



2017 CEO FORUM REPORT

DELIVERING EXCELLENCE IN THE NEW HEALTHCARE WORLD

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2017 HURON CEO FORUM CABINET

Thank you to our 2017 Huron CEO Forum cabinet members for their leadership and guidance.

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THE FUTURE IS NOT WHAT IT WAS SUPPOSED TO BE

Amid regulatory and market uncertainty, more than 30 healthcare CEOs assembled in Washington D.C. for Huron’s 2017 CEO Forum. The purpose: to assess the industry’s turbulence and chart a course through it. Anthem Chairman, President and CEO Joseph Swedish captured the prevailing mood as he kicked off the Forum, saying “The future is not what it was supposed to be. It speaks to how quickly the landscape is changing.”

DISRUPTIVE CHANGE

Complexity, change and uncertainty were watchwords for many speakers, including Amitabh Chandra, the Malcolm Wiener Professor of Social Policy and director of Health Policy Research at the Harvard Kennedy School of Government. “It is much harder to be a CEO of a health system than a CEO of a tech company because you’re doing more than selling a single product,” Chandra said. “The environment is so complex and challenging.”

Those challenges include changing demographics, lower reimbursement rates, the rising cost of care, the need to attract and retain top talent, and the disruptive potential of technologies that impact everything from how providers get paid to patient outcomes.

FROM PAYMENT REFORM TO PAYMENT UNCERTAINTY

Not long ago, when CEOs talked about payment reform, they were referring to the shift from volume to value and looking for more clarity. What they face instead is more uncertainty.

“This is a challenging time in our industry,” Swedish said, “and it is extremely difficult to price uncertainty into the premium.”

An example from the provider side: Last year, MACRA seemed set to become a foundational part of the payment framework. Now, is MACRA back in play? Maybe so, according to Chandra.

“It is much harder to be a CEO of a health system than a CEO of a tech company, because you’re doing more than selling a single product. The environment is so complex and challenging.”

Amitabh Chandra

Malcolm Wiener Professor of Social Policy and Director of Health Policy Research at the Harvard Kennedy School of Government





Doctors will eventually embrace MACRA. As they begin to appreciate the potential upside, it will bring out their entrepreneurial spirit.

Ezekiel Emanuel, M.D., PhD

Chair, Medical Ethics and Health Policy, University of Pennsylvania

“There are two types of economists: those who cannot forecast and those who do not know they cannot forecast,” Chandra said. “So I can’t say definitively what will happen to MACRA. There could be

a lot of pressure to undo MACRA, because it is deeply unpopular with many physicians.”

A different view came from Ezekiel Emanuel, one of the architects of the Affordable Care Act and chair of the Department of Medical Ethics and Health Policy at the University of Pennsylvania. Emanuel’s take: Doctors will eventually embrace MACRA. As they begin to appreciate the potential upside, it will bring out their entrepreneurial spirit.

Elliot Joseph, CEO of Hartford HealthCare, argued that MACRA may be here to stay, noting that it passed with bipartisan support. “Embedded



Rich Statuto, Bon Secours Health System, Jeff Jones, Huron and David Bernd, Sentara Healthcare

inside MACRA is a pretty existential change: if you want to pay primary care physicians more, you have to do less specialty care. I think that could be a major disruptive force that is going to drive transformation.”

“PLANNING FOR VALUE, PRAYING FOR VOLUME”

The heightened uncertainty around payment reform makes the “foot in both worlds” problem more challenging. Or as Rich Statuto, president and CEO of Bon Secours Health System put it, “We are throwing everything we have at value-based payment, but I go to sleep every night praying for volume.”

CHECKING THE SKY

Another sign of the times: Questions about single payer. In six previous CEO Forums, the topic has never merited any serious discussion. This year, executives were curious about getting a read on the subject—in the same way a sailor might check the sky for storms.

