Positioning for the Future: How to Drive Rapid and Sustainable Profitability Growth

21st Annual HFMA Western Region Symposium – January 14, 2019

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Managing Director

VICI (ve'-che): OVERCOME, EXCEL, WIN, SURPASS, MASTER

Learning Objectives

- Envision how to simultaneously achieve enhanced organizational value through increased revenue, reduced costs and improved clinical outcomes.
- Learn how to deploy an internal process, to dramatically grow organizational profitability and ensure long-term sustainability.
- Understand how to break down organizational silos and barriers to ensure success.
- Drive an organizational culture focused on leadership accountability and effective execution.

Agenda

- Setting the Stage
- Barriers That Inhibit Change
- How To Do It In Your Organization

Setting the Stage

Polling Question #1

What Are Your Top Priorities For 2019?

A Meeting the rising consumer demands for services

B Innovative approaches to expense reduction

C Boosting outpatient procedural volume

D Preparing your organization for sustainable cost control

E Identifying diversified, innovative revenue streams

Top Priorities for Hospital and Health System CEOs

1	2	3	4	5
Preparing the enterprise for sustainable cost control	Innovative approaches to expense reduction	Exploring diversified, innovative revenue streams	Boosting outpatient procedural market share	Meeting rising consumer demands for services

Source: Advisory Board's Annual Health Care CEO Survey, July 2018

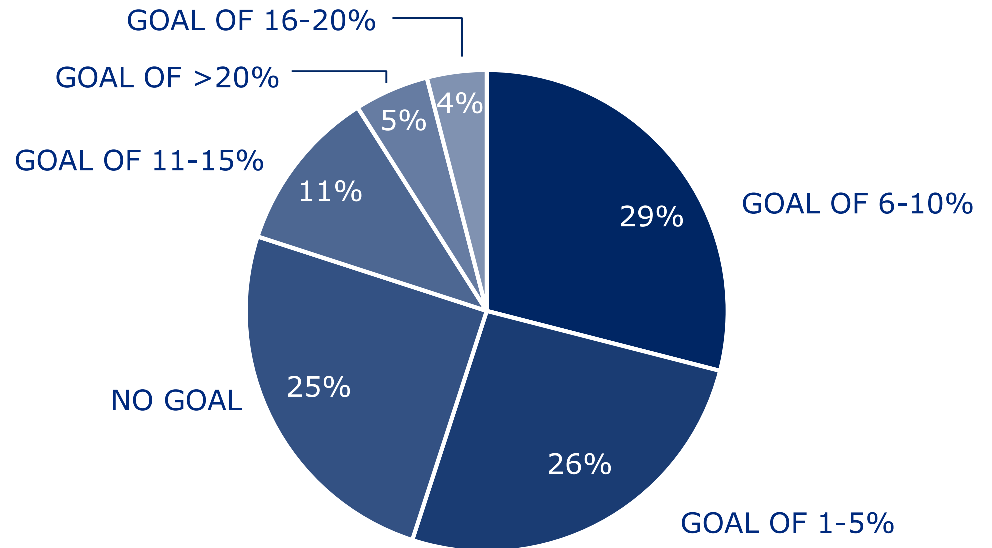
Polling Question #2

What Are Your Cost Reduction Goals Over The Next Few Years?

- **A** 1-5%
- **B** 6-10%
- **C** 11-15%
- **D** 16-20%
- **E** Over 20%
- **F** No Goal

Cost Transformation Goals

"Executives recognize the cost transformation imperative, but organizational commitment to transformational change, goal setting, and progress have been limited to date."



Source: 2017 State of Cost Transformation in U.S. Hospitals: An Urgent Call to Accelerate Action, Kaufman Hall, 2017

Polling Question #3

How Are You Addressing Your Cost Transformation Initiative?

