

Healthcare Systems & Services Practice

# From “wartime” to “peacetime”: Five stages for healthcare institutions in the battle against COVID-19

Healthcare has found itself tested by the pandemic. The frontlines are delivering heroically, but the next normal for healthcare will look nothing like the normal we leave behind.

*by Shubham Singhal; Prashanth Reddy; Penelope Dash, MD; and Kyle Weber*



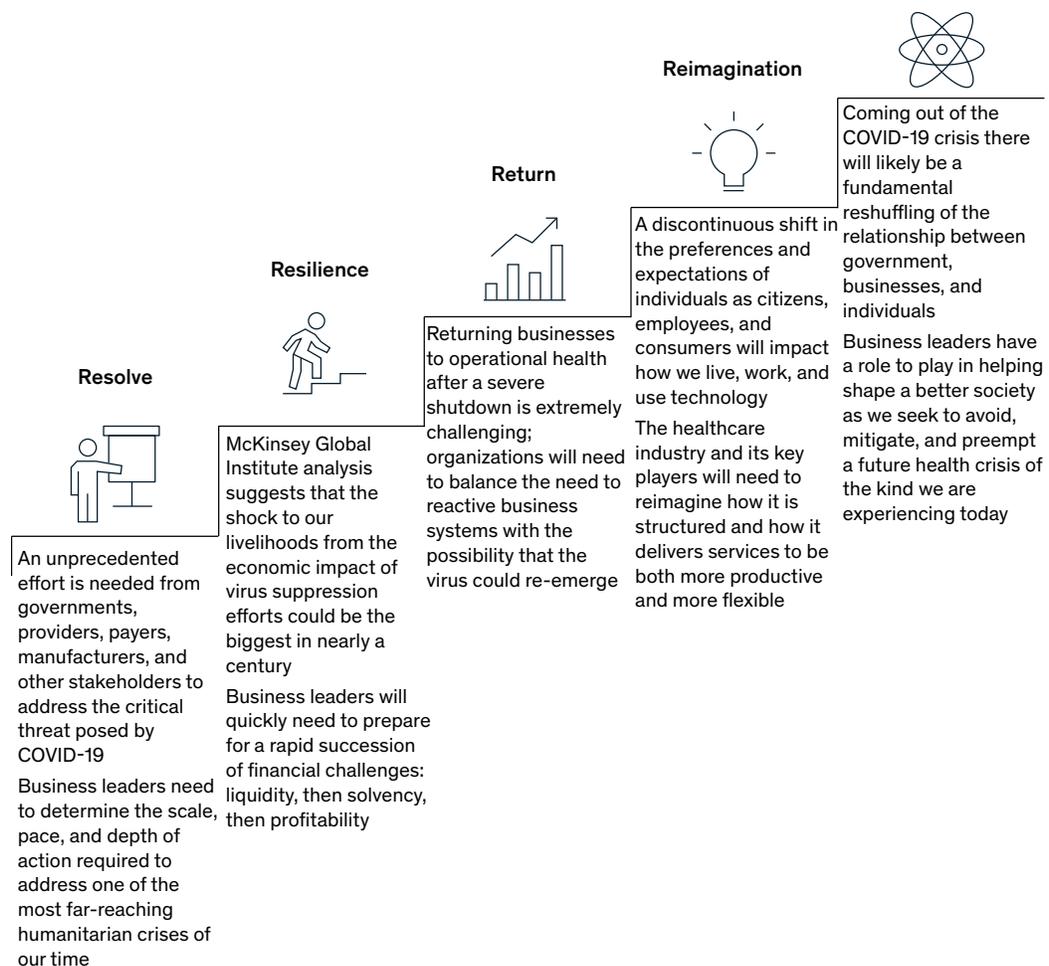
**In “Beyond Coronavirus: The Path to the Next Normal,”<sup>1</sup>** we outlined five stages that leaders must plan for: Resolve, Resilience, Return, Reimagination, and Reform. Healthcare leaders face a multifaceted challenge: combating the healthcare crisis on the frontlines while also tackling similar issues as other industries, such as employee safety and economic challenges.

Most healthcare leaders have already assembled high-functioning teams to respond to the immediate crisis resolving to manage the immediate need to care for the surge of COVID-19 patients. They also have demonstrated the resilience required to deal with fast-moving liquidity, solvency, and economic sustainability challenges.

Many leaders now are beginning to recognize the importance of planning for the complicated return stage. Return from the lockdowns will not be easy—particularly as we remain vigilant against virus resurgence in the absence of a vaccine or treatment.