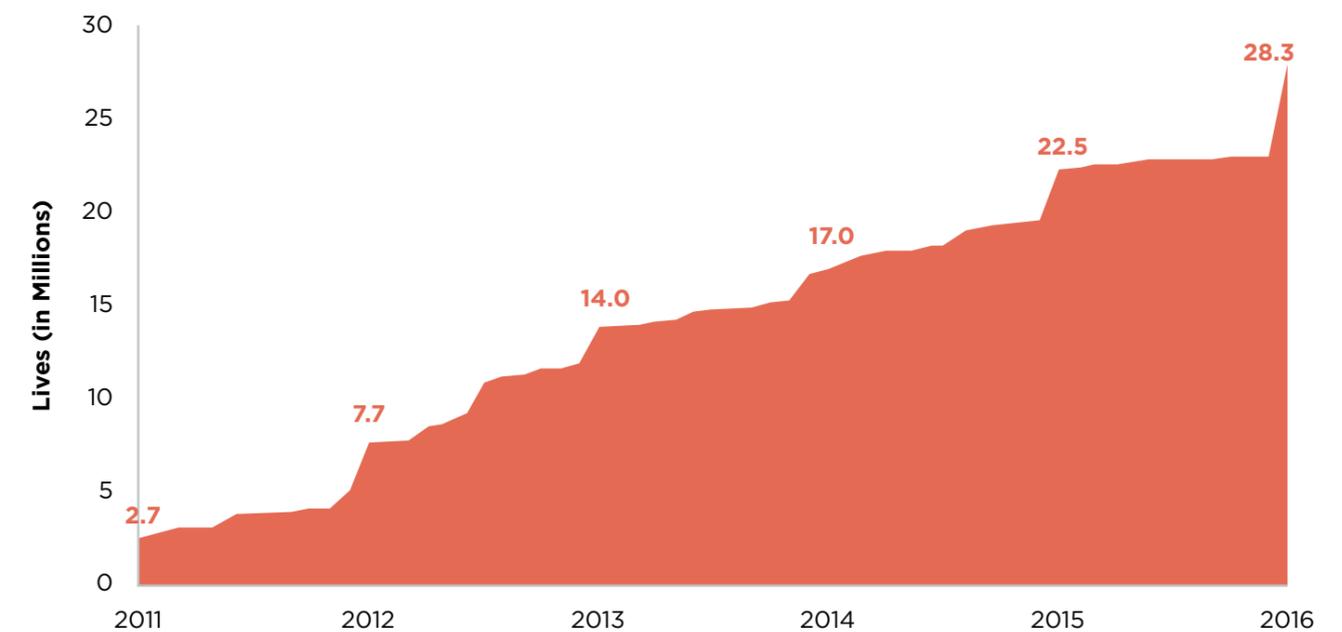
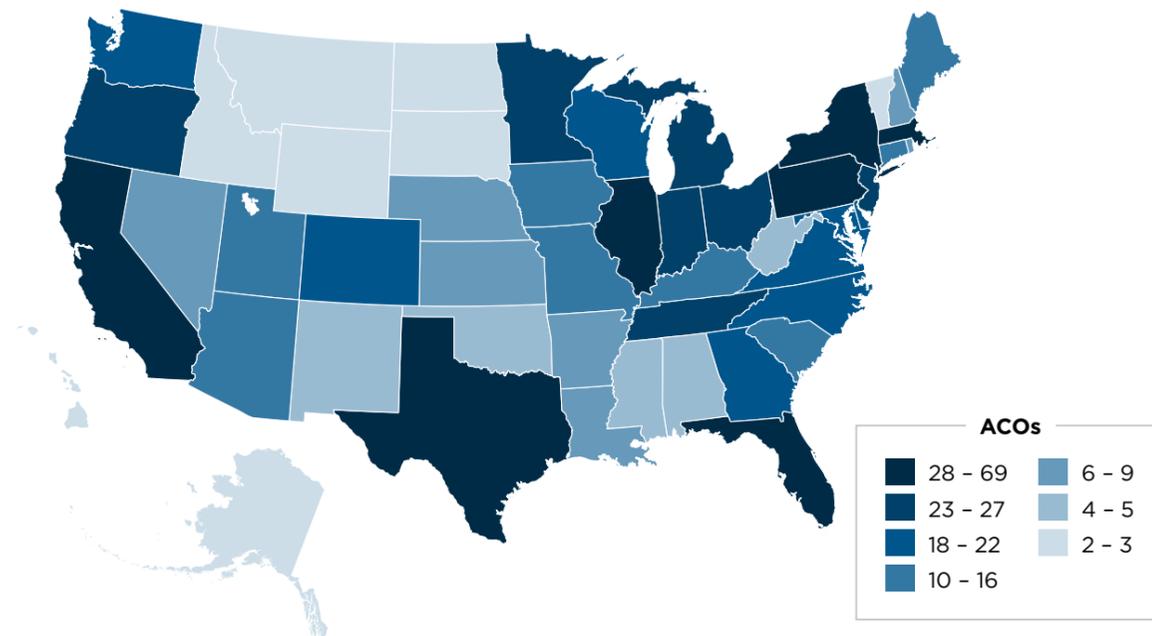
BOTTOM LINE

CEOs must work with payers, physicians and policymakers to continue to push toward value, while developing strategies that deliver high quality care at lower costs under any payment structure.

“I’ve been surprised by the public discussion of single payer,” said Gary Kaplan, M.D., chair and CEO of Virginia Mason Health System. “It feels like the conversation might be a little different than it has been in the past.”

Swedish pointed to the resounding single-payer ballot measure loss in Colorado last year as evidence that the public is not sold on the concept—and Chandra offered an economist’s point of view: “One side effect of single payer is that innovation would slow. We’d still be giving people 2017-style healthcare in the year 2027. But we would be able to give everyone 2017 healthcare.”

ACOS HAVE GROWN RAPIDLY OVER THE PAST FIVE YEARS, BUT ARE NOT YET SIGNIFICANTLY BENDING THE COST CURVE



Source: *Accountable Care Organizations In 2016: Private and Public-Sector Growth And Dispersion*, David Muhlestein and Mark McClellan, *Health Affairs Blog*, April 21, 2016

ARE ACCOUNTABLE CARE ORGANIZATIONS DELIVERING WHAT THEY PROMISED?

Accountable Care Organizations (ACOs) were supposed to be a big part of the solution to increase quality and lower costs. Again, it hasn't quite turned out that way.

"I wrote some of the early papers arguing for ACOs," Chandra said, "and by some measures they do look incredibly successful." They certainly reduce utilization, but it turns out all that care coordination costs money.

"The typical Medicare beneficiary spends \$10,000 a year in fee-for-service medicine," Chandra said. "In two recent studies, ACOs only lowered that by 1.2 percent or \$120. We need a completely different way of thinking about bending the cost curve."

BOTTOM LINE

Single-payer discussions are gaining momentum. And so are the concerns—rising costs—they reflect. What's clear is that CEOs must continue or redouble efforts aimed at lowering the cost structure.



“The high-deductible plans are designed by economists who assumed patients are also economists. But they’re not.”

Amitabh Chandra

Harvard Kennedy School of Government

SKIN IN THE GAME IS A GOOD THING—EXCEPT WHEN IT ISN'T

Like ACOs, high deductible health plans (HDHPs) have performed differently than expected just a few years ago. Giving consumers skin in the game is still the right incentive, and the good news is that HDHPs do save money. But that’s also the bad news.

Chandra briefed CEOs on a Fortune 10 company that moved 180,000 employees into a HDHP with \$6,000 deductibles per family. Total cost



Gary Kaplan, Virginia Mason Medical Center and Debbie Ritchie, Studer Group, a Huron Solution



savings averaged around 14 percent. But employees were just as likely to cut out essential care as unnecessary imaging. Half the savings came from the sickest patients who were already over their deductibles.

