

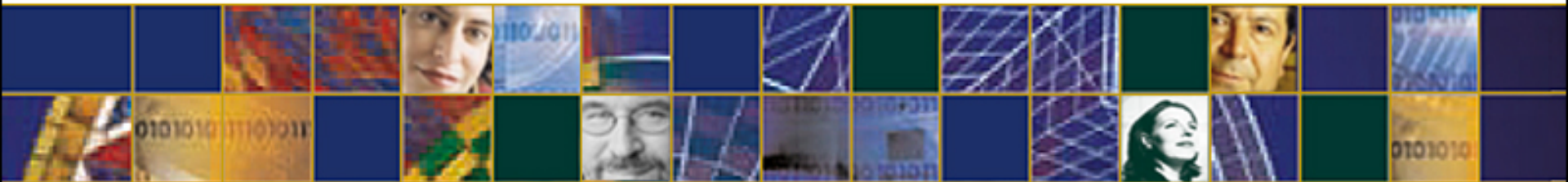
# **McHealthcare:**

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## **The Innovation & Transformation Necessary to Deliver Consumer-Driven Care**

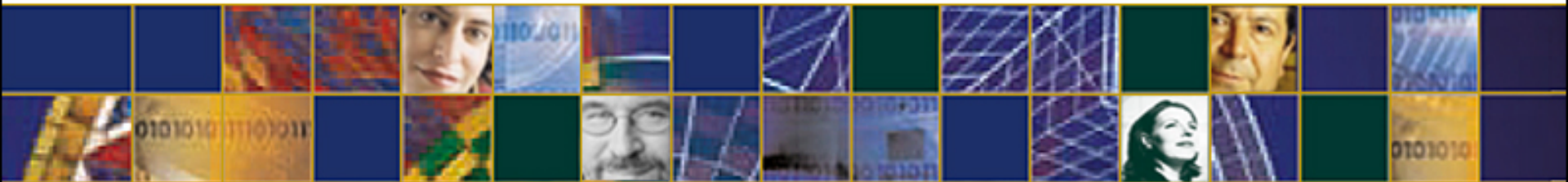
John Leifer  
President, CBIZ The Leifer Group





## Looking Beyond Consumer-Driven Health Plans...

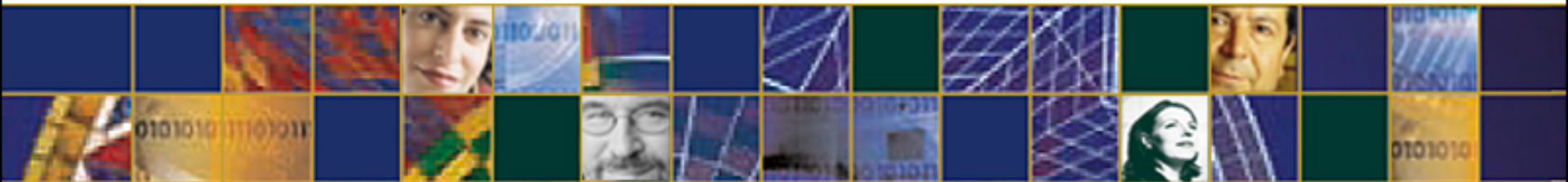
- Payment-related issues aside, CDHP's have the potential to alter how healthcare should be delivered as consumers' expectations of their providers change.
- For providers – hospitals, physicians, clinics, and other entities– the future will depend on their ability to offer what consumers (patients) want in ways that meet their shifting expectations.
- Can other more “consumer-experienced” industries offer healthcare providers any important lessons?



## McDonald's: A worthy comparison?

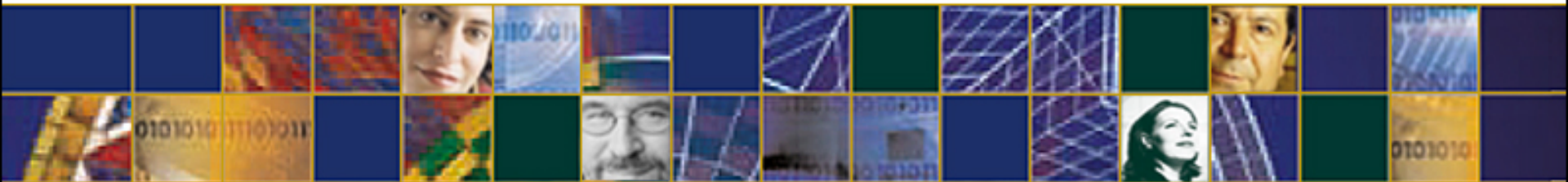
- McDonald's serves 52 million people daily through 30,000 restaurants in 119 countries.
- At the opening of its first restaurant in Kuwait, "15,000 customers formed a seven-mile line at the drive-through."
- McDonald's generated revenues of \$21.6 billion in 2006, with \$3.5 billion in net profits.



