Scenario planning and uncertainty

Developing a dynamic strategy in a changing healthcare environment
Several trends in the US healthcare industry are poised to change the nature of the provider business model. The rise of value-based care, the application of new digital technologies, and ongoing cost pressure are among the factors pushing the industry towards new ways of operating. New models will encompass provider-led health plans, narrow networks and increasing scale through acquisitions and partnerships.

However, there is limited visibility into the timing of these trends and the exact form they will take. This has created significant uncertainty about the type of services and associated capabilities a provider should invest in, the size of those investments, and the timing or sequencing of them. With recent political changes in the US, it’s also unclear how much of the regulatory framework introduced by the Affordable Care Act (ACA) will remain intact, putting some basic assumptions about risk management and reimbursement back into question.

Navigating this uncertain environment with confidence requires a dynamic strategy that adapts to a wide variety of future conditions. A dynamic strategy is not a fixed, one-dimensional plan, but rather a portfolio of options—or potential “bets”—that can be ramped up or down as events change. It means being able to see those changes early on and having a plan to respond to them quickly. Scenario planning—a method for identifying plausible, alternative futures an organization might face and rehearsing potential responses—is a critical tool for achieving the nimbleness required in today's uncertain healthcare environment.
Addressing uncertainty through scenario planning

Scenario planning is, in its basic form, the process of continually asking “What if?” Organizations need to analyze how particular market conditions would impact its strategy. It starts by mapping out multiple, potential industry futures, acknowledging that some important, determinant variables in the market—such as regulations, patient needs and behaviors, or the relative cost effectiveness of different types of care—are changing and, as yet, unknown. It then asks leadership to identify what it would do under different outcomes. For instance, certain scenarios may imply moving more aggressively into the post-acute market, while another scenario may suggest a more gradual expansion or divestiture. Each decision requires different kinds of capabilities, resources and partnerships, which a provider will need to have at its disposal—or be able to acquire quickly—if a particular scenario unfolds.

Scenario planning does not aim for accurate predictions. Its value lies in the lessons learned in playing out the scenarios, understanding what would drive change in one direction or another (and what signals to watch for), and evaluating the risk/reward of different types of strategic investments. In many ways, the process is about aligning on core assumptions and on where you should proactively create wiggle room—i.e., contingencies—to change direction.

An example of effective scenario planning:
One U.S. payer prepared for the ACA before knowing exactly what form the legislation would take—or even if it would pass in any form. Multiple scenarios were created, representing a spectrum of public vs. private options, the extent to which outcomes-based reimbursement would be implemented, and which other specific requirements, mandates and incentives would be enacted. The exercise also involved high-level modeling of plan enrollment and likely premium increases or decreases under each case. Key insights from the scenarios, such as shifting focus from actuarial skills to marketing and consumer engagement capabilities, a recognition that cost reduction needed to be addressed immediately rather than incrementally, and an understanding of how power could shift to the providers, put the payer in a better position to adjust upon the ACA’s passing. In fact, the early acknowledgment of the extent of change to come helped to drive the payer to rethink its overall mission.

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Companies are striving to create more dynamic strategies that are responsive to shifting circumstances. In some ways, this gets at a fundamental question of what strategy is supposed to be; whether it is some “fixed” endpoint or whether it is a set of initiatives that are malleable. We view strategy as a set of interlocking choices, some of which are more predictable and some of which are more dynamic.

Our approach to scenario planning starts with dynamics that in a particular timeframe could be viewed as more certain and in another might be viewed as more uncertain. Certainties include an aging U.S. population, a demand for value-based care, and the increasing ability to manage health resources through data. On the other hand, there is economic and political uncertainty, such as the potential repeal of elements of the ACA, and competitive or consumptive uncertainty, such as digital disruptions of the traditional care value chain. For each set of scenarios, organizations need to evaluate operational implications, identify clear responses, evaluate gaps, and identify options to close the gap – which may include building, buying or partnering to create new capabilities.

For example, this approach was utilized to develop an enterprise growth strategy for a large regional provider system. After setting some core growth aspirations, we evaluated two primary strategic choices for the provider— which markets to prioritize for growth and how far into the continuum to extend. For each of these, we developed some possible versions of the future, driven by factors such as how local exchange markets may play out, speed of movement toward value-based payments for health systems, possible competitor moves, and the future availability of continuum assets and partners.

These scenarios helped determine some near-term choices (market prioritization and decision to forgo a set of post-acute care assets) and set the terms for future choices (where to build new facilities, develop initial partnerships and relationships with continuum assets, create state-side partnered networks). As the market has continued to evolve, the healthcare system has been able to adapt its strategy by tracking a set of conditions and “variables,” cutting off certain choices earlier (new hospital build) and accelerating others (developing partnered health system network), all while remaining consistent with its overall strategic goals and longer-term aspirations.

