The Future for Hospitals and Health Systems
Adapting Strategy to the Evolving Market Environment
Road Map

1. Health Care on a Budget
2. Adapting the Health System for Success
3. Maintaining Focus on the Right Ends
Selective Pressures on the Health Care System

A Fragile Equilibrium

Industry Characteristics Only Incrementally Changed for Decades

- Relatively reactive; slow shift from hospital-centric to provider-centric
- Centralized around hospital footprint, bringing patient to site of care
- Siloed across continuum, limited collaboration among providers
- Patients engaged only for acute episode

Facing Major Forces of Change

- Baby Boomers
- Public Health Crisis
- Information Revolution
- Health Reform
The End of Uncertainty

All Paths Lead to Health Care on a Budget

Three Manifestations of Health Care on a Budget

1. Federal Budget Framework
2. Budgeting in the Private Market
3. Individuals on a Budget

Source: Health Care Advisory Board interviews and analysis.
Decelerating Price Growth
- Federal, state budget pressures constraining public payer price growth
- Payments subject to quality, cost-based risks
- Commercial cost shifting stretched to the limit

Continuing Cost Pressure
- No sign of slower cost growth ahead
- Drivers of new cost growth largely non-accr etive

Shifting Payer Mix
- Baby Boomers entering Medicare rolls
- Coverage expansion boosting Medicaid eligibility
- Most demand growth over the next decade comes from publicly insured patients

Deteriorating Case Mix
- Medical demand from aging population threatens to crowd out profitable procedures
- Incidence of chronic disease, multiple comorbidities rising

Source: Health Care Advisory Board interviews and analysis.
Welcome to Pleasantville

Average Care for Average People

Key Characteristics

<table>
<thead>
<tr>
<th>Number of beds</th>
<th>Operating margin</th>
<th>Medical share of case mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>300</td>
<td>2.2%</td>
<td>73%</td>
</tr>
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</table>

Case in Brief: Pleasantville Hospital

- Health Care Advisory Board model hospital
- Revenue, cost, and operational inputs based on national averages
- Inputs adjusted to forecast impact on future financial performance
- Offers insight into relative opportunity of pulling various margin improvement levers

Source: Health Care Advisory Board interviews and analysis.
2021 Not So Pleasant

Future State Untenable Without Major Improvement

Overall Impact of Market Forces at Pleasantville

2021

- 2.2% Current Margin
- 4.0% Projected Operating Margin
- -16.9% Total Gap to Goal

Includes effects of:
- Price growth trends
- Cost growth trends
- Payer mix shift
- Case mix deterioration

- 20.9% Total Gap to Goal

The 4.0% Margin Imperative

- Significant long-term capital needs across the board
- Tax-exempt debt unsuitable for financing IT, physician integration investments
- Retained earnings required to fund greater portion of capital
- Financial volatility demands higher margin to compensate for increased risk

Source: Health Care Advisory Board interviews and analysis.
Can We Run on Medicare Margins?

Restoring Profitability with Aggressive Margin Management

The Path to Sustainable Acute Care Economics

Drivers
- Full Revenue Capture
- Operational Improvements “Bend” our own Cost Trend
- Capturing Full Effective Capacity
- Effective Medical Management
- Procedural Market Share Gains

Source: Health Care Advisory Board interviews and analysis.
Road Map

1. Health Care on a Budget

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3. Maintaining Focus on the Right Ends
Perfectly Adapted to Yesterday’s Environment?
Rightfully Proud of Today’s Best-in-Breed

Median Aa Rated
Hospital/Single State Health System

Financial Performance and Balance Sheet

- Operating Margin: 4.7%
- Excess Margin: 8.7%
- Accounts Receivable Days: 48.3
- Maintained Bed Occupancy: 72.4%
- Return on Assets: 6.8%
- Debt-to-Capitalization: 32%
- Capital Spending Ratio: 1.3 Days
- Cash-on-Hand: 225.8

Source: Moody’s Not-for-Profit Healthcare Medians for Fiscal Year 2009, August 2010; Health Care Advisory Board interviews and analysis.
Hallmarks of Adaptive Organizations

A Common Approach to “Forced” Evolution

- Customer-focused
- Quick response to changes in consumer preference
- Continual reevaluation of product offerings
- Receptive to change
- Build loyalty among consumer base
- Outperform their own standards

Moment of Evolutionary Destiny

Aspiring to More than Survival

Identifying the Attributes Required for Building the New Breed Health System

Source: Health Care Advisory Board interviews and analysis.

