Supplier Strategies Track:

Forces Impacting Healthcare Suppliers in the U.S. Today:

C-Suite Perspective

Mark D. Dixon, President
The Mark Dixon Group, LLC
April 16, 2016
FACULTY DISCLOSURE

The faculty reported the following financial relationships or relationships to products or devices they or their spouse/life partner have with commercial interests related to the content of this CE activity:

- Mark Dixon, Nothing to Disclose
Meet Mark Dixon

➢ **Mark D. Dixon**, R.Ph, M.H.A., FACHE, leads The Mark Dixon Group, LLC which provides integrated delivery networks and medical suppliers consultative assistance. He specializes in providing services for C-suite perspective, Accountable Care Organization implementation, physician clinical integration, and improving service delivery effectiveness.

➢ **Prior Experience**
  • Regional President for the South Region of **Fairview Health Services** in Minneapolis, Minnesota from 2008 - 2011.
  • President/CEO of Community Hospitals of Indiana, part of the **Community Health Network** in Indianapolis, Indiana from 2003 - 2008.
  • Chief Executive of Abbott Northwestern Hospital and other roles with **Allina Health** in Minneapolis, Minnesota from 1984 – 2002.
  • Lectures at national meetings on relevant topics for health care administrators, physicians, and suppliers. He has also served on numerous other not-for-profit and for-profit boards of directors.
Which Level are you at with your Major Customers?

1. Deliver Commodity that Meets Specifications
   - Importance of Features: Increase
   - Price Sensitivity: Decrease
   - Competition: Decrease

2. Deliver “Good” Products and/or Services
   - Importance of Features: Increase
   - Price Sensitivity: No change
   - Competition: No change

3. Provide “Good” Service and Support
   - Importance of Features: Increase
   - Price Sensitivity: No change
   - Competition: No change

4. Contribute to Business Issues
   - Importance of Features: Increase
   - Price Sensitivity: No change
   - Competition: No change

5. Contribute to Organizational Issues
   - Importance of Features: Increase
   - Price Sensitivity: No change
   - Competition: No change

Make an Important Contribution

Source: Miller Heiman
Overview of Presentation

1. What are the Major Changes Occurring with Healthcare Reform
   • A quick refresher on health reform and its impact on providers

2. Perspectives and Implications for the IDN C-Suite
   • Four Key Healthcare Trends

3. How to Create Value and Win
   • Link your products and services to your IDN customer’s strategy – Solve problems they care about!
What are the Major Changes Occurring with Healthcare Reform and How is it Impacting Providers?
# How are we Doing as a Country with Healthcare?

<table>
<thead>
<tr>
<th>Measure</th>
<th>United States</th>
<th>Rest of World</th>
<th>How does the U.S. Compare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of GDP</td>
<td>17.8%</td>
<td>9.6 to 12.4%</td>
<td>Worst</td>
</tr>
<tr>
<td>Population &gt; Age 65, Percent</td>
<td>14.5 %</td>
<td>18.2%</td>
<td>Youngest</td>
</tr>
<tr>
<td>Smoking Percent</td>
<td>11.4%</td>
<td>16.6%</td>
<td>Second Lowest</td>
</tr>
<tr>
<td>Overweight/Obese</td>
<td>70.1%</td>
<td>55.6%</td>
<td>Worst</td>
</tr>
<tr>
<td>Life Expectancy (years)</td>
<td>78.8</td>
<td>81.7</td>
<td>Worst</td>
</tr>
<tr>
<td>Infant Mortality, deaths per thousand live births</td>
<td>5.8</td>
<td>3.6</td>
<td>Worst</td>
</tr>
<tr>
<td>Administration cost as a percent of total health costs</td>
<td>8%</td>
<td>1 – 3%</td>
<td>Worst</td>
</tr>
<tr>
<td>Pharmaceutical Costs per capita</td>
<td>$1,443</td>
<td>$466 - 939</td>
<td>Worst</td>
</tr>
<tr>
<td>Annual Salaries – Generalist Physician</td>
<td>$218,173</td>
<td>$86,607 – 154,126</td>
<td>Highest</td>
</tr>
</tbody>
</table>