“The high-deductible plans are designed by economists who assumed patients are also economists. But they’re not. They are people who are sick, confused by what we’ve provided, and not experts at figuring out the complicated plan-design behind them,” Chandra said.

WINNING STRATEGIES

“There are no silver bullets,” said Jeff Jones, Huron managing director. “Solutions will have to be developed market-by-market. For most systems, that means meeting short-term needs while managing in ways that will meet long-term goals. The common theme is the need to drive efficiency and lower the cost structure, so that organizations are ready no matter how the landscape may change.”

BOTTOM LINE

The future may be uncertain, but there are winning strategies for health systems that think, plan and act differently.

INNOVATION'S PROMISE AND PERIL

Innovation is a double-edged sword. It improves our lives and generates new wealth, but also challenges existing business models and introduces new threats. This is particularly true in healthcare where the pace of innovation is accelerating. In almost every aspect of the industry—care delivery, cost, outcomes, convenience and customer experience—innovators see opportunities to improve and disrupt the status quo.

INNOVATION KNOWS NO BOUNDARIES

Innovation is much more than just technology. From drugs and procedures that improve outcomes, to service innovations such as telemedicine, to processes that increase adherence to medical directives and/or improve the patient experience, innovation is transforming healthcare delivery.

In many cases, innovative processes can be more effective than new technologies, according to Ezekiel Emanuel, M.D., chair of the Department of Medical Ethics and Health Policy at the University of Pennsylvania. For example, making better use of medical assistants can allow physicians to spend more time focused on patient needs. Emanuel described 12 areas of innovative change that do

not rely on technology. In his view, that improved chronic care management is more likely to be transformative than high-tech solutions such as virtual care and big data.

Innovation can also take the form of new partnerships between payers and providers, said Joseph Swedish, Anthem president chairman and CEO. Those types of partnerships will require trust, inspired leadership and the willingness to take shared risks. In contrast to Emanuel, Swedish emphasized the importance of big data, saying that investments payers have made in predictive analytics will enable providers to make better decisions, lowering costs and improving outcomes.

Innovation at Carilion Clinic in Virginia ranges from fresh food programs for chronically ill patients to a biomedical research institute created in partnership with Virginia Tech. The guiding principle is to “take risks, but don’t be reckless. We get excited about doing things a little differently.”

Nancy Howell Agee

President and CEO, Carilion Clinic



The concept of payer/provider partnerships raised a crucial question for some CEOs: In a collaborative model, who owns the relationship with the consumer? As Elliot Joseph, CEO of Hartford HealthCare put it: “My organization wants to own that relationship and I do not think we can both own it.”

BOTTOM LINE

Innovation is not limited to technology or bioscience, but extends across all aspects of operations. CEOs have to act and think differently to lead their organizations during this time of industry change.

WHERE INSURANCE GOES, INNOVATION FOLLOWS

Access to care and the assurance of payment sends a strong market signal to encourage investment in

healthcare innovation, said Amitabh Chandra, Harvard Kennedy School of Government. “When we expand health insurance, we’re telling manufacturers, if you build it, we will pay for it, and so they build it.”

For example, the creation of Medicare in the mid-1960s led to a wave of innovation in the 1980s, based on R&D cycles of 20 to 25 years. Passage of Medicare Part D (the drug benefit) in 2006 led to dramatic increases in clinical drug trials.

Insurance isn’t the only force sparking innovation. Regulatory uncertainty also creates incentives for innovators. Based on market opportunities,



Amitabh Chandra, Harvard Kennedy School of Government and Jeff Jones, Huron

unprecedented levels of private equity and venture funds are flowing into healthcare services and provider-based services. This has created a strong brew of new health-related companies. Many—perhaps even most—will fail. Some, however, will succeed spectacularly, changing healthcare as we know it.

INNOVATION’S UPSIDE

Innovation is best when it improves people’s lives regardless of the technology involved, Chandra said. An example: Atripla, a drug that combines existing HIV medications. Since it is not a new molecule, it might not seem innovative by some definitions, but because it allows patients to take a single pill, it increases adherence. “If sick people do not take their drugs, it is as good as the drug not being invented in the first place,” Chandra said.

He noted that U.S. healthcare is massive—bigger than the economy of France. It’s complex and defies simplistic, top-down solutions.

Much of what’s most interesting in healthcare is happening at local levels.

At Carilion Clinic in Virginia, the focus is to “take risks but don’t be reckless,” said Nancy Howell Agee, president and CEO. “We get excited about doing things a little differently.”

That spirit has led to new care models at Carilion for patients with chronic illnesses—for example, their Fresh Food Rx program couples “prescriptions” for fruits and vegetables with checkups and wellness outreach. The program’s goal is to improve patient well-being while reducing admissions, readmissions and emergency room visits.

In partnership with Virginia Tech, Carilion has created a cutting-edge biomedical research institute and medical school, attracting top talent and new ideas to the area. As one civic leader told Politico recently, “We’ve gone from a train city to a brain city.”

“That type of organic innovation is everyone’s responsibility. It has to be embedded in the culture.”

Teri Fontenot

President and CEO,
Woman’s Hospital



Teri Fontenot, president and CEO of Woman’s Hospital, said their organization innovates by focusing on care quality. “We don’t necessarily see it as innovation but rather a focus on better outcomes for our patients. Our strategic plan and KPIs provide prioritization when looking for solutions to improve care. When external parties tell us we are being innovative, often we are surprised because we don’t think of our work that way.”

Innovative initiatives at Woman’s include partnerships to fight opioid addiction in mothers-to-be. Leadership’s role is to aspire and inspire. “Organic innovation is everyone’s responsibility,” Fontenot said. “It has to be embedded in the culture.”

RAPID-CYCLE CHANGE

“Innovation focused on the business model is critical,” said Craig Deao, Huron managing director, “but it also needs to occur at the micro-system level, with departmental and unit leaders focused on transformational change for their key processes and their particular stakeholders.”