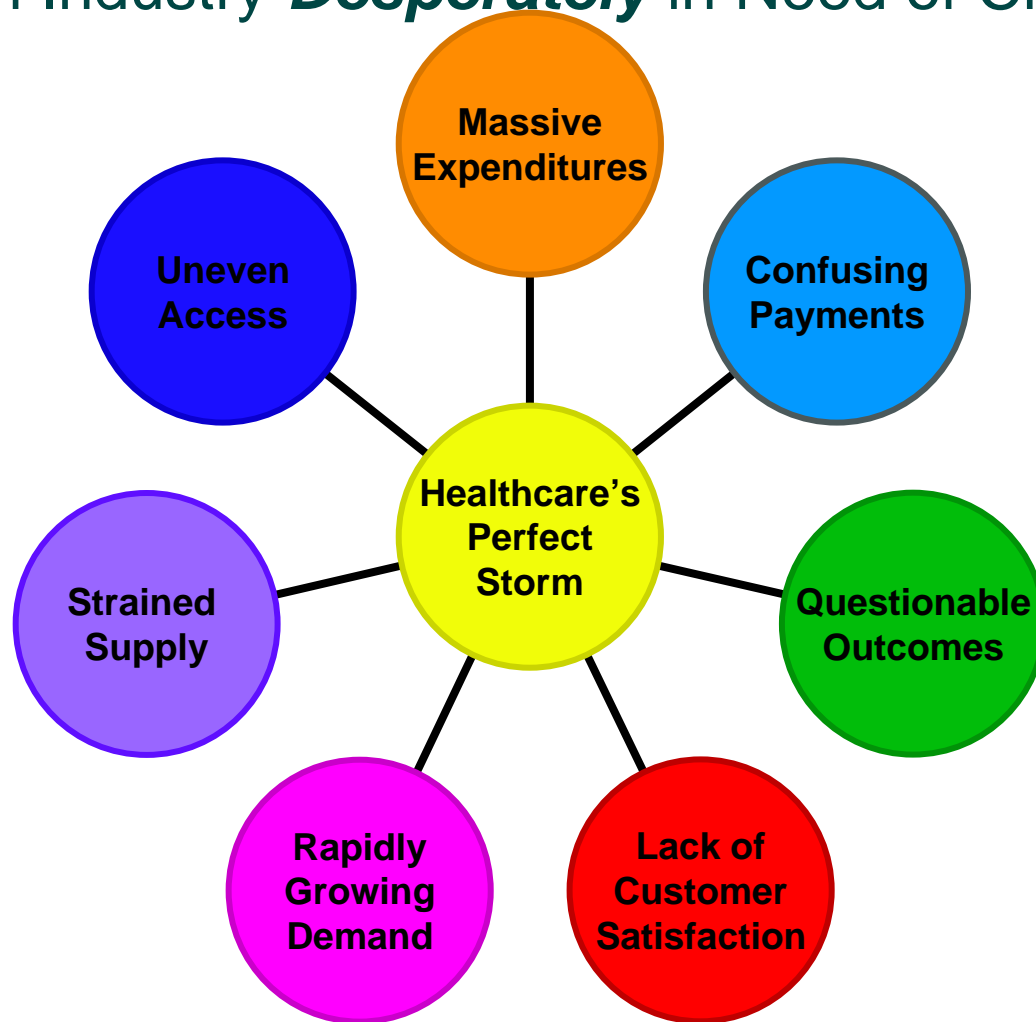


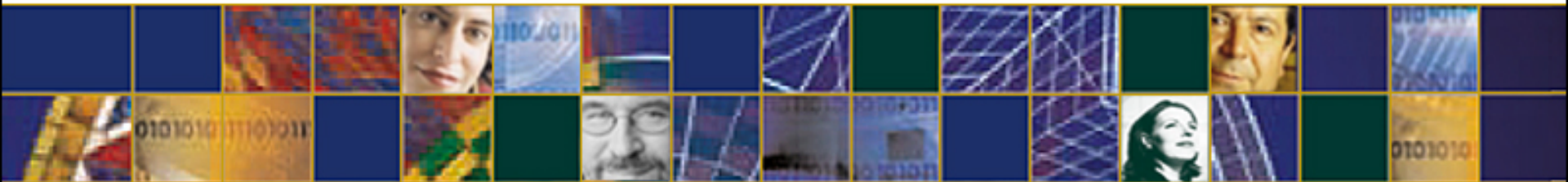
## Just imagine what would happen to McDonald's if...

- No prices were posted on its menu. The prices varied from restaurant to restaurant; and you were shocked to learn that, after ordering your Big Mac, it cost \$50.00?!
- The food quality varied dramatically from restaurant to restaurant, or even by time of day in the same restaurant.
- You had to wait several hours to receive your order.
- Finally, what if you had to question the safety of eating McDonald's food?

