

# **Industrializing Healthcare: *How Transparency, Efficiency, and Markets will Transform the Industry***

S A G E G R O W T H  
P A R T N E R S

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March 2015



# Hypothesis:

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The US Healthcare business is  
*Pre-Industrial* and will be disrupted.  
Revenue redistribution will be the  
catalyst.



# Pre-Industrial Symptoms

- *High Degree of Variability*  
.....
- *Lack of Transparency – lots of information asymmetries*  
.....
- *Opportunistic Innovation*  
.....
- *Limited Division of Labor*  
.....
- *Marginal Quality*  
.....
- *Health Status Inequality*

# How we got here - IMHO

- *The “Great Society” created “Great Gaming”*  
.....
- *Fee-for-Service has driven a volume mentality*  
.....
- *Third Party Insurance and a lack of consumer sovereignty have kept the watchdog at bay*  
.....
- *“Fourth-Party” - Employers have been complicit — “Out to Lunch?”*  
.....
- *Government’s growing role—Provider, purchaser, payer, regulator, educator, trainer, insurer—has created a feeding frenzy without accountability*  
.....

# Industrialization

- *The extensive reorganization of an economy – in every sector*
- *Investment gets redirected (therapeutics vs diagnostics) and efficiency drives growth – the \$1T arbitrage opportunity*
- *The supply-side will have less influence on demand*

# Don't Confuse Industrialization with Protectionism

## *It's NOT*

- *Consolidation to drive prices or control access*  
.....
- *Instituting cookie cutter medicine*  
.....
- *A mechanism to force physicians to the employment of hospitals*  
.....
- *An inhibitor to Innovation*

# Intractable Problems



***Demography***

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***Economics***

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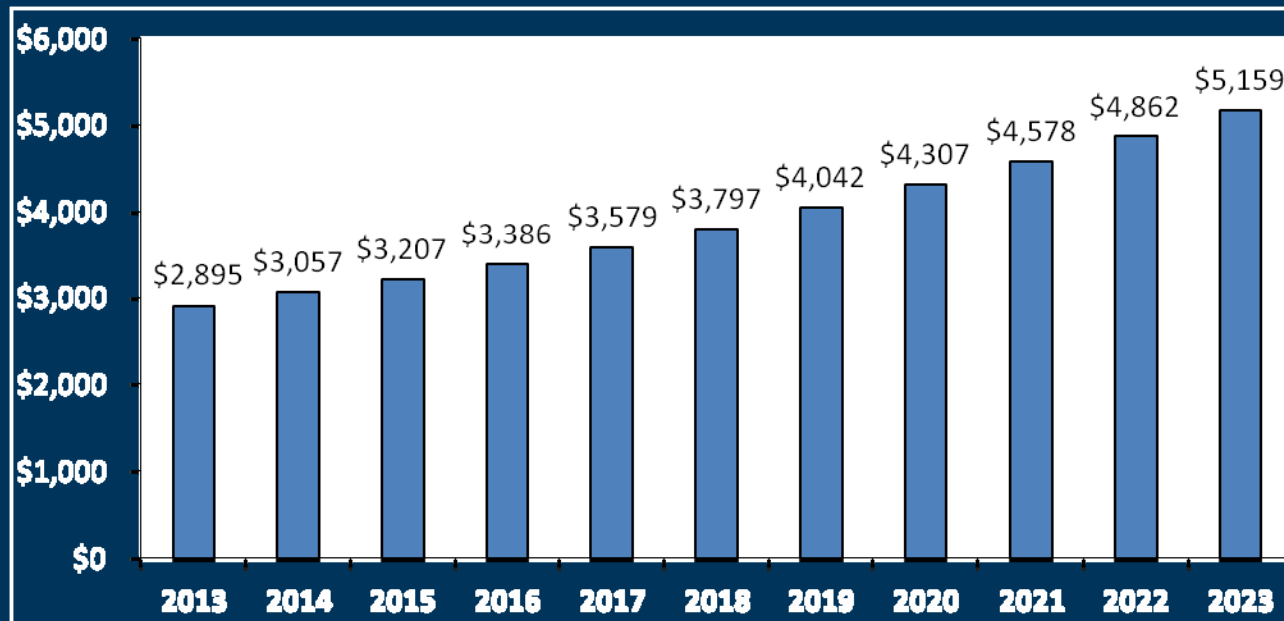
***Technology***

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***Societal***

# PROBLEM #1 - Health Expenditures as a Percentage of GDP



NHE as a Share of GDP: 17.2% 17.6% 17.6% 17.7% 17.8% 17.9% 18.1% 18.4% 18.7% 19.0% 19.3%

SOURCE: Kaiser Family Foundation calculations using NHE data from Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, at <http://www.cms.hhs.gov/NationalHealthExpendData/> (see Projected; NHE Historical and projections, 1965-2023, file nhe65-23.zip).