Operational Focus

Strategic Focus

Adapting to Immediate Threat

Developing a New Genetic Code

Taking the Evolutionary Leap

Adaptation to New Environment

Economic Model

Clinical Model

Organizational Model

Clinical Model

Extending Our Reach

- Improving efficiency
- Reducing unit cost
- Managing mix
- Evolving footprint across the care continuum to meet population needs
- Leveraging information to direct care pathway, differentiate organization
- Recreating workforce of local and virtual providers to offer local best-in-class care
- Extending health to patient home, neighborhood
- Building community workforce for ongoing support

Extending Our Reach

Source: Health Care Advisory Board interviews and analysis.
Achieving The New Performance Standard

Inaction Not an Option

Nine Imperatives for Achieving the New Performance Standard

1. Maximize Revenue Capture
2. Excel Under Performance Risk
3. Bend Labor Cost Curves
4. Standardize Clinical Care Pathways
5. Redesign Inpatient Care Models
6. Build Effective Capacity
7. Reassess Supply of Less Profitable Services
8. Deflect Demand of Less Profitable Services
9. Secure Surgical Market Share

Source: Health Care Advisory Board interviews and analysis.
Revising the Strategic Playbook for 2020

Anticipating Fundamental Changes in Our Approach

**Strategic Focus**

**Rethinking the Business Model**
- Leverage partnerships as assets to ensure full continuum reach, bring best-in-class care local
- View scale through lens of clinical expertise, continuum reach
- Utilize enterprise network to inform care pathway development, conduct analytics to determine population need
- Expand reach into patient home with continuous monitoring, proactive support
- Balance local and virtual workforce
- Utilize PCP as leader of care team
- Engage non-clinical peers to maximize patient outreach and support
- Mobilize community leaders to improve overall neighborhood health and wellness
- Partner to connect with, not re-create, highest-value community resources

**Rethinking Organizational Model**
- Secure scale for operational efficiency, contract negotiation
- Ensure seamless transfer from acute care to post-acute, primary care
- Prioritize Meaningful Use requirements to earn bonus, avoid penalty
- Begin to forge connections with other providers working with the same patient population
- Secure profitable specialist alignment
- Engage and secure PCP access and referral chains
- Shift PCPs to medical home practice
- Begin to identify populations—such as employees—to pilot accountable care opportunities
- Pursue payer or employer pilots to test new care delivery models

**Rethinking the Clinical Model**
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**Playbook for 2012**
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Source: Health Care Advisory Board interviews and analysis.
Defining Our Value Proposition Clearly

Strategic Adaptation #1—Target Business Model

Three Strategic Identities

System as Premium Service Provider

Demonstrating categorical dominance in FFS

Systems as Preferred Network

Redesigning contracts to create a closed network

System as Population Health Manager

Contracting directly to share actuarial risk

Source: Health Care Advisory Board interviews and analysis.
Medicare Fired the Starting Gun…

“We are all accountable care organizations now…”

Accountable Payment Models

<table>
<thead>
<tr>
<th>Performance Risk</th>
<th>Utilization Risk</th>
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<tbody>
<tr>
<td>Cost of Care</td>
<td>Quality of Care</td>
</tr>
<tr>
<td>Volume of Care</td>
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Bundled Pricing
- Bundled Payments for Care Improvement Program

Contingent Payment
- Pay-for-Performance
- Value-Based Purchasing Program
- Hospital Readmissions Reduction Program

Shared Savings
- Medicare Shared Savings Program
- Pioneer ACO Program

Source: Medical Group Strategy Council interviews and analysis.
...But No Longer the Pace Car

Private Market Accountable Care Initiatives Developing Nationwide

- **Blue Shield California**: ACO with Brown & Toland IPA
- **Anthem Blue Cross**: ACO pilot with Monarch Healthcare IPA
- **BCBS Minnesota**: Shared savings contract with five providers
- **BCBS Illinois**: Shared savings contract with Advocate Health Care
- **Humana**: ACO pilot with Norton Healthcare
- **UnitedHealth Care**: ACO with Tucson Medical Center
- **CIGNA**: Medical home contract with Piedmont Physicians Group
- **Aetna**: ACO pilot with Carilion Clinic
- **BCBS Massachusetts’s Alternative Quality Contract**: Annual global budget, quality incentives for participating providers

### A Complex Leadership Challenge

<table>
<thead>
<tr>
<th>Structural Integration</th>
<th>Functional Integration</th>
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<tbody>
<tr>
<td>How do our pieces fit together to support the whole?</td>
<td>How do we work together to execute business functions?</td>
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<table>
<thead>
<tr>
<th>Clinical Integration</th>
<th>Strategic Integration</th>
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<tr>
<td>How do we work together to deliver reliable, seamless care to patients?</td>
<td>How can we cooperate to achieve market advantage?</td>
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Source: Health Care Advisory Board interviews and analysis.
Shifting From a Vertical to a Horizontal View

Implementing Horizontal Management as Part of “One Scripps” Campaign

Case in Brief: Scripps Health

- 5-hospital system in Southern California
- Organized system management into horizontal divisions spanning all member facilities
- Objectives: establish matrix management structure, identify non-value-added variation, convene horizontal workgroups to standardize units of service, drive resource prioritization and regionalization

Source: Health Care Advisory Board interviews and analysis.
Where is the Patient in the Medical Home?

