Transforming for Tomorrow
Session 1: Introduction

August 23, 2012 or August 30, 2012
CHA Web Seminar
Welcome

Liz Mekjavich
California Hospital Association
Continuing Education Offered for this Program

- **Health Care Executives** — CHA is authorized to award 2 hours of pre-approved ACHE Qualified Education Credit (non-ACHE) for this program toward the advancement, or recertification in the American College of Healthcare Executives. Participants in this program wishing to have the continuing education hours applied toward ACHE Qualified Education credit should indicate their attendance when submitting application to the American College of Healthcare Executives for advancement or recertification.
Continuing Education Requirements

Full attendance, completion of online survey, and attestation of attendance is required to receive continuing education credit for this seminar. Note: only registrant may receive complimentary CEs. If additional participants under the same registration would like to be awarded CEs, a fee of $20 per person, will apply. Post-event survey will be sent to registrant and provide information on how to apply online for additional CEs.
Program Overview

Anne McLeod
California Hospital Association
Michael Cohen, Principal, Deloitte Consulting LLP

Michael Cohen is the leader of Deloitte Consulting’s Strategy Practice for Health Care Providers. In this role, Mike focuses on leading strategic and financial transformation engagements for hospital and physician group clients with an emphasis on strategic planning, growth, accountable care and strategic partnering.
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Timothy Y. Kan, Senior Manager, Deloitte Consulting LLP

Timothy Kan has been with Deloitte for ten years and works in their Strategy Practice for Health Care Providers. Tim advises hospitals, medical groups, and integrated delivery systems on issues related to strategic planning and competitive strategy, mergers and acquisitions, as well as financial and operational transformation.
Transforming for Tomorrow

Session 1 — Introduction
An Overview of Key Findings, Recommendations, and Tools from the Transforming for Tomorrow Task Force
Preface

The California Hospital Association’s (CHA) Board of Trustees authorized the creation of a special task force to analyze the state and federal landscapes and prepare recommendations for policies, services, programs and strategies to assist hospitals’ transformation for the future and guide CHA’s public policy development. The “Transforming for Tomorrow” Task Force served as a think tank to develop transitional strategies for hospitals.

Deloitte Consulting LLP was engaged to assist CHA and the Task Force in developing these strategies in the context of California’s unique fiscal and regulatory environment.
Transforming for Tomorrow Task Force Approach

In late February, the Transforming for Tomorrow Task Force adopted a three-phased approach to assess the environment, identify transformational strategies for California hospitals, and develop consensus on recommendations to be adopted by CHA’s Board of Directors.

### Phase 1: Identify/Prioritize Strategic Issues
- Isolate and evaluate the “big issues” facing CHA Members
  - Stakeholder interviews
  - Develop a strategic fact-base
    - Demographics and population health needs
    - Relative financial/operational health of CA hospitals and providers
    - Level of integration in key markets
  - Establish strategic positioning of CHA members (current/forward looking)
  - Isolate and prioritize strategic imperatives

### Phase 2: Formulate Core Strategies
- Identify and “stress-test” potential strategies against market evolution scenarios
  - Evaluate applicable industry leading practices and market trends
  - Identify a set of “strategic destinations” for CA hospitals
  - Frame potential strategies/actions
    - Member/hospital level
    - Association level
  - Test “strategic destinations” and related strategies against market evolution scenarios
    - Core strategies
    - Situation-specific strategies

### Phase 3: Document Proposed Actions
- Flesh out the detail and isolate actions for consideration by CHA
  - Prepare report of findings and recommendations
  - Isolate actions for consideration by CHA
  - Identify potential capability gaps
  - Support review and presentation of findings to CHA Board and/or other stakeholder groups
## Webinar Series Overview

Today’s discussion is the first in a series of webinars to educate CHA members on the key findings and recommendations from the Task Force.