**Countries:** United States and ten other highest-income countries (United Kingdom, Canada, Germany, Australia, Japan, Sweden, France, the Netherlands, Switzerland, and Denmark

Macroeconomic Drivers of the U.S. Economy and of Healthcare

1. America cannot afford our healthcare system and cannot compete in a world economy if it keeps spending more on healthcare
   - Health spending share of Gross Domestic Product (GDP) is expected to rise from 17.9 percent in 2016 to 19.7 percent by 2026.¹
   - Average cost of a family health insurance premium will equal 50% of the household income by the year 2021.²

2. The average Medicare couple retiring in 2015 pays $140,000 into the Medicare and gets $422,000 in benefits³

3. The governmental debt crisis only deepens this issue – we cannot borrow our way out of this. Our economy is going through a major “re-set”.

2009

2010

2013 to 2022
$260+ billion in reduced Medicare payments

Healthcare Reform is Accelerating and is Here to Stay
Healthcare Reform is Accelerating and is Here to Stay

The Patient Protection and Affordable Care Act (ACA) of 2010 are having a major impact on the entire U.S. Health Care System

- The Health Information Technology for Economic and Clinical Health (HITECH) Act
- Value-based purchasing
- Accountable Care Organization (ACO)
- Insurance reform – coverage for all, insurance regulation

- Over 2013 to 2022, $260 Billion in Medicare payment reductions

- The vast majority of industry growth will be Medicare patients

- Reform is designed to achieve the “Triple Aim” of reduced cost and improved quality/patient experience

The Institute for Healthcare Improvement (IHI) “Triple Aim”

ACA’s Overarching Goals
• Healthier communities
• Better health care
• Lower costs

Population Health
Experience of Care
Per Capita Cost


The Mark Dixon Group, LLC
Value Based Purchasing

- Improve Quality and Patient Experience
- Reduce Readmissions
- Reduce Hospital Acquired Conditions

MANDATORY

My estimate: Average 300 bed hospital has $10+ million/year at risk
Accountable Care Organization (ACO) Development and Implementation

Currently 923+ ACOs in the US

• An estimated 32.4 million governmental and commercial lives covered by ACOs and still growing significantly each year
• Medicare now has 612 Organizations across five different Programs
• Most IDNs are trying this with their employees first

Common attributes of ACOs

• Measured outcomes – Triple Aim measures
• Process-level care management
  • Coordinate the provision of clinical care across the continuum of health services
  • Invest in and learn to use appropriate IT to manage population health
• Aligned financial incentives

Leading the Volume to Value Transformation in the United States

Accountable Care Organization (ACO) Development and Implementation


The Mark Dixon Group, LLC
An Increasingly Attractive Set of Alternative Medicare Options

Continuum of Medicare Risk Models

Pay-for-Performance
- Hospital VBP Program
- Hospital Readmissions Reduction Program
- HAC Reduction Program
- Merit-Based Incentive Payment System

Bundled Payments
- Bundled Payments for Care Improvement Initiative (BPCI)
- BPCI Advanced Model
- Comprehensive Care for Joint Replacement (CJR) Model
- Episode Payment Models

Shared Savings
- MSSP Track 1 (50% sharing)

Shared Risk
- MSSP Track 1+
- MSSP Track 2 (60% sharing)
- MSSP Track 3 (up to 75% sharing)
- Next Generation ACO Model (up to 85% shared savings option)

Full Risk
- Next Generation ACO Model (full risk option)
- Medicare Advantage (provider-sponsored)

Increasing Financial Risk

Source: Health Care Advisory Board interviews and analysis.
The Mark Dixon Group, LLC
MACRA Accelerates Participation in ACOs

