Engaging Boards in Disruptive Innovation

A strategy simulation can be effective for assessing potential disruptors

BY JEAN AHN AND MARK A. KEROACK

The health care marketplace is threatened with disruption by a variety of novel national competitors that are the products of mega-mergers. These include Optum-DaVita, CVS-Aetna, Walmart-Humana-Kindred and others. Boards of trustees need to understand the threats posed by these market disruptors and craft specific strategies to ensure continued fulfillment of the missions of their organizations.

As a means of engaging its board regarding the sudden profusion of disruptive competitors, Baystate Health (based in Springfield, Mass.) used a simulation-based learning exercise at its annual board retreat in May 2018. Extending scenario playing and simulation-based learning into the realm of strategy allows for robust, interactive board education. The approach takes advantage of trustee knowledge and expertise from other industries that have themselves had to deal with nontraditional disruptive competition. Engaging trustees in this manner contributes to enhancing the caliber of health system strategy and may suggest specific next steps.

CHECKLIST
Is a Strategy Simulation Right for Your Board?

✓ Board members have little knowledge of disruptive competitors in health care and would benefit from an environmental scan and robust discussion about new competitive threats.

✓ Elements of mega-merger entities are already in the market (or are anticipated to enter the market) and pose a credible threat.

✓ Senior leadership team has not already planned for or addressed the entry of mega-mergers.

✓ Organization has not yet collectively determined its risk tolerance in a disruptor-focused environment.

✓ Board composition is diverse from a competency perspective (finance, health care, strategy, business development, and so forth).

✓ Board composition includes representation from industries that have experienced disruption, and who may serve as facilitators or challengers.

✓ Board has prior experience in role playing and simulation, or has been sufficiently prepped to participate.
The learning exercise was extremely well received at the board’s annual retreat. Led by Baystate Health’s chief strategy officer, chief executive officer (CEO), and chief financial officer, the “Deal or No Deal?” strategy simulations served to heighten awareness of potential future realities. In addition, this simulation approach allowed Baystate Health to leverage the strategic perspectives and competitive instincts of its trustees who are leaders in other competitive industries (such as banking, financial services, insurance, energy, academia and materials handling).

**Five-step Process**

Boards of hospitals and health systems may also benefit from Baystate Health’s approach for assessing potential disruptors. (See the checklist on page one to determine if the approach is appropriate for your organization.) “Simulation,” writes David M. Gaba of Stanford University, “is a technique — not a technology — to replace or amplify real experiences with guided experiences that evoke or replicate substantial aspects of the real world in a fully interactive manner” *(Simulation in Healthcare, 2007)*.

Working in close collaboration with the CEO and Strategy Committee of the board of Baystate Health, the chief strategy officer developed a set of simulation exercises that successfully met the envisioned goals of environmental level-setting and strategic planning.

Following an environmental assessment earlier in the year to members of the leadership team and board, the following steps were pursued:

**Step 1: Preparing background profile documents.** The strategy team had earlier developed four- to six-page profiles of several disruptive mega-merger competitors over the course of three to four months.

Through the simulation process, the trustees gained key insights regarding the disruptive competitors by directly assuming the identities of the disruptors themselves, and by imagining how they might think and behave in the local market.

The briefs included key summary statistics of the merging entities, including foundational statements, maps, financial summaries, noteworthy programs, accomplishments and partnerships. These were supplemented with traditional SWOT (strengths, weaknesses, opportunities and threats) analyses developed by the strategy team, both for the disruptive competitors and for the health system itself. The relevant background profile documents were provided to the board as pre-retreat homework readings *(For an example, see Figure 1 on page 4)*. Hospitals and systems may wish to adopt a similar template for profiling competitive disruptors in their own service areas.

**Step 2: Preparing realistic scenario briefs.** Four mega-merger competitors were selected because they already had a presence in the health system’s primary service area and therefore were more than just hypothetical potential competitors. Expanding upon the background profiles that outlined the four disruptive competitors’ existing footprint and assets in the local market, the chief strategy officer took the lead in developing scenario briefs that imagined realistic possible short-term encroachment strategies by the disruptors that attacked niche parts of the health system’s continuum of care *(For an example, see Figure 2 on pages 5 - 9)*. The resulting encroachment challenge served as the basis of the “Deal or No Deal?” simulation exercises. Participants in the simulation needed to wrestle with the following question:

Does the health system attempt to partner with the disruptor (Deal) or try to compete and defend against the disruptive competitor on its own (No Deal)?

