



The Game Has Changed – Big Choices Lie Ahead For Providers Spring 2010

Simple But **Powerful Solutions** That Produce **Results** has championed a central theme: **FOCUS (Strategy) + EXECUTION + LEADERSHIP = RESULTS**. In this issue, we suggest actions that **must be taken to prepare for Reform implementation**.

Healthcare Reform is law. This complicated bill attempts to provide near universal coverage beginning in 2014, while significantly “bending” the cost curve, and improving in the quality and efficiency of care available to American citizens. What will this mean for providers?

The New Metric of Success: Covered Lives

Near universal coverage will force “value based,” capitated and/or bundled payment over the next several years. The new measure of success for providers –*the number of covered lives (and payment streams) captured, served profitably and retained*.

High quality, efficient and effective outcomes will be a threshold requirements rather than differentiators. *Customer service, user-friendly systems, and accessibility will capture lives and assure retention or loyalty*.

What You Should Be Asking

- What do we do well that can be scaled and delivered with high quality efficiently and profitably?
- How do we deliver competitive customer service and quality outcomes efficiently and effectively?
- How do we provide access to care at the right time, at the right place and with the right result?
- How will we flex capacity to meet expected surges in demand as coverage expands?
- How do we transition from an episodic acute care system to a primary care, wellness and eventually value based or bundled payment system?
- What resources and relationships will be required to assure success?

Meeting these challenges will require substantial investments. Where will the money come from?

Raising Needed Capital

“Bending the Curve” will be painful for providers. There will be downward pressure on Medicare and Medicaid rates. Provider rates for the newly insured are likely to fall between Medicare and Medicaid and follow any downward trends. Higher insurance rates will not translate into higher rates of reimbursement for hospitals or physicians.

Providers will find cost cutting to adjust for reduced revenue increasingly difficult. Continuous quality improvement and changing the way care is delivered will improve financial performance. But, continued cost reduction, performance improvement, and improved customer services will require significant investments.

How will providers make the investments required to compete successfully in this new environment?

Some Organizations Are Taking Bold Risks

Vanguard, a well established hospital operator with significant experience in urban markets plans to acquire Detroit Medical Center promising a hefty payment and a guaranteed level of investment in the system. This investment is proposed in a state and city with arguably the worst economy in the country. *Why would they do that?*

Cerberus Capital Management, an investor group with no hospital experience, plans to invest \$830 million to acquire Caritas Christi and make it profitable. This investment is being made in a struggling system in a state where the cost impact of reform is just beginning to be felt. *What's driving this deal?*

The savvy hospital operator and the savvy investor are making big bets on the beliefs that:

- Scale and capital investment will allow them to be competitive in difficult markets and uncertain times.
- The right investments and scale will enable them to earn an attractive return under reduced or capitated payments.

What's Your Plan?

Some elements of reform are clear, others will emerge over time. The “work in progress” nature of reform implementation carries considerable risk for providers. ***Flexibility and the ability to act in the face of uncertainty will be critical.***

We suggest you step back and carefully evaluate assumptions and plans for the future. Create two or three working scenarios outlining what success looks like in your market post reform. Review your strategy at least quarterly or more often as needed as reform implementation unfolds.

- Define critical success factors, adjustments your organization must make, and likely investment requirements.
- Create your ideal scenario and determine what it will take to get you there. Ask the difficult scale questions.
- Determine how you will organize care effectively with partners or affiliates.
- Decide how you will raise needed capital - can do this yourself or will partner/investors be required?
- Anticipate how competitors and partners will respond? What will happen if they fail or partner with others?

Engage your medical staff and board in these conversations – use them to ***create focus from uncertainty and organizational capacity to respond quickly.*** Keep your organization ahead of the curve.

If you would like to discuss these ideas further please contact us.



Edward M. Hindin
Hindin Healthcare Advisors, LLC
1100 Clinton St. Suite 302, Hoboken NJ 07030
201 656 1004 (O) • 201 656 1444 (F) • 201 208 7161 (C)