Participation in Downside Models Nearly Doubled Since 2017

Model Selection Determines MACRA Track Qualification

<table>
<thead>
<tr>
<th>Model Selection</th>
<th>MACRA Track</th>
<th>Maximum Share/Loss Rate</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIPS</td>
<td>Not in an ACO or other APM; will receive MIPS payment adjustment</td>
<td>460 Participants</td>
<td>51 Participants</td>
</tr>
<tr>
<td>MSSP Track 1</td>
<td>Maximum share rate of 50%</td>
<td>55 Participants</td>
<td>8 Participants</td>
</tr>
<tr>
<td>MSSP Track 1+</td>
<td>Fixed loss rate of 30%; Maximum share rate of 50%</td>
<td>38 Participants</td>
<td>51 Participants</td>
</tr>
<tr>
<td>MSSP Track 2</td>
<td>Maximum share/loss rate of 60%</td>
<td>8 Participants</td>
<td>55 Participants</td>
</tr>
<tr>
<td>MSSP Track 3</td>
<td>Maximum share/loss rate of 75%</td>
<td>38 Participants</td>
<td>8 Participants</td>
</tr>
<tr>
<td>NextGen ACO</td>
<td>Choice of 80% or 100% share/loss rate</td>
<td>51 Participants</td>
<td>51 Participants</td>
</tr>
</tbody>
</table>

MACRA Accelerates Participation in ACOs

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Model Selection Determines MACRA Track Qualification

MIPS               MIPS-APM
No Risk            Upside Risk
Upside & Downside Risk

40 Participants in downside ACO models, 2016 ➔ 87 Participants in downside ACO models, 2017

117%
Percent increase in downside ACO model participation, 2016-2017


The Mark Dixon Group, LLC
Track Migration Dictates Payment, Bonuses

Annual Provider Payment Adjustments

MIPS Bonuses/Penalties

- +/-4% Maximum annual adjustment, 2019
- +/-9% Maximum annual adjustment, 2022
- $500M Additional bonus pool for high performers

APM Bonuses/Penalties

- 5% Annual lump-sum bonus from 2019-2024 (plus any bonuses/penalties from Advanced Payment Models themselves)

2015 – 2019:
- 0.5% annual update (both tracks)

2020 – 2025:
- Payment rates frozen (both tracks)

2026 onward:
- 0.25% annual update (MIPS track)
- 0.75% annual update (Advanced APM track)

Baseline payment updates¹:

- 2015 – 2019: 0.5% annual update (both tracks)
- 2020 – 2025: Payment rates frozen (both tracks)
- 2026 onward: 0.25% annual update (MIPS track)
- 0.75% annual update (Advanced APM track)

Source: The Medicare Access and CHIP Reauthorization Act of 2015; CMS, Merit-Based Incentive Payment System (MIPS) and Alternative Payment Model (APM) Incentive under the Physician Fee Schedule, and Criteria for Physician-Focused Payment Models, April 25, 2016; Health Care Advisory Board interviews and analysis.

¹. Relative to 2015 payment.
The Next Wave of Health Reform

Focus Shifting From Coverage Expansion to Health Spending

Source: Health Care Advisory Board interviews and analysis, 2018.
Disrupted: American healthcare has reached its tipping point
By Alex Kacik and Shelby Livingston

American healthcare has reached a tipping point. Look no further for proof than the insiders and outsiders who are linking up to disrupt the long-stagnant, cost-ridden industry that's eating up nearly a fifth of the nation's gross domestic product.

Modern Healthcare February 3, 2018
Overview of Presentation

1. What are the Major Changes Occurring with Healthcare Reform
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   • Four Key Healthcare Trends

3. How to Create Value and Win
   • Link your products and services to your IDN customer’s strategy – Solve problems they care about!