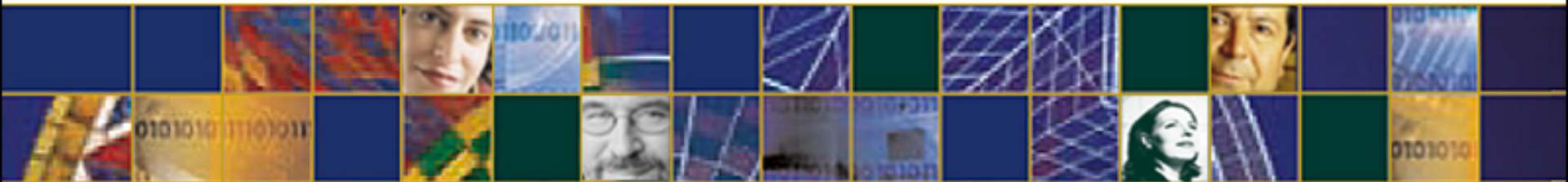


# Healthcare: An Industry *Desperately* in Need of Change



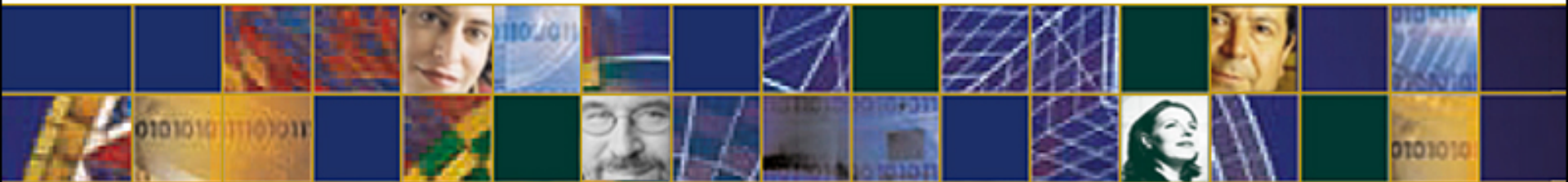


# HEALTHCARE: AN INDUSTRY DESPERATELY IN NEED OF CHANGE



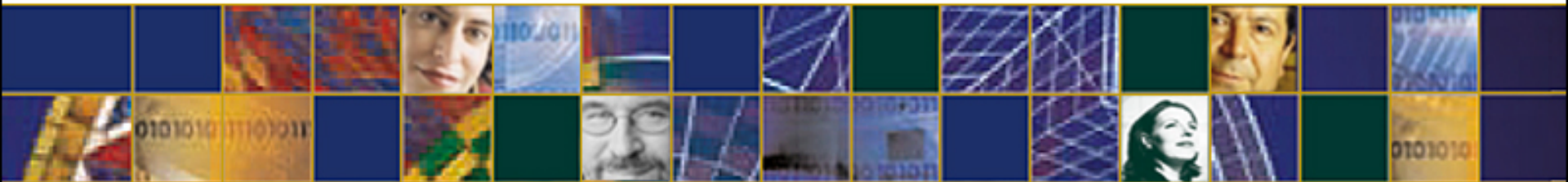
## The Nation's Healthcare Bill:

- Our nation's healthcare bill has grown from a “paltry” \$27 billion in 1960 to \$1.9 trillion in 2005, with projections of \$3.15 trillion by 2012 (expectations of 8%-9% annual growth; economic growth rate of 3%) (CMS)
- As a % of GDP, it has increased from 5.1% (1960) to 13.2% (2000), with projections of 17% by 2012. (CMS)
- From 2005 through 2012, health spending is expected to grow 2.5% per year faster than nominal GDP. (CMS)
- Federal, state and local governments are projected to contribute 48% (\$1 trillion) of that expenditure in 2006. (CMS)
- It is virtually impossible to understand the costs of services at time of delivery, and how these costs vary between hospitals, physicians, and other providers of care.



## Healthcare Payment:

- Healthcare is not market-driven, and hence patients have had little incentive to seek value.
- Even if patients were motivated to seek value, it has been virtually impossible to understand the comparative costs for services between hospitals, physicians, and other providers of care.
- Thanks to the push for transparency, more data is becoming available, but it is often times fundamentally flawed. Consumers are given “retail prices” in a “wholesale only” industry.

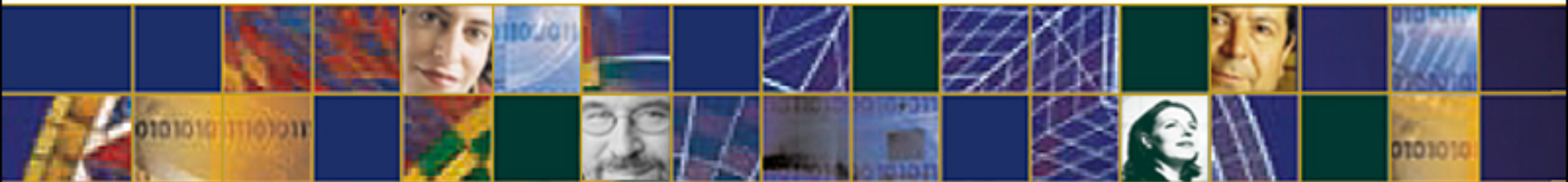


# Healthcare Outcomes:

From an August 12, 2007, editorial in the NY Times:

*Many Americans are under the delusion that we have “the best healthcare system in the world,” as President Bush sees it....but the disturbing truth is that this country lags well behind other advanced nations in delivering timely and effective care.*

- U.S. health system was ranked 37/191 nations by WHO
- Commonwealth Fund ranked U.S. in last place on such measures as quality of care and access to care.
- When compared to 8 other countries, U.S. ranked last “in years of potential life lost to circulatory diseases, respiratory diseases and diabetes and had the second highest death rate from bronchitis, asthma, and emphysema.”



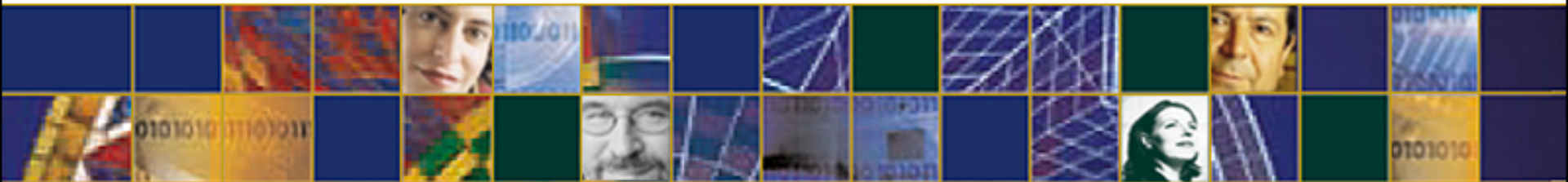
# Customer Satisfaction with Healthcare:

- The 2005 National Hospital Service Performance Study conducted by J.D. Power & Associates rated the satisfaction level among patients among the highest of any industry (for hospitals) with 74% reporting that they were “delighted” or “pleased” with their inpatient experience.
- 53% reported they were delighted with their doctors, but only 22% said the same about the environment itself (room, food, etc.)
- Fully 91% of hospital execs believe patient satisfaction will grow in importance in the future, and more than 95% believe it is critical regardless of whether or not it improves profitability or marketshare. (Press-Ganey Associates)
- Many actors – CMS, JCAHO, AHRQ – already include patient satisfaction as a critical element in their review of hospitals.