For some leaders, it has been difficult to dedicate much time to reimagination and reform. The pandemic is likely to result in a series of discontinuous changes that will fundamentally reshape healthcare. These changes include:

- The expectations and needs of individuals as citizens, consumers, patients, and employees



<sup>1</sup> Kevin Sneader and Shubham Singhal, "Beyond coronavirus: The path to the next normal," March 2020, McKinsey.com.

- The combination of resilience and productivity demanded by the funders of healthcare expenditure
- The need to be able to flex up and down care capacity and shift care across modalities, including virtual health platforms
- An opportunity to unlock the promise of exponential improvements<sup>2</sup> through technology and medical science

Moreover, healthcare reform often has followed major economic shocks.

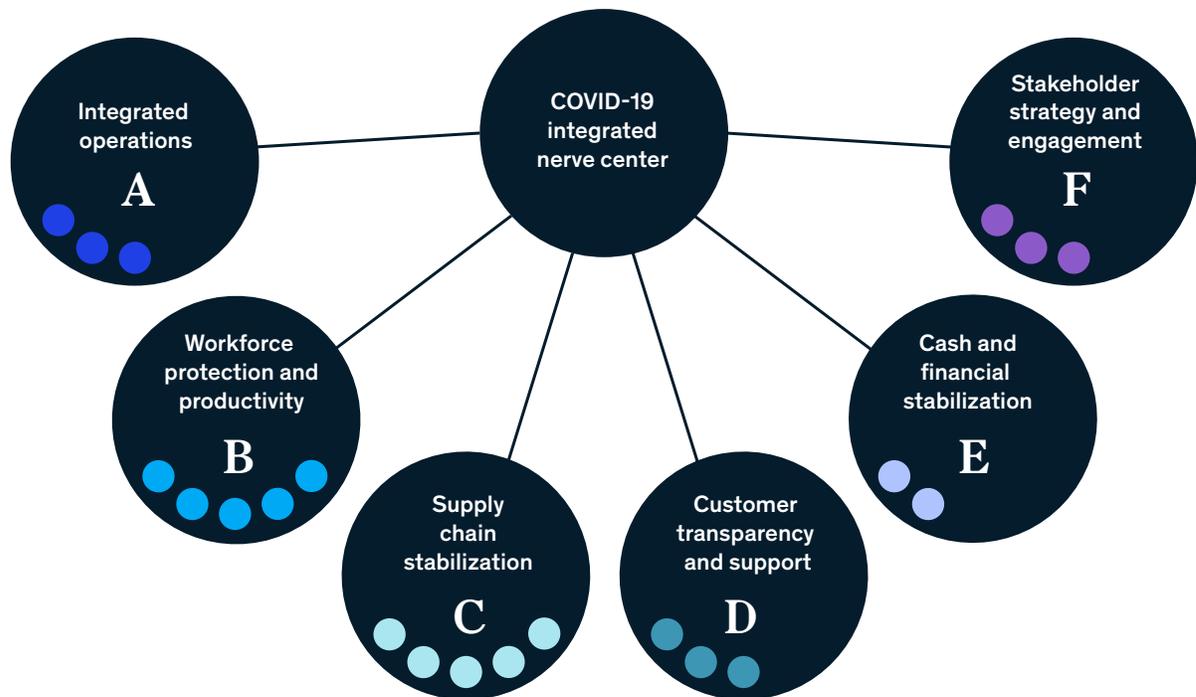
While there are an extensive set of issues for healthcare leaders to consider across each stage, below are some critical items to consider.

<sup>2</sup> Shubham Singhal and Stephanie Carlton, "The era of exponential improvement in healthcare?" May 2019, McKinsey.com.

PHASE 1: RESOLVE

**Overview of responsibilities for the minimum viable nerve center.**

Based on discussions with health and risk professionals



## PHASE 1: RESOLVE cont.

### A. Integrated operations

● Issue map & management	Single source of truth for issue resolution and tapping surge resources where needed
● Portfolio of actions	Trigger-based portfolio of actions
● Leadership alignment	Align leaders on scenarios   Roundtable exercises

### B. Workforce protection and productivity

● Policy & management	Policies   Portfolio of actions including prevention   Escalation criteria and process
● Two-way communication	Multichannel communications   Confidential reporting mechanisms   Source of truth
● Personnel & contractors	Tiering (all/some/no WFH)   WFH infrastructure setup (VPN, telephony)   Contractor incentives
● Facility & onsite norms	Staggering work shifts/times   Prevention (eg, physical distancing)   Closures
● Health & govt engagement	Local and federal regulators and public health officials

