

Fast and Furious



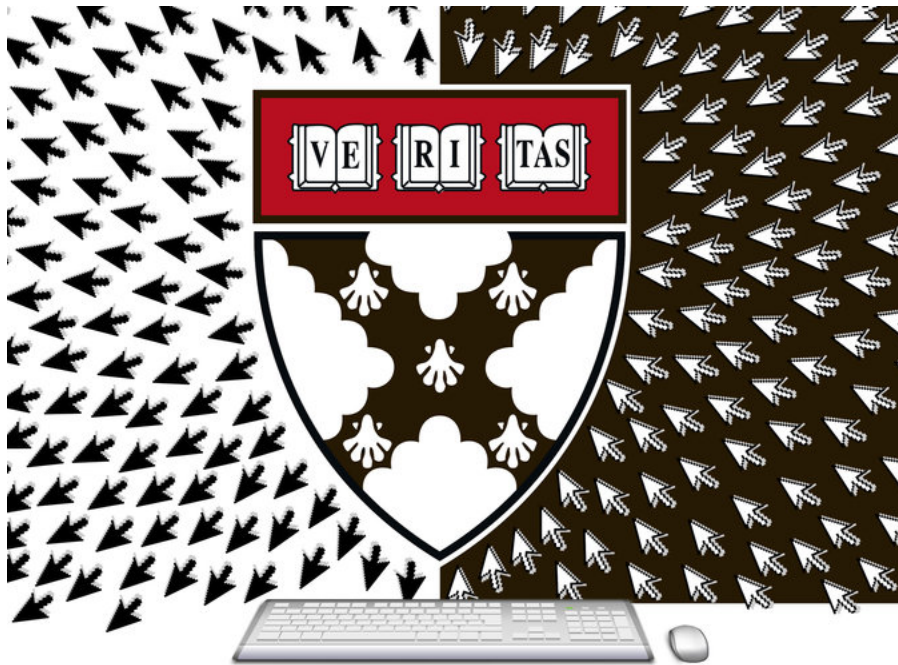
2014 Annual Membership Meeting

Carmel, Indiana | October 29, 2014

SundayBusiness

The New York Times

SUNDAY, JUNE 1, 2014



B-School, Disrupted

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

MINH UONG/THE NEW YORK TIMES

“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

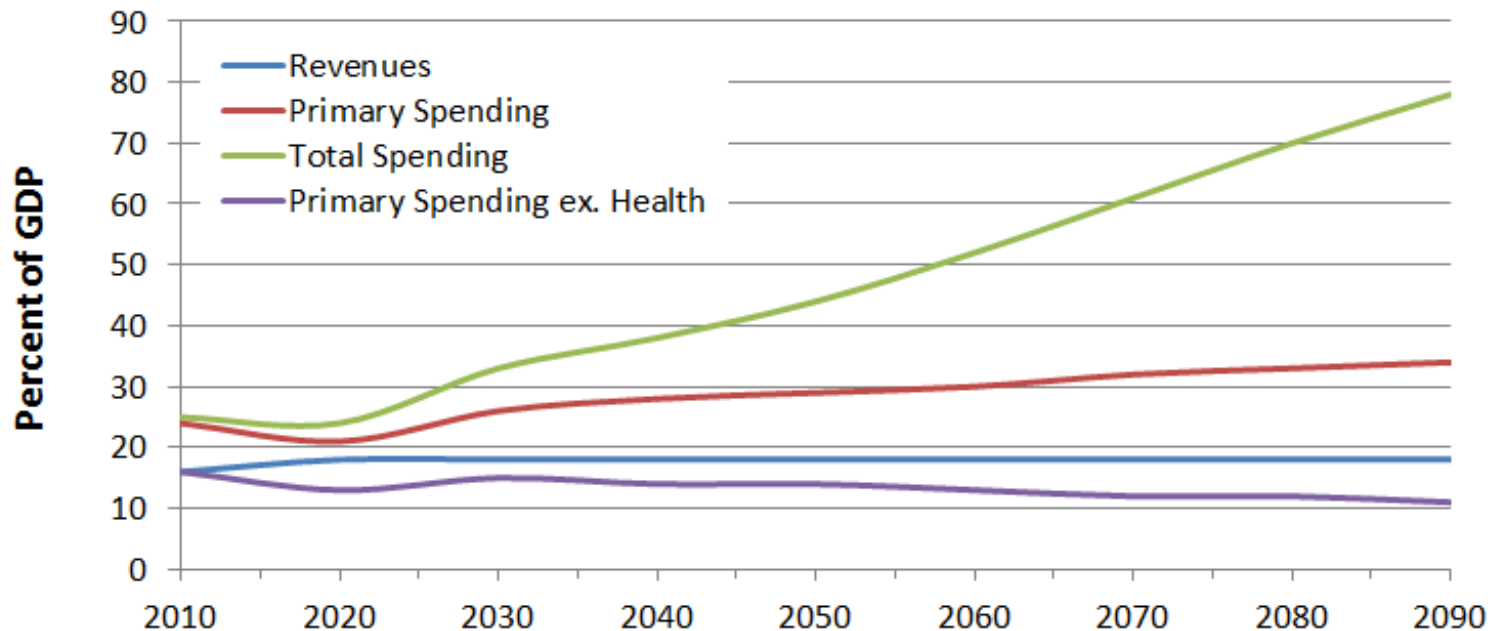
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1