Key Considerations for Patient Accountability in the Care Delivery System

Two Critical Elements of Achieving Patient-Centered Primary Care

- Redesigning Primary Care
  - Leveraging a Care Team
  - Utilizing a Disease Registry
  - Building Standards around Patient Management

- Engaging Patients
  - Treating Patients as the "Subject" of the Care Plan
  - Supporting Lifestyle Changes

Delivering on the Promise of Person-Centered Care

1. Painting a Full Picture of Health
2. Supporting Goal Setting and Self-Management
3. Optimizing Communication to Advance Clinical "Partnership"
4. Working with Individual—Not Patients—to Promote Health
5. Re-orienting the Continuum Around People and Families

Source: Health Care Advisory Board interviews and analysis.
Redefining the Network’s Footprint
Integrating Access Points, Full Continuum of Providers to Improve Care

Extending the Scope of the Organization to Meet Patients’ Needs

Medical Home
Retail Clinic
FQHC
Home Monitoring
Hospital Network

Ongoing Care Management
Acute Care
Post-Acute Care

Affiliating Across the Care Continuum

Source: Health Care Advisory Board interviews and analysis.

1) Federally Qualified Health Center.
## Future Skills of the Clinical Workforce

<table>
<thead>
<tr>
<th>Staff Member</th>
<th>Competencies</th>
</tr>
</thead>
</table>
| **Specialist**     | • Focuses on team, clinical, and operational performance  
                      • Integrates standard protocols into patient care, daily operations  
                      • Expands clinical vision from single care event to entire care episode  
                      • Incorporates new IT resources into workflow, merges information from new and traditional sources  
                      • Staff may be accessed remotely, virtually  
                      
                      *Medical*: Financial success linked to care continuum coordination and patient outcomes  
                      *Surgical*: Financial success linked to patient outcomes and efficiencies |
| **PCP**            | • Requires intense focus on team management; communication and delegation are key  
                      • Uses IT to interact with and manage patient panel  
                      • Prioritizes patient communication and interactions  
                      • Case mix shifts toward caring for more clinically complex patients |
| **Mid-level Provider Staff** | • Requires RN, NP, PA heavy workforce for care plan implementation, positive clinical outcomes  
                      • Builds strong patient relationships through interpersonal and communication skills  
                      • Engages as a team player and delegates non-clinical tasks; may manage non-clinical staff  
                      • Manages patient activation, provides disease management  
                      • Requires IT proficiency  
                      • Responsibilities may include patient population management, case management |

Source: Health Care Advisory Board interviews and analysis.
Leveraging the Information Asset

Expanding the Impact of Information

- Extending Our Reach to Improve Population Health
- Rationalizing Utilization Across the Care Continuum
- Leveraging Automation to Improve Performance

Reach Across Care Settings

Extent of Information Sharing

Source: Health Care Advisory Board interviews and analysis.
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Setting Strategy for the New Normal

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Source: Health Care Advisory Board interviews and analysis.
Maintaining Focus on the Right Ends and Means

What kind of growth serves our mission?

IDEAL

A Definition

IDEAL, n. 1. The key to unlock the code for twenty-first century business success. 2. The only sustainable way to recruit, unite, and motivate all the people a business touches, from employees to customers. 3. The most powerful lever a business leader can use to achieve competitive advantage. 4. A business’s essential reason for being, the higher-order benefit it brings to the world. 5. The factor connecting the core beliefs of the people inside a business with the fundamental human values of the people they serve. 6. Not social responsibility or altruism, but a program for profit and growth based on improving people’s lives.

Reforming Health Care by Choice
Care Model Entrepreneurship to Drive Future Top-Line Performance

Health System Transformation Timeline

Collins Health System

2011

Multiple Population Management Contracts
Engage most payers in incentive redesign

Initial Shared Savings Contract
Convince payer to pilot new contract model, terms

Primary Care Transformation
Develop care management capabilities

Compensation Model Redesign
Align new incentives to new performance metrics

Information Technology Investments
Build out population risk management data infrastructure

Executive Vision
Initiate cultural, strategic transformation

2008

Source: Health Care Advisory Board interviews and analysis.
Will we Thrive as a System in the Future?

<table>
<thead>
<tr>
<th>Key Strategic Questions for System Executives</th>
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<tbody>
<tr>
<td>1. Will we innovate or react to disruptive innovation?</td>
</tr>
<tr>
<td>2. Can we walk and chew gum at the same time?</td>
</tr>
<tr>
<td>3. Can we get tough with ourselves?</td>
</tr>
<tr>
<td>4. Can we leverage physician alignment to drive value creation?</td>
</tr>
<tr>
<td>5. Can we move just quickly enough?</td>
</tr>
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</table>

Source: Health Care Advisory Board interviews and analysis.