### C. Supply chain stabilization

● Supplier engagement	Cross-tier risk transparency   Supplier restart   Order management   New supplier qualifications
● Inventory management	Critical part identification   Parts rationing   Location optimization
● Production & operations	Operational impact assessment   Production capacity optimization
● Demand management	S&OP SKU-level demand signal estimates by macro scenario   Production and sourcing plans
● Logistics	Ports   Logistics capacity pre-booking   Route optimization

### D. Customer transparency and support

● B2B transparency	Comms to B2B customers (eg, microsite)   Scenario-based risk comms
● Customer protection	Prevention interventions across customer journey   Customer team training   Execution monitoring
● Customer outreach	Customer comms re: COVID-practices   Fact-based reports on issues   Situation comms

### E. Cash & financial stabilization

● Scenario definition	Relevant scenarios based on latest epidemiological and economic outlooks
● Financial stress tests	Financials in different scenarios, especially working capital requirements

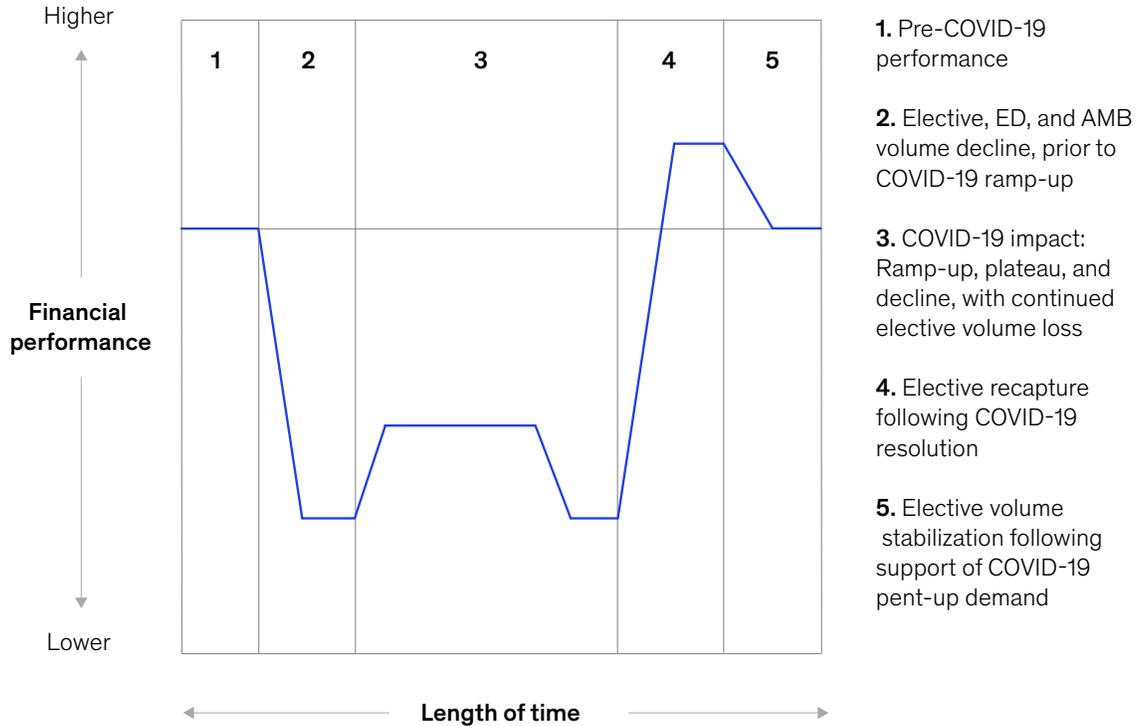
### F. Stakeholder strategy and engagement

● Member protection	Protective interventions across member journey   Execution monitoring   Access to care/testing
● Demand responsiveness	Reaction to member's demand signals   Flexible product and service forecasting
● Provider support	Comms re: COVID-practices   Fact-based reports on issues   Situation comms

PHASE 2: RESILIENCE

**Long-term impact of COVID on a typical health system's operating margin.**

**Financial performance over time** (provider example)



- 1.** Pre-COVID-19 performance
- 2.** Elective, ED, and AMB volume decline, prior to COVID-19 ramp-up
- 3.** COVID-19 impact: Ramp-up, plateau, and decline, with continued elective volume loss
- 4.** Elective recapture following COVID-19 resolution
- 5.** Elective volume stabilization following support of COVID-19 pent-up demand