**Step 3: Designating teams.** The CEO and chief strategy officer selected four sets of opposing teams to address the “Deal or No Deal?” question. Each pairing included four trustees who represented the potential mega-merger competitor (the trustee “disruptors”) and three or four Baystate Health senior leaders who represented the health system (the management “defenders”). Collectively, each team of trustee disruptors and management defenders negotiated
to determine if a deal could be reached, as outlined in the scenario briefs. Each disruptor team was led by a trustee who also sits on the Strategy Committee of the board, and who therefore was already familiar with the competitive disruptors under discussion. To ensure a variety of perspectives, each team included at least one clinician (a physician or nurse), an individual with a finance or business development background and a board member with a non-health care background.

**Step 4: Fine-tuning the meeting agenda.** Four hours were allotted to the competitive disruptor session at the annual board retreat. During the first hour, a representative from an investment banking firm summarized the national competitive landscape and provided a high-level overview of the various competitive disruptors. The remaining time was spent specifically on the simulation exercise, with time allotted for (a) an initial small-team orientation huddle, (b) a negotiation session between each set of trustee disruptors and management defenders, (c) a decision-making session by each set of teams, followed by (d) team report-outs and a discussion facilitated by the chief strategy officer and chief financial officer, with feedback from the investment banking firm representative.

**Step 5: Follow-up on next steps.** Based on the key ideas that emerged from the team report-outs and discussion, the chief strategy officer summarized and highlighted the next steps for follow-up, which included an endorsement from the board of trustees to identify and prioritize capital partners for outreach and partnership discussions. Conversations with competitive disruptors are currently underway regarding possible partnerships (including those related to primary care transformation).

**Lessons Learned**

The Baystate Health Board of Trustees uniformly reported that they had received valuable education from the simulation approach, which was more interactive and engaging than a traditional informational presentation. Through the simulation process, the trustees gained key insights regarding the disruptive competitors by directly assuming the identities of the disruptors themselves, and by imagining how they might think and behave in the local market. One Baystate Health trustee remarked later, “This activity brought the opportunities and threats to life and gave me a deeper appreciation of the crossroads at which health care now stands.”

The exercise also provided a valuable perspective to the senior leadership team on what it is like to compete and negotiate with strategic thinkers from outside the health care space. Most importantly, the exercise allowed the trustees and senior leadership team alike to spend time thinking through what the system will need to do should an envisioned scenario present itself. As a result, the board came away with a new appreciation regarding the health system’s competitive strategy, and generated several ideas for considering partnership strategies with potential competitive disruptors.

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OPTUM-DAVITA SCENARIO BRIEFING

BACKGROUND:
In addition to the development of its network in Connecticut, Optum continues building its Central and Western MA ambulatory ACO network as one of its 75 targeted core geographies nationally. In 2018, Optum had 6 MedExpress Urgent Care locations in Western MA, and completed the acquisition of Reliant Medical Group (a practice of 500 primary care and specialty providers), based in Worcester, MA. The 6 MedExpress sites include 2 locations in Springfield, and 1 each in Westfield, Chicopee, Hadley and Pittsfield—all with good curbside appeal. UnitedHealth (Optum’s parent company) is also experimenting with putting MedExpress urgent care clinics into Walgreens stores, of which there are over 25 stores in the 3-County region (7 in Springfield; 2 in Chicopee; and 1 each in Agawam, East Longmeadow, Northampton, Ware, Westfield, Florence, Holyoke, and Ludlow).

2019 OPTUM-DAVITA PLAN:
To complement its MedExpress Urgent Care Centers in Western MA, Optum builds two ambulatory surgery centers (which include a state-of-the-art EMR, best-in-breed patient portal, and consumer-centric facility and website design) near two of its busier centers in West Springfield and Amherst, and hires 15 PCPs and 5 surgeons. In addition, UnitedHealth (Optum’s parent company) continues its experiment of putting MedExpress urgent care clinics into Walgreens stores—placing them in more densely located areas—including Carew Street in Springfield and King Street in Northampton. Rather than hire newcomers from outside the region, Optum’s recently acquired Crimson Market Advantage database helps highlight 8 BMP PCPs and 7 Riverbend PCPs to pursue for hiring, as well as 3 BMP surgeons/proceduralists and 2 Riverbend proceduralists based on their connections, panels, population health know-how, and activity levels. The collective ambulatory sites are an immediate hit, pulling patients in by providing extremely convenient, easy-to-access care by well-known quality providers selectively hired from within the region, promoted by a well-known national brand, at costs significantly lower than any of the area hospitals. UnitedHealth, also looks for avenues to make effective inroads into the state to direct members to Optum’s sites and acquired providers.