The need for rapid-cycle change creates an interesting challenge for leadership. “On the one hand, we’re moving toward creating high-reliability organizations with zero defects and no tolerance for variation in known processes,” Deao said. “But we also have to encourage intelligent

risk-taking because that is going to launch multiple opportunities for transformation. It’s not about doing things better, it’s about doing things differently.”

BOTTOM LINE

Regulatory uncertainty creates a vacuum that innovation will fill. Incumbent health systems have advantages in driving transformation—but if they don’t act, others will.

DRIVING FERRARIS BUT LIVING IN CAVES

While it is easy to see the benefits of medical breakthroughs, there is also a downside that sometimes gets less attention: cost. An expensive new drug or device may bring marginal improvement to a small group of patients at extraordinary

societal expense. The cost of an average health insurance policy is already 31 percent of the average household income. As a society, we may be nearing a breaking point on healthcare expenditures.

“We have not figured out as a country how to get our hands around medical innovation,” said Chandra. “It surely cannot be the case that we pay for every medical innovation simply because it is a good thing.”

Start-ups and biopharma companies are researching more than 6,000 molecules seeking new drugs, many of which—when brought to market—could easily cost \$100,000 or more per year per patient. Ultimately, paying for every new innovation would drain resources from other vital needs, Chandra said. “It would be like living in caves so we can have Ferrari healthcare—it makes absolutely no sense—when most people would be happy with a Toyota.”



“We have to encourage intelligent risk-taking because that is going to launch multiple opportunities for transformation. It’s not about doing things better, it’s about doing things differently.”

Craig Deao

Managing Director, Huron

This raises several intriguing questions and dilemmas for health system executives and policy-makers:

- ▶ **What will happen when drug manufacturers create the first Alzheimer’s therapy?** Given the exceptionally high development costs and high failure rates for Alzheimer’s therapies, the first company to license a drug that’s even marginally effective will charge an astronomical price, perhaps \$500,000 per year—yet millions will demand the treatment.

“It’s a fiscal train wreck waiting to happen,” Chandra said. “The first company to develop a treatment for Alzheimer’s will be a monopolist of an unprecedented type. It will charge high prices and be assured high quantiles given the prevalence of the disease and that everyone in Medicare is insured. Such an innovation could single-handedly move the United States to single payer, because of its colossal budget impact.”

- ▶ **As consumer choice changes the value equation, how will health systems develop the retail instincts and capabilities to compete?** David Johnson, CEO of 4sight Health, noted that “Healthcare is a funny business. It executes transactions without customers. Patients see doctors. Doctors prescribe treatments. Someone else pays.”
- ▶ **Most define value-based innovation as better care for less money—but what about innovations that deliver care that’s almost as good for a lot less money?** For example, an average U.S. cataract surgery costs \$3,500. Doctors in Mexico perform the same surgery for 30 to 70 percent less. Outcomes are the same but with slightly longer recovery times. Will U.S. healthcare begin to offer these types of lower-cost innovations?

For the present, the U.S. continues to implement healthcare reform through a federated approach with laboratories in each of the 50 states.

Funding flows to companies offering value-based reforms. The private market more than the government is doing the heavy lifting on innovation and transformation.

With proper incentives, the American innovation machine can disrupt and transform healthcare to deliver better outcomes, competitive prices and great customer service. In that brave new world, U.S. healthcare will leapfrog care found in other advanced economies. 🩺

BOTTOM LINE

Not all innovations are created equal. Transformative innovation delivers better value as measured by outcomes, prices and customer experience. These are the new battle lines for health companies.

THE CYBERSECURITY CHALLENGE: PROTECT, DEFEND AND OVERCOME

Electronic health records hold the promise of seamless care coordination and improved outcomes. Sophisticated medical devices offer greater efficiency. Smartphones, tablets and laptops increase productivity. But every new connection also increases the risk of a cyber attack.

In the digital age, healthcare organizations bear the responsibility of protecting and defending extremely complex electronic systems. Additionally, they must also develop response capabilities to overcome the effects of a breach.

“EXPECT TO BE ATTACKED”

Barely a month after CEOs met in Washington D.C., a massive ransomware attack struck more than 300,000 computers in 99 countries. Among the targets: 45 National Health Service (NHS) hospitals and offices.

Across the U.K., the attack locked down computer systems. Providers diverted ambulances and postponed non-essential surgeries. The attack also prevented pharmacies

from issuing prescriptions. Fortunately, despite its scale, the attack had only a minimal effect on patient safety.

That might not be the case next time. At the Forum, CEOs heard from cybersecurity leaders at the Pentagon, including Major General Patricia Frost, Director of Cyber, and Brigadier General Jill Faris, Assistant Surgeon General for Mobilization, Readiness and National Guard Affairs. Their overall message: Expect to be attacked and be prepared.

“If you haven’t been hacked yet, you’re going to be. It’s critical to have the best possible systems in place and a team that is intensely focused on security.”

David Bernd

CEO Emeritus,
Sentara Healthcare
CEO Forum Chair



Secure Your System: Five Mission-Critical Steps

Ten years ago, the U.S military considered information technology to be a transport system—something that moved data from Point A to Point B. Now it is mission critical. Cybersecurity leaders shared five key steps for securing data.

1. Identify your most critical assets and greatest vulnerabilities.

An attack that locks down medical records could be crippling. Medical devices and infrastructure elements such as HVAC systems are also critical and often less protected.

2. Implement a cybersecurity framework and governance structure.

Shift cybersecurity from an IT responsibility to a quality and safety essential. Set a systemwide framework to drive progress, ensure accountability and measure results.

3. Recognize that the best security still relies on human behavior.

Provide risk and security training to everyone with access to critical assets.

4. Expect data to be compromised and emphasize encryption.

Systems can't be hardened to the point where they aren't useful. Encryption increases security with less impact on function, speed and access.

5. Ensure that a response plan is in place.

Be prepared for a breach. Establish recovery plans for business continuity.