Questions?
Perspectives and Implications for the IDN C-Suite: Four Key Healthcare Trends

1. Healthcare Consumerism is Here
2. Population Health: Volume to Value
3. Scale will Win: Continued Industry Consolidation and New Market Entrants
4. A Relentless Focus to Reduce Total Cost of Care – the New Normal
Healthcare Consumerism is Here

2018 Total Employee Costs are Greater than $5,000 per Employee
Worker Out of Pocket Health Costs are up 70 Percent in Five Years

Median Silver Deductible in the 2018 Public Exchanges is $3,937

National Average Employee Contribution and Out-Of-Pocket 2011 to 2018 in Dollars


# Healthcare Consumerism is Here

## Drivers of Point-of-Care Consumerism

<table>
<thead>
<tr>
<th>Market Shift</th>
<th>Why Is This Changing?</th>
<th>Effect on Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumers adopt greater financial responsibility</td>
<td>Prevalence of HDHPS increasing</td>
<td>Price sensitivity</td>
</tr>
<tr>
<td></td>
<td>Magnitude of OOP responsibility continues to grow</td>
<td>Shopping behavior</td>
</tr>
<tr>
<td>Emergence of meaningful alternatives</td>
<td>New market entrants providing attractive alternatives</td>
<td>Competition</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More (and better) choices for consumers</td>
</tr>
<tr>
<td>Greater transparency</td>
<td>Proliferation of third party transparency vendors continues</td>
<td>More information to make educated decisions about care and providers</td>
</tr>
<tr>
<td></td>
<td>Providers’ improved communications on value</td>
<td></td>
</tr>
<tr>
<td>Weakening of physician recommendations</td>
<td>Growth of new primary care options, transparency could undermine traditional PCP relationships</td>
<td>Increase in self-referrals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More steerage of provider referrals</td>
</tr>
</tbody>
</table>

## Competitive, Retail Race For Value and Health

Source: Health Care Advisory Board interviews and analysis.
Consumerism is an Increasingly Important Driver of Strategy

**Rationale:** As competition for patients increases in an over-supplied market place, patient loyalty (brand “stickiness” or “brand love”) will be a driver of strategy.

**Evidence:**
- Visible investments in health system brand positioning
- Increasing out-of-pocket payments (at least for commercial insurance products)
- Price transparency (“price dislocation effect”)
- Quality/safety transparency
- Consumerism = price shopping
- Health systems awakened to value of customer loyalty
Pay for volume
- Fragmented care
- Fee For Service
- Treating sickness
- Adversarial payors
- Little HIT
- Duplication & waste

Pay for value
- Accountable care
- Global payment
- Fostering wellness
- Payer partners
- Fully wired systems
- Right care, right setting, right time
Population Health: Volume to Value

Creating Accountable Care Organizations, population health capabilities, and new models of care

- Fundamental care model changes with triple aim focus
  - Care bundles, pathways, care coordinators, care management, and more
  - Patient-centered medical home
  - Evidence-based medicine incorporated into care models
- Clinically integrated networks of physicians
- Significant attention and resources towards the creation of ACOs
- As care bundles expand dramatically, the focus needs to be beyond the acute care setting

To succeed, you need to actually change the care. This is not merely a change in financing models.
Population Health: Volume to Value
It is Truly a Journey…

- Care Delivery
  - Value-driven coordinated care
  - Volume-driven fragmented care

- Payment
  - Discounted fee for service
  - Episode payment
  - Shared savings models
  - Partial capitation
  - Global payment

Today → Present → Future
IDN Response: Create Enhanced Value for Those We Serve

Journey to transform healthcare – moving from volume to value

Patient Activation and Consumer Engagement

Change Care

Consumer

Value

Provider

Change Experience

Employer / Plan

Change Payment

Realizing Economic Return for New Value
Scale will Win: Continued Industry Consolidation and New Market Entrants

- Industry Consolidation and New Market Entrants
- Physician Employment
- Moving from Holding Company to Operating Company Business Models
Scale Will Win: Continued Industry Consolidation

2020 Provider Landscape Dominated by 100+ Super Regional Mega Systems

- $10B+ of Revenue
- 30+ Hospitals
- 300+ Clinics

- National Mega System ACO
- Small IDN
- Independent Hospital
- Standalone AMC

ABILITY TO MANAGE RISK: HIGH

The Mark Dixon Group, LLC
Scale Will Win: Continued Industry Consolidation
More Deals!

