Strategic Repositioning — Connecting Strategy with Reality

HFMA Texas Gulf Coast Chapter

November 20, 2015
Strategic Repositioning

- **Overview for today**
  - Share a process that will assist Healthcare Providers achieve the targeted outcomes associated with the execution of strategies

- What it is not
  - Traditional Strategic Planning (assumes a vision and desired future state has been created)
  - Rocket Science

- Process and learnings are being shared based on experiences of speaker as provider
Strategic Repositioning

- Assumptions about the current environment for providers
  - Major transformation well underway and is accelerating
    - Visions and emerging strategies look very different
  - Level of disruption is high and will continue
    - Innovation in Healthcare ubiquitous and a required competency for providers to embrace
  - Provider bandwidth is stretched at all levels, including leadership
    - Living through the volume to value transformation
  - Competency gaps likely exist in new skill sets
  - Time is of the essence
  - Teamwork has never been more important to achieve the transformation necessary, yet many organizations still operate in operational silos
Moving from Reality to Vision
Rarely This Smooth
There are 3 additional important assumptions that frame our topic today

1) There is an *Execution Gap* in all Healthcare Providers which typically occurs *after* a strategic vision for the future has been created

2) That size of that Gap is both a *challenge and an opportunity*, and in many ways defines existing organizational leadership and culture

3) A *disciplined execution-focused process* (*Strategic Repositioning*) can be an enabler addressing the Execution Gap, can improve the outlook and results, and ultimately lead to strategic success
Strategic Repositioning

- Some Definitions for Clarity
  - *Strategic Vision/Plan* – A broadly defined plan creating a desired future
  - *Strategic Framework* – A summary of mission, vision, values, organizational operating principles/model, competencies, strategic goals; output of the Strategic Planning process
  - *Strategic Financial Plan* – A financial projection depicting key assumptions and outcomes necessary to achieve the desired future financial targets and goals of the Strategic Plan
  - *Operating Plan and Budget* – Short-term, detailed plan to achieve tactical objectives – tasks and $’s
Strategic Repositioning – Periodic assessment and modification of the Strategic Framework, most specifically strategies and tactics, utilizing the essential organizational competency of Strategic Execution

Strategic Execution – Essential organizational competency that successfully hard wires strategic framework into tactical work plans, fully integrated with the operating plan and budget, to achieve the necessary outcomes

- Strategic Execution enables effective Strategic Repositioning to be successful, and ultimately the Strategic Plan and Vision of the Organization’s desired future

Strategic Repositioning with Strategic Execution…Powerful!
Assumption #1
There is an Execution Gap....

There is an Execution Gap in all Healthcare Providers which typically occurs after a strategic vision for the future has been created

• That Gap typically is most evident in significant strategic tactics identified as important priorities

• That Gap exists even with various performance improvement models in place within the organization
Strategic Repositioning

Too often, strategy can be “eaten by culture,” yet it is also true that execution can “trump strategy.” Said another way, a good strategy — well executed — will beat a great strategy, poorly executed, every time! The ability of Hospitals and Health Systems to execute on strategy and key tactics as an essential core competency in today’s transformational, challenging healthcare environment.
“When companies fail to deliver on their promises, the most frequent explanation is that the CEO’s strategy was wrong. But the strategy by itself is not often the cause. Strategies most often fail because they aren’t executed well.”
There is a difference between organizations that consistently achieve results at a very high level, and those that have a good Strategic Vision, but where execution is uneven.
### Vision
Inspired by our Mission and committed to our Core Values, Catholic Health East will achieve excellence in all we do, creating a system that empowers communities and individuals to achieve optimal health and quality of life.

### Mission
Catholic Health East is a community of persons committed to being a transforming, healing presence within the communities we serve.

To effect this Mission:
- We treat all persons whom we serve and with whom we work with respect and compassion, calling forth their best human potential.
- We provide a full range of services that support healthy communities, including holistic approaches to healing body, mind, and spirit.
- We collaborate with others who share a common mission and vision.
- We continually seek ways to assure access to services to persons most in need.
- We identify and develop leaders in Catholic Health East.
- We advocate public policies and initiatives, particularly those that advance the area of healthcare, that ensure quality of life for all.