<table>
<thead>
<tr>
<th>Introduce (8/23 and 8/30)</th>
<th>Scan (9/19 and 9/25)</th>
<th>Explore (10/3 and 10/10)</th>
<th>Plan (10/24 and 10/31)</th>
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<tbody>
<tr>
<td>Participants will be introduced to the purpose and recommendations of the Transforming for Tomorrow Task Force. This session will provide an overview of key findings from the work, orient participants to strategies for long-term success, and introduce tools for planning and preparation. Session includes:</td>
<td>Hear a detailed review of key analytics and insights from the Task Force’s scan of the national and California marketplaces. Faculty will focus on the &quot;Vulnerability Index,&quot; a framework used to assess California hospitals’ relative exposure to future trends and readiness for the future. Session includes:</td>
<td>Learn about several potential paths to future differentiation and sustainability for California hospitals and health systems. Participants will explore each of five potential “Destinations” which represent prototype strategies for achieving differentiated revenue or cost performance. Session includes:</td>
<td>Participants will review the “Transformation Roadmap” — a framework executive teams can use to plan and stimulate discussion on strategic direction and value proposition, identify key considerations related to defining a sustainable strategy for success, and more quickly translate task force perspectives into local action. Session includes:</td>
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<tr>
<td>• Task Force purpose, focus</td>
<td>• Impact of aging, demographic, and coverage shifts</td>
<td>• Representative strategies — tactics used to drive success under each Destination</td>
<td>• Difference between core, differentiating, and contingent strategies</td>
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<td>• “Fact-Base” conclusions — scan of the national and state environment</td>
<td>• Value proposition — cost, quality, and consumer engagement</td>
<td>• Early signals — examples of national organizations pursuing these strategies</td>
<td>• Insights and information leveraged from the Task Force</td>
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<td>• Framework for action — core, differentiating, and contingent strategies to support success</td>
<td>• Effects of scale and integration</td>
<td>• Competencies — changes in capabilities and culture required to support Destination success</td>
<td>• Key questions to be answered at each stage of exploration and desired outcomes</td>
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<td>• Tactics to support California hospitals during transition</td>
<td>• &quot;Transformational Leaders&quot; v. &quot;Acutely Vulnerable&quot; organizations</td>
<td>• Guiding principles and other critical success factors</td>
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Environmental Assessment Summary

California has long built a reputation for being on the leading edge of care and innovation. However, demographic and coverage shifts as well as forecasted challenges in the reimbursement and labor markets will challenge several hospitals as they prepare to transform for tomorrow.

• Demographic trends and coverage shifts will require organizations to innovate their care model to, among other considerations, address primary care supply, cost management, the evolving health needs of an aging population and the imperative to transition from “providing care” to “managing health”

• Scale is important, but integration will be critical in driving revenue and cost leadership to support sustainable margins at significantly reduced levels of reimbursement

• California’s high proportion of small business and active legislature will likely increase the impact of the health insurance exchange, which will be a key future driver of financial risk

• California hospitals show early signs of readiness for the future, but some face significant near-term challenges to sustainability
Polling Question:
Which actions are you taking to address these shifts?
Transforming for Tomorrow will require California Hospitals to develop a strong foundation of capabilities, create tangible differentiation, and place options on the future.

**Core Strategies** are the “table stakes” for all provider organizations in California to succeed in a future environment in which value is more important than volume.

**Destinations** represent a set of template strategies that a given California hospital or system could choose, based on its readiness, exposure, and core capabilities.

**Contingent Strategies** are responses to various scenarios in the California environment that could affect the criteria for success of a given strategy.
Core Strategies to Support Transformation Journey

The key conclusions from the Fact Base led the Task Force to develop a set of Core Strategies applicable to all California hospitals.

<table>
<thead>
<tr>
<th>Key Fact Base Conclusions</th>
<th>Core Strategies from the Task Force</th>
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<td><strong>Demographic and coverage shifts</strong> will require organizations to innovate their care model to, among other considerations, address caregiver supply, cost levels, the needs of an aging population and the transition from &quot;providing care&quot; to &quot;managing health&quot;</td>
<td>• Begin testing methods for reducing cost and improving quality beginning with hospitals’ self-insured populations</td>
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<td><strong>Scale is important, but integration will be critical in driving revenue and cost leadership to support sustainable margins at significantly reduced levels of reimbursement</strong></td>
<td>• Acquire care management technology that incorporates performance management and predictive analytics capabilities</td>
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<td><strong>California’s high proportion of small business and active legislature will likely increase the impact of the health insurance exchange, which will be a key future driver of financial risk</strong></td>
<td>• Develop new models to drive greater clinical integration by aligning incentives with community physicians</td>
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<td><strong>California hospitals show early signs of readiness for the future, but some face significant near-term challenges to sustainability</strong></td>
<td>• Develop strategic partnerships that augment actual and virtual scale, leveraging shared networks and technology as enablers</td>
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<td><em>Strategies which may require CHA to be a driver</em></td>
<td>• Evaluate and prioritize current health plan relationships in preparation for Exchange-based competition</td>
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<td>• Increase outreach to employers and other institutional purchasers to drive stickiness and explore pay-for-performance</td>
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<td></td>
<td>• Develop initiatives to boost cost performance in preparation for additional payer and purchaser pressure on reimbursement</td>
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<td>• Access financing to support needed infrastructure and capability investments</td>
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Polling Question:
Are you clearly and positively differentiated from competitors in your local market?
Durable Paths to Support Local Market Differentiation