DEAL:
Disruptor Team: Optum needs to decide if it will disrupt the region on its own, or if it wants to partner in any way with Baystate Health or another entity. Is there a possible deal where Baystate Health can add value by providing something that Optum does not have or does not deliver, or where BH can reduce barriers or increase possibilities for success in this region?

Defender Team: What will be the health system’s go-it-alone strategy (keeping in mind current state in relation to access, ambulatory and digital footprint, physician engagement, EMR, tools and technology, data analytics, etc.)? Alternatively, what are other defensive or offensive strategies (partner, redesign, acquisition by for-profit, etc.)? 

Note: Given the brand strength and resources of the disruptor(s), the system will need to be very specific about its value-add proposition in any partnership venture as the weaker partner.

Source: ©2018 Baystate Health. Used with permission.
Optum-DaVita Profile

**Optum Summary:**
Optum is a technology-enabled healthcare services business serving payers, care providers, employers, governments, life sciences companies and consumers, through its three divisions: OptumHealth (care delivery & population health), OptumInsight (data & analytics) and OptumRx (pharmacy services) businesses. A $250M Optum Ventures (startup investment fund) was recently started. These businesses help improve overall health system performance through optimizing care quality, reducing costs, and improving consumer experience and provider performance in 5 areas: data and analytics, pharmacy care services, population health, health care delivery and health care operations.

A subsidiary of UnitedHealth Group, Optum is an $83 billion company that employs over 125,000 people worldwide. Optum serves 115 million individuals, 4 out of 5 U.S. hospitals, over 67,000 pharmacies, 100,000+ physicians, practices, and other healthcare facilities, 300 health plans, and government agencies in 34 states and D.C. Optum has 15 offices across the U.S. and also maintains operations in South America, Europe, Asia Pacific and the Middle East.

**Mission:**
To help people live healthier lives and to help make the health system work better for everyone.

**MA and CT Locations:**

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**DaVita Summary:**
DaVita Inc., a Fortune 500 company, is the parent company of DaVita Kidney Care and DaVita Medical Group. As of December 6, 2017, Optum announced that it would acquire DaVita Medical Group for approximately $4.9 billion in cash, with the transaction expected to close in 2018. As of March 2018, delays have occurred with regulatory approval timeline.

DaVita Medical Group is a division of DaVita Inc., a Fortune 500 company that operates and manages medical groups and affiliated physician networks in California, Colorado, Florida, Nevada, New Mexico, Pennsylvania and Washington. A leading independent medical group in America, DaVita Medical Group has over two decades of experience providing coordinated, outcomes-based medical care in a cost-effective manner. DaVita Medical Group’s clinicians (including 17,000 physicians) provide care for approximately 1.7 million patients per year through nearly 300 medical clinics featuring primary and specialist care. The Group also operates 35 urgent care centers and six outpatient surgery centers.

**Mission:**
To be the Provider, Partner, and Employer of Choice

**Core Values:**

- **Service Excellence:** Serving others — our reason for existing.
- **Integrity:** We say what we believe, and we do what we say. We are trusted because we are trustworthy.
- **Team:** One for All, and All for One! We work together, sharing a common purpose, a common culture and common goals.
- **Continuous Improvement:** We never stand still; we are never satisfied.
- **Accountability:** We don’t say, “It’s not my fault” or “It’s not my job.” We take responsibility for meeting our commitments — our personal ones as well as those of the entire organization. We take ownership of the results.
- **Fulfillment:** We make a difference. We feel rewarded — personally and as a team — because what we do in our jobs is consistent with our goals and dreams.
- **Fun:** We enjoy what we do. We know healthcare is hard work, but even hard work can be fun.

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FIGURE 2: Sample Scenario Brief (2/5)

<table>
<thead>
<tr>
<th>Optum Payer Mix (SCA, consolidated facilities)</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managed Care and other Discount Plans</td>
<td>62%</td>
<td>69%</td>
</tr>
<tr>
<td>Medicare</td>
<td>20%</td>
<td>19%</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>Self-Pay</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: ©2018 Baystate Health. Used with permission.