TARGETING HEALTH RECORDS

Civilian healthcare systems have become a high-value target based on simple economics, the generals said. An electronic health record can sell for more than \$360 on the black market, compared to \$1 for a Social Security number.

Stolen health records are valuable for identity theft, insurance scams, prescription fraud and even blackmail. And while consumers can change a stolen credit card number, health data is more permanent.

This high economic value is one reason healthcare has replaced banking as the most-attacked industry, according to the 2016 Cyber Security Intelligence Index.

Other hackers may have other motives. The cyber-criminals who attacked Anthem in 2015 took over 80 million health records, but never released them on the black market.

Security experts now suspect the attack was industrial espionage by



Joseph Swedish, Anthem, Inc.
and Curt Whelan, Huron

the Chinese government. Anthem President, Chairman and CEO Joseph Swedish advised CEOs to double down on security efforts, because the attacks are relentless.

EXPLOITING SOFT TARGETS

Improving medical device security is crucial. The sheer number and variety of devices in a hospital or health system can create a soft target for hackers. An IV pump, an unsecured printer or any internet-connected device can be a gateway for criminals seeking EHR data.

Vendors and manufacturers sometimes push back against increased security requirements,

“Organizations that are successful in driving out inefficiency and lowering their cost structure will be best positioned to make the necessary cybersecurity investments.”

Curt Whelan

Managing Director, Huron

Brigadier General Faris said. CEOs and Pentagon experts agreed that this is an area where a joint effort by the Department of Defense and health organizations would be extremely productive. Together, military and civilian health systems could exert much greater leverage on manufacturers.



Joseph Swedish, Anthem, Inc.

Outside vendors introduce an additional area of risk that can be difficult to control. Contracts typically specify cybersecurity standards and conditions—but every third-party connection is a possible breach waiting to happen.

“The necessity of maintaining the highest possible data security is another reason organizations need to rely on great partnerships,” said Curt Whelan, Huron managing director.

CREATING NEW POLICIES

Laptops, tablets and cellphones are potential vulnerabilities as well,

especially if they are personal devices. “Employees are using their own devices simply to keep up with their workloads,” said David Devine, Huron managing director.

Employees may later use those devices on unsecured networks, or the devices may be lost or stolen. Either situation can expose protected health information. Organizations need comprehensive “Bring Your Own Device” (BYOD) policies with strict security requirements.

Continuously and clearly communicating BYOD policies to all employees is essential. It also provides benefits beyond increasing



security. A cyber-savvy workforce will generate productivity and quality dividends throughout the enterprise as organizations continue to blend high-tech and high-touch aspects of care delivery.

MEETING THE COST

After a contractor left more than a half million patient records exposed online, Bon Secours Health System increased its already laser focus on cybersecurity.

“Security is our number one focus in information technology and I expect it will remain that way for the foreseeable future,” said Rich Statuto, president and CEO of Bon Secours Health System.

Like other organizations, Bon Secours partners with “angel hackers” to identify and eliminate vulnerabilities. They also evaluate their security operations on a five-level maturity scale, setting performance goals and allocating resources to reach level-five

maturity. “We’ve invested tens of millions of dollars in both capital and operating expense to move us on this journey,” Statuto said.

Although cybersecurity is costly, the aftereffects of a breach are even more expensive, counting financial penalties, legal fees and reputational damage.

“CEOs continually face competing resource needs,” said Whelan. “Organizations that are successful in driving out inefficiency and lowering their cost structure will be best positioned to make the necessary cybersecurity investments.”

ENGAGING THE BOARD

It is also critical to have the board and senior leadership fully engaged, noted Elliot Joseph, CEO of Hartford HealthCare. “Our board meets six times a year, and one of our board strategy sessions was devoted exclusively to cybersecurity. It’s a very high priority for us.”

Commitment and preparation is essential because, as Brigadier General Faris pointed out, attackers only have to succeed once, while defenders must win every time.

“If you haven’t been hacked yet, you’re going to be,” said David Bernd, CEO Emeritus of Sentara Healthcare and CEO Forum Chair. “It’s critical to have the best possible systems in place and a team that is intensely focused on security.” 

BOTTOM LINE

The importance and cost of cybersecurity only adds to the imperative for transformational cost reduction.

Six Tips for Crafting a Bring Your Own Device Policy

Eighty percent of individuals in the U.S. said they use smartphones and tablets for both personal and business purposes, according to a 2016 survey conducted by the Ponemon Institute. This trend is especially risky for healthcare organizations because of the high cost of security breaches and the need for ongoing communication with patients and colleagues.

Here are six tips for crafting an effective bring your own device (BYOD) policy:

- 1. Survey employees about which personally owned devices they use and for which tasks.**
- 2. Develop policies for data governance and acceptable use.**
- 3. Implement security provisions that level the playing field between personally owned devices and corporate-owned devices, while balancing security with employee privacy.**
- 4. Anticipate devices being lost or stolen.**
- 5. Stay current with guidance from federal and regulatory bodies on secure text messaging.**
- 6. Educate and engage your employees.**

MASTERING DISRUPTION



The future is coming fast. Many of the challenges that healthcare executives face today—from regulatory uncertainty to cyber threats—were not on the radar five years ago. That observation begs a crucial question: Given the accelerated pace of change, what will the healthcare landscape look like five years from now?

In a market undergoing disruption, there’s no single answer. There is more variation in health companies’ strategic positioning today than ever before. Instead of being all things to all patients, the most successful systems will develop strategic visions that exploit their competitive advantages within the disrupting healthcare marketplace.

CHANGE IS ACCELERATING

“Each organization will find its unique pathway to success,” said Debbie Ritchie, president, Studer Group, a Huron Solution. “Some organizations will successfully evolve into fully capitated, risk-bearing entities focusing on wellness or chronic care. Others will excel by being the best acute care provider in their market, even if the care is reimbursed differently.”

In this new game, old playbooks are not useful. Incremental improvement of traditional business models is not sufficient to succeed in post-reform healthcare.