### Core Values
As a faith-based healthcare ministry, it is vitally important that we meet one of our challenges: providing a full range of services that support healthy communities, including holistic approaches to healing body, mind, and spirit. The Catholic Health East mission is driven by the following Core Values:

### Financial Performance
- **Strives to integrate spirituality into the workplace, colleagues' experiences, and CHES' mission and values to create an organization that is demonstrably values-based.**
- **Develop a healthy and engaging environment of respect, accountability and performance through effective leadership, and competitive total compensation consistent with CHES' mission and core values.**
- **Assist leadership with strategy execution by advising them on how to leverage organizational capability through effective organizational development and change management.**

### People
- **CHE is a great place to work (top 10% in community),**
- ** driveway employees (top 20% in compensation),**
- **Provide ongoing opportunities for education, development, and career advancement,**
- **Provide opportunities for personal and professional growth.**

### Service
- **CHE ranks in the top 10% of nationally recognized measures of health care service excellence across the continuum of care.**
- **Empower persons to make the best decisions for their health and well-being.**

### Quality
- **CHE's culture of quality and safety is demonstrated by being ranked in the top 10% of all nationally recognized/accepted quality and safety measures.**
- **CHE achieves AEPQI Acceptance of Excellence in all areas.**

### Strategies
- **Focus all clinical and business processes on person-centered care.**
- **Leverage values in practice as part of our culture to drive person, physician and collogue satisfaction.**
- **Implement evidence-based processes and techniques to improve continuity in areas of quality and safety.**
- **Build clinical and cultural competencies to meet the needs of our community in a compassionate and holistic manner.**
- **Implement clinical data systems to measure improvements in health care value and aid in the delivery of safe, quality care across the continuum.**

### Strategic Framework

#### Strategic Models

- **Health Care Delivery Model**
  - In 2017, Catholic Health East is a Mission-driven health system that:
    - Delivers compassionate, holistic, person-centered care to all.
    - Builds and fosters a values-based culture which attracts diverse individuals dedicated to the healing ministry.
    - Demonstrates excellence in quality, service, access, and value.
    - Leads in the provision of personalized health data and professional advice and support to our community and patients.
    - Provides coordinated, integrated care management for persons across the continuum of care.
    - Advocates for quality care, especially for those who are marginalized and;
    - Collaborates broadly to serve persons in our communities.

- **Organizational Competencies**
  1. Optimize the use of information technology to meet the needs of persons and providers, create transparency in reporting, and convert to electronic health records.
  2. Achieve excellence through disciplined execution.
  3. Become a learning organization that embraces and manages change.
  4. Cultivate the ability to anticipate and understand market dynamics.
  5. Collaborate effectively and align incentives to meet organizational goals and community needs.
  6. Develop leaders who embrace and embody the Catholic health ministry and equip them to guide these ministries into the future.
  7. Create a portfolio of funding mechanisms that support our long-range strategic priorities.
  8. Enhance our cultural awareness and skills in relating to an increasingly diverse workforce and the communities we serve.
Strategic Repositioning – Where is the Gap?

- Where on the strategy development/strategy deployment continuum are gaps most likely to occur?

- Provider’s challenges are complex; gaps in deployment of tactical opportunities often occur when time is of the essence, bandwidth is limited, and competencies may need to be supplemented.
Building Execution Competency – An Assessment

- Penetrating Questions are Critical – Identifying the Execution Gap…in your organization
  - What is your track record for successful execution of important projects/meeting targets? (EHR/MU, Performance Improvement, etc…)
  - How large is the financial gap you are projecting in your strategic financial plan? What is the likelihood your current tactics will close it? In the time identified?
  - Do you have the bandwidth to execute all of what is planned?
  - Do you have the competencies and colleague level of engagement to execute your selected strategies and tactics?
Strategic Repositioning – What Needs to Change?

- The results of your assessment of the Execution Gap then needs to translate into thinking how to narrow the Execution Gap, i.e., what needs to change? People? Process?
  - Critical first step to the Strategic Repositioning Effort
  - Keep in mind the well known definition of insanity
Assumption #2 – The Size of That Gap is Both a Challenge and an Opportunity

That size of that Gap is both a challenge and an opportunity, and in many ways defines existing organizational leadership and culture.
Strategic Repositioning

- The Gap – challenge AND opportunity
  - The importance of painting the right picture
  - Transformational Leadership
  - Change! Asking to think in new paradigms
Impact of Demographics & Inflation