<table>
<thead>
<tr>
<th>Subsidiaries</th>
<th>Statistics, Notes, Awards</th>
</tr>
</thead>
</table>
| **OptumHealth** | Focuses on care delivery, care management, wellness and consumer engagement, and health financial services. OptumHealth builds high-performing networks and centers of excellence across the care continuum, by working directly with physicians to advance population health management and by coordinating care for the most medically complex patients. OptumHealth serves patients and care providers through its local ambulatory care services business and has over 30,000 employed, managed and contracted physicians.  
- OptumCare includes:  
  - Physician practices across 23 states (including 500-provider Reliant Medical Group in Central MA);  
  - MedExpress with nearly 200 urgent care centers nationwide;  
  - Surgical Care Affiliates (SCA) operates the largest network of independent ASCs and surgical hospitals in the U.S. with 205 outpatient surgery centers (including 7 in CT);  
  - HouseCalls program which provides in-home health assessments (which numbered over 1 million in 2016);  
- Announced 12/7/17: DaVita Medical Group, its 300 clinics, 17,000 MDs, 35 urgent care centers and six outpatient surgery centers are slated to be acquired by Optum in 2018.  
- Optum Financial Services, through Optum Bank, offers Health Savings and other accounts ($7 billion in assets under management in 2018). |
| **OptumInsight** | Specializes in data and analytics and other health care information technology services and consulting, and delivers operational services and support. OptumInsight offers analytics services to care providers, health plans, governments, and life science companies. This is the arm that just acquired Advisory Board’s healthcare services (which includes Crimson Market Advantage, of which Baystate Health is a client). |
| **Optum Ventures** | Newly announced $250M venture fund to invest in healthcare-focused digital startups |

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Awards, Recognition, and Leading Programs

UnitedHealth Group is #1 in the insurance and managed care sector on Fortune’s 2017 “World’s Most Admired Companies” list. This marks the 7th consecutive year at #1.

Optum earned Frost & Sullivan’s 2016 North America Company of the Year Award for population health management. In 2017, for the third consecutive year, Optum ranked #1 on the Healthcare Informatics (HII) 100, a listing of the top health care IT companies based on U.S. revenues.

Optum360 earned the following recognition in 2018: No. 1 spot for the third consecutive year in the Black Book Rankings for revenue cycle management software technology and outsourcing services; Category Leader award for the second consecutive year for computer-assisted coding from KLAS, a leading global health care research organization; OptumRx’s specialty pharmacy, BroviaRx®, received the Pharmacy Benefit Management Institute Excellence Award in Quality Improvement for its BrivoLive™ video consultation program.

Source: Jefferies, October 2017 [Reprinted with permission, with manual addition of DaVita following 12/6/17 announcement]
### FIGURE 2: Sample Scenario Brief (4/5)

**Select Recent Noteworthy Affiliations & Partnerships**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>Optum announces intent to purchase DaVita Medical Group and its 300 clinics, and Reliant Medical Group, a 500-physician group with 26 locations across MA, focused mainly in the central and metro west regions of the state.</td>
</tr>
<tr>
<td>2017</td>
<td>Optum and Merck announce collaboration to advance pharmaceutical value-based contracting.</td>
</tr>
<tr>
<td>2017</td>
<td>Optum purchases the Advisory Board's healthcare business (which provides independent research, advisory services and data analytics for more than 4,400 healthcare organizations) for $1.3B, to be absorbed by OptumInsight.</td>
</tr>
<tr>
<td>2017</td>
<td>Optum acquires Surgical Care Affiliates (SCA), a group of over 200 outpatient surgery centers, along with a few surgical hospitals and a sleep center, operating across 33 states.</td>
</tr>
<tr>
<td>2017</td>
<td>MassHealth announces that it will cease to contract with UMass for prior authorization services and will instead contract with Optum Government Services. Optum will serve as a third-party administrator for MassHealth’s Long-Term Services and Support program.</td>
</tr>
<tr>
<td>2017</td>
<td>Surgical Care Affiliates partners with Western CT Orthopedic Surgery Center, a 14-physician center in Danbury, expanding its Connecticut portfolio to 7 surgery center locations.</td>
</tr>
<tr>
<td>2015</td>
<td>Optum acquires national urgent care chain, MedExpress, which includes 200 urgent care centers nationwide (and 6 locations in Western MA).</td>
</tr>
<tr>
<td>2014</td>
<td>Optum announces acquisition of AlereHealth, case management and population company serving over 200 health plans across 29 states.</td>
</tr>
<tr>
<td>2014</td>
<td>Optum acquires MedSynergies, a physician practice management and referral management company.</td>
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</tbody>
</table>

**TOWS Analysis (Optum-DaVita Perspective)**

**Threats**
- Potential repeal of the ACA could negatively impact the demand for ACA-related products and capabilities, and diminish Optum’s value proposition.
- Optum provides services to payors participating in government programs. If funding decreases dramatically for these programs, that could adversely impact Optum’s business.
- Anthem’s launch of a pharmacy manager in partnership with CVS mimics OptumRx model.
- DaVita acquisition faces regulatory approval hurdle (As of March 2018, 30-day delay).

