COMPETITION, CONSUMERISM AND CHOICE
Building a Better Healthcare Market
HEALTHCARE WARS
THE MARKET FORCE AWAKENS

American People

Medical Empire
THREE QUESTIONS

(“Yes” or “No” Answers Only)
DISCUSSION AGENDA

• American Exceptionalism
• Inconvenient Truths
• This Time is Different
• Value Rules
• Banner Days
AMERICAN EXCEPTIONALISM SHAPES U.S. HEALTHCARE

- EXPENSIVE / INNOVATIVE
- COMMUNITY-ORIENTED
- INDIVIDUALISTIC
- FRAGMENTED
“America’s healthcare system is neither healthy, caring, nor a system.”

- Walter Cronkite
TRUTH #1: ARTIFICIAL ECONOMICS

MGH’s Mortality Rate and Cost per Alive Discharge (1821-2010)

- MGH’s Inpatient Mortality Rate (%)
- Adjusted Cost Per Patient Alive at Discharge (thousands of $)
CAPITALISM vs. MARKET SOCIALISM

Tin Prices Decrease

POST-WAR DEBATE
FRIEDRICH HAYEK
PRICES
MEDICARE EPIPHANY
Algorithm for Calculating Medicare’s Acute Care Inpatient Payment
(For a Case with Full Lengths of Stay)

- Labor Component of Operating Cost of Base Case
- Adjustment for Geographic Hospital Wage Index
- Non-Labor Related Costs of Base Case
- Base rate Adjusted for Geographic Factors
- MS-DGR Weight
- Adjusted Payment Rate
- Adjustment for Geographic Hospital Wage Index
- Disprop. Share (DSH) Payment
- Payment for this MS-DRG at this Hospital
- Possible High-Cost Outlier Payment

Source: How Medicare Sets Hospital Prices: A Primer, Uwe E. Reinhardt
FUZZY HEALTHCARE MATH

\[
\text{Revenues} \quad \text{(Flexible)}
\]
\[
- \text{Expenses} \quad \text{(Less Important)}
\]
\[
= \text{Margin}
\]
IMPACT

Healthcare Expenditure as % of U.S. GDP

1960: 5%
2014: 17.5%

Source: CMS

ARTIFICIAL GROWTH
PRODUCTIVITY DISCONNECT
“CROWDING OUT” EFFECT
FORECAST
TRUTH #2: MASSIVE ASSET BUBBLE

1. DISPLACEMENT
2. EUPHORIA
3. MANIA
4. DISTRESS
5. REVULSION

Source: *The Ascent Of Money*, Niall Ferguson
ANNUAL HEALTHCARE CONSTRUCTION SPENDING (2000-2019)

Source: FMI Construction Outlook 2015, Third Quarter Report

+FMI Forecast

OVER-SUPPLY
OVER TREATMENT
ARTIFICIAL SCARCITY
SKEWED DISTRIBUTION
TRUTH #3: ECONOMIC DRAG

Global Trends

Healthcare Anomaly

Guns or Butter

Boom or Bust

2001

- Rest of World: 68%
- U.S.: 32%
- Total: $32.2 Trillion

2011

- Rest of World: 78%
- U.S.: 22%
- Total: $69.9 Trillion

Source: The World Bank
STAGNANT WAGES

U.S. PRODUCTIVITY AND MEDIAN HOUSEHOLD INCOMES (1992-2013)

Aggregated Percentage Change

Life is Good

Life is Hard

Year

Median Household Income (USD)

Labor Productivity (output per hour)

100 110 120 130 140 150 160

Source: Bureau of Labor Statistics (Productivity);
U.S. Census Bureau (Household Income)
TRUTH #4: FRAGMENTED AND BRITTLE

HIGH VARIATION
PAROCHIAL
POOR TRANSITIONS
WASTE
FRAGMENTED SYSTEMS BREAK EASILY AND CATASTROPHICALLY
The true moral test of society is how it treats those in the dawn of life, the children; those in the twilight of life, the elderly; and those in the shadows of life, the sick, needy and handicapped.

- Hubert Humphrey
THIS TIME IS DIFFERENT

GOVERNMENT
CORPORATIONS
CONSUMERS
SMART MONEY
OLD PLAYBOOK: STILL WORKING?