- **A** Internally managed process
- **B** Engage consultants to provide benchmarks and subject matter experts
- **C** Engage consultants to assist in a broader transformation

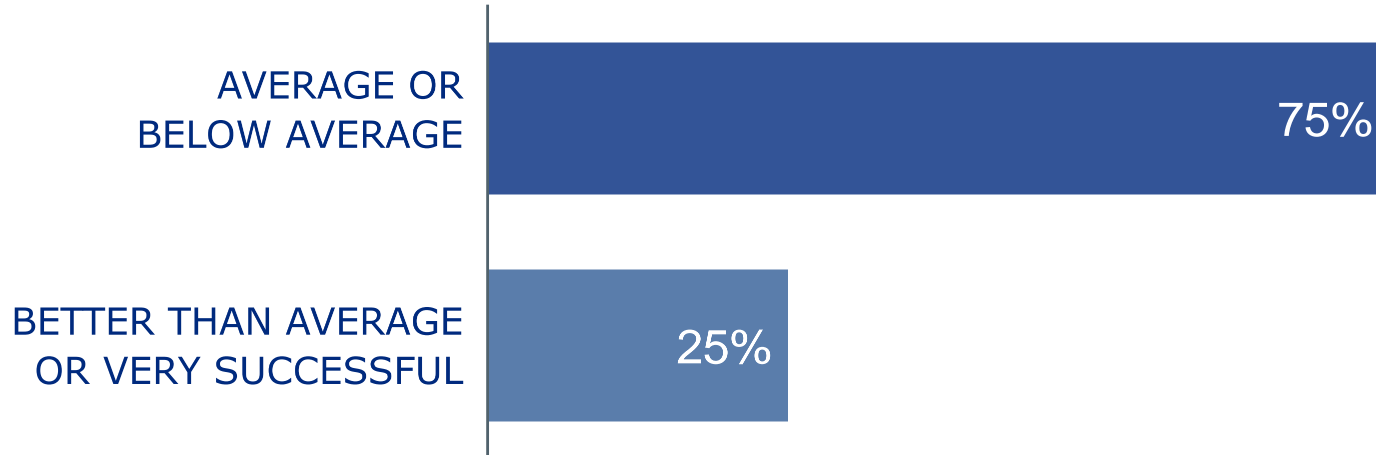
Polling Question #4

What Has Your Organization's Progress Been To Meeting These Cost Transformation Goals?

- **A** Average or below average
- **B** Better than average or very successful

Cost Transformation Process

"Progress toward meeting cost transformation goals has been slow."



Source: 2017 State of Cost Transformation in U.S. Hospitals: An Urgent Call to Accelerate Action, Kaufman Hall, 2017

Key Healthcare Trends

- Unsustainability of healthcare costs
- Shifting revenue base/declining volume
- Physician employment
- Nontraditional competitors
- Informed consumer/employer
- Clinical & information technologies
- High deductible health plans
- Population Health Management

- Hospital reimbursement declining
- Less robust demand for services
- Greenfield competing services
- Shift from volume to value
- Capital constraints
- Profitability growth/decline

What Does This Mean for Health Systems?

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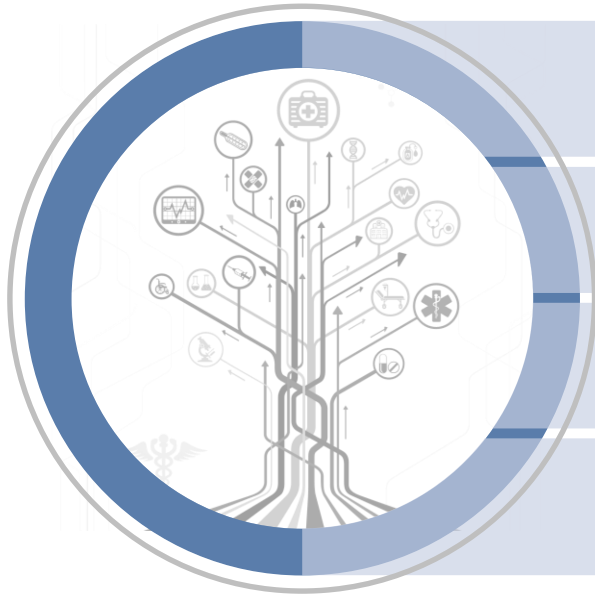
Strategies for Protecting Future Margins