Hospital and Health System M&A Activity 2009 - 2017

Source: Kaufmann Hall – 2017 State of Cost Transformation in U.S. Hospitals – an urgent call to accelerate action

The Mark Dixon Group, LLC
### Hospital and Health System M&A
#### Transaction Size 2013 to 2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Transacted Revenue $ (billions)</th>
<th>Number of Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$63,186</td>
<td>115</td>
</tr>
<tr>
<td>2016</td>
<td>$31,288</td>
<td>102</td>
</tr>
<tr>
<td>2015</td>
<td>$32,028</td>
<td>112</td>
</tr>
<tr>
<td>2014</td>
<td>$23,098</td>
<td>102</td>
</tr>
<tr>
<td>2013</td>
<td>$31,328</td>
<td>98</td>
</tr>
</tbody>
</table>

Five Days that Shook the Healthcare World

Five Days in December 2017

- Dec. 3 – CVS Health and Aetna
- Dec. 4 – Advocate Health Care and Aurora Health Care
- Dec. 6 – UnitedHealth Group and DaVita Medical Group
- Dec. 7 – Dignity Health and Catholic Health Initiatives
- Dec. 10 – Ascension and Providence
Five Days that Shook the Healthcare World

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• Dec. 6 – UnitedHealth Group and DaVita Medical Group

• Dec. 7 – Dignity Health and Catholic Health Initiatives

• Dec. 10 – Ascension and Providence
And, Even More Deals Still Shaking the World

- Microsoft, Google investment in precision medicine startup
- University of Pennsylvania acquires Princeton Healthcare System
- Leading health systems announce own generic drug company
- Amazon, Berkshire Hathaway, JP Morgan form new company
- Congress passes massive budget deal, huge change for healthcare
- Mercy Health and Bon Secours merge
- Partners Healthcare, Kaiser announce layoffs and outsourcing
- Carolinas Healthcare and Navicent merge to form Atrium Health
- Presence Health merges with Ascension
- Highmark Health partners with Penn State Health
- Steward Healthcare acquires Iasis Healthcare
- Wellmont Health System merges with Mountain States Health Alliance
- Walmart rumored to be purchasing Humana
Many of these New Deals are Different then the Past

- Microsoft, Google investment in precision medicine startup
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Scale will Win:
New Market Entrants

3

The Mark Dixon Group, LLC
Scale Will Win:  
Continued Industry Consolidation

HIMSS 2018 – Observations from the Floor

• “Amazon and Apple and Uber, OH MY!”
  • Amazon (Group purchasing)
  • Apple (employee clinics)
  • Uber (medical transportation)

• Will these new entrants fix healthcare? Maybe or maybe not. It’s complex.

• And that is exactly why Amazon, Apple and Uber can be incredibly helpful — not just in producing ideas, but in providing the inspiration for us to truly take action to help heal healthcare, not in the future but right now.

Scale will Win:
Physician Employment and Integration

For the first time ever, less than half of physicians are independent

By Alex Kacik | May 31, 2017

Less than half of practicing physicians in the U.S. owned their medical practice in 2016, marking the first time that the majority of physicians are not practice owners, according to a new study.

Only 47.1% of physicians in 2016 had ownership stakes in a medical practice, an American Medical Association study released Wednesday found. That's down from 53.2% in 2012, and research shows that doctors, especially young doctors, have been shifting from owning their own practice to joining larger practices.

