



# **OFFSET STRATEGY IN HEALTHCARE**

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In a recent presentation, I talked about the history of innovation in the military and the **ten principles of innovation** that high performing organizations share. The genesis for Army innovation lies in the **offset strategy** designed to leverage technology to mitigate risk and create a strength the competitor could not easily match.

In the years after World War II, in what most of us recognize as the Cold War, the Army had one basic enemy – the Soviet Union – and two basic problems as it related to potentially fighting them: one, was numerical – the Warsaw Pact had NATO outnumbered 3:1 or more in conventional troop counts; and second, was the tyranny of distance – it took a long time to move forces we had stationed in the United States to Europe.

And so, we adopted what was referred to as an “offset strategy”; that is, how do we “offset” the disadvantage of numerical inferiority and distance, as building a bigger military was not economically or politically feasible. The first offset strategy relied on technology – nuclear technology – with bigger and more accurate bombs to offset the Soviet advantage and make conventional weapon superiority irrelevant. Crude perhaps, but it worked, in keeping the peace, for several years.

When parity in nuclear weapons occurred, the Army pivoted to yet another technological leap - referred to as the second offset - namely another technology advance in the form of GPS/Stealth and precision guided munitions. Some might remember those pictures from the first Gulf War of bombs, laser guided onto their targets and planes that snuck in under the Iraqi Soviet build radar. The technological advantage of precision weapons remained for several years, much longer than the nuclear advantage. However, we see that GPS is ubiquitous in all our lives and stealth technology, through a combination of scientific advance and IP theft, is now available to our competitors.

That brings us to today; the next technological offset is expected to be a combination of autonomous systems, AI and quantum computing, enabled by a 5G or beyond communications network, that allows for autonomous weapons, instant decision making and unbreakable encryption. With offset 1 and 2, we had a significant technological head start; that is not the case today. What the Army calls a “near peer competitor” – China and Russia – are investing substantial sums of treasure and time to catch up and surpass the US lead in these areas. **They are working on their own offsets.**

With China, this marks the first time we have had a military competitor who has an economic engine and level of GDP that is comparable to ours. China is a state sponsor of industrial espionage, the inventor of the social credit score, with mandated overt cooperation between tech companies and the government/military, codified by the National Intelligence Law of 2017, which instructs every organization or citizen to support, assist, and cooperate with national intelligence work. In a nation of 20 million closed circuit TVs, 1.3 billion catalogued facial images, and essentially unfettered access to labeled data sets -- the life blood of AI — the Chinese government and private sector investments are formidable.

Russia is another story. Russia’s corruption and lack of the rule of law, creates a poor business and investment environment that inhibits private sector investment. But Putin has said that whoever wins the AI race will “rule the world” and Russia remains quite capable of asymmetric impact.

The Army and healthcare systems actually have a lot in common, at least organizationally. They share many of the same characteristics – labor intensive organizations facing life or death decisions, they place a premium on repeatable processes, performed by cross trained crews ... and conversely on the other side of the ledger each can be big, bureaucratic, resistant to change and subject to the corporate immune system. **Can the concept of an offset strategy be applied in healthcare? We think so.**

An **offset strategy** is asymmetrically compensating for a disadvantage; rather than matching a competitor in an unfavorable competition – or investing tons of resources to turn a weakness into a strength - you change the competition to a more favorable footing by inventing another way to achieve dominance or mitigate the competitor’s advantage. Rather than match the unfavorable condition, you change the competitive landscape to be more favorable to you.

Many hospitals have factors that place them at a competitive disadvantage, depending on market: capital intensive buildings to pay for, poor demographics, weak payor mix, high labor costs. At the same time, their advantages could include being the economic engine and largest employer in the market.

Most hospitals that face a tough labor market, would resort to standard methods to address the problem: travelers, headhunters, signing bonus. An example of an offset strategy in this case, would be to build or partner with a local nursing college or community college and guarantee employment for its graduates.

A group of physicians, originally planning to partner with a major insurance carrier in creating a regional CCO became frustrated with the transparency of data sharing from the traditional payor; their offset strategy was to remove the payor as a partner and create the administrative construct necessary to manage the population in full – and assume near full risk. Offsetting their status as a junior partner in the relationship, allowed this group of doctors to take advantage of the full data transparency in managing their population, albeit with increased risk, and financial upside.

In summary, an **offset strategy** changes an unattractive competitive environment to one more advantageous by refocusing the competitive levers in a sustainable way. It reframes strategy and often uses innovation mindset and principles as a starting point toward developing solutions. We all know that hope is not a strategy; maybe an **offset framework** can help you find yours.

## OUR EXPERTS



**Boe Young** is the Chief Operating Officer and Executive Vice President with Galloway. He was the founding leader of the Army’s 75th Innovation Command, designed to accelerate private sector innovation and technology into the military. He also was the senior army representative for the Defense Innovation Board, the DoD’s leading institution for driving disruptive innovation inside the DoD. Starting his career as an Army Ranger, he has commanded a battalion in combat, has two master’s Degrees, including an MBA from Goizueta Business School at Emory University, and over 25 years of senior executive profit and loss experience. Boe recently retired as a Major General in the US Army Reserve where he commanded the Army’s largest organization for training senior executives and their teams to perform in a cohesive and effective manner and served as the Reserve’s senior human resource executive for over 200,000 individuals. He is a Board advisor for two high tech startups. He has worked with leading healthcare organizations on organization restructuring, strategy implementation, innovation strategy, governance, performance improvement, efficiency and executive leadership.



**Mitchell Galloway** built his reputation by helping healthcare executives transform their organizations, often achieving landmark results on seemingly impossible timetables. Among the country’s foremost authorities on organizational strategy, he takes the lead role with our clients, rapidly diagnosing the challenges they face and prescribing innovative, timely, and effective responses. His analytical expertise and fearless candor have earned him the confidence of decision-makers across the healthcare industry, from small, rural hospitals to multibillion-dollar corporations. Mitch has been in the healthcare business for his entire thirty-five-year career, starting his first consulting business 28 years ago. He served as the COO for a leading Midwest hospital and has built and led several companies over the

years that all focused on helping healthcare executives drive significant improvement in their organizations. He has an MBA from Emory University's Goizueta Business School, where he achieved the #1 class ranking and was recognized as the Outstanding Graduate Student in the field of Organization and Management. He has a Bachelor of Science in Health Systems from the Georgia Institute of Technology.