Better Revenue Management	▪ Eliminate revenue leakage ▪ Compete for procedural market share ▪ Use scale not just price	▪ "Right-size" services ▪ Pursue risk-based reimbursement ▪ Compelling product for all
Smarter Cost Control	▪ Reduce expense growth ▪ Lower cost/"top of license" patient care staffing models ▪ Accountability for costs	▪ Sourcing to maximize value ▪ Minimize care variation ▪ Standardize practices

New Paradigm For Health Systems and Hospitals



Relentless focus on clinical outcomes and safety, associate and physician engagement, patient satisfaction and profitability

Cultural transformation to thrive in the new world: **Accountability** and **Execution**

Continuous improvement and sustainability of outcomes and profitability

Drive disruptive innovation now

Barriers That Inhibit Change

Why Do Efforts Typically Fail?

Too Many Competing Initiatives		

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Not Having Courage to Drive Real Change	**Lack of Accountability**	

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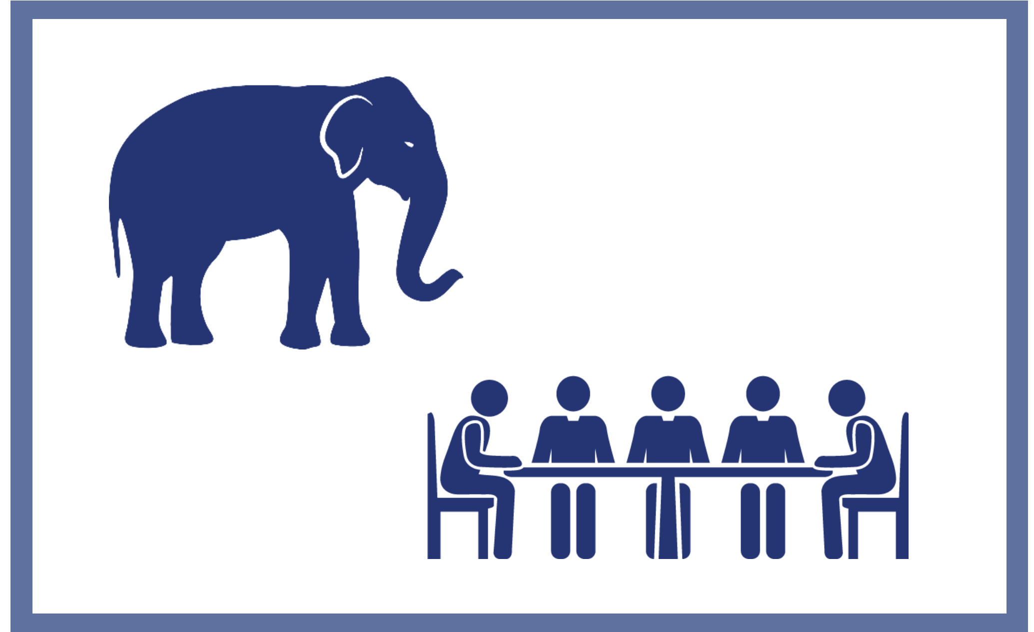
Inconsistent Messaging	Front Line Not Engaged	Physicians Not Included
Not Having Courage to Drive Real Change	Lack of Accountability	Poor Execution