Scenario Planning Framework

Future state inputs

- **Certainties** (e.g., aging population, value based care)
- **Uncertainties** (e.g., economic downturn, political, changes – repeal ACA)

Scenario A

Scenario B

Scenario C

Key Steps in Scenario Development

1. Understand risks and opportunities
2. Identify potential responses
3. Evaluate gaps
4. Identify potential solution options – Build/Buy/Partner

Outcomes

- **Primary Strategy/Core bet**
  - the firm focuses on and invests in to develop execution capabilities

- **Contingency Strategy/Side bets**
  - that can be activated before its clear to others/competition

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3 Scenario planning and uncertainty
As companies embark on scenario-planning efforts, there are key elements to consider for maximizing value from this important effort:

1. **Understand change drivers** – To consider various market scenarios, companies must dig into the deeper causes that might push the future in one direction versus another. These may be trends within the industry itself or, as is often the case, bigger and broader forces outside of it, such as a change in the state of the economy or a step-change in costs of certain types of care. This type of thinking will help evaluate the plausibility of each scenario, and will help put in place a more proactive, ongoing method of advanced information gathering—or early indicators of change—to inform your strategic decisions.

2. **Utilize rich data and analytics** – Valuable scenario planning combines insight with data. Organizations should look outside the usual data sources and analyses – within and outside the industry. Traditional research and more exploratory research should be conducted, including patient attitudes expressed on social media or ethnographic health research, or technology developments in adjacent markets (e.g., wearables becoming more like medical devices.) This also includes talking to new people outside of your usual list of expert advisors.

3. **Avoid analysis paralysis** – There is no perfect data about the future. As such, companies should not expect a perfectly clean, definitive analysis for every issue. Knowing when directional, order of magnitude assessment is enough versus critical tipping point analysis (for instance, at what point costs for alternative types of care would create major switching) is paramount. Also, even as companies expand their research sources, they need to carefully triage the research regularly through hypothesis-led data collection. In essence, companies should focus on what could really tip the scales, and not worry about detailed analysis for every possible scenario.

4. **Manage groupthink** – It is common for groups to align with opinions of its leaders. To develop a differentiated and holistic strategy, it is imperative for organizations to incorporate a diverse set of perspectives - to avoid groupthink, embedded biases and conventional wisdom. Engaging a broad and diverse group can curtail groupthink and increase the possibility of surfacing alternative ideas and perspectives.

5. **Continuously involve senior decision makers** – Scenario planning is meant to inform the judgment of decision makers. Since there is no data about the future, actual decision making requires a combination of analysis and intuition—the latter of which generally comes from the experience of leadership. Securing their involvement from the outset guarantees better buy-in for the ideas and choices. Organizations often tackle scenario planning via breakout sessions that comprise junior staff and vendors and only re-engage senior leaders during the final stages. This can be an issue, since experiential insights from senior leaders drive decisive choices and encourage ownership.

6. **Conduct regular review and updates** – To make strategy truly dynamic, scenario planning cannot be a one-time event. The value of the thinking increases over time as senior executives become more responsive to events or trends that would have previously been dismissed as outliers or anomalies. Instead, new information can be seen as parts of an alternative narrative that is continuing to emerge. At a minimum, senior leaders—with the help of their internal and external networks—must review and assess the direction of the market relative to the scenarios every six months or annually. Ideally, the scenario approach and language would be embedded into every strategic conversation and planning cycle more formally and become part of the everyday language.
The macro trends referenced earlier, combined with the exponential increase of data, advances in technology and health sciences, and the continuous change in care models (value-based reimbursement), have brought additional levels of complexity to deciding and implementing strategies in the health care system. Below are examples of some potential scenarios that health systems need to plan for based on the current dynamics.

**Scenario examples**

As the aging population in the U.S. increases, and regulations continue to move toward outcomes-based reimbursement, health systems need to focus on population health to manage the cost of care. In parallel, consumers’ need for convenient low-cost options for basic health care, along with the increasing sophistication of home/retail use of clinical-grade medical devices, could have a direct impact on how primary care is delivered. Increasingly users will look for app-enabled diagnoses and/or seek out nearby retail locations for basic health care needs. Understanding this scenario and developing plans to assuage its impact should be a key imperative for providers. The result of some or all of these shifts could be a decline in both primary care and hospital revenue and greatly limit providers ability to influence patient’s health choices. Potential responses might be introducing more wellness programs, creating more flexible touch points with patients, and better utilizing current hospital assets (including those used for non-traditional services).

**SCENARIO 1:**

Move from “sick care” to “well care”

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In the new world of value-based reimbursement, hospital systems may be faced with competitors who, enabled by data, are willing to take on risk more aggressively and better manage payor contracts and steerage patterns.

SCENARIO 2:

Data-driven healthcare

With the advent of value-based reimbursement models, hospital systems are increasingly seeking advanced data and analytics capabilities to understand their customers, identify areas of growth, determine the type of risk to carry, and manage population health. In the current environment, hospital systems may be faced with competitors who, enabled by data, are willing to take on risk more aggressively and better manage payor contracts and steerage patterns. In this case, providers will need to make decisions about whether to stake out an advantage in this area, with new types of capabilities built in house (e.g., actuarial, population health management), or acquire capabilities. As such, scenario planning can help hospital systems identify various investment options that are connected to where macro or local trends may be heading.
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