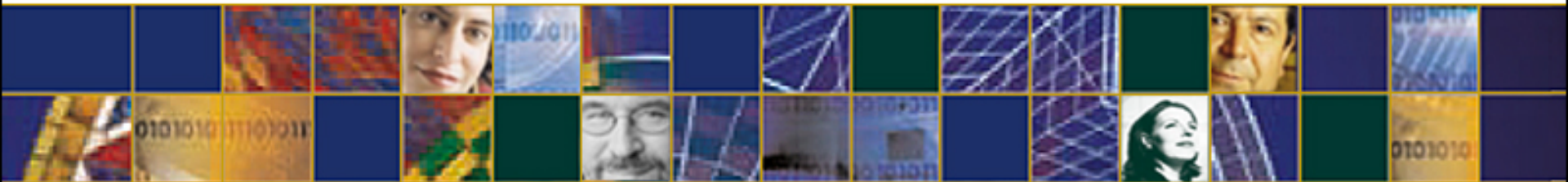
## Healthcare Demand:

- While 12.4% of US was over 65 years of age in 2000, 18.6% of the population will be in 2030 as the nation's baby boomers age. (US Census Bureau estimate)
- CMS estimates that 27% of Medicare's annual \$327 billion budget goes to care for patients in their final year of life. Average cost within the last six months of life per patient is \$16,777.
- "More than 85 percent of people age 65 and older have hypertension, diabetes or blood lipid disorders due to chronic disease. Spending for pharmaceuticals and other costly new services and products will fuel growth in health expenditures."
- Some believe that demand for inpatient services designed to meet the needs of high acuity or high chronicity patients will increase proportionate to population growth among the elderly.
- However, Paul Ginsberg, Ph.D., of the Center for Studying Health System Change, argues that "Hospitals are foolish to think that an aging population can support large increases in capacity" due to baby boomers' relatively good health and improvements in drugs and treatments.



# Healthcare Supply:

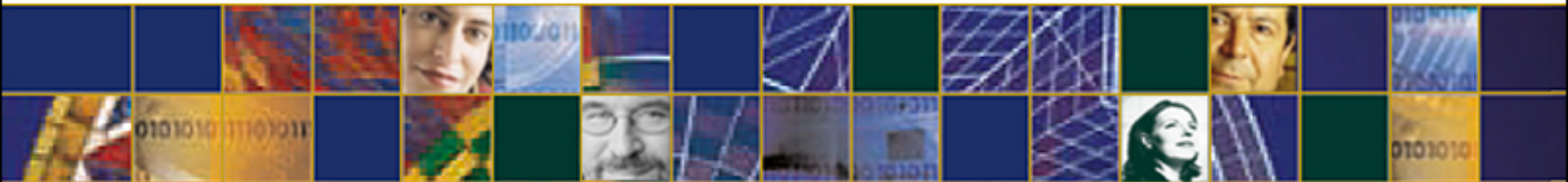
- Hospitals are scrambling to replace outdated or inadequate facilities. Construction costs have escalated to the point where replacement beds cost and estimated \$1.2M/bed.
- Supply is not just about bricks and mortar.
- Although healthcare jobs are among the fastest growing occupations in the US according to the Bureau of Labor Statistics, ACHE estimates 70% of hospitals are experiencing a nursing shortage.
- Biggest increase in demand for RNs will be from 2.3 million in 2002 to 2.9 million in 2012 (27%). For medical assistants, BLS forecasts an increase in demand of 59% (from 265K to 579K) – the highest of any US occupation.
- Circadian Technologies' 2005 survey found that healthcare workers have a 19% turnover rate, higher than any other “extended hour” industry.
- It's not just nurses and aides – physician assistants, home health aides, medical records and health info techs, PT aids are all among the fastest-growing occupations.



## Healthcare Access:

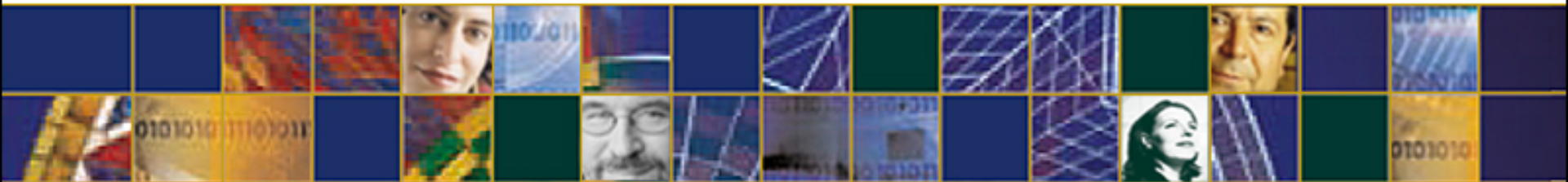
- 46.1 million Americans without health insurance in 2005, and continuing to grow
- Approximately 80% are adults, 20% children. (Kaiser Family Foundation)
- More than 70% of those uninsured are employed.
- Those without access to care tend to prolong treatment or seek emergency care for conditions that could have been addressed earlier for much lower cost.

