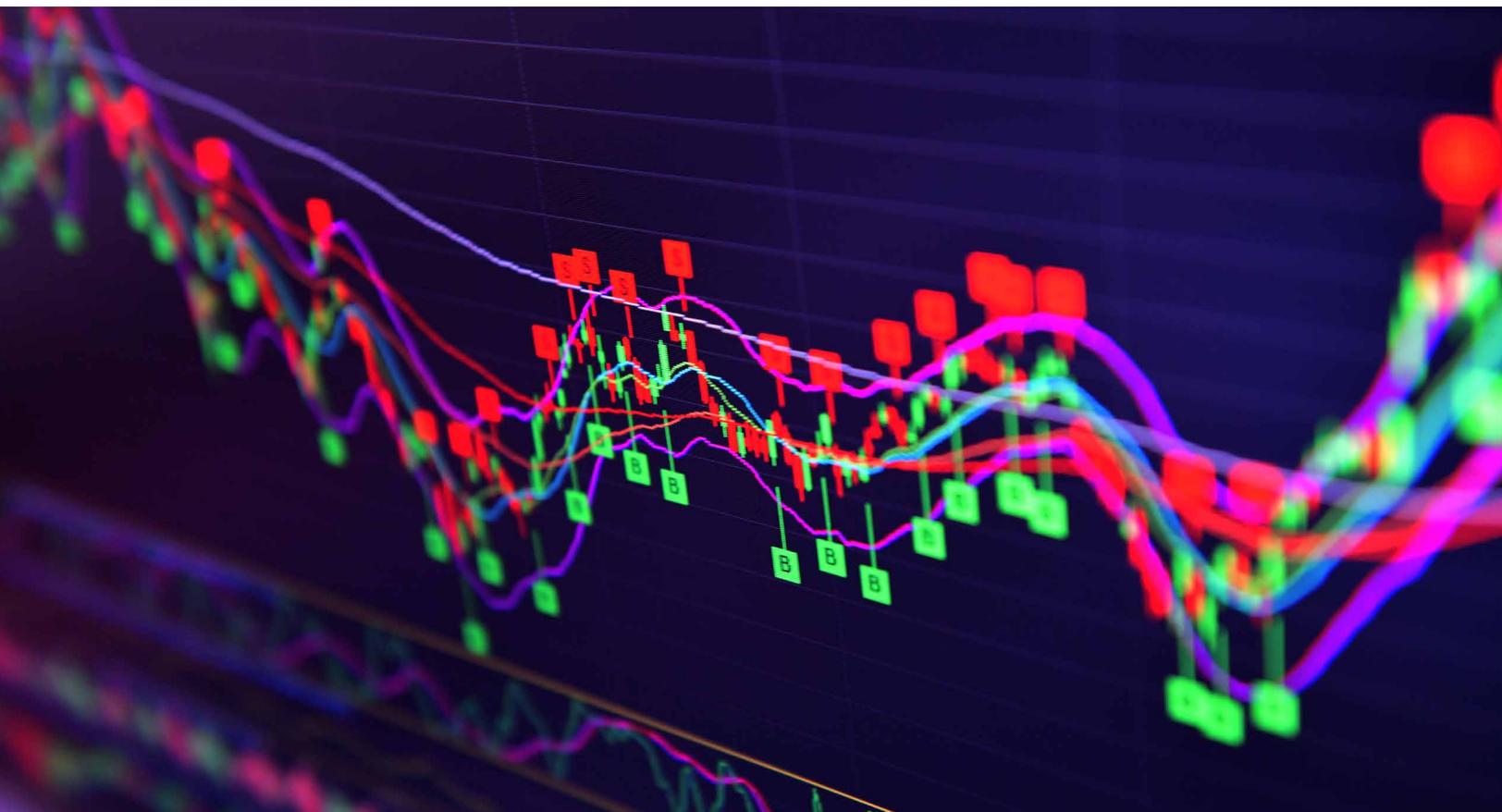


Healthcare Systems and Services Practice

Preparing for the next normal now: How health systems can adopt a growth transformation in the COVID-19 world

Health systems remain focused on patients and care, but proactive and targeted growth will likely need to be part of the response to financial challenges.