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)



Source: Congressional Budget Office: *Extended Alternative Fiscal Scenario*. Extrapolated by Committee for a Responsible Federal Budget, as illustrated in Blinder, A.S.: *After the Music Stopped: The Financial Crisis, the Response, and the Work Ahead*. New York: The Penguin Press, 2013.

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The Numbers Send a Clear and Present Message

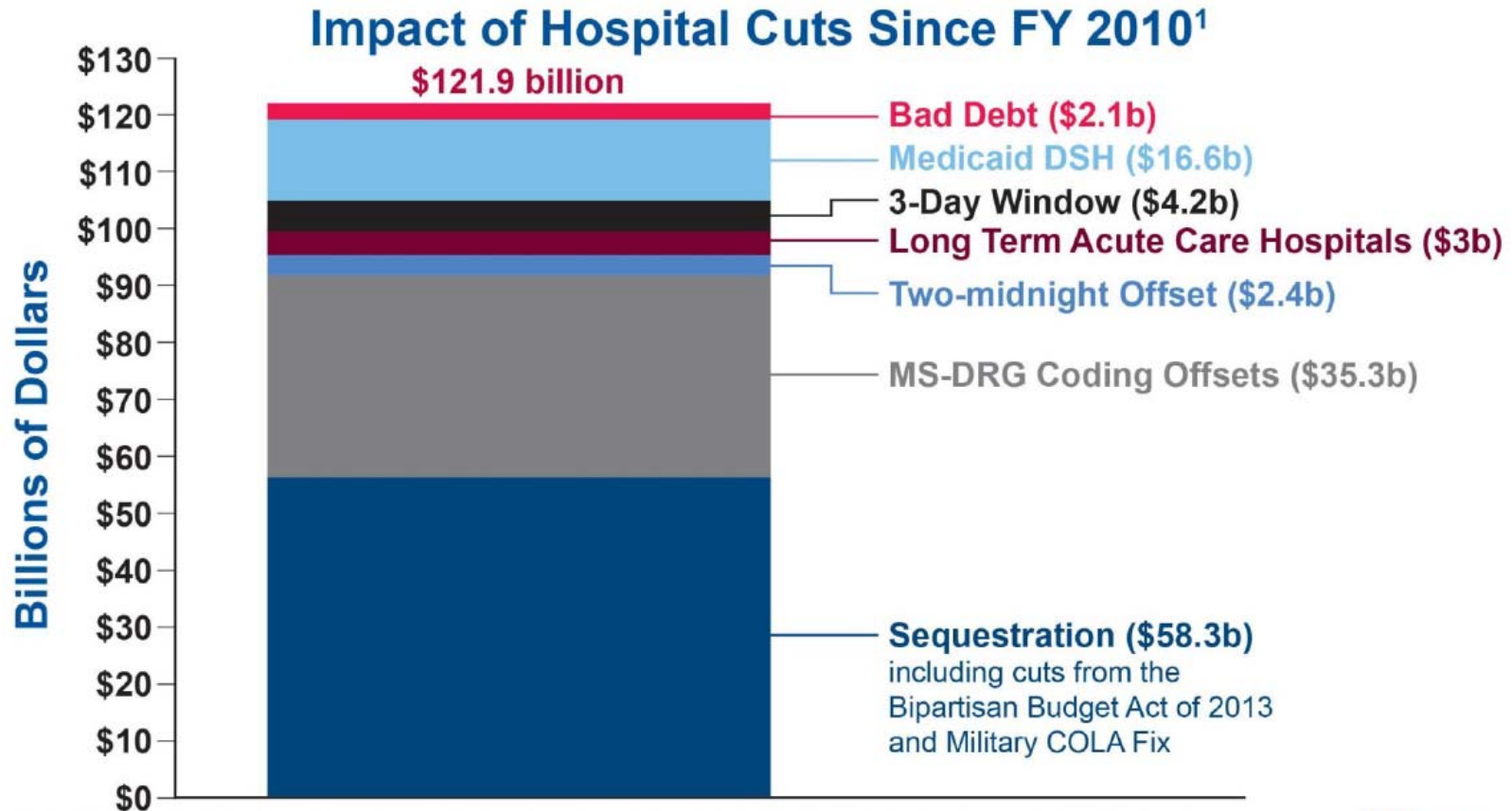
**“The implication for budgeteers is clear:
If we can somehow solve the health care cost
problem, we will also solve the long-run deficit
problem. But if we can’t control health care costs,
the long-run deficit problem is insoluble.”**

Alan S. Blinder

Source: Blinder, A.S.: *After the Music Stopped: The Financial Crisis, the Response, and the Work Ahead*. New York: The Penguin Press, 2013.

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



¹Bad debt included in Middle Class Tax Relief and Job Creation Act of 2012 (MCTRJCA); Medicaid DSH cuts included in MCTRJCA, American Taxpayer Relief Act of 2012 (ATRA), Bipartisan Budget Act of 2013 and Protecting Access to Medicare Act of 2014; 3-day window cut included in Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010; MS-DRG coding cuts included in ATRA as well as CMS regulations (estimate of excess cuts based on hospital analysis); offset for two-midnight policy included in FY 2014 Final IPPS Rule; sequestration amount estimated from CBO Medicare Baseline and AHA projections of Medicare spending. Includes extension in Bipartisan Budget Act of 2013 and Military COLA Fix. Long Term Acute Care Hospital payment cut from Bipartisan Budget Act of 2013. Excludes ACA-related reductions.