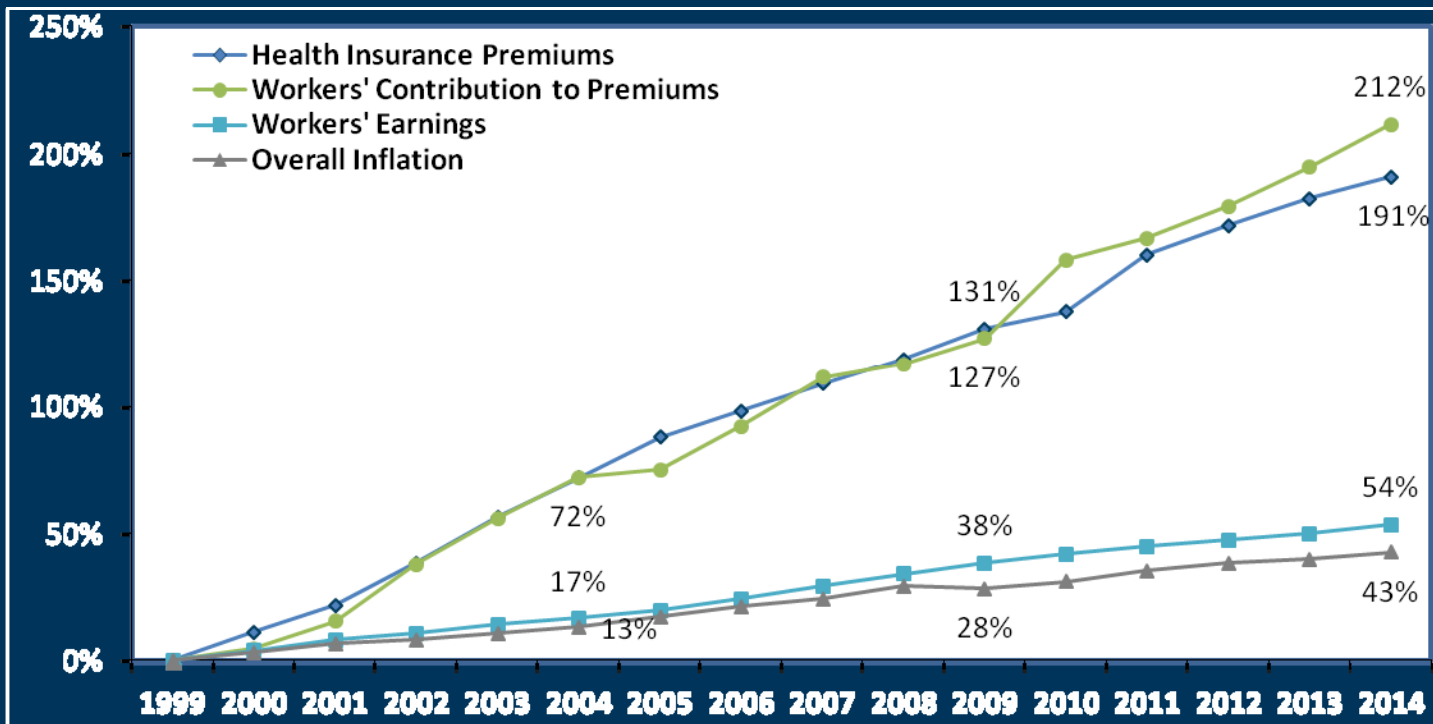
# Is the Juice Worth the Squeeze?

TABLE: Seventeen High-Income Countries Ranked by Life Expectancy at Birth, 2007

Males			Females		
Rank	Country	Average Length of Life	Rank	Country	Average Length of Life
1	Switzerland	79.33	1	Japan	85.98
2	Australia	79.27	2	France	84.43
3	Japan	79.20	3	Switzerland	84.09
4	Sweden	78.92	3	Italy	84.09
5	Italy	78.82	5	Spain	84.03
6	Canada	78.35	6	Australia	83.78
7	Norway	78.25	7	Canada	82.95
8	Netherlands	78.01	7	Sweden	82.95
9	Spain	77.62	9	Austria	82.86
10	United Kingdom	77.43	9	Finland	82.86
11	France	77.41	11	Norway	82.68
12	Austria	77.33	12	Germany	82.44
13	Germany	77.11	13	Netherlands	82.31
14	Denmark	76.13	14	Portugal	82.19
15	Portugal	75.87	15	United Kingdom	81.68
16	Finland	75.86	16	United States	80.78
17	United States	75.64	17	Denmark	80.53

SOURCE: Data from the Human Mortality Database, the World Health Organization Mortality Database, and Statistics Canada, as reported in Ho, J. Y. and S.H. Preston (2011). *International Comparisons of U.S. Mortality*. Data analyses prepared for the National Academy of Sciences/Institute of Medicine Panel on Understanding Cross-National Health Differences Among High-Income Countries. Population Studies Center, University of Pennsylvania.

