What to Do When Your Future Strategy Clashes with Your Present
By Mark W. Johnson, April 29, 2015

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From time to time, the basis of competition in an industry shifts so dramatically that shifting with it requires a new long-term vision that calls for the organization to do things it never would have done in the past. The hardest part is connecting long-term goals to near-term actions — especially when those new actions directly threaten the way you make money right now.

Consider the case of MedStar Health, the largest nongovernment health care provider in the Baltimore-Washington, D.C., region, as it navigates a dramatic shift from competing by offering integrated, comprehensive medical services to offering lower cost preventive care. Back before the passage of the Affordable Care Act, MedStar's leaders decided they needed a strategic plan to reimagine the company in 2020. MedStar operated nine hospitals, but realized that its long-held objective of increasing revenue and profits at those venues was unsustainable, given the outcries over runaway medical costs.

Instead, it mapped out a future in which more and more care was delivered outside its hospitals at a fraction of the cost. Doing that required developing a new business model in which MedStar would get paid to keep patients well. “We needed an enduring strategy independent of any legislation,” recalls MedStar executive vice president Eric R. Wagner.

As in any large organization, the biggest challenge was how to keep this kind of long-range plan on track for a decade or more. After all, diverting investments away from core hospital budgets might be unpopular across an organization that is the largest private employer in the region. The new-growth areas MedStar mapped out included entering the general-population health insurance business as well as creating a major presence in ambulatory care – that is, outpatient locations aimed at preempting visits to the places where nearly all of its 30,000 employees currently worked.

These new ventures would operate separately from the core hospital assets and would compete in new ways in the health care marketplace. CEO Kenneth Samet, along with Wagner and the six other executives on the leadership team, set a long-term goal of building a major growth business from these new areas.

Connecting Three Different Business Portfolios

In order to reach these goals MedStar needed to institutionalize a way to link three collections of plans and activities that wouldn’t normally be connected. Drawing on a powerful tool from the finance world, they conceived of those collections operating as portfolios — each with a specific business objective and time horizon. Those three business portfolios are:

The future state portfolio. As its name implies, the objective of the future-state portfolio is to paint a picture of the organization 10 or 20 years into the future. Accordingly, it consists of a collection of broadly defined markets (“where to play”) and strategies (“how to win”), rather than a group of more fully defined businesses. Included are both core businesses as they are imagined to be in the future as well as opportunities for possible new-growth ventures the organization could launch. These potential new-growth opportunities could involve serving entirely new sets of customers or serving current ones in new ways. That could involve targeting new geographies, developing new products, taking advantage of new technologies, or devising new business models.

At MedStar, major new growth opportunities included moving into preventive care on an individual level and exploring efforts to reduce health inequality among different segments of the population. The portfolio also included its existing hospital business repositioned to serve a changed marketplace by focusing on the most complex, specialized cases, since a significant percentage of more routine visits were expected to be addressed elsewhere.

The innovation portfolio. The objective here is to define specific initiatives that need to be launched over the next year or two to help achieve that far-off future state. This includes both the near-term projects needed to enhance the core business and new-growth projects needed to move down the path toward long-term business transformation.

For MedStar, a key new-growth initiative involved becoming a large health care insurer, not just a provider. In 1997, MedStar had started a small Medicaid health plan that served 25,000 low-income people. But to build toward its future state vision, and scale up its insurance business, the organization sought and won licenses in D.C. and

Maryland to launch a more general health insurance plan. MedStar Family Choice has since grown to more than 120,000 total enrollees (and MedStar Select insures another 40,000 employees and their dependents). The innovation portfolio also contained a new business unit called MedStar Ambulatory Services, a network of small, storefront clinics, diagnostic labs, and primary care offices located in dozens of neighborhoods. In the core business, MedStar developed a series of new devices, software, diagnostics, and therapeutics to improve specialized care at its hospitals. And to keep feeding the innovation portfolio with a continuous stream of new ideas to meet its future state, the organization launched a lab called the MedStar Institute for Innovation.

The investment portfolio. This is a collection of budgets to fund both the projects in the innovation portfolio and the new initiatives for the core business. This annual pool of resources and money is parceled out to the various initiatives in the innovation portfolio as those projects evolve and grow in importance over time. Often, this means tipping the balance of funding to favor new-growth innovation over the core innovation initiatives, even though the core represents nearly the entire organization at the start. And to connect the annual investments to the future state portfolio, the budget needs at least in general terms to be mapped out over the entire time horizon of the first portfolio, be it 10 years or 20 years.

With funds continually rebalanced in the investment portfolio between today's business and tomorrow's ventures, MedStar was able to pursue both core improvements to its hospitals and new-growth initiatives. That kept the hospitals running while also putting the organization on the path to the future outlined in the first portfolio.

MedStar connects all three portfolios not just through resource allocation but through the constant efforts of the leadership team, which does not delegate this task. Without top leadership ensuring the links between the three portfolios, says Wagner, "it's too easy to put long-term plans aside and forget about them when short-term pressures arise, as they always do in the hospital business."

In action, this three-portfolio strategy management system is decidedly organic, not mechanical. As the journey unfolds, assumptions are tested and adjusted, foothold businesses evolve, core innovations proceed, and resources shift. In this way, the innovation portfolio evolves toward the future state portfolio, and the future state portfolio is adjusted in light of the knowledge gained along the way.

Competing in New Ways

Now, halfway into MedStar's 2020 plan, the basis of competition in the D.C.-area health care market has indeed shifted. Ambulatory visits have now far outstripped hospital visits, as MedStar already competes on the basis of convenience and saving time and money rather than only on offering comprehensive medical services at its central hospitals. Instead of encouraging physician appointments, overnight hospital visits, and diagnostic tests, MedStar is now asking its patients to visit storefront locations. Those walk-in clinics have been situated near where Starbucks are located, with the intention of piggybacking on the millions of dollars of research that the iconic coffee shop invests in analyzing the best retail locations.

Once at a storefront clinic, patients check in with a nurse and then use a free iPad/iPhone app called Tonicto report changes in health and well-being — a user experience inspired by video games, featuring fast-moving cartoon-like graphics illustrating common medical tasks. Partnerships like these are also part of the innovation portfolio.

The results so far: While revenue has been flat in MedStar's core hospital business, overall revenue increased from $3.9 billion in 2010 to $4.9 billion projected for FY 2015 (which ends in June), thanks largely to the building of a $1 billion new-growth business this year. In many ways, MedStar followed a plan of "dual transformation," a way to reposition a core business while simultaneously inventing new business models for the future.

The key to accomplishing that, for MedStar, was to find a way to avoid justifying each new-investment choice at the same time that budgets were being cut at its core hospitals. That's why it made so much sense to build a long-term management system that could continually balance the vision of tomorrow with the imperatives of today.

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