*Is there anything more we need to say?*



## The Perfect Storm – The Confluence of Factors that will Catalyze Change in Healthcare:

- Age Wave and the expectations of aging Boomers
- The proliferation of information and a demand for transparency
- Consumer-driven plans that put just the right amount of stewardship responsibility on the patient.
- Disruptive innovation from companies such as Minute Clinic or US Oncology – that challenge the traditional models and providers of care



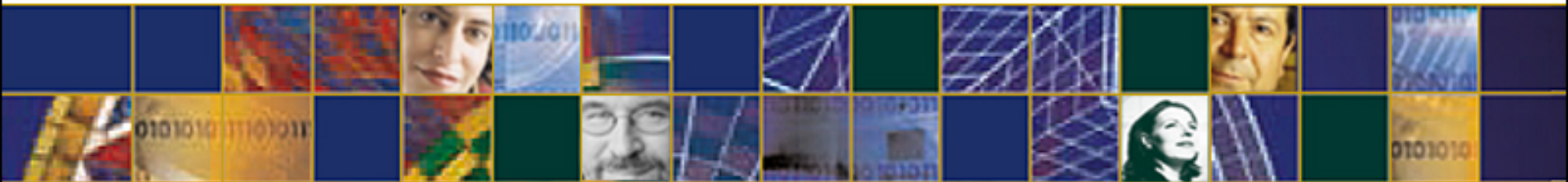
# Moving Towards a Consumer-Driven Model:

## Old Model

- Patients paid only a small percentage of the cost of care; insurance covered the rest.
- Patients had little way of assessing quality and trusted that most hospitals were created equal.
- Similarly, in the absence of meaningful data, physicians were also given the benefit of a doubt in terms of their quality of care.
- Patients deferred to their physician regarding their treatment.
- Patients had little choice but to accept poor levels of service.

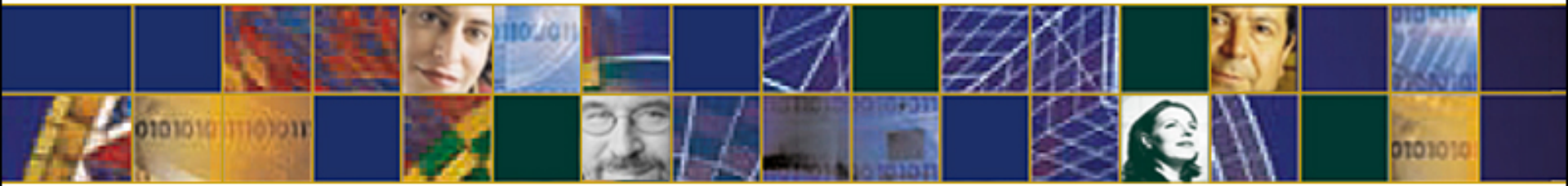
## New Model

- CDHPs will result in patients shouldering a greater share of the cost of their own healthcare – leading to greater awareness of choices they make.
- Technology and newly available data will give patients more tools for assessing the quality of care provided by individual hospitals and physicians.
- More informed patients will work in collaboration with their doctors to choose appropriate treatments.
- Patients will demand convenience, service excellence and high quality care. If they don't get it, they will go elsewhere.



# MEETING CONSUMER EXPECTATIONS –

*Since healthcare is obviously different from fast food, let's  
break it down to see what we can learn from it.*



# Predictability & Consistency:

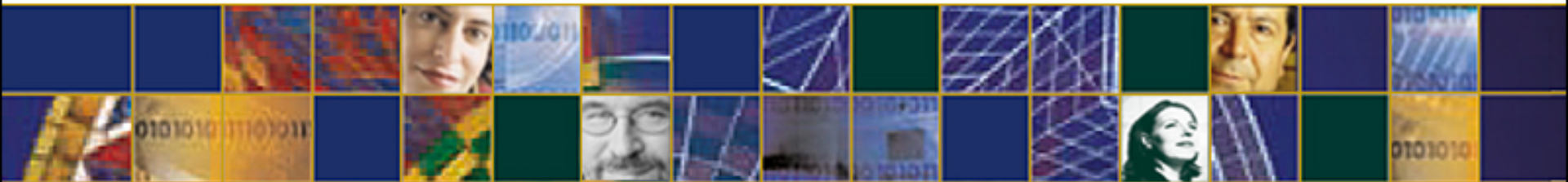
## McDonald's

- Consistent product quality ensures that a quarter-pounder in Washington, DC and Wellington, NZ taste the same.
- This predictability gives consumers confidence in the brand.
- The tight process engineering that ensures product consistency also results in tremendous efficiency gains through minimization of variation in process.
- Over 275,000 people have graduated from McDonald's Hamburger University – a consistent training experience for all.



## Healthcare

- Healthcare is the antithesis of a smoothly operating factor of care with replicable outcomes. It is a cottage industry with little standardized processes.
- Geographic variations in care delivery and outcome were well documented in the Dartmouth Atlas.
- Slow movement towards adoption of pathways and protocols, coupled with standardization in medical education could eventually lead to more consistency across the industry.
- Disruptive innovators understand the importance of a process-driven model.



# Quality:

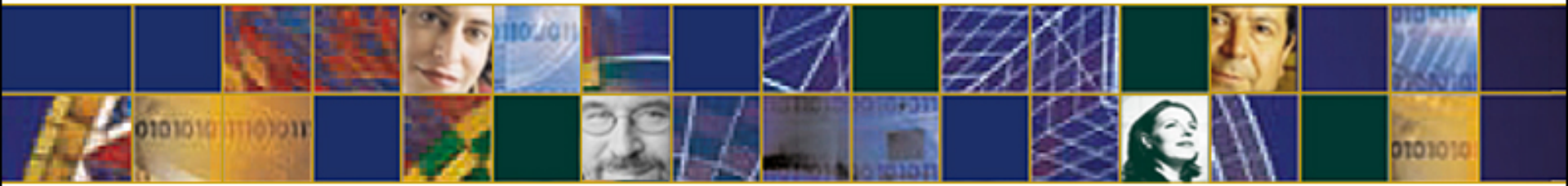
## McDonald's

- If our metrics include: freshness, “tastiness,” food temp, duration between prep and serving, McDonald's offers consistently high quality.
- McDonald's has been methodical in development of its supply-chain to ensure timely access to the right ingredients.
- The company has set exceedingly high training expectations to ensure that its brand standards are understood, honored, and delivered every day.



## Healthcare

- Healthcare is infinitely more complex, and hence quantifying quality is a bit of a Herculean challenge.
- Just beginning to make inroads with some indicators.
- Need far more science and far less hype from marketing firms that have made a pseudo-science out of measuring quality.
- Without quality, it is impossible to quantify value in care delivery.