# PROBLEM #2: Consumerism is Coming!



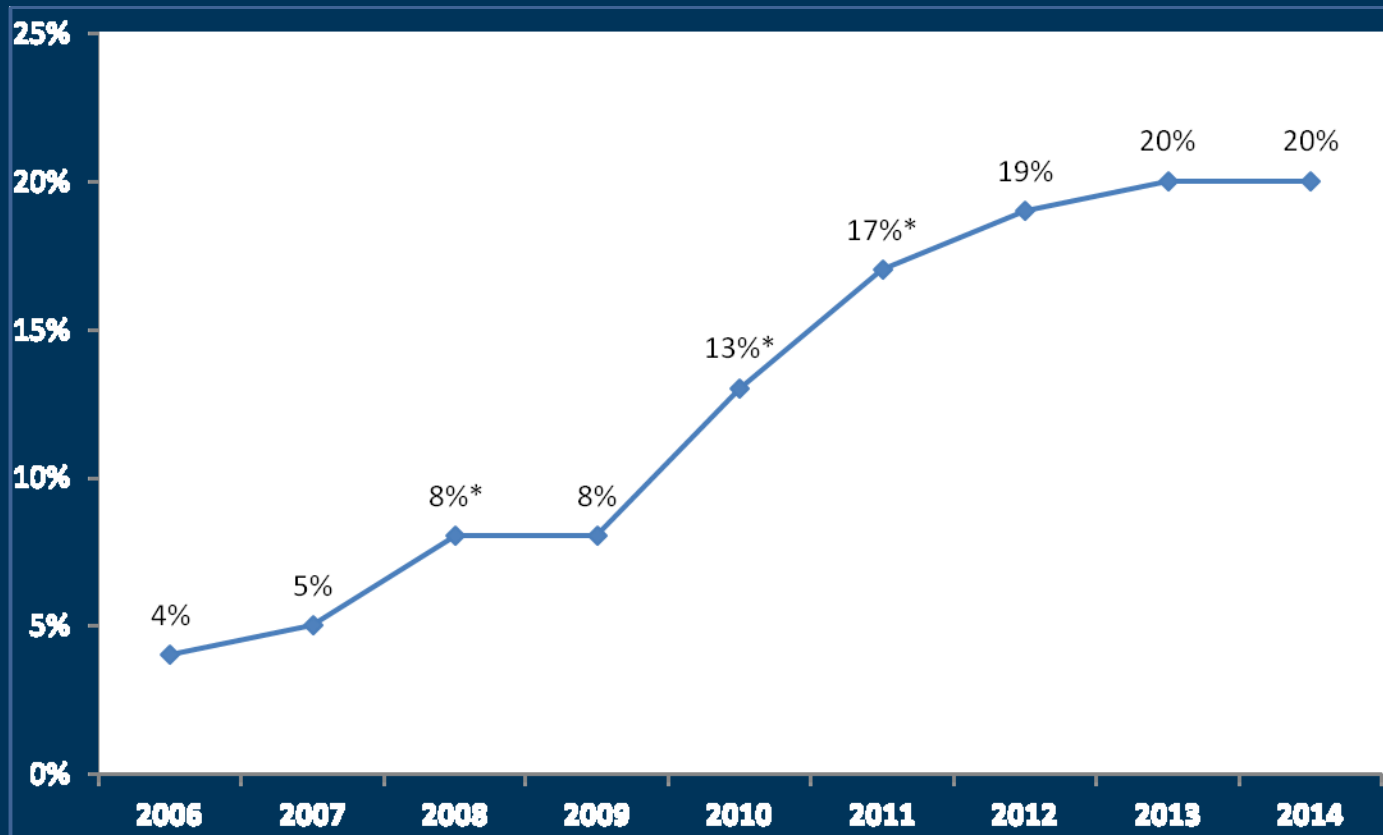
AND



SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2014. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2014; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2014 (April to April).



# Rapidly Increasing High Deductibles



THE HENRY J.  
KAISER  
FAMILY  
FOUNDATION

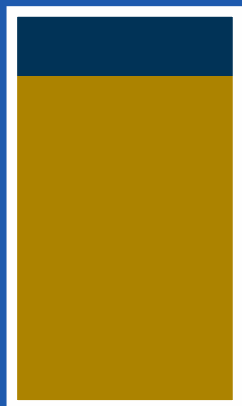
AND

**HRET**  
HEALTH CARE REFORM EVALUATION &  
RESEARCH CENTER  
A PARTNERSHIP WITH SAGE

\* Estimate is statistically different from estimate for the previous year shown ( $p < .05$ ). SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006-2014.