Assumptions:
1. Operating environment and current mix of services and performance constant throughout the period (i.e., does not consider in-process initiatives, new market entrants, significant reductions in employment or other exogenous factors)
2. Assumes shifts in demographics, migration to health insurance, and other reimbursement declines related to PPACA
3. Remaining gap is subject to the above assumptions as well as the ability to execute on potential improvement plan

Financial Challenge 2011-2017
Operating Income Projections ($M)

3% Operating Margin Target in 2017

Key:
- Margin dilutive effects
- Performance prior to repositioning
- Margin accretive effects


- Operating Income: FY 10
- Impact of Demographics & Inflation: FY 17 Prior to Repositioning
- Impact of Reimbursement and Coverage: Operating Income
- Alignment with Top Quartile Operating Expense: FY 17 Post Strategic Repositioning
- Gap to 3% Performance
- 3% Target Operating Income

$33M
($256M)
$342M
$167M
$222M
($172M)
($396M)
Leadership of the Process

- % of failures associated with change in organizations is disturbingly high
- Successful Execution occurs when a well developed plan and set of tactics is combined with effective leadership of change
- Of all the aspects used to successfully implement change, nothing trumps engaged leadership
Change ➔ IBM Foundation Study

- Majority of “Executives” Perform Poorly In Context of Rapid Change
  - Fail to partner with clients to experiment with new delivery modalities
  - Unable to develop creative and adaptive cultures
  - Unwilling to rapidly assimilate new modalities developed “outside” their organization

Can Only Execute on Prior Models
Limited Number of Organizations
Ride the Cycle of Change

- Many “Established” Organizations Fail to Evolve
  - Focus solely on branding and cost reduction
- Most “entrepreneurial” organizations absorbed
  - The need for “ramp up” capital & supportive functions
  - Creative new partnerships
- Limited Number of Prior Prestige Organizations Survive
  - By becoming “learning” organizations able to incorporate changes

Source: Andre DelBecq
Related to Healthcare

- In A Period of Paradigm Transition
  - Efficiency Responses Necessary But Not Sufficient
  - New Modalities of Care and Delivery Must Also Be Tested & Adopted
    - Transfer low cost, high quality models from other countries
    - Meet the expectations of the millennial generation comfortable with mobile, electronic technology
    - Increase personalized care based on genotypic diagnostics
    - Interface with informed, self-organizing collectives of patients
    - Partner with populations of patients, etc.

Source: Andre Delbecq
Paradigm Change Requires Transformational Leaders

Different from “Executives,” “Administrators,” and “Managers”

Embrace A Genre of Strategic Decisions

- Where ends are unclear
- Where means must be discovered
- Where experimentation must substitute for expertise
- Where implementation must be achieved through new alliances
Assumption #3 – Strategic Repositioning Process as an Enabler

A disciplined execution-focused process (Strategic Repositioning) can be an enabler addressing the Execution Gap, can improve the outlook and results, and ultimately lead to strategic success.
Strategic Repositioning

- A robust, periodic Strategic Repositioning Process is an essential part of the overall, integrated strategic and operational process fabric.
  - What does it look like and how does it work?
Your Original Plan…
the Road Less Traveled…
Strategic Repositioning – Key Execution Elements

- Clarity of purpose – “putting it in perspective”
- Process Work Plan
- Monitoring the Plan’s Implementation
Strategic Repositioning – “Periodic” and “Adaptive” – Clarify Your Process Goals

2011

- Addressed a new business model (the shift from volume to value) that could result from health care reform
- Focused us on aligning our strategic initiatives with targeted metrics

2013

- Insure alignment with the increasing pace of change, driven by PPACA and increasing volume/rate revenue pressures
- More clearly outline the path to new business models:
  - Population health
  - Clinically integrated networks
  - Service distribution networks
- Continue to align our strategic initiatives with targeted metrics
- Refresh our 2011 initiatives as necessary; add or subtract as needed
Memo to Leadership:  RE: Strategic Repositioning Process