Barriers That Inhibit Change

The Desire to Avoid Controversy



Barriers That Inhibit Change

The Comfort of the Status Quo

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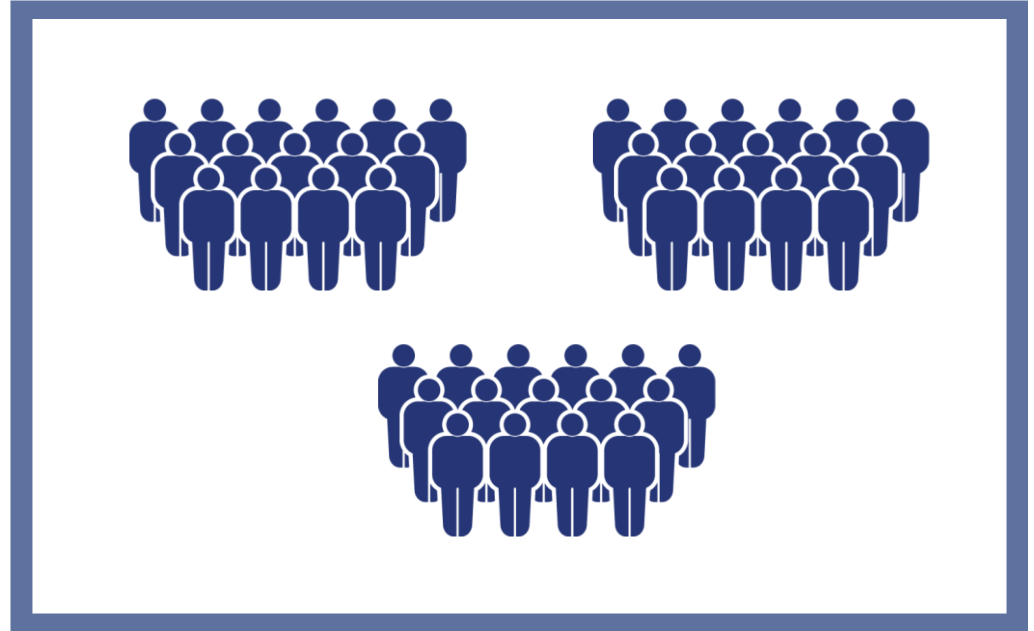
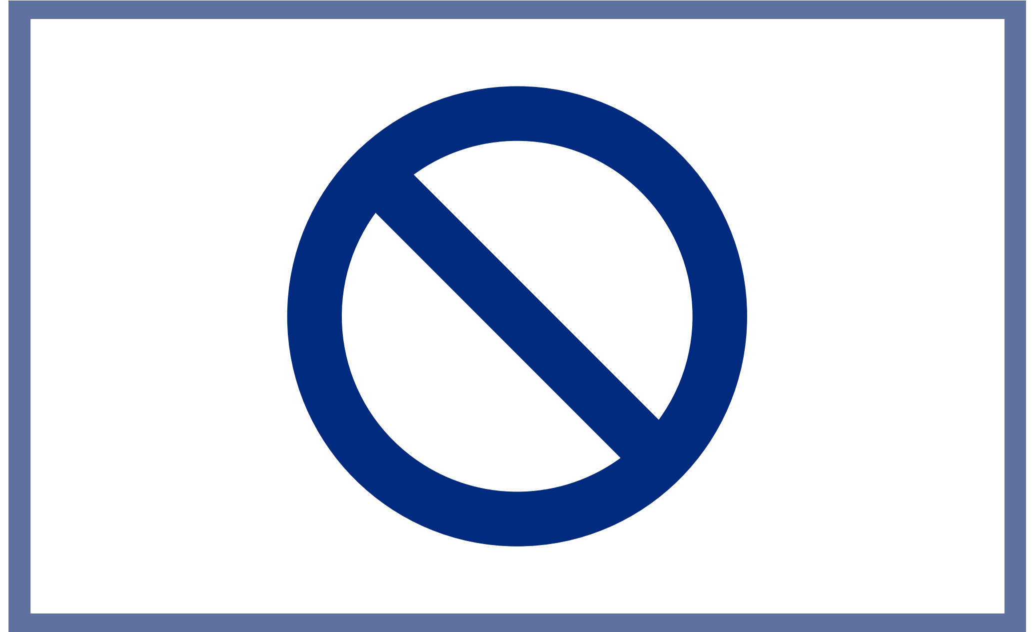
Barriers That Inhibit Change