# We aren't good healthcare consumers



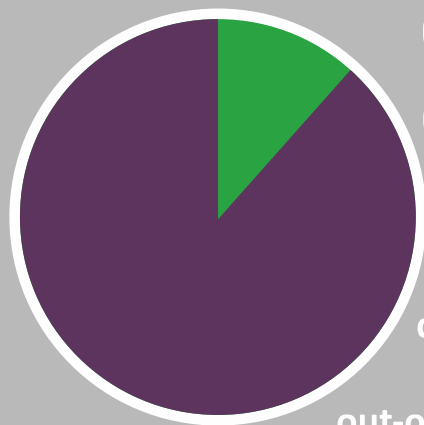
**80M**

People who skip or delay care due to costs, up from 64 million in 2005



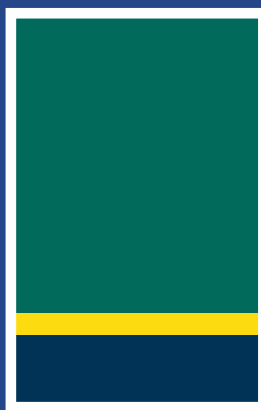
**HALF**

Of all U. S. bankruptcies are for medical debt – despite having health insurance



**14%**

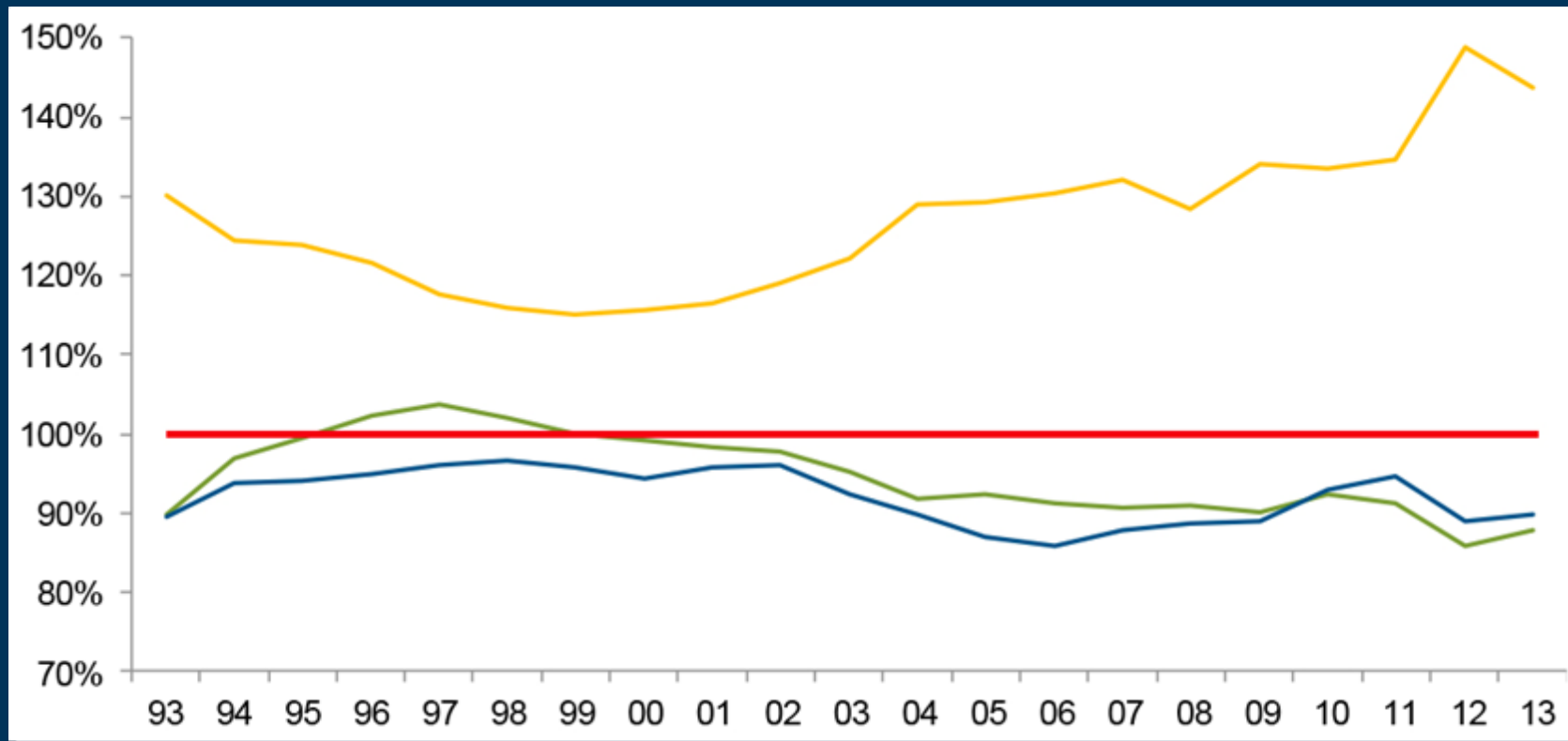
Few Americans understand the concepts of deductibles, co-pays co-insurance and out-of-pocket maximums