# Price/Value:

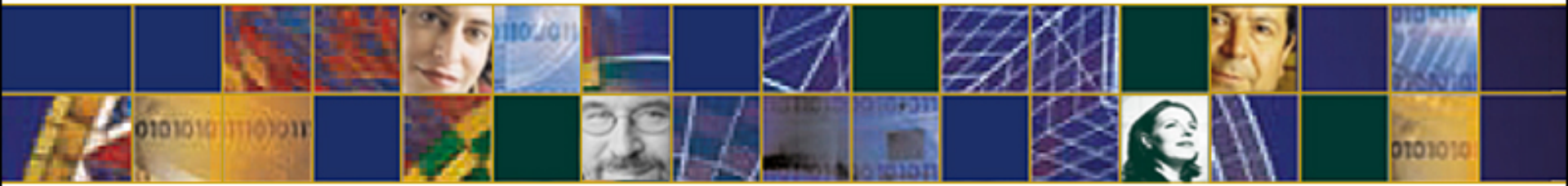
## McDonald's

- It must deliver competitive value. Customers can compare McDonald's prices to Wendy's or Burger King just by looking at the menu.
- Offer packaged pricing (#1-#10 + Happy Meals)
- Offer varying size options.



## Healthcare

- Published prices have very little to do with what a hospital is compensated.
- True compensation or reimbursement varies based upon contractual allowances.
- Deciphering hospital charges has been close to impossible for patients
- The costs associated with many common procedures are hard to fathom.
- Medical Billing Advocates of America (MBAA) estimates that almost 9 out of 10 medical bills contains errors.



# Accessibility:

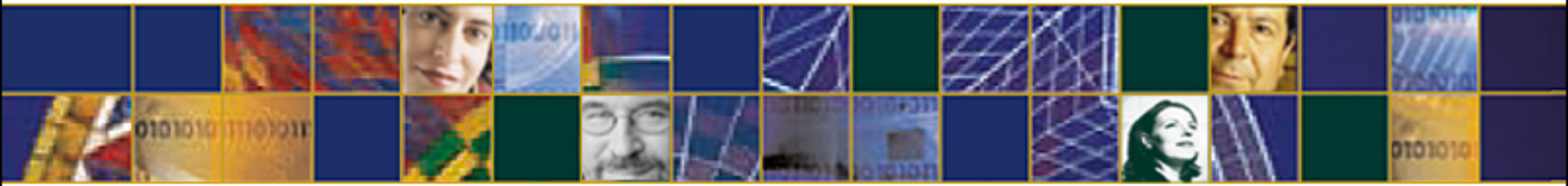
## McDonald's

- Not on every street corner, but damn close.
- 30,000 distribution points in 119 countries.
- Available and affordable to “all.”



## Healthcare

- Complex infrastructure precludes easy distribution of services.
- Some services can be offered in stand-alone, ambulatory facilities.
- Unnecessary duplication of costly services becomes an issue.
- Accessibility to those individuals without the requisite health insurance is a major issue.



# Service:

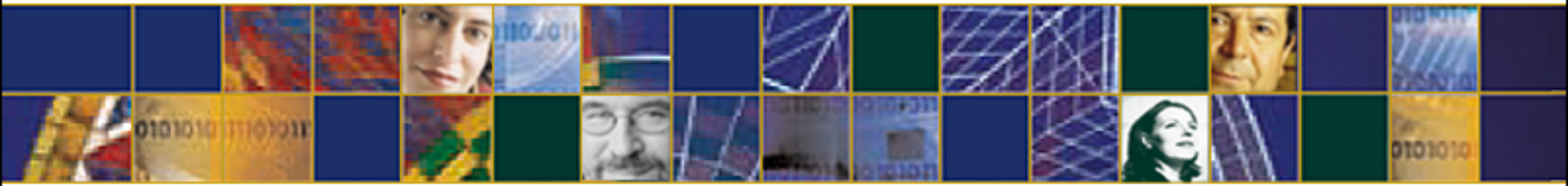
## McDonald's

- Customers expect to be greeted rapidly and politely.
- Order completed within one to two minutes.
- Customers thanked for their order.
- If not right, McDonald's immediately stands behind the product.



## Healthcare

- What service?
- Consumers expect: a) To be hassled; b) To fill out multiple forms; c) To wait unreasonable periods of time; d) To not be told key results from testing in a timely fashion; e) To have mistakes made that can impact their care; f) To suffer during the experience.



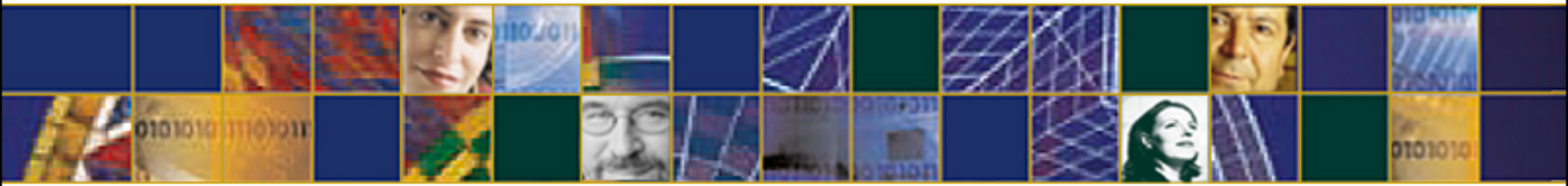
# Variety/Options:

## McDonald's

- A menu of offerings designed to meet the diverse likes of a family.
- Experiment with different menu options to satisfy regional or even international variations in food customs.
- In response to consumer demands, more healthful foods – salads, yogurts, fruits, carrot sticks – are now on the menu, as are variations in portion size.
- For 30 years, comprehensive nutrition information has been available to the public (McDonalds was first to do this voluntarily)

## Healthcare

- Fundamental question as to whether hospitals should be full-service or highly focused “factories of care.”
- Specialty hospital movement raised tremendous concern...and ensuing restrictions.
- Hospitals and physicians, in general, lack innovation in developing options for more efficient and effective delivery of care.