Scale will Win: IDNs Moving from Holding Company to Operating Company Business Models

- More decision making regarding capital, supplies, and operations is centralized across an entire enterprise, less local decision-making
- Consolidated large IDN system service lines emerge
  - CV, Oncology, Ortho, and Mom’s/Kids most often
- Changing decision-makers and influencers
  - System level roles will make more decisions with less local decision-making; System-wide VAC/P&T Committee
  - CEO, IDN President(s), System VP Clinical Services, Chief Medical Officer (CMO), Chief Quality Officer (CQO), and others
- Different sectors of IDNs are going to behave differently
  - Academic Medical centers, rural hospitals, children’s hospitals, large integrated systems, and physician-led organizations
A Relentless Focus to Reduce the Total Cost of Care: The New Normal

2018 Medicare Impact on Hospitals: $48 Billion!
Kicking the Legs Out From Under Hospital FFS

“Productivity” Adjustments and Other Cuts

<table>
<thead>
<tr>
<th>Year</th>
<th>ACA IPPS¹ Update Adjustments</th>
<th>ACA DSH² Payment Cuts</th>
<th>MACRA³ IPPS Update Adjustments</th>
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</thead>
<tbody>
<tr>
<td>2017</td>
<td>($32B)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>($48B)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>($60B)</td>
<td></td>
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</tr>
<tr>
<td>2020</td>
<td>($71B)</td>
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</tr>
<tr>
<td>2021</td>
<td>($82B)</td>
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<tr>
<td>2022</td>
<td>($94B)</td>
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<tr>
<td>2023</td>
<td>($103B)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2024</td>
<td>($116B)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>($143B)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Medicare Payment Cuts for FFS Models Encourage Migration to Risk

$14.6B
Cuts to teaching hospitals and GME payments

$30.8B
Reduction in Medicare bad debt payments

A Relentless Focus to Reduce the Total Cost of Care: The New Normal

The Nation is Moving to 58% Medicare, 73% Government Payer Mix by 2022

Source: CMS, MN Dept of Health

IDN SUMMIT AND REVERSE EXPO

The Mark Dixon Group, LLC
A Relentless Focus to Reduce the Total Cost of Care: The New Normal

Nine Price and Cost Pressures Squeezing Margins

1. Direct reimbursement pressure
2. Federalism and state-based coverage reform
3. Dilution of commercial coverage
4. Deregulation and the new era of competition
5. Shifting demographics and payer mix evolution

Provider Margins

1. Rising pharmaceutical costs
2. Uncontrolled labor spending growth
3. Increasing reliance on IT enablement
4. Growth in purchased services

Source: Health Care Advisory Board interviews and analysis.

The Mark Dixon Group, LLC
A Relentless Focus to Reduce the Total Cost of Care: The New Normal

- **Action:** Reduce costs and improve operating margins to make money on Medicare; cut costs 15-25%.
- **Key areas of focus**
  - Cutting direct costs (FTEs, Drugs, Services)
  - Salaries, wages, contract labor, benefits — 46% of total expenses
  - Supplies/Pharma — 18%
  - Purchased services — 16%
  - All other expenses — 20%
  - Reducing variation of care is KEY
  - Leveraging size to negotiate better pricing
  - Increasing operational efficiencies, reducing LOS
  - Scale and integration
  - Re-engineering clinical processes
  - VBP, creating value through population health management

![Pie chart showing percentage distribution of expenses]

IDN SUMMIT AND REVERSE EXPO

The Mark Dixon Group, LLC
Perspectives and Implications for the IDN C-Suite: Four Key Healthcare Trends

1. Healthcare Consumerism is Here
2. Population Health: Volume to Value
3. Scale will Win: Continued Industry Consolidation and New Market Entrants
4. A Relentless Focus to Reduce Total Cost of Care – the New Normal
Key questions from the C-suite

1. How can we shift our model from “grow by being bigger” to “grow by being better”?
2. How can we change the care model with employed and independent physicians?
3. How fast should we design and implement the new care model and the new payment systems that recognize value?
4. Does our hospital/system have enough scale to succeed?