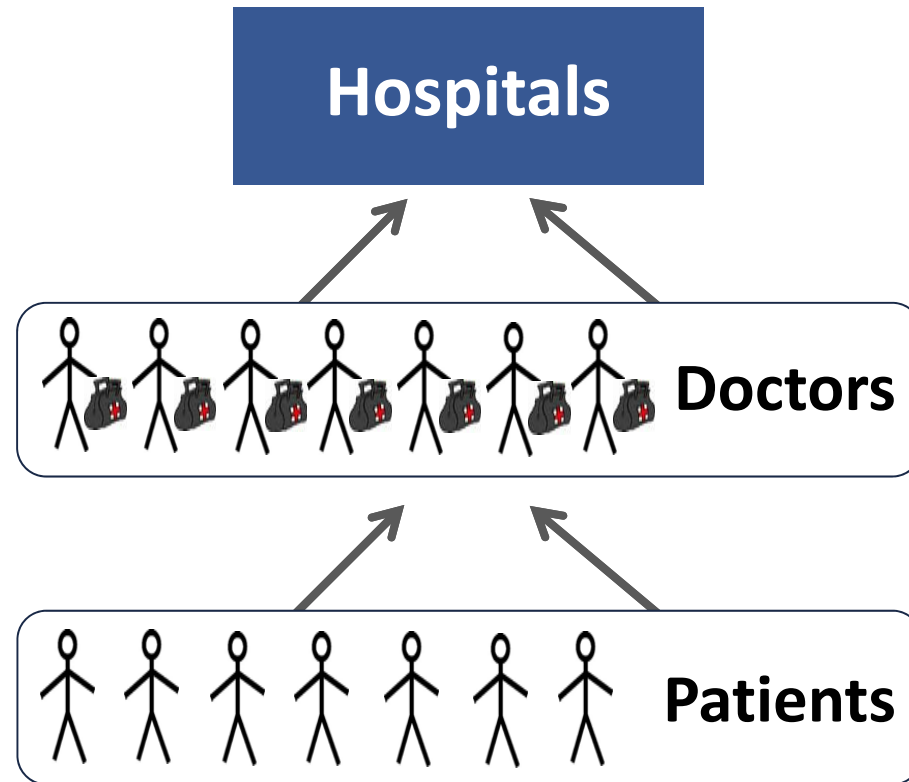
Source: The American Hospital Association: "The Financial State of U.S. Hospitals." Factsheet, Sept. 8, 2014.