- The Strategic Repositioning process will assess the viability, sustainability and achievability of our mission in each existing community we serve in the context of the new healthcare business model, where value not volume is the driver.
- Without sustainable margins, we cannot carry out our mission and achieve Vision 2017.
- The financial goals of the System, and each Operating Entity, are a minimum 3% operating margin and minimum 10% EBIDA margin by 2017.
- Strategic ideas and concepts will begin at the Operating Entity and be guided by the responsible EVPs.
- Operating Entities are expected to identify strategies and tactics for consideration based upon sound market analyses. Those strategies and tactics will be evaluated and prioritized with rationale and reasonable assumptions.
- We will conduct our thoughts and analyses within the Value-Based Decision-Making framework.
- The EVPs will ensure each Operating Entity:
  - Is making progress
  - Has the necessary resources
  - Is pursuing realistic, achievable, and sustainable strategies
  - Is communicating within its Operating Entity and with its local Board.
- The System Office, supported by the identified consulting support, will assist with strategy review, prioritization, data assessment, modeling, etc. as requested and required by the Operating Entities and/or EVPs.
- Operating Entities and System Office plans that meet the minimum 3%/10% targets will be consolidated for the system-wide strategic plan and strategic financial plan. From there, the next fiscal year operating plan and budget will be developed.
Actions to Support a Successful Launch of Strategic Repositioning — Clarity of Roles and Timing Lead to Disciplined Execution

**System Office**

- Actively organizing foundational materials (Fact-Base and Playbook) which will be distributed to the Operating Entities during the 1st two weeks of April
- Discussing Strategic Repositioning with Operating Entity CEOs & Board Chairs March 30/31
- Organizing 3-5 “System Office” teams which will coordinate Operating Entity plans related to the following areas:
  - Continuum of Care
  - Reimbursement and New Payment Models
  - Physician Engagement / Alignment
- Holding multiple ‘training sessions’ for Operating Team Leads and key participants
  - External Trends/Planning Landscape: April 8
  - “Playbook” Training - week of April 11

**Operating Entity**

- Identify a local Operating Entity ‘Team Leader’ who will receive training on the “Playbook” and be the primary point-of-contact for the organization throughout the process
  — Submit your Operating Entity Strategic Repositioning Team Leader to Executive Steering Group by March 30
- Develop a project plan to complete your local Repositioning Plan between mid-April and mid-July
- Begin facilitating conversations locally with key stakeholders, particularly governance, regarding process
- Find avenues to begin educating key participants on local market developments and key external trends that will shape your operating landscape over the next 5-10 years
- Determine whether any external support/facilitation will be required to facilitate completion of your Repositioning plan
- Continue to be responsive to System Office data requests to ensure timely delivery of Fact-Base documents
The target metrics for the Strategic Repositioning effort relate directly to the Strategic Framework.

The Strategic Repositioning plans should support the goals in the Strategic Framework.

<table>
<thead>
<tr>
<th>Category</th>
<th>Metric</th>
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</table>
| Finance | Top 10% in the provision of community benefits (as percent of operating revenue)  
A minimum 3% operating margin & 10% EBIDA margin by 2017 |
| Quality | Ranked in the top 10% of all nationally recognized/accepted quality and safety measures |
| Service | Ranked in the top 10% of all nationally recognized/accepted measures of health care service excellence across the continuum of care |
| Growth | Serve more persons in the eastern United States than any other not for profit health organization |
| People | To be known as the preferred employer by achieving top 10% performance in attracting, retaining, and developing all health care colleagues |
Work Plan Approach and Timing – A Disciplined Process - Example

- The Strategic Repositioning effort will be completed by early September, assuming key dependencies and requirements are satisfied on schedule throughout the effort.

<table>
<thead>
<tr>
<th>Stage 0: Activate Project</th>
<th>Stage 1: Develop Foundation</th>
<th>Stage 2: Identify Strategies and Tactics</th>
<th>Stage 3: Select Strategies</th>
<th>Stage 4: Codify &amp; Operationalize Plan</th>
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<tbody>
<tr>
<td>Data Request Received</td>
<td>RHC Launch &amp; “Playbooks” Received</td>
<td>MidPoint Check-In Completed (Due 6/10)</td>
<td>Final “Playbooks” Due to System Office (Due 7/29)</td>
<td>Updates to Strategic Plans, Strategic Financial Plans, and Capital Plan (Due 9/9)</td>
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<tr>
<td>RHC/System Office Teams Draft Repositioning Strategies via Playbook (Due 6/10)</td>
<td>Preliminary Review of Submissions (Due 6/17)</td>
<td>Aggregation, Prioritization &amp; Sequencing (Due 8/19)</td>
<td>Inform 2012 Operating Plans &amp; Budgets</td>
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- All Operating Entity teams will be responsible for identification of key repositioning initiatives (expected to be 6-8)

- EVPs will provide executive leadership during this phase and will serve as System Office liaisons to Operating Entities during this process

