

LEADING CEO's 2020 VISION FOR HEALTHCARE



 **Omnnicell**[®]

C-SUITE 
Resources

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INTRODUCTION

Omnicell, a leader in medication management and patient safety solutions, engaged C-Suite Resources of Minneapolis to conduct a series of interviews of healthcare senior executives to gather insights that would be useful to Omnicell to support its strategic planning. The project included:

- Nineteen in-depth, one hour interviews of healthcare delivery organizations (free standing hospitals, academic medical centers and integrated systems).
- Executives (CEOs, COOs and Chief Strategy Officers) from organizations known to be strategic, innovative and proactive in today's changing environment.
- Viewpoints on major trends and issues including: new payment models, industry consolidation, population health, characteristics of winning provider organizations and suppliers, and technologies for the future.



NEW PAYMENT METHODS

Payments to hospitals will continue to decline, at least for acute inpatient care, for the foreseeable future. Providers have been preparing for value based payments since 2010, but it is slow in developing, with insurers reluctant move to a new model.

Fee for service revenue still makes up the majority of payments, ranging from 50-90% of total payments. Fee for service payment rates are declining, with "at-risk" payments increasing somewhat. Many suggest "at-risk" payments, probably mostly value based, will increase to the largest model in ten years; however, in 5 years many see fee for service still dominant, comprising at least 50% of payments. Insurers appear reluctant to move rapidly to share premium dollars.

Large, financially integrated systems feel they are well positioned for the future payment models as they have learned risk management in their owned insurance plans. They benefit directly from lower medical care loss ratios when their provider system manages population health. The physician group of these systems is accustomed to "at-risk" payment models from their owned insurance plans, while their hospitals continue to receive fee for service payments.



Penalties like Medicare reductions for readmission rates have focused some attention, but are less worrisome than concerns over sky-rocketing costs of pharmaceuticals.

Key reimbursement concerns for the next five to ten years are:

- Declining payments for in-patient care
- Shift to ambulatory services requiring capital investment while generating less revenue per patient encounter
- Slow development of risk-sharing with payers
- Finding a payment model for managing health of a defined population

"We think the ACA is only a symptom of what's going on. It's an economically unaffordable model and will collapse on its own weight. How will we deal with the five generations out there and four generations in the workforce? How do we provide convenient, cost-effective care to them? All boils down to two issues - you have to be convenient and cost effective; we are working on both."

- John Strange, President & CEO, St. Luke's Health Care System

"The partnership in its prevalent form won't be successful until insurers are willing to share risk. Cost sharing may be of short term gain, but with each successive rebasing at lower levels it makes it harder and harder to make any gains. Receiving a percentage of the premium protects the provider from this downside spiral."


- David Bernd, CEO, Sentara Healthcare

INDUSTRY CONSOLIDATION

Consolidation of the health industry has moved to convergence of all sectors, creating systems of hospitals, physicians, health insurance plans, post-acute care, retail clinics, and ambulatory care centers. Consolidation of all elements of care and payment will be required, with this being much more important than adding hospitals.

Delivering care at the most appropriate and lowest cost point of service possible is paramount. Acquiring physicians is less important now than aligning and integrating their practices within acute care and now extending to post-acute care. This is also required to be a major player in any health plan network.

Current large health systems are not inclined to be much larger, but will be open to merger opportunities where the result will be dominance of a large region to maintain parity with the large health insurers. Free standing hospitals in communities outside of large metro areas are planning to remain independent, although they may affiliate in select service lines.



"We intend to serve as a leading integrated delivery network in our market, both through organic growth and strategic partnerships."

- Tom Sadvary, CEO, HonorHealth

"Getting bigger isn't the best strategy. It's about care coordination, cost management, and integrated care delivery. Physicians have been absolutely our partners forever. Of our top 100 leaders, 40 are doctors."

- Nancy Schlichting, CEO, Henry Ford Health System

WINNING PROVIDER ORGANIZATIONS

Most systems believe "winning" in the future will be multi-faceted: spanning cost management, better quality, good market coverage, and aligning with physicians. Understanding consumers, patient experience and the move to "retail healthcare" will be among the keys to success. Critical mass will be required but it is not essential to be the biggest. In fact, there is concern that "too big" could slow the speed of action. Many cited the need to be included in any managed care network; being essential to large payers.