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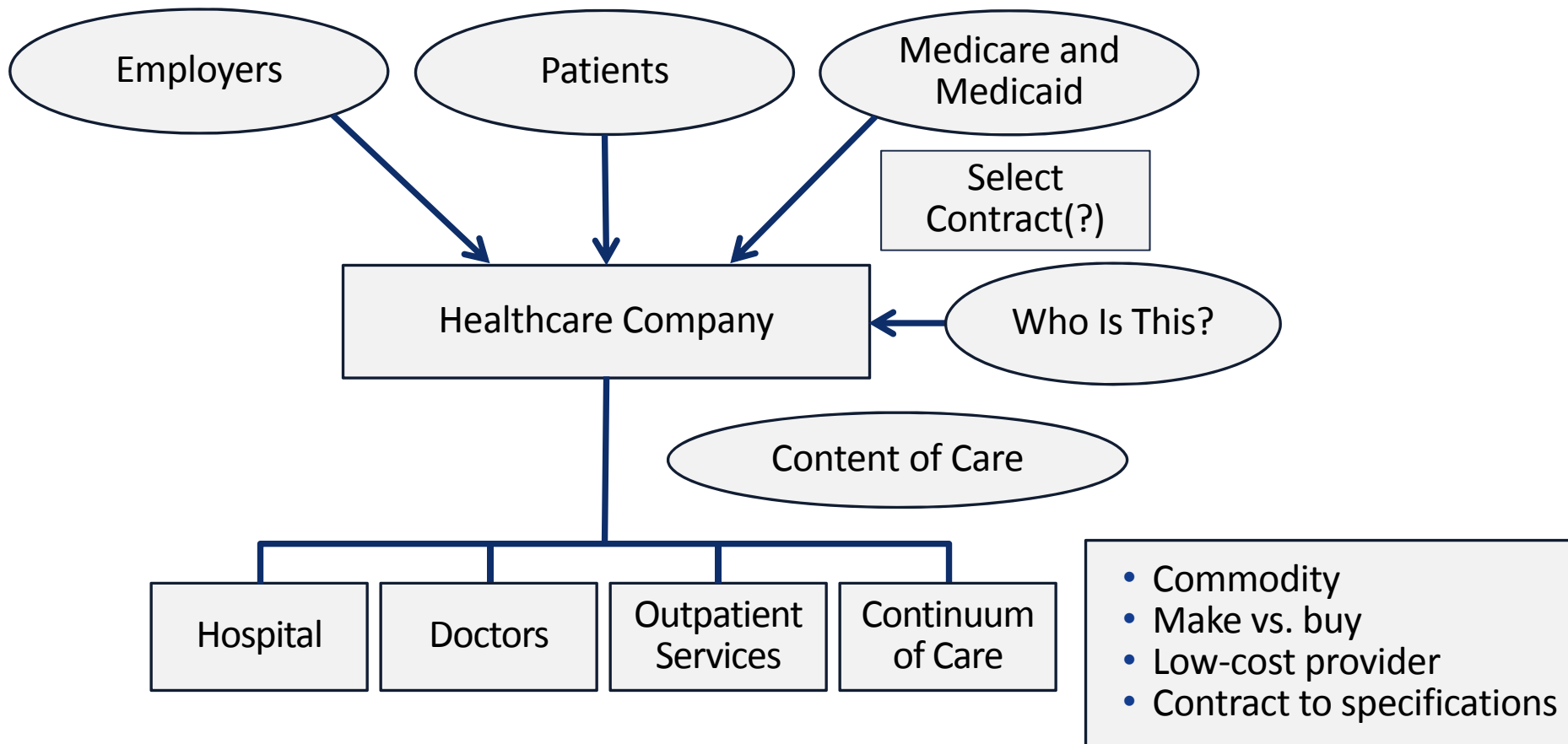
Disruption Forces a Change to the Business Model