“Today, the strategic choices are much wider—in part because the potential for disruption is much greater,” said Andrew Waldeck, managing director, Strategy and Innovation at Huron. High costs, frustrated stakeholders and access issues are often signifiers of an industry that is ripe for disruption, he added.

“Hospitals are only a part of the wellness journey, but I think we have a lot of influence. An important role for us is to be a convener. We don’t have to do it all, but we can bring the community together to focus on good health outcomes.”



Nancy Howell Agee
President and CEO, Carilion Clinic

BOTTOM LINE

Healthcare is changing faster than many appreciate. What it will look like will be different in different markets—and even for different systems in the same market.

PLANNING FOR DISRUPTION

Until recently, certain aspects of the industry put the brakes on disruption. For example, patients have limited control over the buying decision. Insurers pay the bills, or most of them. Consumers—or their employers—purchase health insurance once a year.

These barriers have insulated providers from disruptive change

and bolstered the status quo. But as consumer choice in healthcare grows, those forces are changing, exposing weaknesses in traditional business models—creating opportunities for disrupters and raising the stakes for incumbents.

This dynamic makes transformation more urgent. For incumbent health systems, the effort involves executing a Dual Transformation, which includes

two distinct and separate journeys, Waldeck noted.

“On one hand, you have to make the business of today as effective and as efficient as possible,” Waldeck said. That effort, called Transformation A, focuses on improving an organization’s existing success formula through innovations that sustain the performance of the current model.

Dual Transformation

Transformation A optimizes existing success formulas, improving core business functions through sustaining innovations.

Transformation B is a separate effort focused on creating a new growth engine with a different success formula.

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WHAT IS DUAL TRANSFORMATION?

No matter where disruption comes from, or what forces are driving it, the best way to fend off challengers and dominate new growth markets is through Dual Transformation.





“To improve processes, we really have to understand our cost. Very few health systems have a true understanding of all their different cost structures.”

Avijit Ghosh

CEO, University of Illinois Hospital and Clinics

This is an area where incumbents almost always win. “Incumbents have the most resources and the most

experience, so they are almost always better at innovations that sustain the existing model,” Waldeck said.

Transformation B is a completely separate effort. It is not aimed at improving the existing business, but at creating a new model, using a different success formula. Instead of focusing on incremental improvement, it is aimed at shaping and designing the future of healthcare.

The auto industry is an example of an industry that has successfully executed a Dual Transformation. Historically, automakers have grown by making sustaining innovations to existing product lines, adding power, reliability, comfort, safety or other qualities that consumers want.

In recent years, however, new market entrants such as Zipcar, Uber and Lyft have disrupted the industry. Car-sharing and ride-sharing services change the need for car ownership. Autonomous vehicles hold the promise of redefining the experience and meaning of mobility.



Elliot Joseph and Jeffrey Flaks, Hartford HealthCare and Nancy Howell Agee, Carilion Clinic

These ventures operate with different business models and different success formulas. They solve for transportation differently. They change the *what* as well as the *how*.

“In Transformation B, new entrants almost always win because they are playing a totally different game with a totally different business model,” Waldeck said. “They solve for different problems and make money in different ways. This is why it is so hard for the incumbent to respond.”

HOW INCUMBENTS THRIVE

In many cases, disrupters have completely overtaken incumbents. Think of Netflix replacing

Blockbuster or smartphone cameras replacing Kodak.

In the auto industry, Ford is mastering disruption through Dual Transformation by transforming into a mobility services company. They will still make and improve cars, but they have also launched Ford Smart Mobility to grow and invest in emerging mobility services.

In markets undergoing disruption, incumbents must seize the opportunity to shape the future—or else be left behind. Like Ford and others, healthcare organizations can thrive by succeeding in the current business model while building, designing and growing a model for the future.



Andy Waldeck, Huron

DRIVING OUT COSTS

Given declining reimbursement, thin margins and intense competition, success in the current model is a tall order by itself, requiring sustaining innovations (Transformation A) to reduce cost, increase access and improve quality.

One of the fundamental steps, according to Avijit Ghosh, CEO of University of Illinois Hospital and Clinics, is developing a much clearer picture of costs.

“To improve processes, we really have to understand our cost. Very



James Leonard, Carle Health System and Gary Kaplan, Virginia Mason Medical Center

few health systems have a true understanding of all their different cost structures,” Ghosh said.

Developing this clarity on costs is a prerequisite to succeeding under changing reimbursement models. “Right now, most organizations are responding to these changes based on hunches. We have little ability to truly understand and predict what our position would be under different payment scenarios,” Ghosh said.

At UCLA Health, sustaining innovations have focused on both access and cost.

“Our way of improving access and reducing cost is taking our healthcare out to the community, recognizing that in a city like Los Angeles, with so much traffic, we have to make care convenient,” said Johnese Spisso, president of UCLA Health and CEO of UCLA Hospital System. “We have about 160 clinics throughout Greater Los Angeles so that we can provide primary care access in a more affordable setting.”



Debbie Ritchie, Studer Group, a Huron Solution and Christopher Olivia, M.D., Visiting Nurse Service of New York

UCLA Health also sends cardiology, oncology, gastrointestinal and other specialists to their clinics to help build a broader referral base.

“It’s part of our strategy to help patients manage their health in the primary care setting and keep them connected to our system when they need more advanced care,” Spisso said.

EARNING THE ABILITY TO TRANSFORM

These types of sustaining innovations are doubly important. Not only do they lead to success in the current

model, but they also help fund investment in new business models. “Making sustaining innovations in Transformation A earns you the right to Transformation B,” Waldeck said.

Managing Dual Transformation Presents Leaders with Three Challenges:

1. Dual Transformation efforts make competing demands on the organization’s assets. Leadership must manage and allocate resources to meet both needs.
2. The capabilities required to succeed in one market become liabilities when that market changes.
3. To succeed in Transformation B, organizations must let go of past approaches and previous success formulas.