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<thead>
<tr>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
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<td><strong>New Financial/Budget Development</strong></td>
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<td>Initial Budget Guidance and Direction Provided to Operating Entities (late March)</td>
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<td>Operating Entities Develop FY14 Budget</td>
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<td>Operating Entities submit new FY14 Budget (Mid-May)</td>
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<td>Consolidate Budget &amp; Estimate Capital Needs</td>
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<td><strong>Budgets Submitted</strong> (June 11th)</td>
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<td><strong>Strategic Planning/Repositioning</strong></td>
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<td>Repositioning Kick Off (March 21-22)</td>
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<td>Education Sessions</td>
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<td>RHC/EVP Review Session #1 (Weeks of 4/29-5/13)</td>
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<td>EVP Review Session #3 (Week of 7/8)</td>
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<td>RHC/EVP Review Session #2: (Weeks of 6/3 – 6/10)</td>
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<td>Operating Entities Revise Existing and Develop New Initiatives</td>
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<td>Operating Entities Submit Repositioning Plans and Threshold Capital Requests (8/2)</td>
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<td>Final Submission of Strategic Repositioning Tactics, Work plans, and Revised Financial Forecasts &amp; Budgets (8/31)</td>
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<td>Refine Initiatives</td>
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<td>Operating Entities Present Plans to SMT for Feedback (August 20th &amp; 21st)</td>
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<td>RHC Board Approval of Community Needs Assessment &amp; Implementation Plans (7/31)</td>
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<td>Present Final FY14 Operating Plans, Operating Budget &amp; Capital Allocations to Governance (9/12)</td>
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<td>Operating Entities Continue to Develop Community Needs Assessment</td>
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<td>RHCs submit Community Needs Assessment (5/10)</td>
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**Project Organization Chart – Structure and Accountabilities**

**Senior Management Team**
- Recommends final strategic repositioning plan to Governance
- Removes barriers that hinder success

**Executive Steering Group** (COO, CFO, VP Planning, Operating Entity Leaders)
- Assesses progress against strategic and business objectives
- Meets regularly to review status and resolve cross-functional issues
- Supports review and evaluation of strategic initiative plans as well as prioritization and staging
- Facilitates coordination across teams

**EVPs**
- Serve as liaison to the Executive Steering Group
- Provide executive leadership to guide OE progress and initial review of OE strategic repositioning plans
- Manage access to additional external support, as required

**Operating Entity Teams**
- Develops key strategic initiatives to align with overall program goals (e.g., build 6-8 initiatives to achieve minimum 3% operating margin and 10% EBIDA margin by 2013)
- Documents margin and volume impacts of each strategy as well as potential staffing and/or capital requirements
- Assesses risks and defines mitigation strategies
- Responsible for day-to-day leadership of working groups

**System Office Team(s)**
- Coordinate access to data / interviews necessary to complete Fact Base
- Provide logistics support for key milestones (e.g., Playbook Training, Mid-Point Check-In, EVP Status Updates, etc.)
- Supplement fact-base with select analyses
- Support modeling and development of strategic financial plans

**Support Resources**
- Process Support
  - Manage overall program and execution
  - Produce Fact-Base and Playbook
  - Provide on-going training for Operating Entity leads in Playbook completion
  - As needed, support strategy formulation
  - Lead aggregation of proposed strategies and financial analyses for review by Leadership; identify where additional clarification needed
  - Evaluate implementation considerations

- Strategic Financial Support
  - Assist System Office to support modeling and development of strategic financial plans
  - Provide support for aggregation of strategies and lead compilation of financials, participate in review process
  - Provide as-needed support for financial analysis
  - Act as primary lead on incorporation of outcomes into 2012 Operating Plan / Budget and 5 Year Capital Plan (system and Operating Entity level)

- System Office Support
To support the rapid and consistent identification of potential repositioning strategies, each Operating Entity team will be provided with an objective analytical framework (Fact-Base) and toolkit (Playbook).