Organizational Silos



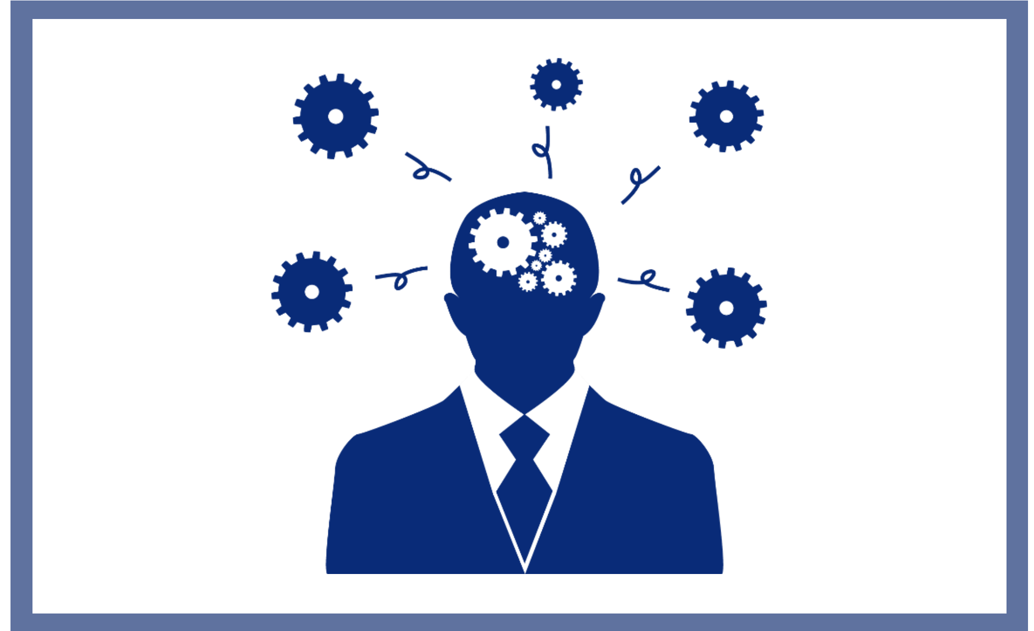
Barriers That Inhibit Change

Blockers



Barriers That Inhibit Change

Incorrect or Limited Information and Bad Assumptions



Everyone Has Ideas to Improve Their Organization, but Barriers to Implementation Exist…

BEFORE

- 960,000 individual blood tests
- Margin $1.35

IDEA

- Batch test blood samples
- Retest positive

AFTER

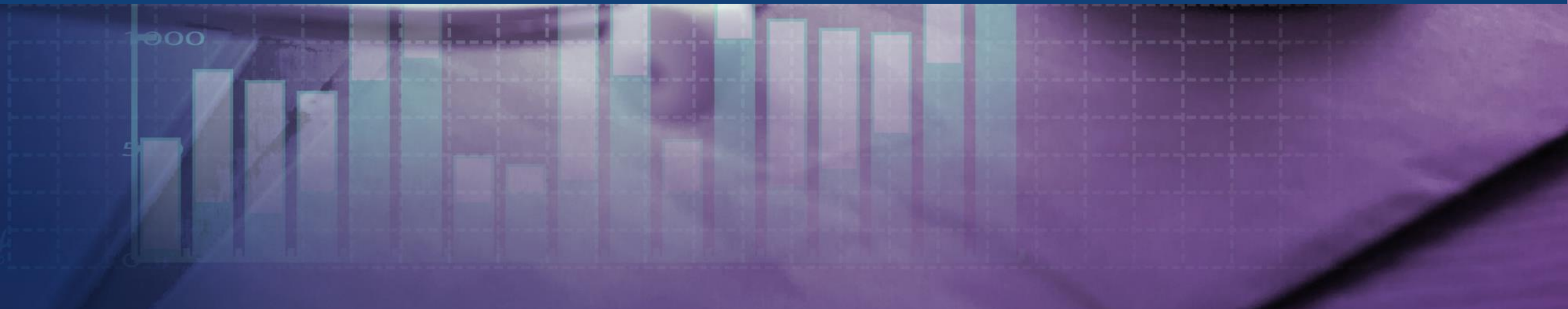
- Blood samples ***in batches of 30***
- Any batch testing positive had to be tested individually
- Margin $2.35