As health systems pursue these new strategies, disruptive change makes it difficult—or even impossible—to chart a course by extrapolating from today’s models. The key question, he said, is

“Mastering disruption requires a vision for the organization’s future and a strategy to get there. The right vision and strategy allow organizations to effectively allocate resources to their current business model and to the business model of the future.”

Jeff Jones

Managing Director, Huron



Rich Statuto, Bon Secours Health System and Mark Hussey, Huron

how do you see the healthcare world five or ten years out?

“The answer to that question defines what you need to change in order to actually get there,” Waldeck said.

It’s also an answer that will vary market-by-market. Different systems will place bets on wellness, chronic care, value-based payments or other models. Some may even find their advantage in doubling down on acute care.

SEEKING STABILITY IN UNCERTAIN TIMES

“There is no shortage of possibilities for the future,” said Jeff Jones, Huron managing director. “In times of uncertainty, organizations look for stability. Often that means working with a partner who understands your organization and how your market is moving.”

The right partnership can help put a strategy in place to reorganize and restructure the organization to meet the dual challenges of transformation.

“Mastering disruption requires a vision for the organization’s future and strategy to get there. The right vision and strategy allow organizations to effectively allocate resources to their current business model and to the business model of the future,” Jones said. 💡



Agree or disagree: *Hospitals are not the future of healthcare*

Watch as David Bernd, CEO Emeritus of Sentara Healthcare and CEO Forum Chair; Avijit Ghosh, CEO of the University of Illinois Hospital and Clinics; and Andrew Waldeck, senior partner, Strategy and Innovation at Huron, share what they picture the future of healthcare to be like.



“There have been predictions of the demise of the acute care hospital for many, many years. I think it will always be a key part of the healthcare system.”

DAVID BERND

CEO Emeritus, Sentara Healthcare
2017 CEO Forum Chair



“The traditional way people have thought about healthcare is the delivery of episodic care. The challenge is to ask whether that is the right way of thinking about healthcare.”

AVIJIT GHOSH

CEO, University of Illinois Hospital and Clinics



“Hopefully what we are talking about in 10 years is a healthcare system that is far more diffused than it is today. It is community based, not institutional based, and it’s designed around the unique needs and ambitions of you and me as individuals.”

ANDREW WALDECK

Senior Partner, Strategy and Innovation at Huron

THE JOURNEY AHEAD



As disruptive forces reshape the healthcare market, leaders face an environment marked by contradictions, making the journey toward health system transformation more challenging. An in-depth survey of 45 senior industry executives representing care delivery, care financing, insurance and technology organizations identified the contours of this “Age of Contradictions.”

The survey found trends and contradictions in six key areas:

1. Industry consolidation will continue—even though its promised outcome improvements and efficiency gains have not fully materialized.
2. Executives believe value-based payment will be the dominant form of reimbursement seven years from now. But they remain reluctant to take on care-management risk.
3. Big data will drive clinical breakthroughs and value-based solutions, respondents said—but they can point to few examples and think the real impact is many years away.
4. Almost unanimously, executives feel the implementation of electronic health record technologies to date has added cost and decreased productivity.

5. Millennials will define new norms for engagement and care delivery for themselves and their baby boomer parents—more than 50 percent of the population.
6. Huron’s analysis of the survey suggests four distinct healthcare markets will emerge over the next five to seven years, driven by cultural, economic and regulatory forces.

EARLY DAYS

Contradictory performance indicators are typical in industries during the early stages of transformation, according to Ted Schwab, Huron managing director and one of the survey’s authors.

Consider the consolidation trend. Many industries have experienced increased costs as consolidation unfolds.

“It’s a marathon, not a sprint. As healthcare executives, we must be bold in our decision-making and ready to make adjustments.”

James Leonard, M.D.

President and CEO,
Carle Health System



Significant savings come later. Case studies in the auto and steel industries show that, with time, consolidated organizations optimize performance and realize the benefits of scale.

A core shift from centralized to decentralized operations often accompanies industry consolidation as competition intensifies and companies strive to get closer to their consumers. Healthcare is clearly experiencing this phenomenon.

It is also “early days” for big data. While many executives foresee a data-driven explosion in personalized medicine, most see it as a decade or more away. The majority of respondents agreed that even five years from now, personalized medicine will still be in “the first inning of a nine-inning game.” Huron’s research, based on other industries and the amount of investment in data analytics, suggests the future of data-driven breakthroughs may be much closer than many respondents think.

BOTTOM LINE

Healthcare is in the early stages of transformation. For CEOs, the choice is clear: Own your future or be disrupted by it.

A CLEAR CHOICE

All this uncertainty creates challenges for leadership, yet adopting a “wait-and-see” attitude carries significant risk. In a disruptive environment, new business models tend to make legacy practices less relevant, often leading to lost market share.

On the other hand, health systems that define their futures and successfully execute their vision will emerge as leaders.

THE MOVE TO VALUE

Executives agreed that the shift from volume (transaction-oriented business models) to value

(outcomes-oriented business models) will continue. The question is what will drive the transition and how long it will take to evolve.

Regulation will play a role. CMS estimates 712,000 clinicians will be impacted by MACRA this year, and bundled payments are widely expected to grow.

Yet as the government drives value “top down” through regulatory and policy change, competitive market forces are pushing healthcare toward value from the “bottom-up.” New business models strive to



Dr. David J. Shulkin, Veterans Affairs, Tammy Keeler, Studer Group, a Huron Solution and Nancy Howell Agee, Carilion Clinic

offer better outcomes, lower costs, greater convenience and enhanced customer experience.

As the shift from volume to value accelerates, health systems must take their destiny in their own hands. “Winners in this Age of Contradictions will be health systems that shape their own future by investing in initiatives to reduce unnecessary variation, manage care across the spectrum and sharpen their consumer-centric mindset,” said Mark Hussey, Huron executive vice President and COO.