**Fact-Base**

*The Fact-Base will provide an objective assessment of the strategic, financial & operating position of each Operating Entity.*

**Context:**
- The intent of the Fact-Base is to provide each Operating Entity with a common analytical starting point for their exploration of potential repositioning strategies
- Analyses will be retrospective and forward-looking

**Components:**
- Operating Entity Profile – Comparison of recent financial and operating performance to key internal metrics and external peer group comparisons
- Reimbursement & Coverage Analysis – The projected impact of coverage shifts & payment impacts from Health Care Reform for the period 2012-2019
- Competitive Landscape Assessment – Analysis of the relative positioning of each Operating Entity to its competitors based on factors such as growth, financial strength and value-creation (cost/quality alignment)

**Playbook**

*Each Operating Entity/System office team will receive a ‘Playbook’ to support the documentation of their proposed strategies*

**Context:**
- The Playbook will contain a set of tools designed to ensure the Identification of repositioning strategies is completed in a consistent manner across Operating Entity/System Office teams

**Components:**
- Narrative Summary – The narrative summary will provide templates to support the assessment of current position (SWOT), targeted strategies and implementation readiness
- User Guide – The Playbook will be supported by a user guide which will provide instructions, outline key assumptions & provide examples
- Financial Impact Model – Expected revenue, cost and capital implications of targeted strategies should be loaded into each Operating Entity financial model
Fact Base Analytics - Examples

RHC Profile

Financial Trending and Analysis

Competitive Landscape Assessment

Projected Coverage Shifts

Reimbursement & Coverage Analysis

External Benchmarking

Service Line Performance

Projected Reimbursement Impact

IMAX Consulting

Value, Experience, Results

IMA Consulting

Texas Gulf Coast Chapter

Healthcare Financial Management Association
Developing the Playbook – Strategic Considerations

- Spend time determining the most important questions for your organization to specifically address in Playbook development…examples…
  - Mission
  - Competitive Positioning and Value Proposition
  - Physician Alignment
  - Care Continuum and New Care Models
  - Reimbursement Models and Risk Sharing
  - New Markets, Services and Customers
  - Operational Efficiency
## Developing the Playbook – Strategic Considerations

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<td>Competitive Positioning &amp; Value Proposition</td>
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<td>Physician Alignment</td>
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<td>Care Continuum &amp; New Care Models</td>
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### Developing the Playbook – Strategic Considerations

#### Mission
- Are we essential to the community?
- Are community healthcare needs being met by other providers?
- What are new ways to serve vulnerable populations (Medicaid, Charity, Medically Underserved)?
- What collaborations would be beneficial?
- Which homeless initiatives should we focus on?

#### Competitive Positioning & Value Proposition
- What are the core services and how do they differentiate us? What should they be?
- How are we positioned to achieve Vision 2017?
- What are our key value proposition to payers and managed care plans - Price? Quality?
- What is our value proposition to patients - Access? Service?
- What competitive moves would allow us to capture market share?
- What services are critical to improving competitive position?
- Which assets are the most/least accretive to our strategy over the next 5 years?
- How will we prepare for population health and taking on more risk-sharing strategies?
- How will the role of the acute care facility change as a result of healthcare reform?
- How can we promote “systemness” to attract and retain customers in the network?
- How will we balance near term pressures for volume and longer term strategies for value?

#### Physician Alignment
- What alignment models should we pursue? Should we grow employed physician base, focus on affiliated physicians more, or both?
- What is our top 3 physician strategies to increase its referral base?
- Are we already enrolling physicians in patient-centered medical home models (PCMH)?
- What balance between Primary Care Physicians and Specialty Physicians should we target?
- What strategies can improve performance of the physician practices?

#### Care Continuum & New Care Models
- How can clinical quality improvement programs be utilized to drive overall performance (e.g., ACT initiatives)?
- What should our footprint be along ambulatory, acute, and post acute services?
- Should we explore new sites of care – Retail Clinics? Employer Clinics?
- What new collaborations/partnerships along the continuum of care would be beneficial?
# Developing the Playbook – Strategic Considerations

