Fast and Furious

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B-School, Disrupted

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

By JERRY USEEM

If any institution is equipped to handle questions of strategy, it is Harvard Business School, whose professors have coined so much of the strategic lexicon used in classrooms and boardrooms that it’s hard to discuss the topic without recourse to their concepts: Competitive advantage. Disruptive innovation. The value chain.

But when its dean, Nitin Nohria, faced the school’s biggest strategic decision since 1924—the year it planned its campus and adopted the case-study method as its pedagogical cornerstone—he ran into an issue. Those professors, and those concepts, disagreed.

The question: Should Harvard Business School enter the business of online education, and, if so, how?

Universities across the country are wrestling with the same question—call it the educator’s quandary—of whether to plunge into the rapidly growing realm of online teaching, at the risk of devaluing the on-campus education for which students pay tens of thousands of dollars, or to stand pat at the risk of being left behind.

At Harvard Business School, the pros and cons of the argument were personified by two of its most famous faculty members. For Michael Porter, widely considered the father of modern business strategy, the answer is yes—create online courses, but not in a way that undermines the school’s existing strategy. “A company must stay the course even in times of upheaval while constantly improving and extending its distinctive position.”

For Clayton Christensen, whose 1997 book, “The Innovator’s Dilemma,” propelled him to academic stardom, the only way that market leaders like Harvard Business School can survive “disruptive innovation” is by disrupting their existing business themselves.
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

- 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

Footnote: 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 Care for Medicare Beneficiaries and Pension Relief Act of 2010; 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.

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

Hospitals

Doctors

Patients

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Fee-for-Value Model

Employers → Patients → Medicare and Medicaid

Select Contract(?) → Healthcare Company

Who Is This?

Content of Care

Hospital, Doctors, Outpatient Services, Continuum of Care

Who Is This?

• 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
- JV with WebMD
- JV with MDLIVE
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.
The Disruptive Progression

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

Current strategic positioning

Inpatient Centric

Cost per Unit of Service

High

Low

Web/ Mobile Centric

Ambulatory Centric
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

## The Marketplace Playbook
- Fast-moving technological changes and/or changing physician practice
  - Declining demand for services
  - Falling prices followed by falling revenue
  - Job loss and cost cutting
  - Mergers/ acquisitions/ closures
  - Reduction in number of firms in the market

## The Blood Bank Case Study
- Laparoscopic surgery/ change in cardiac surgery and hip surgery protocols/ impact of EMR
  - Units of blood transfused declined from 15 million units in 2009 to 11 million in 2013
  - Hospitals have pushed hard for lower prices; total blood banking revenue has declined by $1.5 billion
  - Significant cuts at Red Cross; estimated loss of 12,000 jobs in next several years
  - Blood business has been hit by a wave of consolidation
  - American Blood Centers’ membership has declined from 87 companies to 68 in past 5 years


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The Challenge of Size and Legacy

**IBM Lessons**

- Revenue reduction for 10 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”
About the Speaker

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Since 1976, Mr. Kaufman has provided healthcare organizations with expert counsel and guidance in areas including strategy, finance, financial and capital planning, and mergers, acquisitions, and partnerships. Clients include organizations of all types and sizes – community hospitals and health systems, academic medical centers, and regional or national health systems.

Recognized as a leading authority and committed to industry education, Mr. Kaufman has given more than 400 presentations at meetings such as those organized by the American College of Healthcare Executives (“ACHE”), American Hospital Association, Healthcare Financial Management Association, The Governance Institute (“TGI”), and others.

Mr. Kaufman has authored or coauthored six books, most recently authoring Focus on Finance, published by TGI, and Best Practice Financial Management, 3rd Edition, published by ACHE. In addition, he’s often quoted and his articles regularly appear in major healthcare publications.

Mr. Kaufman has an M.B.A. with a concentration in Hospital Administration from the University of Chicago Graduate School of Business.