**Keys to resilience**

**Maintain liquidity**

- Providers face immediate threats to their cash position, being harmed from multiple, compounding angles
- Payers face a distinct but similarly challenging position to their liquidity
- Services firms will face a variety of competing forces that impact cash position

**Address solvency**

- Businesses will need to take aggressive action to remain solvent—must be careful not to over-index on debt covenants tied to liquidity, missing those tied to solvency
- For payers it is not difficult to imagine a sequence of events leading to insolvency
- Other types of healthcare organizations may face a similar set of solvency issues that result from a combination of declining asset values and increasing expenses and liabilities

**Grow for sustainability**

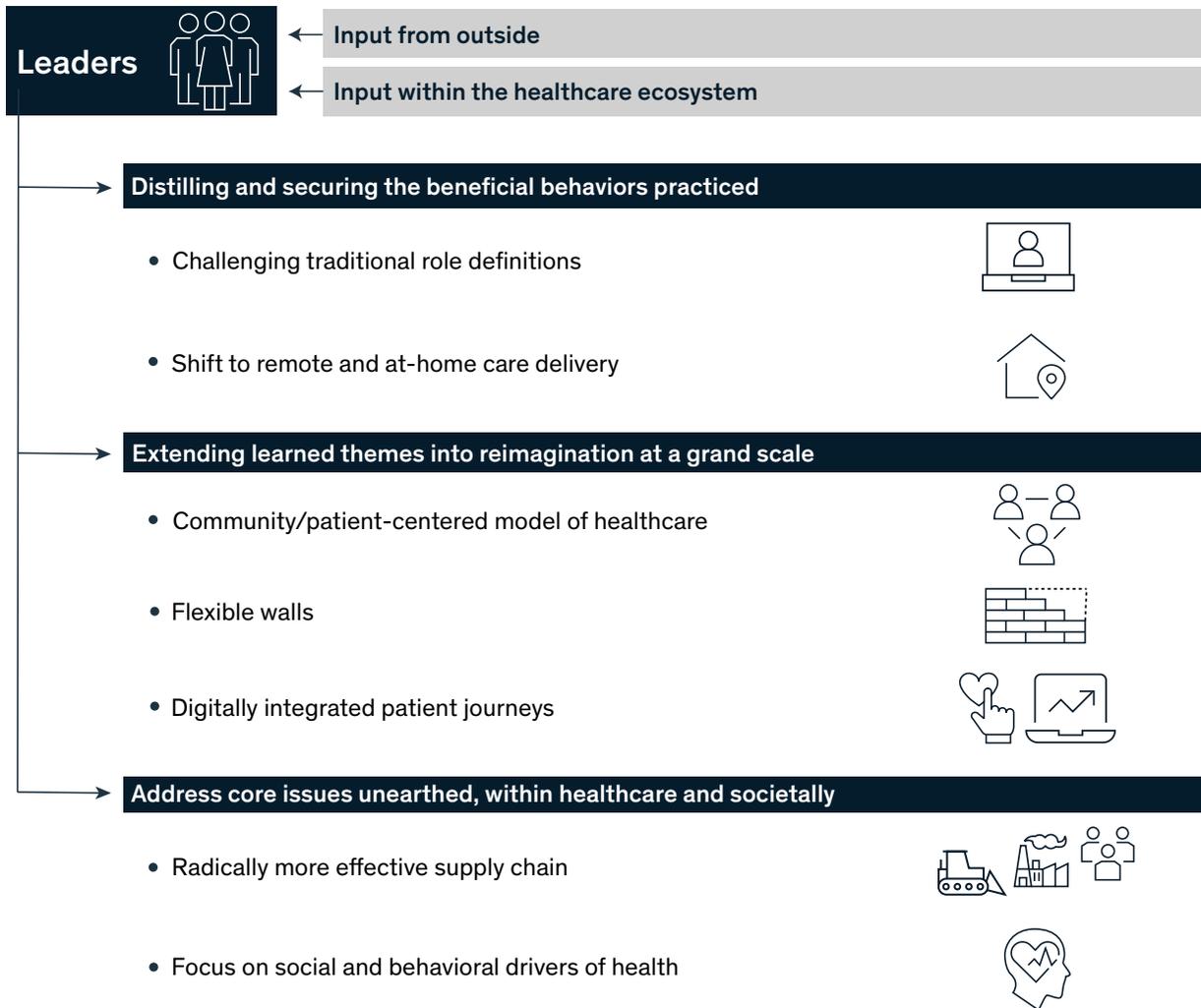
- Organizations that survive the liquidity and solvency issues will have an opportunity to reshape the healthcare system. While strategies vary, themes emerge:
- Acquiring strategic assets, partnering to create/fortify ecosystem, responding to coverage shifts, capitalizing on moves toward digital therapies and care delivery, tightening relationships with public-sector agencies, embedding advanced analytics in operations *(In the United States, government assistance has focused on boosting providers' resiliency)*