In addition to the Core Strategies, California hospitals could choose one of several possible "destinations" to create differentiation and drive enhanced revenue or cost performance over time.

**Per Unit Reimbursement or Cost**

- **Declining Reimbursement**
  - **Improve Revenue Performance**

- **Unit Cost Inflation**
  - **Improve Cost Efficiency**

**Time**

**Profitability Levers**

**Strategic Destinations**

- **The Innovator**
  - Deliver superior outcomes/service to realize superior reimbursement

- **The Diversifier**
  - Extend consumer relationships to achieve a greater "share of wallet"

- **The Aggregator**
  - Use actual and virtual scale to drive a sustainable unit cost advantage

- **The Health Manager**
  - Integrate care across the continuum to decrease utilization and total cost

- **The Connector**
  - Focus service mix and direct extended care to other high value providers
### Capabilities and Emphasis

Selection should be informed by alignment with mission/vision, capabilities, and marketplace demands

<table>
<thead>
<tr>
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<th>Health Manager</th>
<th>Connector</th>
<th>Innovator</th>
<th>Diversifier</th>
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<td>Focus</td>
<td>Leading acquisitions to develop critical mass/scale economies</td>
<td>Integrating the system of care to prevent the prevalence and progression of disease</td>
<td>Assembling value-added network of secondary and tertiary providers</td>
<td>Leading the research, design, and introduction of best in class methods</td>
<td>Using brand loyalty, consumer insight, and trusted partners to monetize relationships</td>
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<td>Leadership Role</td>
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<td>Leverage Point</td>
<td>Scale</td>
<td>Utilization Management</td>
<td>Focus</td>
<td>Leading Products</td>
<td>Relationships</td>
</tr>
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<td>Key Enabler</td>
<td>Efficiency and Standardization</td>
<td>Physician and Continuum Alignment</td>
<td>Efficient and Effective Transitions</td>
<td>Continuous Disruption</td>
<td>Commercialization</td>
</tr>
<tr>
<td>Success Measure</td>
<td>Cost per Service</td>
<td>Utilization per Member</td>
<td>&quot;Directed&quot; Outmigration</td>
<td>Quality and Outcomes</td>
<td>Share of Consumer Discretionary Spend</td>
</tr>
<tr>
<td>Required Capital</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
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Polling Question:
If you had to pick one, which Destination best reflects your organization’s strategy?
Contingent Strategies — Scenarios and Potential Implications

To prepare for future uncertainties, California hospitals should consider "options" to accelerate payor, provider, and consumer alignment.

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<tr>
<th>Variable</th>
<th>Scenario</th>
<th>Implications &amp; Potential Strategic Options</th>
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</table>
| Affordable Care Act | **Base Case:** ACA fully implemented in its original form  | **Highly Unlikely, High Impact**  
Proceed as Planned — Given the support by the Supreme Court and remaining Democratic majority in the Senate, repeal of the existing legislation will be difficult, and the state’s hospitals should continue to pursue transformation |
|                  | **Alternative Case:** ACA repealed and replaced by Republican sponsored legislation |                                                                                  |
| Provider Consolidation | **Base Case:** Consolidation continues to accelerate in select regions across the state | **Somewhat Likely, Moderate Impact**  
Proactively Develop a Plan — Begin evaluating consolidation scenarios, their effect on competitor value proposition, and consumer response so the organization can proactively respond if/when the market shifts |
|                  | **Alternative Case:** Mass consolidation of hospitals and health systems reduces number of players by 30%+ |                                                                                  |
| Consumerism      | **Base Case:** Consumerism continues to evolve but institutional buyers remain primary force in decision-making | **Uncertain Probability, But High Impact**  
Invest in New Consumer Relationships and Modify the Product Portfolio — Initiate tactics to create stronger consumer relationships (e.g., mobile apps, social media); incubate consumer-ready "products" with defined services, transparent pricing, guaranteed service |
|                  | **Alternative Case:** Retail-style individual choice and direct-to-consumer purchasing becomes the norm |                                                                                  |
CHA Actions

The Task Force reviewed several potential opportunities for the California Hospital Association to play a leadership role in accelerating and preparing for transformation.