Fee-for-Service Model



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Fee-for-Value Model



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3

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”

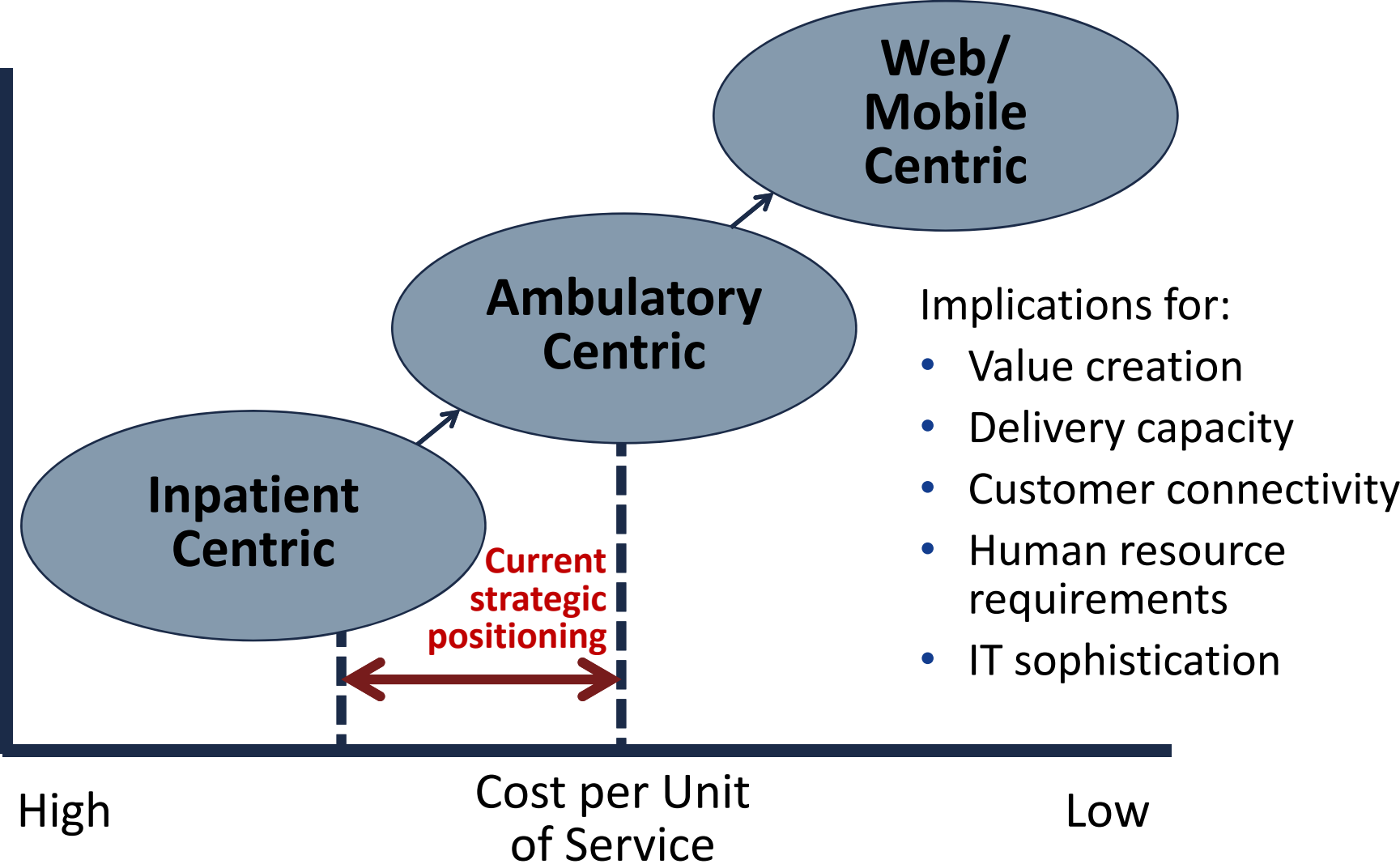
1. Currently operates 900 “MinuteClinics”
2. Revenues at the MinuteClinics were up 24% in the second quarter of 2014
3. CVS currently has 40 partnerships with health systems around the country
4. Plan at CVS is to operate 1,500 MinuteClinics by 2017



