Fast and Furious

2014 Annual Membership Meeting
Carmel, Indiana | October 29, 2014
B-School, Disrupted

In moving into online education, Harvard discovered that it wasn’t so easy to practice what it teaches.

“A company must stay the course even in times of upheaval while constantly improving and extending its distinctive position.”

Michael Porter

“The only way that market leaders like Harvard Business School can survive ‘disruptive innovation’ is by disrupting their existing business themselves.”

Clayton Christensen
The Disruptive Proposition for Healthcare Begins with a Fast-Changing Revenue Model
The Driving Force Behind the Change to America’s Healthcare System

The Dominant Role of Healthcare Spending (CBO’s Long-Term Budget Projection)


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The Numbers Send a Clear and Present Message

“The implication for budgeteers is clear: If we can somehow solve the health care cost problem, we will also solve the long-run deficit problem. But if we can’t control health care costs, the long-run deficit problem is insoluble.”

Alan S. Blinder

Hospitals have absorbed nearly $122 billion of new cuts since 2010.

**Impact of Hospital Cuts Since FY 2010**

- **$121.9 billion**
  - Bad Debt ($2.1b)
  - Medicaid DSH ($16.6b)
  - 3-Day Window ($4.2b)
  - Long Term Acute Care Hospitals ($3b)
  - Two-midnight Offset ($2.4b)
  - MS-DRG Coding Offsets ($35.3b)
  - **Sequestration ($58.3b)** including cuts from the Bipartisan Budget Act of 2013 and Military COLA Fix


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Disruption Forces a Change to the Business Model
Fee-for-Service Model

Hospitals

Doctors

Patients

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KaufmanHall | Indiana Hospital Association
Fee-for-Value Model

- Employers
- Patients
- Medicare and Medicaid

Select Contract(?)

Who Is This?

Content of Care

- Hospital
- Doctors
- Outpatient Services
- Continuum of Care

- Commodity
- Make vs. buy
- Low-cost provider
- Contract to specifications

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Disruption Creates Fertile Ground for New and Capable Competitors
Disruptive Contextual Change Encourages the Entry and Aggressive Expansion of A-traditional Competitors

- Diagnosing and following chronic care patients in Walgreens clinics
- Theranos™ Wellness Centers at Walgreens stores
The New Rebranded “CVS Health”

1. Currently operates 900 “MinuteClinics”
2. Revenues at the MinuteClinics were up 24% in the second quarter of 2014
3. CVS currently has 40 partnerships with health systems around the country
4. Plan at CVS is to operate 1,500 MinuteClinics by 2017

Source: cvshealth.com.
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The Disruptive Progression

Inpatient Centric  

Ambulatory Centric  

Web/Mobile Centric

Implications for:  
- Value creation  
- Delivery capacity  
- Customer connectivity  
- Human resource requirements  
- IT sophistication

Current strategic positioning
The Dilemma for Legacy Providers

• Why didn’t Blockbuster become Netflix?
• Why didn’t Borders become Amazon?
• The *hospital* is your store. Are you so “store-centric” that you cannot disrupt your own business model?
Critical Current Strategic Questions

1. Do you see Walgreens and CVS as real competition or operating in some parallel healthcare universe?

2. Do you see a quality gap between the care provided at Walgreens and CVS and the care provided through your delivery system? If so, do you think that the consumer perceives this gap as well?

3. What percentage of total revenue is your organization currently deriving from fee-for-value contracts?

4. In order to navigate the reform agenda and reposition your organization for a fee-for-value environment, how fast do you need to move strategically? Are you moving fast enough at the current time?
# Fast and Furious

**A Case Study that Proves the Point**

<table>
<thead>
<tr>
<th>The Marketplace Playbook</th>
<th>The Blood Bank Case Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast-moving technological changes and/or changing physician practice</td>
<td>Laparoscopic surgery/ change in cardiac surgery and hip surgery protocols/ impact of EMR</td>
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<tr>
<td>Declining demand for services</td>
<td>Units of blood transfused declined from 15 million units in 2009 to 11 million in 2013</td>
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<tr>
<td>Falling prices followed by falling revenue</td>
<td>Hospitals have pushed hard for lower prices; total blood banking revenue has declined by $1.5 billion</td>
</tr>
<tr>
<td>Job loss and cost cutting</td>
<td>Significant cuts at Red Cross; estimated loss of 12,000 jobs in next several years</td>
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<tr>
<td>Mergers/ acquisitions/ closures</td>
<td>Blood business has been hit by a wave of consolidation</td>
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<tr>
<td>Reduction in number of firms in the market</td>
<td>American Blood Centers’ membership has declined from 87 companies to 68 in past 5 years</td>
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The Challenge of Size and Legacy

IBM Lessons

- Revenue reduction for nine consecutive quarters
- Core business: services software, hardware, sluggish to down
- Rapid move to cloud computing – $2 billion acquisition
- Demand for mobile and social tools in the workplace
- New and nimble competitors such as Amazon and Google

The Healthcare Challenge

- The inpatient core, no growth, old declining business model
- Outpatient services reside in the related core; some growth, but significant, very capable competition such as Walgreens, CVS, Walmart
- The disruptive margin – internet-driven, a-traditional, off-premises care, Silicon Valley-style competition; can expect major attack on the “related core”
Can Healthcare Be Uberized?

The Macro Business Principles of Uber

1. A new level of access and convenience
2. Attacks traditional regulation
3. Defines an entirely different “quality” experience
4. Customer is included in the evaluation of the experience in “real time”