Added $960K to Operating Margin Annually

"How did you develop such a terrific Idea?"
– *CEO*

"I had the Idea 8 years ago! But my boss didn't think our clients would accept the approach…"
– *Lab Technician*

How to Get Results in Your Organization



The Premise Behind Approach

1

Solutions exist within every organization
Existing employees have the knowledge and context to identify opportunities to make their organization more efficient and effective

2

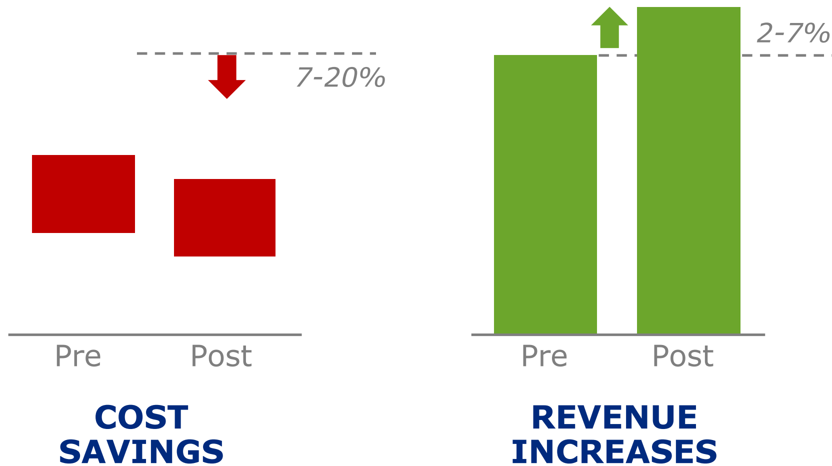
Barriers prevent these opportunities from surfacing
Silos, politics, reluctance to change, lack of data and short-term priorities are among the most common barriers that prevent an organization from harnessing and acting on internal knowledge

3

The organization needs to be engaged to unlock this value
Surfacing this untapped knowledge requires creating a specific environment that engages the right participants in the right way

What Is Achievable?

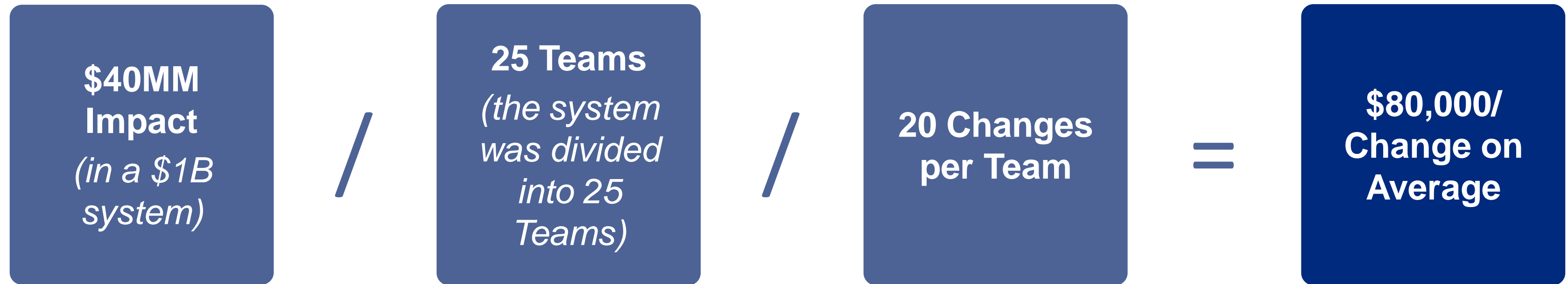
FINANCIAL IMPACT
300 to 1,000+ Basis-Point Increase in Operating Margin



ENHANCED CAPABILITIES

- Clarity of strategic drivers
- Line manager accountability
- Deeper executive team view of organization
- Faster, better decision-making
- Improved morale
- Continuous improvement/ bias toward action

Breaking Big Impacts Into Achievable Actions



This is achievable!