Acquiring physicians is less important now than aligning and integrating their practices within the system and extending their efforts beyond acute care into post-acute and managing health in the population. Care coordination throughout the continuum will separate winners from the rest.

Several made references to being "financially integrated," i.e., owning or co-owning a health plan, as the best model. However, this was tempered in some markets by the presence of a dominant payer, whereby health systems are hesitant to compete with their biggest customer.

Ambulatory strategy is being implemented through all methods: building, buying and partnering. Many prefer to partner with all kinds of organizations (medical groups, insurers, retail clinics, ambulatory care, post-acute care, etc.) in order to expand the breadth of their ambulatory strategy.

"The winners at the end of the day will have figured out retail shopping is here and now, and will have transformed their organizations into retail."

- Pat Fry, President & CEO, Sutter Health

"If you think about consumers, it's about transparency, access and convenience. Much can be learned from the retail sector in how they have redesigned and deployed services to meet consumer demand. We are going to stay on the wants and needs of consumers until we get it right."

-Bob Stevens, President and CEO, Ridgeview Medical Center

"Being best is about the consumer, for example, same day appointments, convenience, use of their smart phone. Walgreens and CVS will help spur this."

- Mark Neaman, President & CEO, Northshore University HealthSystem

POPULATION HEALTH

Managing population health is moving slowly and providers say it will continue to do so until insurers and providers can find a payment model that works. Capitation is suggested as a likely alternative.

All are interested in managing population health to improve patient outcomes, improve health, and improve patient connection and patient satisfaction, but today only insurers benefit financially. Until risk-sharing payment models emerge, progress will be slow.

Much attention is paid to cost reduction, focused around costs of care delivery, to correlate with revenue decreases. Eliminating "clinical waste" and variation by reducing unneeded care; improving work flows, work processes are the areas of focus.

"I don't know that there is going to be anything specific to pay providers under population health, but I think providers and payers will become one."

- Rulon Stacey, Former CEO, Fairview Health Services

"The reasons why capitation hasn't moved? 1) it's not in the health plan's best interest because their whole business model is demonstrating value to purchasers; if all that is done by the providers, then the payer has little value, and 2) employers still like fee for service."

-CEO, Large Integrated System

"Moving to a population health model will require reforming the payment system that is based on paying our primary care physicians on a per member, per month model. The model for specialists will also need to be reformed to reward those physicians who agree to practice using established and proven standards and protocols."

-Joel Allison, CEO, Baylor Scott & White Health

"We've taken enormous steps to organize, but it's less likely we will be paid to behave that way. We are reducing our cost structure and figuring out ways to build the core business and specialty services. It's a fascinating period. I'm a big believer in consumerism and where that's going to take us."

- Elliot Joseph, President & CEO, Hartford HealthCare

SUPPLIER RELATIONSHIPS & DESIRABLE CHARACTERISTICS

All the CEOs wanted a more strategic relationship with their suppliers, with strong alignment around meeting their goals of cost, efficiency, quality and consumer/patient satisfaction. Almost all wanted cost reduction assistance. Most are consolidating vendors, especially with physician preference items, drugs, and medical devices, but some said it was about best value.

Most want comprehensive vendor solutions for core IT solutions. However, the decision to select a comprehensive clinical system vendor versus multiple specialty vendors depends on value, solution attributes, and how well it integrates with existing systems.

"The best ones have a phenomenal ability to get into our way of thinking and responding to our issues and are experts at predicting and anticipating our problems."

-CEO, Mid-size Integrated System

"We want strategic partnerships -- partners that see what's coming down the pike. Vendors need to have their A game about what is going to happen tomorrow. What can we do in new markets? Bring me creativity and best practices. You have a wide angle lens, broader than us. Tell me what's going on in other markets."

- Preston Gee, Vice President - Strategic Marketing, CHRISTUS Health



In the supply chain, there is a diminishing role for GPOs, given consolidation, local partnerships, and drawing on best practices from other industries. Leaders are looking for suppliers going at risk with them in use, cost, and effectiveness of their products or services.