Rupal Malani, Louis Revenig, Thomas Santo, and Matt White



***Disclaimer:** These materials are being provided on an accelerated basis in response to the COVID-19 crisis. These materials reflect general insight based on currently available information, which has not been independently verified and is inherently uncertain. Future results may differ materially from any statements of expectation, forecasts or projections. These materials are not a guarantee of results and cannot be relied upon. These materials do not constitute legal, medical, policy, or other regulated advice and do not contain all the information needed to determine a future course of action. Given the uncertainty surrounding COVID-19, these materials are provided “as is” solely for information purposes without any representation or warranty, and all liability is expressly disclaimed. References to specific products or organizations are solely for illustration and do not constitute any endorsement or recommendation. The recipient remains solely responsible for all decisions, use of these materials, and compliance with applicable laws, rules, regulations, and standards. Consider seeking advice of legal and other relevant certified/licensed experts prior to taking any specific steps.*

COVID-19’s unprecedented impact on health, economies, and daily life has created a humanitarian crisis. Health systems have been at the epicenter of the fight against COVID-19, and have had to balance the need to alleviate suffering and save lives with substantial financial pressures.

Health systems’ income statements are likely to see negative pressure as a result of the COVID-19 crisis. While health systems have ramped up capacity to handle COVID-19 cases and incurred additional costs to procure personal protective equipment and operationalize surge capacity plans, they also have had declines of up to 70 percent in surgical volume and 60 percent in emergency department traffic.¹ In a recent McKinsey survey of health system CFOs, more than 90 percent of respondents reported that COVID-19 will have a negative financial impact, even after accounting for federal and state funding.²

For health systems, current financial challenges are likely to persist into the next normal. As many providers are seeing a recent upsurge in volume due to pent-up demand, the long-term financial outlook is less certain, as more than 20 percent of respondent patients in a recent [McKinsey Consumer Health-](#)

[care Insights survey](#) and reported they either do not know when they will plan future care or will delay care until fall 2020 or later.³ This uncertainty about consumers’ timing and demand for services, combined with the possibility of a COVID-19 resurgence, will require health systems to adapt and respond to a myriad of pressures, including:

- **Discontinuity in patient relationships:** When patients resume care, they may be more likely to seek it at health systems that have demonstrated safe operations in their ability to treat patients while COVID-19 remains present. In a recent [McKinsey Consumer Healthcare Insights survey](#), active communications and evidence of implementation of infection control measures (for example, mask requirements, physical distancing, sanitization) were the most commonly cited reasons to prompt patients to schedule care.⁴ Rapid adoption of virtual channels may increase competitive intensity as providers are less constrained by geographic proximity to patients.
- **Shifting sites of care across the continuum:** As discussed in “[Telehealth: A quarter-trillion-dollar post-COVID reality](#),” the crisis could catalyze lasting shifts in care

¹ “Healthcare—US and Europe: Patients begin to return as restrictions lift, but recovery will vary across subsectors,” Moody’s Investors Service, June 18, 2020, moodys.com.

² Broome B, “The financial impact of COVID-19 on health systems and how CFOs are responding,” June 3, 2020, McKinsey.com.

³ Cordina J and Stein G, “Helping US healthcare stakeholders understand the human side of the COVID-19 crisis: McKinsey Consumer Healthcare Insights,” May 20, 2020, McKinsey.com.

⁴ Cordina J, Seshan N, and Ziani S, “Helping US healthcare stakeholders understand the human side of the COVID-19 crisis: McKinsey Consumer Healthcare Insights,” June 12, 2020, McKinsey.com.

Financial pressure on independent physician groups could lead to a new wave of consolidation and new affiliations driven by health systems, payers, and private equity.

delivery, particularly toward virtual care, as patients move to new channels. Systems with sites across the care continuum and virtual channels may be well positioned, while other systems may find themselves facing new types of competitors for 'shiftable' volume.

- **Payer mix shifts and commercial coverage drops:** Unemployment rates have already leapt to the highest levels in many decades due to the economic impacts of COVID-19,⁵ and the depth and duration of the impact and shape of the recovery are unknown. As people lose employer-sponsored health insurance, many may seek Medicaid enrollment or become uninsured. Nationwide, Medicaid enrollment has increased in April 2020 by 2.8 percent on average and up to 6 percent in some states,⁶ with states also expecting increases to continue and persist into 2021.⁷ The federal Families First Coronavirus Act, enacted March 18, 2020, also required states to provide continuous Medicaid coverage for current beneficiaries until the public health emergency order ends.
- **Disruption to the physician group landscape:** Financial pressure on independent physician groups could lead to a new wave of consolidation and new affiliations driven by health systems, payers, and private equity. Health systems may see historical referral networks and relationships up-ended and new opportunities emerge. According to survey results highlighted in

[“Physician employment: The path forward in the COVID-19 era,”](#) 77 percent of respondent physicians reported their practice will suffer financially in 2020. Forty-seven percent of respondents reported that they believe consolidation is inevitable.