Source: cvshealth.com.

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The Disruptive Progression



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The Dilemma for Legacy Providers

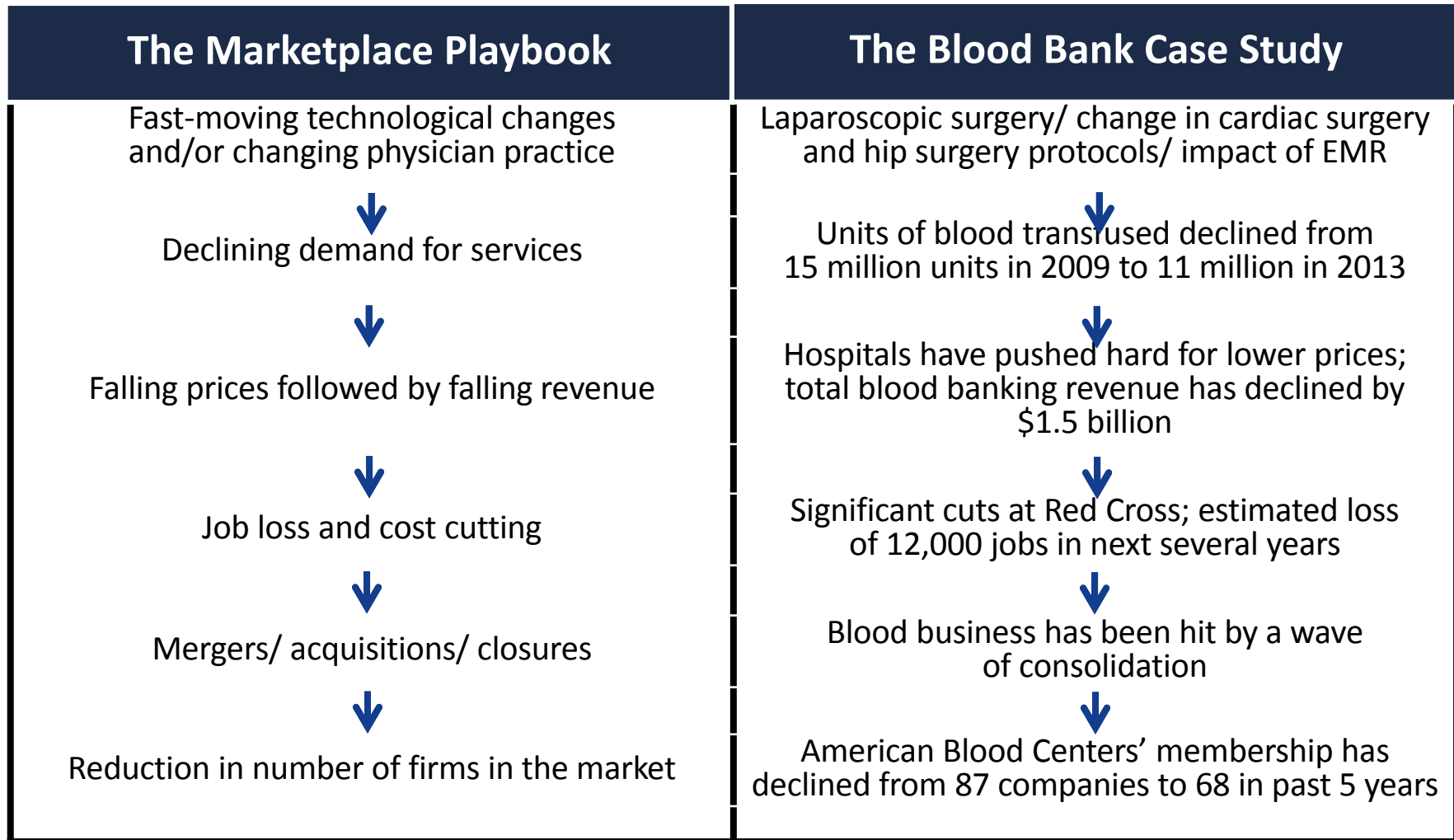
- Why didn't Blockbuster become Netflix?
- Why didn't Borders become Amazon?
- The *hospital* is your store. Are you so “store-centric” that you cannot disrupt your own business model?