CUSTOMIZED STRATEGIES

Transformation is playing out differently in different markets, CEOs noted.

Carle Health System, for example, is employing a vertical integration strategy to enhance medical and case management. High-value partnerships help integrate and optimize physician and hospital business operations.

“It’s a marathon, not a sprint,” said James Leonard, M.D., president and CEO, Carle Health System. “As healthcare executives, we must be bold in our decision-making and ready to make adjustments.”

Centura Health’s strategy has three pillars: strengthening the foundation with initiatives and technology that increase quality and reduce cost; moving upstream to manage health; and creating systems of care both through partnerships and integration.

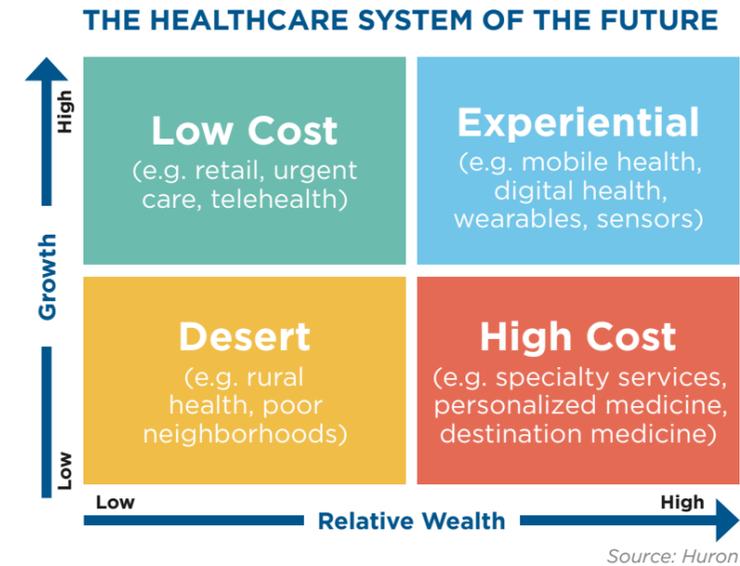
“Our focus is not just how we treat sickness but how we enable wellness throughout our system,” said Peter Banko, president and COO of Centura Health.

FOUR DISTINCT MARKETS

An in-depth analysis of survey findings reveals a landscape with four distinct healthcare markets evolving over the next five to seven years. The markets are driven by cultural, economic and regulatory forces, with

each market defined by how much consumers are able and willing to spend on healthcare.

- 1. Low-Cost Markets** are evolving to provide retail healthcare services for cost-sensitive consumers. The majority of healthcare activities occur in this high-volume, low-margin market segment.
- 2. Experiential Markets** focus on wellness and personalized experience. Transparency, convenience and strong brands are prerequisites for success.
- 3. Desert Markets** exist in poor urban neighborhoods and rural communities where consumers cannot afford healthcare. Demographic trends make hospital survival difficult.
- 4. High-Cost Markets** offer concierge-style healthcare to affluent consumers willing to pay for specialized care and personalized medicine.



Consumers will migrate between markets as they age, as their health requirements evolve and as their financial status changes.

To thrive in low-cost markets, health systems must focus on scale efficiencies, strong analytics and relentless attention to value. Providers serving experiential markets need an especially strong emphasis on consumer engagement. Serving low-income consumers profitably requires flawless care coordination, new service vehicles (e.g. telemedicine) and compatible

Five Key Trends That Will Define the Future

Over the next seven years, healthcare organizations will:

- 1. Operate at greater scale to achieve economies and market leverage.**
- 2. Emphasize individualized experiences and market specific health services to differentiate and achieve competitive advantage.**
- 3. Accelerate their use of big data to drive better decisions and create value.**
- 4. Utilize breakthrough personalized medicine that will surprise the world.**
- 5. Create new consumer engagement strategies to attract and retain millennials.**

Through all of these changes, leading health systems will be the ones that shape their own transformation destinies.

financing models. Personalized medicine and compelling concierge services are hallmarks of high-cost markets.

DEFINING THE FUTURE

Healthcare is a complex industry. This complexity makes charting a future even more challenging—and more urgent—during this time of unprecedented transformation.

Consumers expect more. The regulatory environment is in flux. Society demands more value from industry incumbents and is unwilling to pay more for it. In response to these powerful forces, healthcare organizations must think, plan and act differently.

“Organizations that build strong partnerships, develop new strategies, focus on consumers and invest in enabling technology will emerge as leaders in the current transformation cycle,” said Ted Schwab, Huron managing director. 💡

BOTTOM LINE

Successful organizations will align their vision and strategies to the market or markets where they possess competitive advantage.



TOP TAKEAWAYS

To deliver excellence and thrive in the new healthcare world, organizations must:



THINK DIFFERENTLY.

Challenge existing business models and disrupt your organization from within.



PLAN DIFFERENTLY.

Replace incremental improvement with strategies to achieve transformation.



ACT DIFFERENTLY.

Optimize current business models to generate revenue needed to transform your organization.

FORUM SPEAKERS



Amitabh Chandra

Malcolm Wiener Professor, Harvard Kennedy School of Government



Dan Chenok

Executive Director, IBM Center for the Business of Government



Ezekiel Emanuel, M.D., PhD

Chair, Medical Ethics and Health Policy University of Pennsylvania



Brigadier General Jill K. Faris

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Major General Patricia A. Frost

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David Johnson, MPP

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United States Secretary of Veterans Affairs



Joseph Swedish

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Andrew Waldeck, MBA

Senior Partner, Strategy and Innovation at Huron



2018 CEO FORUM

“Because the Forum is designed for CEOs, there’s a level of engagement and relevance that you don’t find elsewhere. When you have that many creative and accomplished leaders in the room, the discussions are uniquely thought-provoking and energizing. I hope you will join us.”

Elliot Joseph

CEO, Hartford HealthCare
2018 CEO Forum Chair