Desirable supplier characteristics were described as solution finders, problem solvers, providing data and information about utilization of their products and services.

"I'm looking for what every other CEO wants – a way to leverage expertise to reduce my cost on adjusted patient day."

- Pete Delgado, CEO, Salinas Valley Memorial Healthcare System

"I want long term continuity with our supplier partners, it's more than just selling us a product. It's about being invested in the success of our institution. Our best vendors understand our game plan and strategies. I often insisted on getting to know the CEOs of our vendor companies and that generally worked out very well. Everything is about relationships."

- John W. Bluford, President Emeritus, Truman Medical Center



TECHNOLOGIES FOR THE FUTURE

Eliminating “clinical waste” and variation (work processes, work flow, unneeded procedures) is a key element of cost control. Other big areas cited were supply chain management, clinical practice protocols and service line consolidation. Currently, IT is the major technology used in cost control; identifying practice patterns, inefficient protocols and unneeded procedures. Big data, analytics and predictive analytics are all required for effective population health.

Social media, patient self-scheduling in clinics, off-hours scheduling of expensive technology are all examples of a host of technology uses cited to gain consumer attachment. The C-suite expects a major increase in the use of telehealth and telemedicine if a new payment model emerges.

Capital will be largely directed to the ambulatory strategy, including physicians, retail clinics, urgent and emergency care. IT spend has been major, but most now have their preferred long-term EMR in place.

“I think technology may supplement some caregiver roles. If we’re just adding cost, it won’t work. Having automation to save human steps will be important. It will probably be a combination. Economically we need to replace cost to some extent.”

-Steve Hanson, CEO, Baptist Health

“I hope technology doesn’t supplant people. It needs to supplement. We need to do it in a way that gives caregivers more time to do things. That’s the ROI. Help their productivity and work environment.”

- David Campbell, EVP Operations, Oakwood Healthcare, Inc.

“Automation doesn’t drive efficiency from personnel cost but is more effective in terms of patient safety. The biggest savings have to do with decreasing the variability of the cost of care between physicians.”

- Doug Cropper, President CEO, Genesis Health System

“I think technology will both supplant and supplement workers. In some areas like robots, I was just reading an article... in Wisconsin for example, robots found cows and milked them. In pharmacy I think it can both supplant and supplement caregiver roles. We could have fewer pharmacists. The answer is ‘it depends.’”

- Dave Gehant, President & CEO, Boulder Community Health

ABOUT OMNICELL



Omnicell is recognized as a leading provider of comprehensive, technologically advanced automation that enables health care facilities to acquire, manage, dispense, and deliver medications and supplies more effectively. Omnicell automation is used from the point of entry into the hospital through the central pharmacy, nursing units, operating room, procedural areas, and patient bedsides – as well as in long-term care sites.

For over 20 years the mission of Omnicell has focused on improving the medication and supply distribution process. More than 3,200 acute care customers worldwide have used Omnicell's medication automation, supply chain, and analytics solutions to improve efficiency, reduce errors, and lower costs.

Omnicell non-acute care solutions, including the MTS brand, enable approximately 7,000 institutional and retail pharmacies worldwide to optimize productivity and control costs. Key product lines are: central pharmacy automation, medication management systems, supply management systems, business analytics and medication adherence packaging.

ABOUT C-SUITE RESOURCES



C-Suite Resources provides healthcare industry intelligence, education and executive advisory services to companies that serve the healthcare industry. The company's services enable healthcare suppliers and vendors to improve their strategy, sales and marketing performance.

C-Suite Resources delivers healthcare industry intelligence via carefully selected "Faculty-Advisors," including over 250 nationally recognized CEOs, COOs, CFOs, CMOs, CIOs, CMIOs and others from prominent healthcare delivery organizations. C-Suite Resources has worked with companies specializing in information technology, pharmaceuticals, medical devices, real estate, revenue cycle solutions, post-acute care, healthcare consulting, and more. Clients span Fortune 100 companies to specialty companies to those entering healthcare from other industries.

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