Potential approach for health system growth

This confluence of headwinds and disruptions due to COVID-19 may cause health systems to pursue cost reduction programs, but the pandemic also has created unique challenges, the solutions to which may reside within intentional growth. Proactively planning for growth and establishing a strong early trajectory in the next normal could catalyze long-term growth success, particularly as many of these pressures may intensify competition for market share across service types and patient segments. A transformation approach, grounded in a holistic and multi-lever effort combined with disciplined execution and performance management, could be a way to ensure success and deliver outsized returns. The appeal of this approach may hold extra value in a post-COVID-19 world.

Even before COVID-19, we observed the benefits of pursuing a focused approach to growth. Shortly before the COVID-19 crisis, the McKinsey Health System Executive Growth Survey asked 85 health system senior executives questions to understand attitudes, experiences, and outcomes of organic growth opportunities and challenges. A growth transforma-

⁵ “Labor force statistics from the current population survey,” U.S. Bureau of Labor Statistics, updated July 29, 2020, bls.gov.

⁶ Alker J and Roygardner L, “Medicaid as first responder: Enrollment is on the rise,” Center for Children & Families of the Georgetown University Health Policy Institute, May 28, 2020, ccf.georgetown.edu.

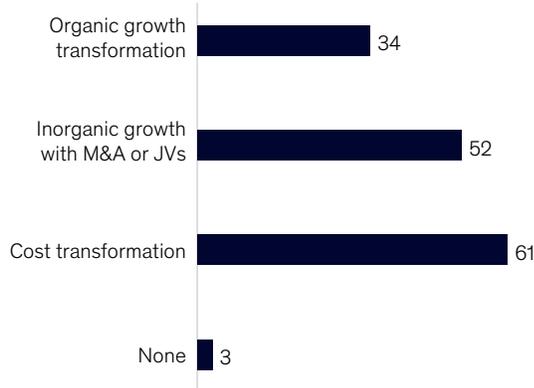
⁷ Rudowitz R and Hinton E, “Early look at Medicaid spending and enrollment trends amid COVID-19,” Kaiser Family Foundation, May 15, 2020, kff.org.

Exhibit 1

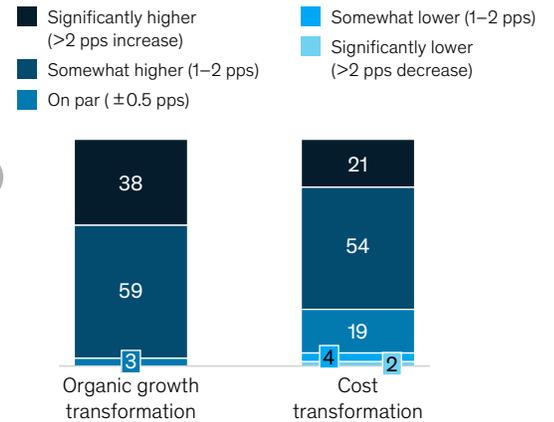
Growth transformation was the least likely to be pursued, but produced strong operating margin outcomes.

% of respondents

Pursuit of transformations in last 5 years



Self-reported 3-year operating margin change



JVs, joint ventures; M&A, mergers and acquisitions; pps, percentage points.
Source: McKinsey Health System Executive Growth Survey

tion is an intentional effort employing a range of strategic and operational levers to drive top line revenue growth from acquisition of new patients or greater capture of a patient’s care lifecycle. In this McKinsey survey, health systems reported being more likely to pursue cost transformations (61 percent) or inorganic growth initiatives (52 percent). Thirty-four percent of respondents that did pursue an organic growth transformation reported significantly better operating margin improvement (Exhibit 1).

COVID-19 has increased the challenges for health systems for a variety of reasons. These include reevaluating organic growth beyond what was originally envisioned in the growth survey due to the unprecedented disruption to overall demand and modes of care delivery.

Recent McKinsey research of approximately 2,000 companies across industries shows that those that outperformed in the last downturn were focused on through-cycle growth.⁸ Though major differences exist between the current crisis and the 2008–09 financial crisis, namely including the humanitarian toll and

sources of financial stress and consumer demand declines, our research indicates the outperformers modulated spending in the near term. However, they spent to catalyze growth early in the recovery and maintained a commitment to long-term growth strategies.