**11.3%**  
**16.7%**

Hospital/physician practice recovery rate for bad debt

# Problem #3: The Entitlements are Under-Water

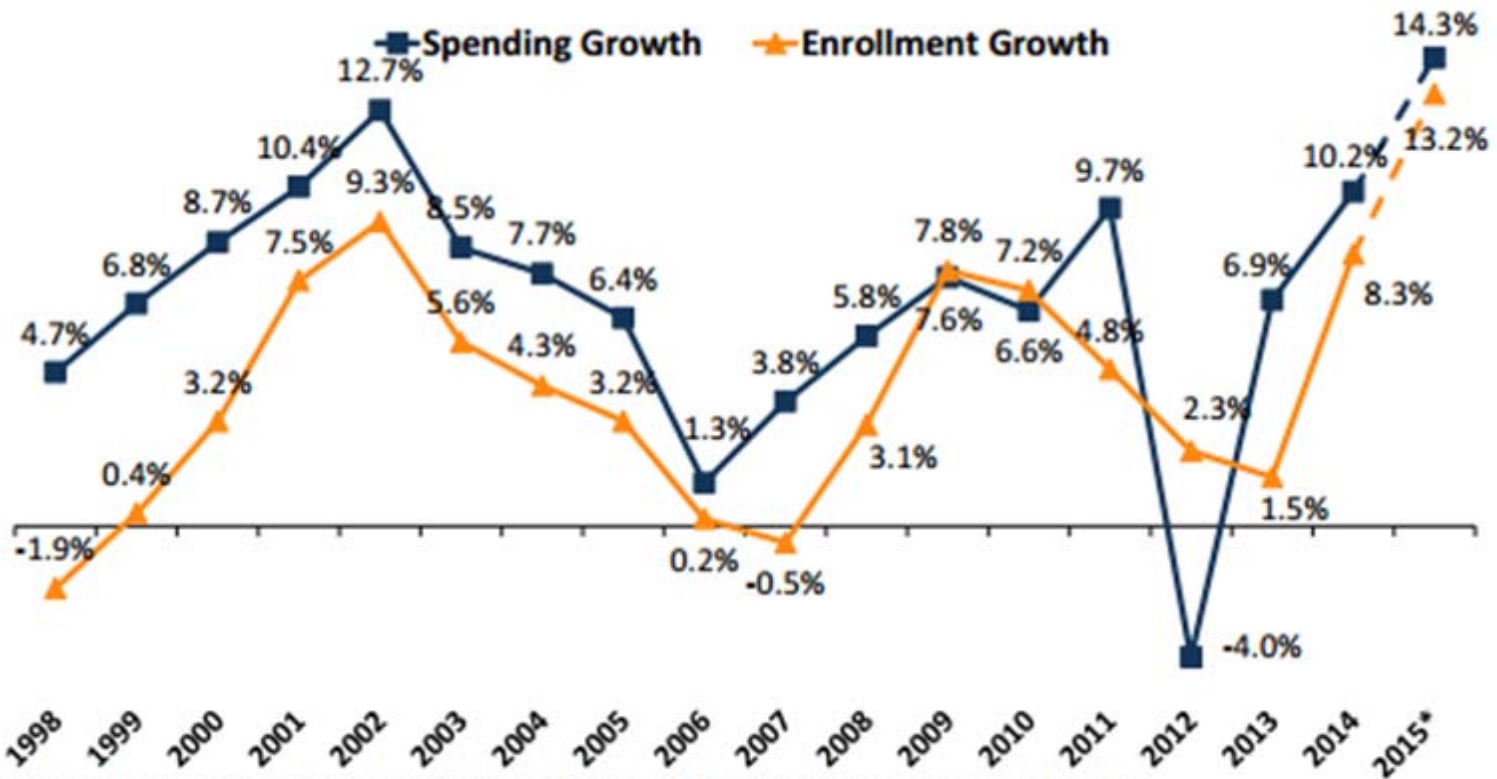


Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2013, for community hospitals.

(1) Includes Medicare Disproportionate Share payments.

(2) Includes Medicaid Disproportionate Share payments.

# Medicaid Enrollment and Expenditures



NOTE: Enrollment percentage changes from June to June of each year. Spending growth percentages in state fiscal year.

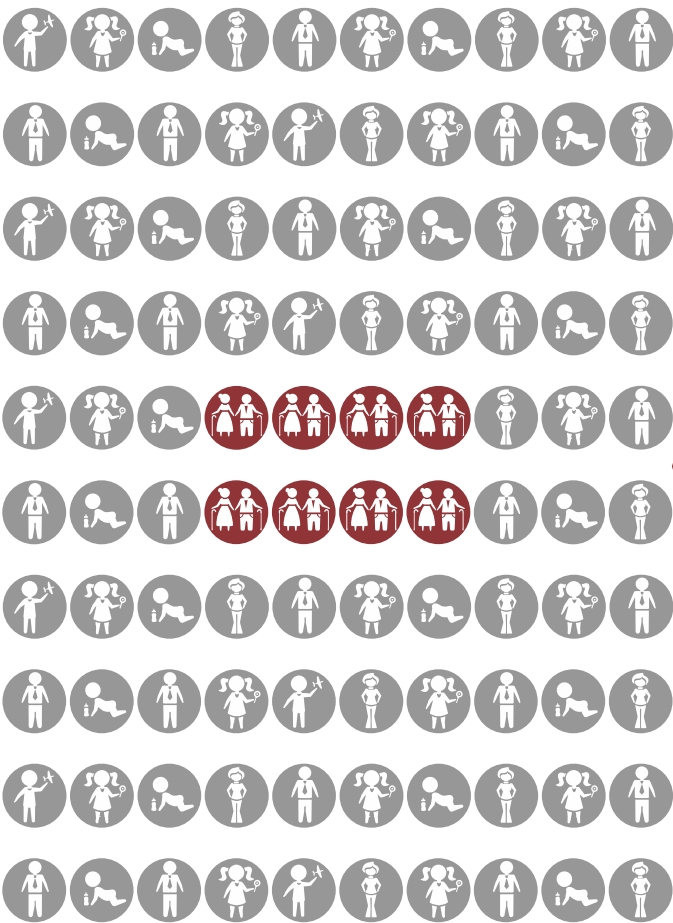
SOURCE: Medicaid Enrollment June 2013 Data Snapshot, KCMU, January 2014. Spending Data from KCMU Analysis of CMS Form 64 Data for Historic Medicaid Growth Rates. FY 2014 and 2015 data based on KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, October 2014.



# PROBLEM #4: The Demographic Tsunami

1950

2050



In 1950, people 65 and older represented 8.1% of the total U.S. population.

By 2050 the percentage is projected to reach 20.2%.





# Problem #5: US Health System is Not Safe

800  
If ~~12~~ fully loaded jumbo jets  
crashed every year,  
*something would be done about it.*

————— (Y) —————  
EVERY YEAR, NEARLY ~~6,000~~ **400,000** ~~PEOPLE~~ **MEDICAL ERRORS** DIE IN CAR CRASHES.



# Face the Brutal Facts



**Yearly  
210K –  
440K**  
hospital  
patients  
suffer  
preventable  
harm that  
contributes  
to their  
death.



**1 in 25**  
hospital  
patients  
has at  
least one  
healthcare-  
associated  
infection



**About 75K**  
hospital  
patients with  
HAIs died  
during their  
hospitalizations



**Over 2  
Million**  
adverse drug  
reactions  
(ADR)



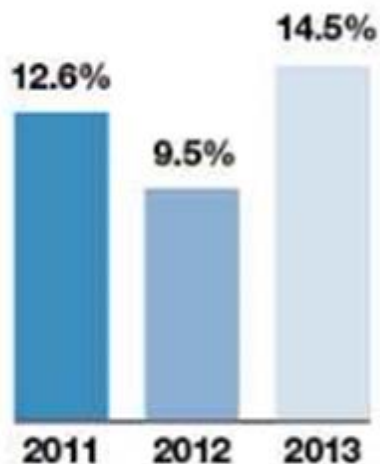
**>100K**  
Deaths  
yearly–  
4<sup>th</sup> leading  
cause of  
death