PHASE 3: RETURN

**Providers and payers can take steps across their organization to reactivate non-COVID capacity.**

	Provider	Payer
<b>Talent</b> 	<ul style="list-style-type: none"> <li>• Establish proactive program for caregiver healing</li> <li>• Understand gaps in readiness to scale non-COVID capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Engage in broad workforce renewal</li> <li>• Supplement talent in areas of emerging importance to next normal</li> </ul>
<b>Customers</b> 	<ul style="list-style-type: none"> <li>• Reestablish the health system as a safe place for patients</li> <li>• Learn patients' preferences on new forms of healthcare</li> </ul>	<ul style="list-style-type: none"> <li>• Engage at-risk members</li> <li>• Promote a differentiated telehealth program</li> </ul>
<b>Operations</b> 	<ul style="list-style-type: none"> <li>• Design operations to allow for flexible transition from/to COVID operations</li> <li>• Sequence return of non-COVID clinical volume</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure appropriate payment for services offered during crisis</li> <li>• Double down on member communications, care/utilization management, and care navigation</li> </ul>
<b>Regulations</b> 	<ul style="list-style-type: none"> <li>• Engage regulators to maintain crisis-driven changes in rules where patient care was improved</li> <li>• Coordinate on widespread testing and tracking initiatives</li> </ul>	<ul style="list-style-type: none"> <li>• Engage regulators to clarify and/or codify rules established in crisis</li> <li>• Shape the narrative on how next normal may be regulated</li> </ul>
<b>Finance</b> 	<ul style="list-style-type: none"> <li>• Begin proactively utilizing new capabilities</li> <li>• Appropriately generate reserves</li> </ul>	<ul style="list-style-type: none"> <li>• Allocate capital to developing new capabilities</li> <li>• Ensure appropriate reserves</li> </ul>

## How can we fundamentally reinvent health services in a different way?



## How will the relationship between government, businesses, and individuals change?

There are several actions many governments may pursue to be prepared for a future crisis:



**A handful of reforms have already been enacted that may result in longer-term structural changes to the industry:**

- Allowing the permanent, direct hire of National Disaster Medical System healthcare
- Limiting out-of-pocket cost-sharing for COVID testing
- Adjusting CMS regulations to permit use of telehealth

## Actions now

This is the time when boards and CEOs will likely have the greatest opportunity in their careers to positively impact their organizations and the communities they serve. This opportunity should not be squandered. Boards and CEOs should prioritize creating an environment where decisions are made calmly and based on facts. Second, given the high degree of continuing uncertainty, leaders should ensure they are actively tuned into the real-time information from all levels in their organization, plus outside forces, to inform decisions. Finally, the ability to act, innovate, and execute at scale at previously unheard-of speeds likely will be critical. We have observed many examples of organizations that have accelerated projects scheduled to take months and years to a timeline of a few days and weeks.

An important aspect will be for CEOs to organize their management team to act against each of the five stages. Each organization will need to make this decision individually, but we see three guidelines for selecting accountable leaders. First, CEOs must be able to trust the accountable leader's judgment within the role's decision-making context, particularly in this speedy and uncertain climate. Second, the

accountable leader should directly report to the CEO. This reporting relationship does not need to have been a preestablished one and can be created ad hoc during this crisis. Third, CEOs must ensure that accountable leaders are motivated by a deeper resolve, whether it be to address the humanitarian crisis, or to protect the team and workers within the organization.

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As we consider the scale of change that the coronavirus has engendered—and will continue to create in the weeks and months ahead—we feel compelled to reflect not just on a health crisis of immense proportion but also on an imminent restructuring of the healthcare industry in the future. The five stages described here offer healthcare leaders a path to begin navigating to the next normal—a normal that looks unlike any in the years preceding COVID-19, the pandemic that changed everything.

To read more, visit <https://www.mckinsey.com/industries/healthcare-systems-and-services/our-insights/from-wartime-to-peacetime-five-stages-for-healthcare-institutions-in-the-battle-against-covid-19>.

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