When applied to health systems, this strategy could mean pursuing a comprehensive growth plan that is adapted to the changing local market conditions post-COVID-19, while still aligning to future growth aspirations.

Critical elements to consider in developing a post-COVID-19 transformative growth plan

1. Create a growth transformation team

Focusing exclusively on executing the transformation means establishing a dedicated, central team that articulates aspirations, defines the direction of travel for the organization, coordinates activities, and measures success. McKinsey has recently discussed the importance of a [plan-ahead team](#) to move the

⁸ Doherty R and Koivuniemi A, “Rev up your growth engine: Lessons from through-cycle outperformers,” May 27, 2020, McKinsey.com

organization to the next stage of the COVID-19 crisis. Health systems may wish to consider establishing a team strictly focused on the strategic action plan around growth.

This growth transformation team would likely require appropriate strategic, operational, and clinical representation to set organizational aspirations, make decisions on opportunities, and execute quickly. The immediate team mandate could focus on identifying and prioritizing growth opportunities and building execution plans to capture value as soon as feasibly possible. Stakeholders may seek a deeper understanding of the health system's existing capabilities and sources of vulnerability. One asset can be a granular fact base that offers dimensions into micro-market demand (often by stitching together multiple data sources) in the present. This base could project forward scenarios based on likely market outcomes or disruptions. For example, what actions are most likely to attract patients returning in the near term? How might long-term preferences for services and sites of care change? In a COVID-19 era, a robust and flexible implementation plan may be useful.

2. Define the approach

Assess a comprehensive set of levers

Growth transformations can employ a variety of levers that will likely be evaluated in the

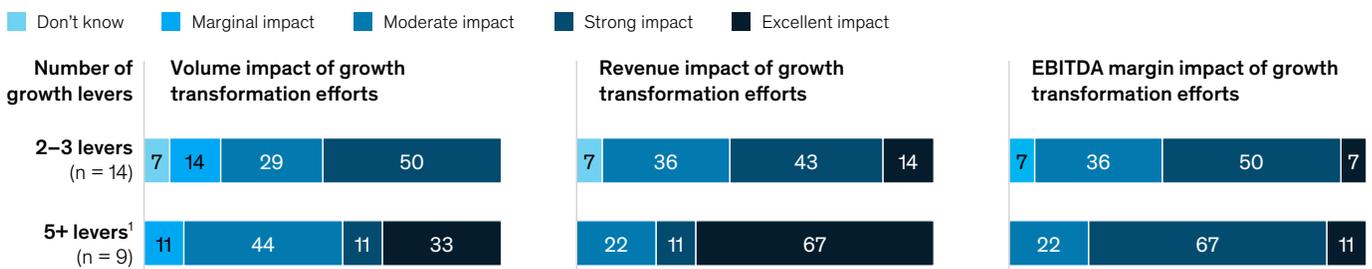
local market and health system context. The more levers pursued may mean a greater likelihood of success. The McKinsey Health System Executive Growth Survey shows that when respondents pursued five-plus growth levers simultaneously, they achieved significantly better outcomes in volume, revenue, and operating margin than respondents who pursued three levers or fewer (Exhibit 2).

The dedicated growth team may be charged with systematically evaluating the full suite of potentially available levers. Healthcare systems' top priority will remain their patients and access to care. However, they also may evaluate opportunities for augmenting their near-term recovery, fulfilling long-term strategic aspirations, and enhancing access across patient populations. An assessment in light of the drastic disruptions and sources of uncertainty facing health systems may prompt a new strategy. This assessment could include a range of capital intensive actions such as adjusting inpatient or outpatient services, increasing the scope of clinical programs or service line distinctiveness, building new physician relationships, and adopting a constellation of more capital-light growth operations levers such as improved patient acquisition and access, referral network management, agile marketing, physician productivity improvements, and clinical operations optimizations across the

Exhibit 2

Respondents reported consistently better outcomes when more levers were pursued in their growth transformations.

% of respondents



EBITDA, earnings before interest, taxes, depreciation, and amortization.

¹ Figures may not sum to 100%, because of rounding.

Source: McKinsey Health System Executive Growth Survey

Exhibit 3

A holistic set of growth levers for evaluation to set the strategy.