# Problem #6: Operating on Razor-thin Margins

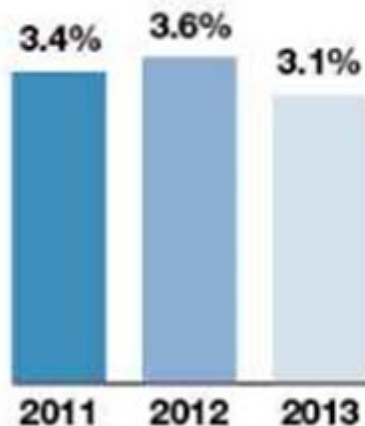
## Slipping performance

More systems had negative margins in 2013, and average margin was down

Percentage of systems with negative operating margins



Average operating margin



Source: Modern Healthcare Financial Database

# Hospitals won't disrupt themselves!



## Provider Consolidation LESS COMPETITION AND HIGHER COSTS

Research demonstrates that when hospitals consolidate, either merging with other hospitals or buying up physician practices, health care costs go up. Provider consolidation gives hospitals greater

negotiating strength and limits competition, resulting in higher prices for services, higher costs for patients, and no improvement in the quality of care delivered.

### Physicians Are Becoming Hospital Employees<sup>1</sup>

In 2000 1 in 20 specialists was a hospital employee...



2000



...Today 1 in 4 specialists is a hospital employee.



2012

**“Last year, a 15-minute visit to a doctor in private practice cost \$69...That same visit to a hospital-employed physician cost \$124.”**

-Orlando Sentinel

### Increasing Market Concentration Leads to Higher Prices for Consumers<sup>2</sup>

Percentage increase in market concentration from 1999-2003.



**“Research suggests that hospital consolidation in the 1990s raised prices by at least five percent and likely significantly more. Prices increase 40 percent or more when merging hospitals are closely located.”**

-Robert Wood Johnson Foundation

1. Jamison, Mark. "As Hospitals Take over Doctors' Practices, Fees Rise." *Orange Sentinel*, N.p., 16 Sept. 2010. Web. <http://articles.orangesentinel.com/2010-09-16/health/oa-hospital-buy-physicians-20100916\_3\_hospital-executive-hospital-employee-physician-practices/3696921-1>.   
 2. Vogg, William B., Ph.D., and Robert Sloan, Ph.D. *How Has Hospital Consolidation Affected the Price and Quality of Hospital Care?* Rep. N.p., Feb. 2004. Web. <http://www.nepi.org/consumer/epi/research\_publications/the\_nepi\_research/2004/02/how\_has\_hospital\_consolidation\_affected\_the\_price\_and\_quality\_of\_care/>.



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# Some Bright Spots Emerging: Evidence of Industrialization

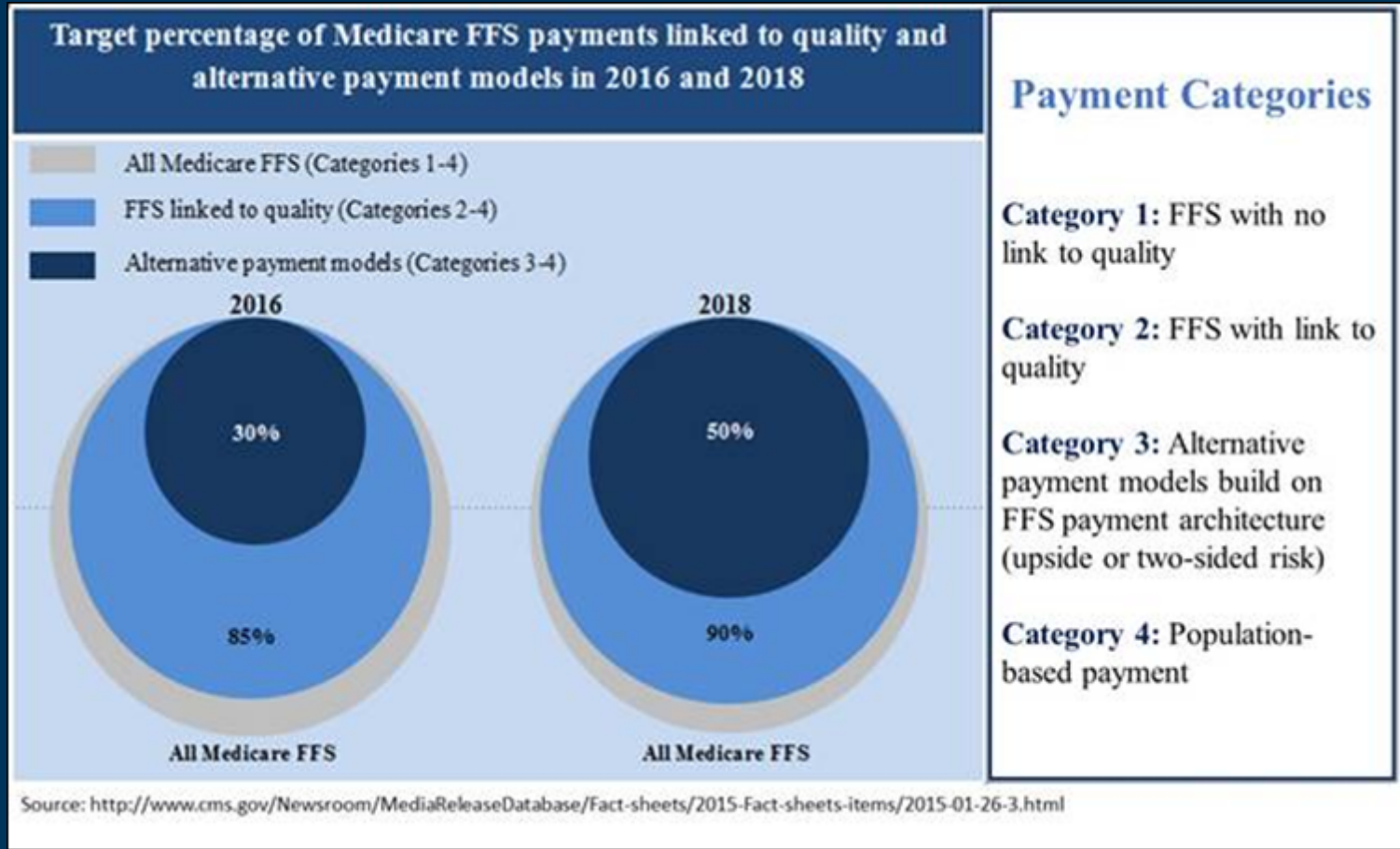
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# The VBC Lens