Breaking Big Impacts Into Achievable Actions

- Broad Engagement
- Leadership Involvement
- Empowered Project Leader
- Structured Timeline
- Common/Simple Change Format
- Relentless Implementation Management

Broad Engagement

1. Make participation as broad as you can
   a) Broader participation creates cultural change
   b) 80% of the ideas come people directly responsible for an operation
2. Idea Management systems are for engagement, not driving material change systematically
3. Don’t set targets, set **expectations** – push individual areas based on your knowledge of what’s possible
4. Change is a lot about psychology – people will support what they help to create

Leadership Involvement

1. The senior leader must champion the project

2. There must be direct communication between the senior leader and those developing ideas for change

    a) Do NOT route ideas through subject matter experts

    b) Do NOT route ideas through normal processes

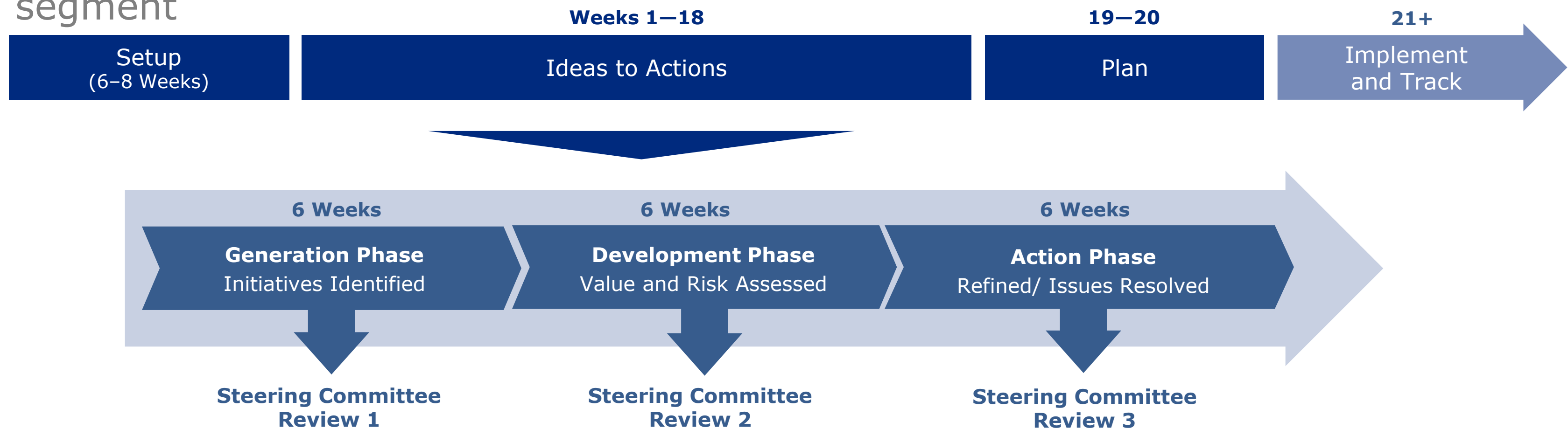
Empowered Project Leader

1. Project leader drives the effort on behalf of the senior leader

2. Must have the organizational fortitude to get blockers to the table

Structured Timeline

1. Too short and higher value ideas won't have time to be developed
2. Too long and the organization loses focus
3. Experience has shown that the ideal timeline is three six-week segments, with a review of all ideas for change by the senior leader at the end of each six week segment



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Common/Simple Change Format

1. No PowerPoint presentations
2. Use a simple framework
3. Focus on cash impacts across the organization
4. Focus on the set of people that can say “No”
5. Every idea for change must have a leader that is responsible and accountable through implementation

Common/Simple Change Format

Demo
Optional second line

DASHBOARD | IDEAS | TASKS | REPORTS | IMPLEMENTATION | ...