<table>
<thead>
<tr>
<th>Reimbursement Models &amp; Risk Sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ What impact will the health exchanges (public &amp; private) have on payer mix and contracting?</td>
</tr>
<tr>
<td>▪ What capabilities are necessary to successfully assume greater financial and performance risk in a value-based purchasing environment?</td>
</tr>
<tr>
<td>▪ What strategies will assure “break-even” for Medicare patients?</td>
</tr>
<tr>
<td>▪ How can we leverage our presence in the market to command more favorable rates?</td>
</tr>
<tr>
<td>▪ What strategies should help improve net revenue rates?</td>
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<tr>
<td>▪ Should we engage in employer-direct contracting? How? Do we have the necessary scale?</td>
</tr>
<tr>
<td>▪ Should we enter gain/risk sharing with other providers and with physicians (e.g., ACOs, bundled payments)?</td>
</tr>
<tr>
<td>▪ What is our strategy for managing financial risk in an ACO or bundled payment environment?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New Markets, Services and Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ How will we increase covered lives in our market?</td>
</tr>
<tr>
<td>▪ Which types of services are valued by the marketplace? Do these make sense from both volume and margin perspectives?</td>
</tr>
<tr>
<td>▪ Which areas of the market / adjacent markets should we pursue? De-emphasize?</td>
</tr>
<tr>
<td>▪ What strategies improve the levels of business while increasing market share?</td>
</tr>
<tr>
<td>▪ What can we do with other local Operating Entities in our System?</td>
</tr>
<tr>
<td>▪ Can we expand non-core business areas to grow revenues and support margin (e.g., Monetize clinical data? Acquire other local players?)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operational Efficiency</th>
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</thead>
<tbody>
<tr>
<td>▪ To what extent can operational efficiency be further improved; what opportunities for cost reduction have not yet been explored?</td>
</tr>
<tr>
<td>▪ Are there clinical support services we should consider outsourcing? e.g. Lab services?</td>
</tr>
<tr>
<td>▪ What plans exist to centralize, standardize, or outsource back-office services?</td>
</tr>
<tr>
<td>▪ Can vendor contracting be centralized?</td>
</tr>
<tr>
<td>▪ Should certain non-patient focused business lines be reconsidered and outsourced (e.g., Dietary / Cafeteria, Parking, Security, Custodial)?</td>
</tr>
</tbody>
</table>
Defining Potential Playbook Tactics

- **Strategic Repositioning Tactic Defined**
  - **Criteria** - not currently in operating plan and would have a significant impact – could be operational areas or strategically new areas for growth or change
  - *Each operating unit* should have a playbook of tactics, that ultimately *aligns to system playbook*
  - *Collectively these fill the gaps* (financial, quality, value, patient experience, colleague engagement, etc.) that the fact base has revealed
About the Development of Tactics...

- All the hard work leads to this – the most innovative and creative part of the process
- Understood that status quo is unacceptable in almost all cases as the fact base demonstrates
- Stretch the organization, but achievable
  - Facilitation
  - External views and ideas critical to consider
- Execution starts here, not after gaps are created – leadership will need to force the dialogue early in the planning cycle to overcome the resistance
  - Much harder if the organization is not compelled by the fact base
- Ask the difficult questions – see strategic considerations
- Accountability of a plan rests at the operating level once the strategic framework has been identified
- Use the team(s) as much as possible – there is no wise man with all the answers
What Does a Meaningful Tactic Include?

- Product of an engaged team
- Metrics in relation to strategic framework
- Achievable Milestones and timing
- Strategic Financial Plan elements (to be built into capital and operating budgets)
  - Investment required
    - Capital
    - Working Capital
    - People/Competencies
  - Projection – Operating and Cash Flow Impact
- Performance Improvement plan, as needed
- Monitoring mechanisms aligned with Operating Plan
- Accountabilities (system/corporate, operating unit)
- Change management principles identified
- Communication plan integrated
Example of Tactics which emerged from the rigor of the process

- Substantially grow service line
- Implement a meaningful colleague engagement strategy
- Implement a meaningful patient experience strategy
- Create and Implement an HIX Strategy focused on population health triple aim goals
- Create and Implement a CIN/ACO and participate in shared or full risk arrangements
- Achieve a Medicare Breakeven or better cost structure
- Create/accelerate a Performance Improvement Infrastructure
- Create an enhanced Physician alignment, pluralistic model
- Explore Joint Venture opportunities
- Create or align with an Innovation Center
- Divest certain activities and programs
- Implement Retail Strategy
- Merge or Consolidate
### Strategic Repositioning – Aligning Gaps to Target with Tactics and Execution Discipline - Summary