# Safety:

## McDonald's

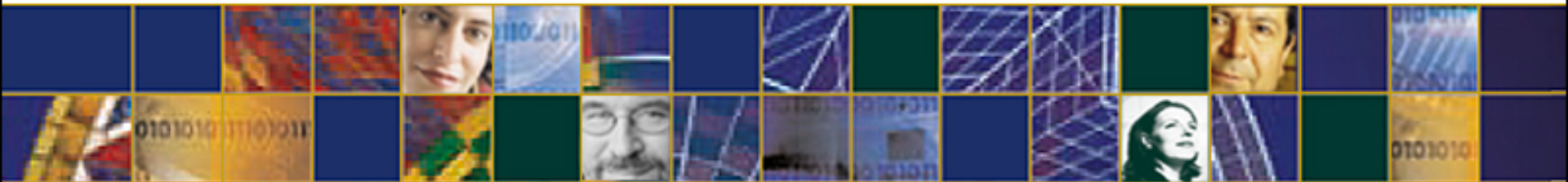
McDonald's has successfully infused its restaurants and suppliers with a culture of safety:

- **72 daily safety protocol checks required for every restaurant**
- **2,160 safety checks and procedures monthly in every restaurant**
- **Quality/safety testing conducted every 2 hours in all beef supplier facilities**
- **2,000 safety/quality checks in each chicken supplier facility.**
- **95 daily safety/quality checks for each potato provider**
- **Cooperative and collaborative relations with USDA inspectors – who have daily and unlimited access to all points of production.**



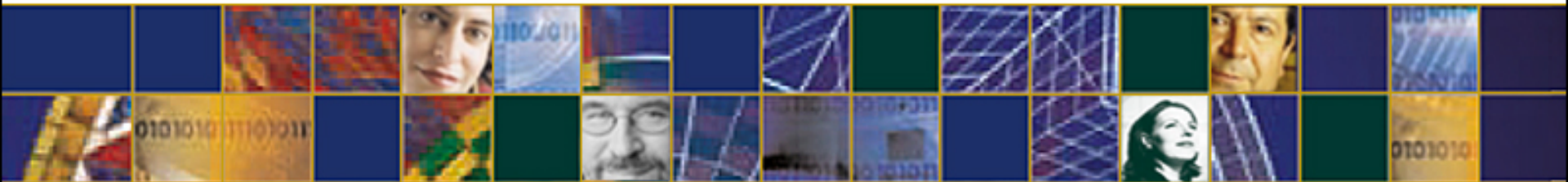
## Healthcare

- The 1999 report “Too Err is Human,” by IOM, blew the lid off of healthcare’s dirty little secret.
- The industry is rife with systemic issues, and its “shame & blame” culture prevents exposure and cure.
- CMS has only recently announced that it will no longer reimburse for costs associated with preventable medical error.

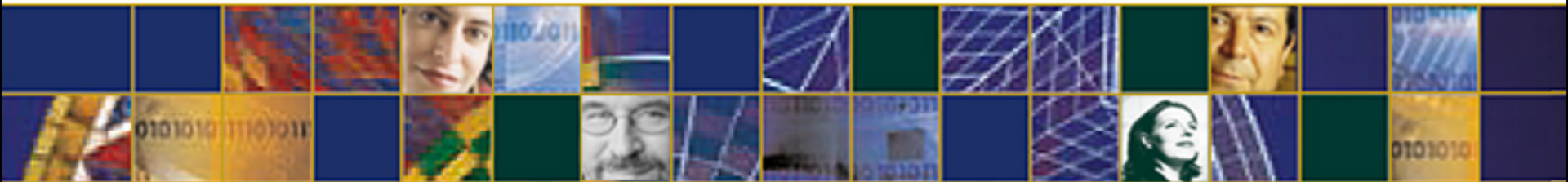


# What can be learned from McDonald's?

	Potential Lessons for Healthcare
Predictability & Consistency	Consumers desire predictability and consistency – in all aspects of their experience. Consistency is a hallmark of consumer expectations.
Quality	Quality must be conveyed at all times to the consumer. Providers are responsible for not only providing high quality services, but helping consumers understand what quality means.
Price & Value	Understanding price allows consumers to determine value. Providers should strive to make prices as transparent as possible – to themselves as well as patients.
Accessibility	Consumers want more convenient access. Providers should strive to offer care in more accessible (by time of day, place, amenities, etc.) settings.
Service	In an increasingly commoditized consumer-driven industry, service differentiates one provider from another. Providers need to change consumer's low expectations of health care providers by providing excellent and consistent service.
Variety/Options	Though constrained by regulations and payment mechanisms, providers should seek to offer the variety of services and amenities that consumers desire and for which providers are reimbursed adequately.
Safety	Safety concerns – whether for food or healthcare – are paramount. Safety issues must be addressed at every point in the value chain. As with prices, transparency is crucial.