Implications for suppliers:
1. Find a connection between your product and the strategic goals of the Hospitals and IDNs.
2. Understand, align, and solve their strategic problems!
Despite All This Change, There Will Be Winners

Winners will prosper from these changes and have:

• A relentless focus in all areas of their IDN to reduce cost – the new normal
  • Most efficient cost model with evidence-based care/significant reduction in variation
  • Elimination of readmissions and unnecessary surgeries/care
  • Improve throughput
  • People and processes a key focus (50 percent of IDN spend!)
  • Growth

• The creation of value – clinical outcomes, experience and total cost of care leaders

• An ability to accept and manage risk
  • Integrated clinical and financial data across populations of patients – big data
  • Proactive and reactive care coordination solidly in place. It’s how we do it here.
  • Actively pursuing population health ACO deals

• Engaged physicians and employees

Those health systems that remain traditional will likely be absorbed into Mega-systems or slowly lose market share/close
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Questions?
Cost cutting initiatives are in place at every IDN and health system in the U.S.

How do you stay relevant and in the game?

• Become a partner for the IDN – common interest!
• Identify operating mechanisms in the system and which hospital is responsible for key initiatives of the system
• Understand the elements impacting value of your product
• Find a connection between your product and the cost, quality and service goals of the Hospitals and IDNs

Accessing large healthcare systems will become more challenging for sales reps who don’t understand the inside processes and bring value (as seen by the IDN) to systems
How Processes and Systems Work in IDNs

- **C-Suite**
  - Scope: Agency/Organization
  - Detail: Low
  - Impact: Strategic Outcomes
  - Audience: Decision Makers

- **Managers and VPs**
  - Scope: Line of Business
  - Detail: Medium
  - Impact: Business Outcomes
  - Audience: Decision Makers

- **Front Line Clinicians and Staff**
  - Scope: Function/Process
  - Detail: High
  - Impact: Operational Outcomes
  - Audience: Decision Influencers
A CEO’s Perspective

- Suppliers, as a company, must link its value proposition to one or more of the IDN strategies
  - This may involve teaming up with other company resources who may be able to more appropriately address this

- What do Economic Buyers value?
  - Decreased cost of patient care
  - Improved staff productivity
  - Decreased length of stay that increases margins per DRG
  - Tangible quality improvements, value-based purchasing

- What don’t EB’s value?
  - Product presentations, feature and benefit discussions that relates to what User and Technical Buyer values
What are Executives who make Buying Decisions Thinking about Suppliers?

- Too many sales people are just trying to push product
- They tell us how great their products are
- Sales people rarely do their homework to understand our issues and challenges
- Rarely are their incentives aligned with mine
Value Story and Organizational Needs Change at Different Levels

- Value and needs are defined differently at the enterprise level of the organization versus the local hospital/department
  - Features and benefits versus enterprise-wide strategic levers

- New elements of strategic value
  - Decreasing inappropriate care or care variation
  - Increasing keepage/decreasing leakage
  - Moving care to the lowest cost setting of care; Ambulatory is key!
  - Determining strategies that work in today’s world AND tomorrow’s world
  - Acquiring physician practices to strategically create value and often to rationalize capacity in a system
  - Hospital-based pricing (facility) versus office-based pricing
    - It will narrow over the next 3 – 5 years

Know what is important to your customer!
How to Create Value and Win

Link your products and services to your IDN customer’s strategy – *Solve problems they care about!*

- Really understand your customer’s strategy
- How are they doing financially?
- Message creation and delivery matters
How to Create Value and Win – Attack Plan

A CEO’s Perspective

1. Identify the hospital/IDN type

2. Study the IDN and hospital
   a. Know their strategic platform
   b. Identify the financial need
   c. Seek to understand the politics
   d. Seek to understand the approval process

3. Formulate your proposal

4. What should proposal look like?
   a. Short, graphic, easy to comprehend the value proposition
   b. Simplify your message
   c. Add backup detail for validity
How to Create Value and Win

Identifying Hospital System Types

- How integrated and durable is the System?
  - Are product decisions made locally or system level?
  - How much influence do your customer contacts have?
  - Do your reps have access to the hospital?
  - How advanced is the system ACO strategy?
  - Do they have enough scale to succeed?

