risk of including so many elements that they cannot realistically execute, and the plan becomes an inventory of unrealized goals. Leaders

should inform their decisions by several key factors as they decide what to prioritize, including:

- The state of play of the local healthcare market, including any difference in financial positioning and the strength of relationships between payers and providers
- An understanding of any cost imbalances between delivering services and payment under existing reimbursement models, and an analysis of future cost structures for the businesses and services that health systems intend to offer
- The current operating model (governance, organization structure, how decisions get made) and its alignment to strategy
- The alignment of the organization's physician enterprise, and potential forward-looking strategies
- An understanding of the benefits of scale, as well as future competitive requirements
- An understanding of consumer needs and demands, as well as their potential evolution over time

## Pivoting from planning to execution

While no organization is identical, we believe the health system of the future must consider the following strategic requirements for sustained success, designed to amplify and enable a specific, differentiated strategic vision:

- A platform capable of implementing its strategic plan, which will include an effective operating model, governance structure, and effective leadership
- An optimized portfolio of services and technology investments that align with the platform for differentiation
- Partnership capabilities to advance the organization's vision
- A strategy for physician alignment and a care model that guides how consumers interact with each facet of the health system
- Other activities to support transformation, which might include strategic pricing initiatives, managed care strategy and payer-provider partnerships

## Conclusion: Key questions for guiding long-term strategy

After several years of grappling with one existential challenge after another, many organizations may find the task of resetting their strategy overwhelming. In our experience, most health systems have not asked or answered the difficult questions required to chart a new path.

And identifying the requirements that can amplify the organization's strategic direction is just the first step in the journey. Importantly, organizations must be able to determine whether they have the capital and cultural capacities to reach their goals and, after identifying any shortfalls, decide how to move forward.

From there, organizations need to be able to measure progress against their implementation plan—or run the risk of reverting back to previous modes of doing business. All too often, organizations fall short of implementing their strategic plans precisely because of the difficulties involved in changing direction. Over time, organizations that commit to a new strategic direction must continually ask:

- Do our actions match our value proposition and strategic priorities?
- Do our markets and consumers value what we are trying to achieve?
- Are we designed to implement our priorities?
- Can we execute – financially, culturally, and strategically, against our goals?
- *If not, what needs to be reset to achieve strategic alignment?*

### Questions?

Contact **Amanda Steele** ([ASteele@kaufmanhall.com](mailto:ASteele@kaufmanhall.com))  
and **Dan Clarin** ([DClarin@kaufmanhall.com](mailto:DClarin@kaufmanhall.com))  
for more information.