**Opportunities**
- OptumCare (which includes primary, urgent, ambulatory surgical, and home health care) represents a significant provider of ambulatory care services and alternative vehicle for independent physicians who want to join a non-hospital-centric ACO model.
- Optum aims to provide primary care and ambulatory services in 75 markets, representing about two-thirds the U.S. population in a model that steers patients to lower-priced care outside of the hospital (currently in 45 markets and is gaining 4-6 new markets per year).
- Acquisition of primary care practices of significant size (including DaVita Medical Group’s 300 clinics and 17,000 physicians).
- Expansion of MedExpress urgent care since its 2015 acquisition with further likely expansion as payors continue to seek out lower costs of care (including DaVita’s 35 urgent care centers).
- Purchase of SCL strengthens its position as a low-cost surgical provider as the market continues to shift from inpatient to outpatient (in addition to DaVita’s six ASCs).
- House Calls program could expand to more comprehensive home health services.
- Uncertainty around healthcare policy could lead to increased need for consulting services, data, and analytics as companies and providers look for support in the changing environment (on its own, the Advisory Board saw the opposite trend occur, but as part of a stronger combined entity, potential clients may see greater value-add).
FIGURE 2: Sample Scenario Brief (5/5)

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**Table:**

<table>
<thead>
<tr>
<th>Weaknesses</th>
<th>Strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rapid growth through acquisition represents challenges in efficiently and effectively integrating new entities and maintaining quality</td>
<td>Value-focused competitive disruptor that invests in and aligns with provider networks that demonstrate a capacity and willingness to manage risk</td>
</tr>
<tr>
<td>Given the instability of the insurance market under the current administration, United Healthcare relationship (under the larger umbrella of UnitedHealth Group) may weaken versus strengthen Optum’s position</td>
<td>Optum revenues grew 24% from 2015 to 2016—driven by growth across all Optum services businesses; revenue increase at Optum+health primarily due to growth in its health care delivery businesses as well as expansion of behavioral services into new Medicaid markets</td>
</tr>
<tr>
<td>Earnings from operations increased by 32% from 2015 to 2016 (from $4.3B to $5.6B)</td>
<td>Recent acquisition, SCA, has a highly commercial payer mix; 65% of net patient revenues came from commercial payors</td>
</tr>
</tbody>
</table>

**Optum-DaVita CEO’s Corner**

**What We Bring to the Table**

- A comprehensive continuum of healthcare services from analytics, to pharmacy, to primary, urgent and ambulatory surgery care (will be expanded further with pending DaVita acquisition), all without the overhead inherent in hospital health systems that own hospitals
- Strong financials

**What Keeps Me Up at Night**

- The pressure to maintain double digit revenue growth while pursuing and maintaining organization’s long-term vision
- Growth plan feasibility of 75 core geographic markets (from current state of 45 markets)

**Baystate Health Value Proposition**

- Highest value system partner that would provide needed key high-quality services and contribute deep regional and population health knowledge to round out care continuum for consumers of a high-value disruptor network

**SWOT Analysis**

**Strengths**

- Baystate Health’s PHO is a population health pioneer; including significant success as a NextGen ACO
- Baystate Health’s technology innovation center, TechSpring, has helped launch noteworthy innovative products, services, technologies (e.g., PatientPing, etc.)
- Collaboration with Health New England enables strategic experimentation re: MassHealth Medicaid ACO, telehealth
- Highest value innovative health system with largest market share in western MA and deep knowledge of the market

**Weaknesses**

- Access to Baystate Health is challenging for new patients who now have several options for care
- Baystate Health is late to the urgent care and ambulatory surgery markets
- BH access, data tools, EMR, marketing, patient experience, and engagement are not robust
- Baystate Health’s overhead makes care more costly than that of competitive disruptors

**Opportunities**

- Baystate Health could serve as the preferred tertiary care and ACO provider in the greater Western MA region as some portion of patients will require inpatient acute care services
- Baystate Health and Optum could partner in building a differentiated high-value ambulatory care and home care network in the larger region with quality providers
- Baystate Health, Health New England, Baycare and Optum could collaborate on population health innovations

**Threats**

- In addition to expanding its MedExpress clinics, Optum could open up ASCs in the region and hire away the most attractive BPH, spine, and other PC or specialty MDs
- Optum and other competitive disruptors offer more convenient, easier-to-access, and customer-centric ambulatory and home health services
- UnitedHealth is directing members toward its acquired MDs
- Optum could partner with BH competitors