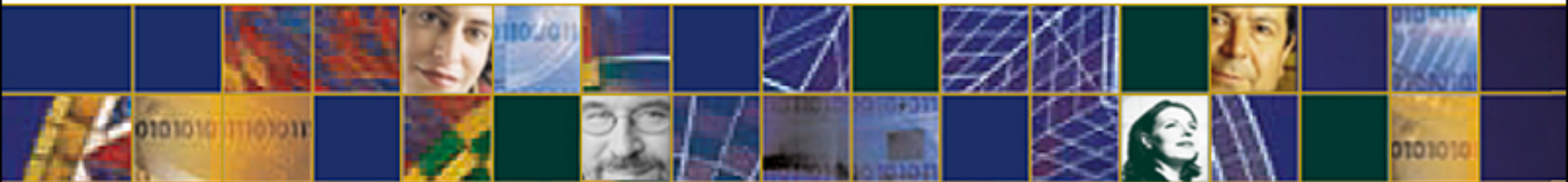


# **THE INNOVATORS: EXAMPLES OF CONSUMER-DRIVEN HEALTHCARE PROVIDERS**



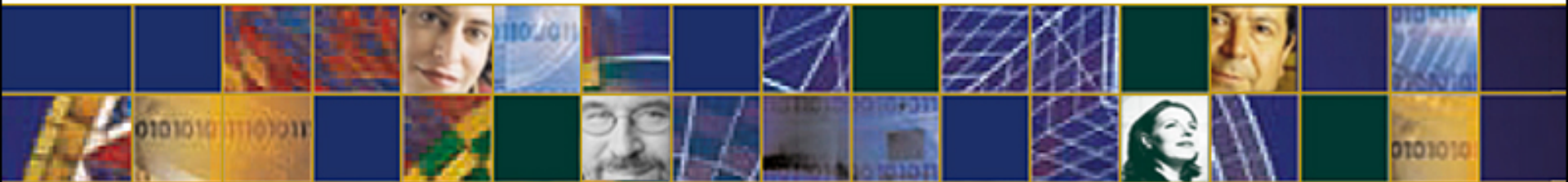
## Innovator: Minute Clinics

- Started in Minneapolis by Michael Howe, CEO
- Small, primary care clinics in locations convenient to consumers (near retail, public buildings, corporate campuses)
- Treatment of minor, episodic acute ailments.
- “EMR” driven with well-proscribed protocols (best practice guidelines)
- Priced 40-50% under market for physicians’ offices
- In past six years, 500,000 patient visits, no malpractice claims, and 97-98% patient satisfaction.
- Successful because it is embraced by the community – patients, businesses, payors, etc.

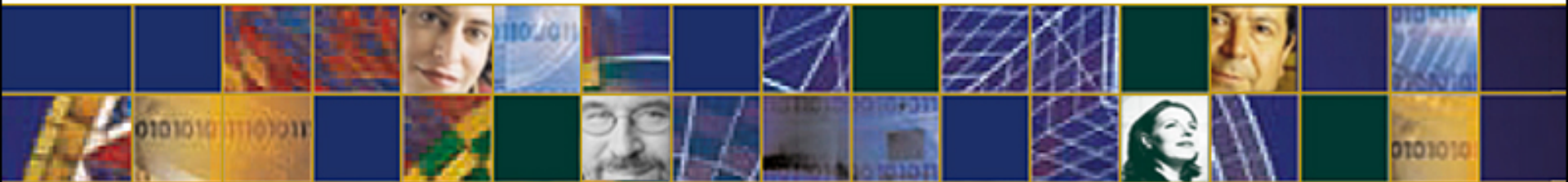


# Innovator: US Oncology

- Texas-based provider of oncologic services
- Brought together medical oncology, diagnostic radiology, and radiation therapy in a single, ambulatory center located in convenient suburban locations. Saved patients and their families time, money, and anguish during a difficult time.
- Supported by strong commitment to research and protocol development.
- Has become the dominant force in oncology in many markets.
- Tremendous resistance from traditional hospitals and unaligned oncologists.



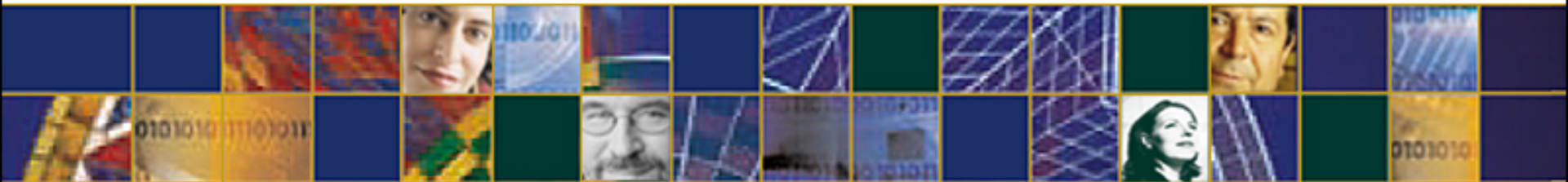
***So, given the lessons we talked about today regarding McDonald's and healthcare , what does it take for a provider to become a leader in the Consumer-Driven Health Care World?***



## Consumer-Driven Healthcare Calls For....

### Consumer-Driven Provider Strategies

- 1. Pricing Strategies** should serve to competitively differentiate providers. Understanding the true costs and reimbursements of services will help providers position themselves more effectively in their markets.
- 2. Organizational and Structural Strategies** need to permit providers to rapidly adapt to consumer demands. Traditional department and specialty structures are not conducive to change.
- 3. Strategies for Greater Efficiencies** should result in lower operating costs (i.e., supplies, pharmacy, LOS, etc). Where value is in the forefront of consumers, higher levels of efficiency (and reduced costs) are a requirement for providers.



## Consumer-Driven Healthcare Calls For....

### Consumer-Driven Provider Strategies

- 4. Service Excellence Strategies** should be global in nature and highly responsive to customer demands. Most providers fall tragically short of even modest customer expectations for service. Consumers will flock to those that provide better service.
- 5. Communications and Market Positioning Strategies** should build on the distinct features and competencies that consumers care about. Careful message development must recognize and promote the key elements of that provider's competitive strengths, rather than solely the institution as a whole.