### Key Fact Base Conclusions

* Demographic and coverage shifts will require organizations to innovate their care model to, among other considerations, address caregiver supply, cost levels, the needs of an aging population and the transition from "providing care" to "managing health".

* Scale is important, but integration will be critical in driving revenue and cost leadership to support sustainable margins at significantly reduced levels of reimbursement.

* California’s high proportion of small business and active legislature will likely increase the impact of the health insurance exchange, which will be a key future driver of financial risk.

* California hospitals show early signs of readiness for the future, but some face significant near-term challenges to sustainability.

### Potential CHA Strategies

- Advocate for expanding scope of practice for NPs and PAs as well as acceptance and use of new technologies to support lower cost and coordinated care models.
- Identify and incubate best practice models for advanced/predictive analytics.
- Continue collaborative efforts to modify Stark and other legislation to enable new productive economic relationships with physicians.
- Encourage the development of standards and incentives to share information across organizations.
- Lead initiative to replace prevailing hospital billing methodology.
- Work with key payers, medical associations, and employers to assess future value.
- Address unfunded mandates and high-cost regulatory requirements to support capital for transformation.
- Broaden access to financing for hospitals in transition.
The Task Force has framed a "roadmap" which outlines a common approach individual members could use to apply the insights from effort into their local planning efforts.

**Transformation Roadmap Overview**

- **Core**
  - Assess Environment
  - Execute Core Strategies
  - Select Strategic Destination
  - Identify Required New Competencies
  - Consider Structure & Partnerships
  - Develop a plan to address the "tablestakes"
  - Understand challenges and opportunities for differentiation
  - Define the organization’s future value proposition
  - Identify key gaps in capabilities and culture to realize Destination
  - Explore potential structural and partnership implications
  - Consider strategies to address local uncertainties

- **Contingent**
  - Identify Contingent Options
Roll-Out Plan

The following materials and activities are intended to drive awareness and encourage adoption of the Transforming for Tomorrow Task Force tools

**TFT Webinar Series**
Selected insights from the Fact Base and "Deep Dives" on select areas of potential strategy development

**Transformation Manual**
Printed reference material including the Fact Base, Framework for Action, and Transformation Roadmap (available online as well)

**Data Distribution**
Electronic access to the demographic and performance statistics from the Fact Base and links to other CHA data (hospital-specific to each CEO)

**Roadshows**
Committees, centers, and other targeted group meetings to educate membership on insights and tools
Thank you

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Questions

Online questions:
Type your question in the Q & A box, hit enter

Phone questions:
To ask a question hit 14
To remove a question hit 13
Transforming for Tomorrow is a four-part program

Upcoming Sessions
All sessions run 9:00 – 11:00 a.m., Pacific Time.
Choose one date for each session.

- **Session 2: Scan**  
  *Sept 19 or Sept 25*

- **Session 3: Explore**  
  *Oct 3 or Oct 10*

- **Session 4: Plan**  
  *Oct 24 or Oct 31*
2012 Publications

- California Hospital Compliance Manual
- Consent Law
- Principles of Consent and Advance Directives
- Minors and Health Care Law
- Mental Health Law
- California Health Information Privacy Manual (Available Late 2012)

Learn more at www.calhospital.org/publications
Upcoming Programs

- Disaster Planning for California Hospitals
  *October 15 – 17, 2012, Sacramento*

- Behavioral Health Care Symposium
  *December 3 – 4, 2012, Huntington Beach*

- Post-Acute Care Conference
  *January 31 – February 1, 2013, Huntington Beach*

- Rural Health Care Symposium
  *March 13 – 15, 2013, Sacramento*
Thank you for participating in today’s program. An online evaluation will be sent to you shortly.

**Reminder**: evaluation completion is **required** to receive continuing education credits.

For education questions, contact Liz Mekjavich at (916) 552-7500 or lmekjavich@calhospital.org.