Payment Mix Forecast
Q4 2014 vs. Q1 2015

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<thead>
<tr>
<th></th>
<th>Fee for Service</th>
<th>Value-Based Care</th>
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<tbody>
<tr>
<td>Current Q4 2014</td>
<td>85%</td>
<td>15%</td>
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<tr>
<td>12 Months</td>
<td>79%</td>
<td>21%</td>
</tr>
<tr>
<td>Current Q4 2015</td>
<td>84%</td>
<td>16%</td>
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<tr>
<td>12 Months</td>
<td>81%</td>
<td>19%</td>
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Source: Strategic Survey Q1 2015 H2C and Health Management Academy

Supply-Driven Demand

Hospital Employment

Facility Construction

Healthcare Inflation
EMERGING REALITY

CARE DELIVERY MATRIX
Right Care. Right Time. Right Place.

Care Uncertainty

High

Specialty Care

Complex Care

Commodity Care

Chronic Care

Low

Episodic

Care Duration

Ongoing

UNIQUE BUSINESSES
NEW COMPETITORS
HOLISTIC SOLUTIONS
DIFFERENTIATION
MEET THE DISRUPTERS

“We always over-estimate the change that will occur in the next two years and under-estimate the change that will occur in the next ten. Don’t let yourself be lulled into inaction.”

- Bill Gates
  The Road Ahead
ACCELERATING PACE OF CHANGE

Amazoned Healthcare 1.0

- Caregivers
- Fee-for-Service Reimbursement
- Third-Party Administrators
- High-Cost Facilities/Staff
- Patients/Custumers

- Market-Based Payment
- Direct Contracting
- Appropriate Facilities/Staff
VALUE RULES

1. QUALITY IS JOB 1
2. CARE EPISODES, NOT TREATMENT CODES
3. PRICE MATTERS
4. DATA IS AS DATA DOES
5. IT’S THE CUSTOMER, STUPID!

“You have to learn the game’s rules and play them better than anyone else.”
– Albert Einstein
RULE #1: QUALITY IS “JOB 1”
RULE #2: CARE EPISODE, NOT TREATMENT CODES

$  

- PHYSICIAN
- HOSPITAL
- RADIOLOGIST
- ANESTHESIOLOGIST
- POST ACUTE CARE

OUTCOMES
TRANSPARENCY
BUNDLES
IT TAKES AN ORGANIZATION
RULE #3: PRICE MATTERS

Normal Market Dynamics

Supply

Demand

Equilibrium

Quantity

Price
REAL ECONOMICS

FUZZY MATH

Revenues (Flexible)

- Expenses (Less Important)

= Margin

Getting Paid

NEW MATH

Revenues (Inelastic)

- Expenses (Essential)

= Profit or Loss

Creating Value
RULE #4: DATA IS AS DATA DOES

Customer Engagement

Big Data
Internet of Things
Customer Interfacing

Value-Based Care
RULE #5: IT’S THE CUSTOMER, STUPID!

“The purpose of business is to create and keep customers.”
- Peter Drucker
VALUE = BETTER OUTCOMES = WINNING

INPUT
- Labor
- Technology
- Facilities
- Data

OUTPUT
- Care Outcomes
- Care Maintenance
- Disease Prevention
- Health Prevention

Health Companies
- Own
- Share
- Buy

Market Difference Makers
- Brand
- Price
- Customer Experience

MEDICAL DECISION-MAKING
REVENUE OPTIMIZATION
COST ACCOUNTING
COMPETITIVE ADVANTAGE
BANNER DAYS: PUTTING IT TOGETHER

BANNER 2020 VISION
“Steps to the Future”

- Population Health Management Company
- Clinical Quality Company
- Acute Hospital Company

Industry Leadership 2016–2020 (LEAD IT)
Innovation 2011–2015 (CHANGE IT)
Growth 2007–2010 (GROW IT)
Performance 2003–2006 (DO IT)
Turnaround 2003–2006 (FIX IT)

Source: Banner Health
Banner Health’s New Corporate Structure

Growth  Design  Delivery

Corporate Support
IMAGINE BETTER HEALTHCARE
OUTCOMES MATTER. CUSTOMERS COUNT. VALUE RULES.

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