- How much do you know about the System strategic platform? Google and Definitive HC are your friends!

- How is the hospital/system performing financially?

- Categorize your systems and develop different approaches to different categories of systems
How to Create Value and Win

How is your IDN Performing Financially?

• **Financial information available**
  • Recent bond offerings, state hospital associations, health system/hospital websites are sources of this information
    http://emma.msrb.org/Home/Index
    www.dacbond.com
  • Operating margins, days cash on hand (DCOH), and capitalization ratios (proportion of company leveraged with debt)
  • Governmental payer mix percentage – lower is better

• **Key Financial Metrics (Not-for-Profit Health Care System Medians, 2016)**
  • Operating Margin: 2.4%
  • Days Cash on Hand: 198
  • Long-term Debt/Capitalization Ratio: 34%

*Know if your customer is above or below the median indicators of financial health*

Message Creation and Delivery
How to Create Value and Win

Differentiate How you Deliver the Value Story

Utilize Them – Us – Fit – Action (TUFA) story sequence
• To position yourself and your company as a credible and strategic thought partner
Differentiating the Sales Experience

Change the perceptions of healthcare executives and other key stakeholders

- Develop broader and deeper relationships across the IDN and hospital locations
- Gain credibility and trust to become an advisor to their business…now and in the future
- Convince decision-makers to include you in their priorities
  - In favor of your company
  - In favor of change over status quo
How to Create Value and Win

**Key Takeaways: Them-Us-Fit Action**

- **Strategic sequence for telling your value story**
- **Requires discipline and structure so you can repeat your success**

- **Them:** Only focus on the customer
  - Key priorities & challenges
  - Share insights uncovered from previous meetings
  - Confirm your understanding in humble way

- **Us:** Share your strategic direction and relevant information
  - Be careful this portion doesn’t get too long

- **Fit:** Connect the dots on win-win relationship
  - Bridge back to their key priorities, challenges and share relevant ideas

- **Action:** Propose next steps you believe make sense
  - Discussion will occur to create action plan
Final Comments and Recommendations

• Be part of the solution! Link your products, value proposition and business model to your customer’s needs and challenges
• Help me achieve the triple aim of cost, quality, patient experience
• Help your customers achieve a 15 – 25 percent reduction in cost both in today’s and tomorrow’s world
• Quantify the beneficial results of your products
  • Suppliers need to add true and meaningful measureable value – measureable is the key adjective here!
  • Quantify what is best practice (cost, quality, experience) for your products and bring that process improvement to me
• Transform clinical leadership – help clinician leaders and directors/VPs become ACO leaders
• ACOs, bundling, pricing transparency, consolidation and population health will impact your company – be ready!
Overview of Presentation

1. What are the Major Changes Occurring with Healthcare Reform
   • A quick refresher on health reform and its impact on providers

2. Perspectives and Implications for the IDN C-Suite
   • Four Key Healthcare Trends

3. How to Create Value and Win
   • Link your products and services to your IDN customer’s strategy – Solve problems they care about!
Which Level are you at with your Major Customers?

1. Deliver Commodity that Meets Specifications
2. Deliver "Good" Products and/or Services
3. Provide "Good" Service and Support
4. Contribute to Business Issues
5. Contribute to Organizational Issues

Source: Miller Heiman

IDN SUMMIT
AND REVERSE EXPO
The Mark Dixon Group, LLC
“You can always count on Americans to do the right thing when they’ve tried everything else.”

Winston Churchill
Thank You

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