<table>
<thead>
<tr>
<th>Phases</th>
<th>Create the Business Imperative</th>
<th>Formulate Core Strategies</th>
<th>Refine Strategies &amp; Plan for Execution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approach</td>
<td>• Use standard assumptions to predict:</td>
<td>• Use Strategic Considerations to assess current strategies &amp; revise or develop new initiatives</td>
<td>• Refine initiatives</td>
</tr>
<tr>
<td></td>
<td>– Coverage shifts</td>
<td>• Revise/Develop high level financial impact &amp; capital requirements for each initiative</td>
<td>• Build detailed financial impact models</td>
</tr>
<tr>
<td></td>
<td>– Reimbursement impact</td>
<td>• Determine potential organizational performance based on proposed initiatives</td>
<td>• Develop execution milestones and timeframe</td>
</tr>
<tr>
<td></td>
<td>– Operating margin impact</td>
<td></td>
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<tr>
<td></td>
<td>• Recognize market share and payer shifts</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Understand current operational, quality &amp; financial performance opportunities</td>
<td></td>
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</tr>
<tr>
<td>Deliverables</td>
<td>• Revised Waterfall Chart</td>
<td>• Revised initiatives with Narrative Summary &amp; High Level Financial Impact</td>
<td>• Revised initiatives with:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Preliminary Operating Performance</td>
<td>– Financial Model</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Preliminary Capital Request</td>
<td>– Implementation Milestones</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Final Capital Requests</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Final Strategic Financial Plan</td>
</tr>
<tr>
<td>Timing</td>
<td>April</td>
<td>June</td>
<td>August</td>
</tr>
</tbody>
</table>

- **Timing**:
  - April
  - June
  - August
Summary

Financial Challenge 2011-2017
Operating Income Projections ($M)

3% Operating Margin Target in 2017

$33M

($256M)

($172M)

($396M)

$222M

$342M

$167M

Key:
- Margin dilutive effects
- Performance prior to repositioning
- Margin accretive effects

Components of the Gap Analysis (Waterfall)

<table>
<thead>
<tr>
<th>Operating Income</th>
<th>Impact of Demographics &amp; Inflation</th>
<th>Impact of Reimbursement and Coverage</th>
<th>Operating Income</th>
<th>Alignment with Top Quartile Operating Expense</th>
<th>Gap to 3% Performance</th>
<th>3% Target Operating Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 10</td>
<td>FY 17 Prior to Repositioning</td>
<td>FY 17 Post Strategic Repositioning</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Assumptions:
1. Operating environment and current mix of services and performance constant throughout the period (i.e., does not consider in-process initiatives, new market entrants, significant reductions in employment or other exogenous factors)
2. Assumes shifts in demographics, migration to health insurance, and other reimbursement declines related to PPACA
3. Remaining gap is subject to the above assumptions as well as the ability to execute on potential improvement plan
Financial Performance - Updated Results
Post 2 Rounds of Strategic Repositioning
(Operating Income)

FY 10 | FY 11* | FY 12 | FY 13 Budget | FY 17 Prior SR | FY 17 Target @ 3%

GAP Fillers To Date
* Operations
  - Work Force Management
  - Supply Chain
  - Rev Cycle
  - Performance Excellence
  - Others
* Strategic (Ministry Transformations)
  - mergers, divestitures, joint ventures

$33m | $91m | $118m | $72m | $167m

($396m)
Strategic Repositioning – Effective Process “Checklist”

- Build on Strategic Framework and Vision
- Robust Dialogue, Engaging Key Stakeholders throughout
- Tactics detailed with an execution focus
  - Executable Work Plan
- Integrated with Operations, Finance Supported
- Leading Change principles incorporated
- Disciplined and Organized
- Transformational Leadership Throughout
- Work by Teams
- Monitoring Plan = Operating Plan integrated and in place
Strategic Repositioning

- Some Final Comments
  - Organizational Structure Considerations
  - Consultants
  - This is hard
A word about the corporate/parent role for those in systems large and small

- Corporate/Parents can either create or destroy value of an organization
- Value creating roles in Strategic Repositioning typically will look like:
  - High level direction
  - Top down objectives
  - Business development road maps
  - M&A support
  - Leveraging shared services where demonstration of value
  - Strategic Tactics typically best to be locally driven

Key Message – role of corporate and operating units in this process is critical to clarify and build into the process
Strategic Repositioning

- **A word about Consultants**
  - Know your scope
  - Know your competencies
  - Think your plan through with those you trust and test it
  - One stop shop for support is rare
  - Spend time building your team – internal and external and how it will execute during the process
Strategic Repositioning

- A final word for those who may find this hard
  - Reflect on your organization’s mission and core values as they have likely not been changed
  - If values suggest such noble behaviors as integrity, community, teamwork, courage, reverence, justice, and stewardship this process provides the opportunity to demonstrate them
  - Your values will be your bedrock, as usual, and Strategic Repositioning must be a reflection of who you are in this regard
  - Also reflect on the great Jimmy Dugan…
Strategic Repositioning

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