Focus area	Value driver						
Volume	New volume		Continuity of care			Capacity to serve	
	Patient acquisition	Independent physician alignment	ED follow-up	Referral network integrity	Transfer management	Physician productivity and clinic access	Clinical operations excellence
Mix	Segment-specific strategies		Service line strategy		Ambulatory footprint		Non-core businesses
Enablers	Growth command center		Strategic capital allocation		Digital and analytics		Talent
Inorganic	M&A				Partnerships		

ED, emergency department; M&A, mergers and acquisitions.
 Source: McKinsey Health System & Services Practice

footprint. Exhibit 3 describes the comprehensive approach to different growth levers; each requires an objective assessment on potential impact and feasibility for the organization.

Choose the right multi-lever approach for an organization

Two groups of levers could be considered in growth transformation: capital-light operations levers that can augment COVID-19 recovery, and more capital-intensive levers that take advantage of expansion, acquisition, or partnership opportunities or position the system for a successful site of care transition. In our growth survey, health system corporate executives cited lack of resources (55 percent) and a lack of necessary skills and capabilities (41 percent) as the most common reasons for not pursuing a growth transformation.

However, two observations are apparent from the McKinsey Health System Executive Growth Survey. First, primarily capital-light operations levers were the most commonly pursued and still showed successful outcomes. Second, executives reported capital-intensive levers, such as service or site ex-

pansions, at the top of the list of opportunities to create even greater impact (Exhibit 4).

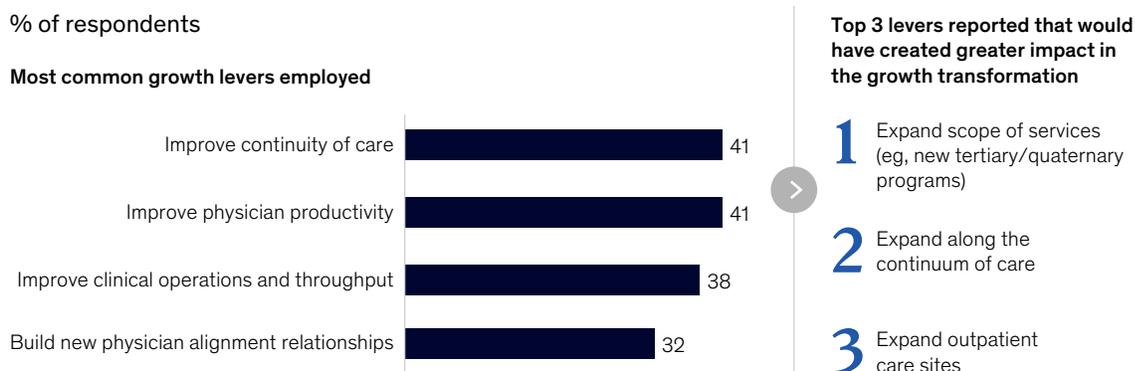
The CDC considers clinical operations dimensions, including rigorous infection control and sanitization protocols, an intentional approach to operating room capacity allocations, and COVID-19 testing protocols integrated with procedural and inpatient care, as essential elements to augment the post-COVID-19 recovery.⁹ In addition to pursuing such ‘capital-light’ levers focused on ensuring safe and efficient clinical operations, health systems may consider several additional levers that could have high impact. While these levers are more capital intensive, for health systems with strong balance sheets, they could present opportunities for returns.

- *Expand scope of services (for example, new tertiary/quaternary care programs), proactively shift where care is delivered, and/or expand along the continuum of care.* Where and how consumers seek care could change due to fears of COVID-19. In a recent [McKinsey Consumer Healthcare Insights survey](#), 31 percent of respondents said they were more likely to

⁹ National Center for Immunization and Respiratory Diseases, “Healthcare facilities: Managing operations during the COVID-19 pandemic,” Centers for Disease Control and Prevention, updated June 28, 2020, [cdc.gov](https://www.cdc.gov).

Exhibit 4

Most common growth levers were capital light, while levers that would have maximized impact are more capital intensive.



Source: McKinsey Health System Executive Growth Survey

seek out a primary care provider. Flexibility will likely be an important characteristic to address a backlog of pent-up demand, and capture additional demand as patient behaviors change. This flexibility could require systems to quantify anticipated changes and adapt strategies to think differently about how they spend to manage capacity and generate growth. Specifically, success will likely require understanding demand drivers, such as micromarket consumer and provider sentiment and the potential implications for care delivery. Success in this area may require different footprint utilization and expansion along the care continuum.