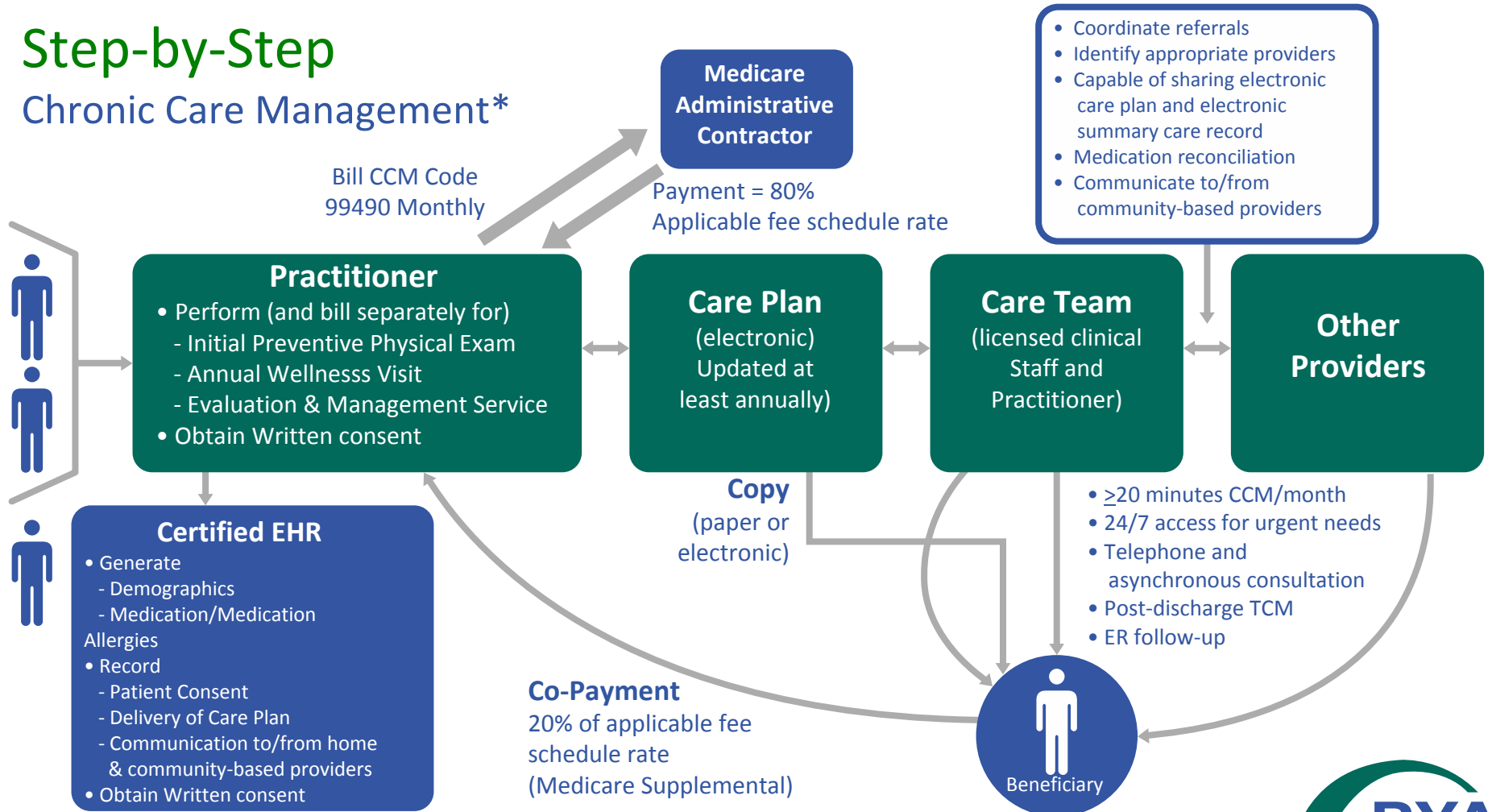
# The Two Canoes Collided!