Sys: System Ideas | George Swetlitz

VIEW | Comprehensive | Idea Generation | Custom

Add New Idea | Filter Ideas | Apply SCR Sort | Export | More | Search

Group	Focus Area	Details	Risk	Value	Decision
Sys	Standardization	191 **Clinical equivalents** Standardize use of less expensive, on-contract—but clinically equivalent—medical products e.g. heart valves.	Medium (Complete)	$500 (Validated)	Go (SC Decision)
Sys	Waste Reduction	192 **Reusable supplies** Reduce case costs by replacing disposable laparoscopic supplies with cheaper reusable laparoscopic supplies.	High (Complete)	$230 (Validated)	No Go (SC Decision)
Sys	Efficiency	193 **Instrument tracking** Implement an instrument tracking program to improve efficiency and decrease case delays.	Medium (Complete)	$150 (Validated)	Go (SC Decision)
Sys	Efficiency	194 **Preference cards** Systematically revise physician preference cards to avoid duplicated work and case delays.	Medium (Complete)	$250 (Validated)	Go (SC Decision)
Sys	New Service	195 **Endobroncial ultrasound** Provide better care and increase internal oncology referral by use of endobronchial ultrasound in PCP offices for earlier cancer detection.	Low (Complete)	$1,200 (Validated)	Go (SC Decision)
Sys	New Service	196 **Ankle brachial index** Provide better care and increase internal cardiology referral by performing ankle brachial index in PCP offices to detect heart disease.	Low (Complete)	$200 (Validated)	Go (SC Decision)
Sys	Expand Volume	197 **Nursing home partnership** Partner with nursing homes and assisted living groups to provide Medical Directorships to increase patient flow into the system.	Medium (Complete)	$800 (Validated)	No Go (SC Decision)
Sys	Expand Volume	198 **Patient recall** Develop a systematic patient recall system for Primary Care and Specialists	Low (Complete)	$1,500 (Validated)	Go (SC Decision)

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Common/Simple Change Format

IDEA SUMMARY

Idea #	196

Idea Title

Capture additional referrals from sleep center.

Idea Leader

Bill Smithson

Maureen Pierce

Idea Description

Add mid-level providers to intensivist/pulmonology group so that physicians can accommodate additional patient referrals which now leave the health system.

Value $K

$800

Risk Rating

L

Timing

1/31/19

Current State

Intensivists/pulmonologists cancel office hours when they are pulled into ICU.

Decision

GO

Recommended Approach

Mid-levels will support intensivists in ICU so that the pulmonologists can maintain more consistent and reliable office hours to handle sleep center referrals.

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Relentless Implementation Management

1. Track financials, milestones and metrics
2. Each idea owner updates status each month
3. Projects that fall behind present mitigation plans to senior leaders
4. Ideas that cannot be implemented must be replaced

Pulling It Together

		Broad	Leadership	Team Lead	Timeline	Format	Implement
Personal: Passive	Avoid Controversy	✓	✓	✓			
	Status Quo	✓	✓	✓			✓
Personal: Active	Conflicting Goals		✓	✓	✓	✓	
	Blockers		✓	✓	✓	✓	✓
Organizational	Silos		✓	✓			✓
	Information: Incorrect/ Bad Assumptions		✓	✓		✓	

Q&A

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Richard has more than 30 years of senior executive and consulting experience focused on optimizing enterprise value for hospitals and health systems, private equity firms, portfolio companies, and other business entities. His expertise spans strategic planning, financial management, leadership development, mergers and acquisitions, governance, performance improvement, physician alignment, and business development.

He has held senior-level positions including chief executive officer, chief operating officer, chief administrative officer, and chief financial officer in a broad range of health care settings, including an academic medical center, a multi-hospital system, and community hospitals. He has also consulted for health systems, private equity firms, portfolio companies, and health care entrepreneurs.

Richard holds master's and bachelor's degrees, summa cum laude, from The City College of the City University of New York, where he was inducted into Phi Beta Kappa. He is a Fellow of the American College of Healthcare Executives, where he served on the Board of Governors, and of the Healthcare Financial Management Association, where he has served as National Chairman.