- *Invest in digital capabilities to ensure new patients can be seen and existing patients have appropriate continuity of care.* An omnichannel and seamless experience that integrates patient interactions across telephonic, digital, and in-person interactions will be an important consideration in delivering on growth aspirations and putting health systems in a position to execute ahead of competitors. As one example of patient attitudes toward digital

care, our consumer survey showed 74 percent of respondents indicated they were very likely or moderately likely to consider telemedicine for care in the future.¹⁰

- *Consider strategically aligned acquisitions.* Independent physicians and smaller hospitals, as well as innovative startups with relevant capabilities (for example, digital and telemedicine), may be at risk due to COVID-19-related demand shocks.^{11,12}

3. Build execution discipline and muscle memory to deliver the growth program effectively

Given the current stresses on the healthcare workforce, consider building the execution discipline plan among the core growth response team. Effective execution elements include prioritization and reprioritization of work efforts as new information arises, regular cadence of weekly meetings with set agenda and decisions made, clear action items with accountable owners, timely (but efficient) access to senior leaders when de-bottlenecking is required, and rigorous performance management.

¹⁰ Cordina J, Seshan N, and Ziani S, "Helping US healthcare stakeholders understand the human side of the COVID-19 crisis: McKinsey Consumer Healthcare Insights," June 12, 2020, McKinsey.com.

¹¹ "Hospitals and health systems continue to face unprecedented financial challenges due to COVID-19," American Hospital Association, June 2020, aha.org.

¹² "COVID-19 Financial Impact on Medical Practices," Medical Group Management Association, April 13, 2020, mgma.com.

McKinsey's Health System Executive Growth Survey methodology

This paper draws on a survey performed in the fourth quarter of 2019 to assess the attitudes, experiences, and outcomes of growth transformations relative to other performance improvement options.

McKinsey Health System Executive Growth Survey respondents included 85 senior executives (for example, CEO, CFO, COO) from health systems or hospitals with at least \$1 billion in annual revenue.

Twenty-seven respondents have a corporate role or responsibility for a national or regional system, 23 for a subset of hospitals or market in a national or regional system, and 35 for a single hospital.

Survey questions include four primary lines of inquiry:

- Recent volume, revenue, and margin performance and drivers of positive and negative performance
- Perspectives on opportunities and challenges related to growth
- Past efforts with growth and cost transformation programs, including outcomes and drivers of success
- Attitudes on future growth sources and priorities

Prior to COVID-19, many health systems had to keep pace with an ever-changing business landscape, as nontraditional incumbents such as retail giants pushed quick evolution in consumer preferences, value-based care rose in prominence, and physician employment increased and referral networks tightened. The recent crisis has only accelerated the pace of change and dramatically heightened the level of uncertainty about the future. Thus, the ability to adapt quickly and successfully in the face of rapid change has become all the more important. Agile companies may weather the current crisis and emerge stronger if they are characterized by resilience, quick decision making, empowerment to act, and rigorous execution discipline.

Although the next normal is yet to be defined, the headwinds, disruptions, and uncertainties from COVID-19 have likely heightened the need for growth. Emerging signs from McKinsey surveys point to a post-COVID-19 landscape

characterized by significant margin pressure due, in part, to lower utilization and payer mix shifts. Competitive intensity will likely increase as health systems prioritize patients and the quality of care. The collective picture is one where planning for the multiple sources of uncertainty and disruption with a multi-lever growth plan is more critical.

Health systems may consider a disciplined approach that is: 1) grounded in a shared aspiration and a data-backed understanding of the starting point; 2) characterized by a diverse set of initiatives that take into account market uncertainties and adapted to the local competitive environment; and 3) implemented with rigorous performance management to ensure that timelines and metrics are met, and that tactics are modified as the 'next normal' comes into sharper focus. These actions can help ensure continued access to quality care across patient populations and position health systems for growth.

Rupal Malani, MD, (Rupal_Malani@mckinsey.com) is a partner in the Cleveland office. **Louis Revenig, MD**, (Louis_Revenig@mckinsey.com) is a consultant in the Atlanta office. **Thomas Santo, MD**, (Thomas_Santo@mckinsey.com) is an associate partner in the New York office. **Matt White** (Matt_White@mckinsey.com) is an associate partner in the Chicago office.

This article was edited by Elizabeth Newman, an executive editor in the Chicago office.