# Medicare Funding Chronic Care?

## Step-by-Step

### Chronic Care Management\*



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\*This infographic does not constitute legal advice. It is offered for illustrative purposes only. Revised March 2015 For more information, contact Martie Ross ([mross@pyapc.com](mailto:mross@pyapc.com)) or Lori Foley ([lfoley@pyapc.com](mailto:lfoley@pyapc.com))



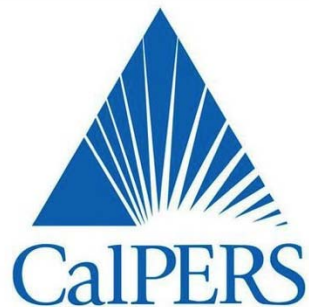


# Employers: Part of the problem or solution?



- *Shifting hires to where they receive the greatest HC value*
- *Paradigm shift “HC as a benefit to HC as a cost driver”*

- *Alarmed @ variability in cost of joints*
- *Built reference pricing program*
- *Dramatic reduction in prices for joints*



- *Recognize the power of voluntary transparency*
- *Built 2<sup>nd</sup> opinion program—findings were startling*
- *Built COE for joints and CV*
- *Savings? Outcomes?*



# Supply-induced Demand?

- *Walmart discovered most expensive patients were transplants*  
.....
- *Began to offer to pay to send the patient and a caregiver to the Mayo Clinic or other hand-selected institutions for a second opinion and — if the employee chose — treatment*  
.....
- *Found that **40%** of the transplants recommended to the employees were **unnecessary***  
.....
- *In those cases, experienced transplant physicians and specialists recommended other, far less invasive and less painful treatments.*

# Pricing Power

## Los Angeles Times

### Hospitals cut some surgery prices after CalPERS caps reimbursements

June 23, 2013 | By Chad Terhune

- CalPERS decided to cap payments for knee and hip replacement surgeries at \$30,000 for its Anthem Blue Cross members because the pension fund was paying anywhere between \$15,000 and \$110,000 for such procedures.
- The average price for the knee and hip replacements at higher-priced hospitals in the state decreased by 37%.
- In addition, the use of preferred hospitals among CalPERS members increased by 21% between 2010 and 2012.

# Disruptive Delivery – Top of License



Site	Pharmacy	Medical	Total
<b>MinuteClinic</b>	<b>\$28</b>	<b>\$75</b>	<b>\$104</b>
ED	\$27	\$356	\$383
Physician's Office	\$32	\$127	\$159
Urgent care facility	\$30	\$124	\$154

Source: <http://content.healthaffairs.org/content/27/5/1283/T1.expansion.html>

# The Original Focused Factory?



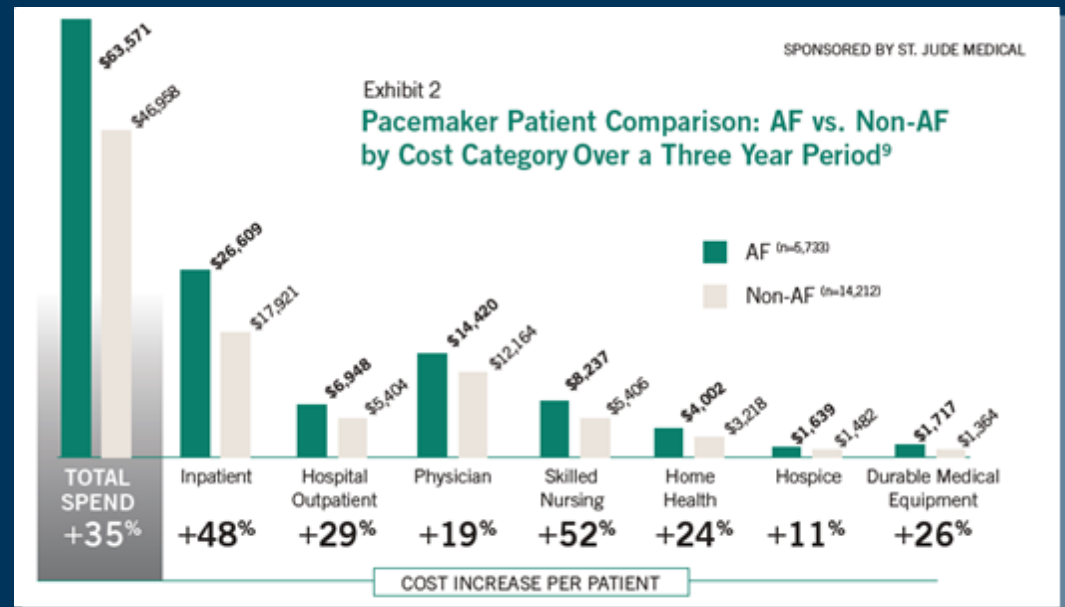
- *Founded in 1945, Shouldice Hospital is the world's leading center of excellence in abdominal wall hernia repair.*
- *Designed exclusively to meet the needs of hernia patients, Shouldice is a fully licensed, 89-bed surgical hospital.*
- *Specially trained surgical teams perform over 7,000 hernia repairs every year*
- *Most general surgeons will repair 20 to 30 hernias in a year. Shouldice surgeons average over 700 cases a year*

# “The Henry Ford of Hearts”



# Distributed Diagnostics

- *Radiofrequency wireless-enabled devices*
- *Diagnoses asymptomatic atrial fibrillation same-day*
- *Study found that follow-up on the network was associated with a 50% relative reduction in the risk of death*





# Implications for Post-Industrial Actors

- *Desperately need Business Model transformation*  
.....
- *Entrepreneurs are important—Physician entrepreneurs are REALLY important*  
.....
- *Embrace Transparency and Drive Communication*  
.....
- *Payment models so Critical - Wake up employers and Payers!*  
.....
- *Get capital into the hands of entrepreneurs*  
.....
- *Never been a better time to “Do Good and Do Well”*  
.....

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*To be continued...*

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Sage Growth Partners  
Panel Discussion today at 1 pm

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