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



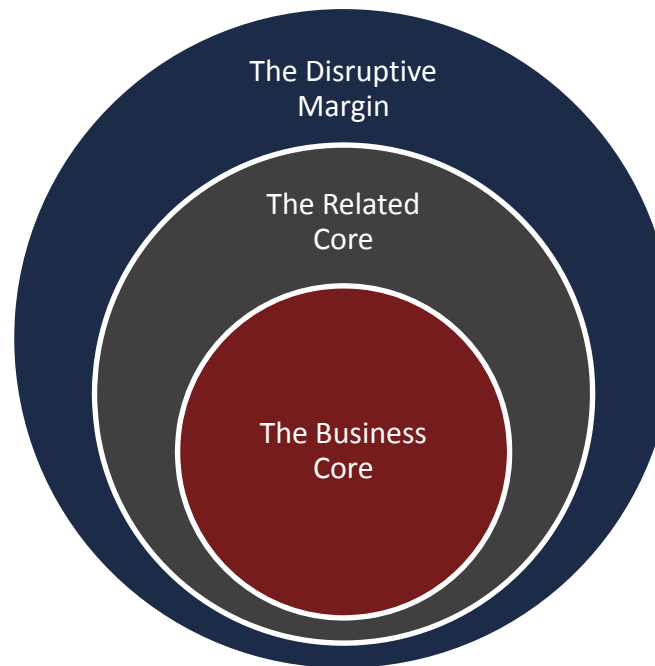
Source: Wald, M.L.: "Blood Industry Shrinks as Transfusions Decline." *The New York Times*, Aug. 23, 2014.

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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”



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