The Game Has Changed
Has Your Strategy?

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November 5, 2014

Population Health
ACOs
Medical Homes
Consolidation
Clinical Integration
Cost Reduction

The Market Is Filled With Noise

The Real Game Changers
Health Care Is at a Point We Have Seen Other Industries Go Through

<table>
<thead>
<tr>
<th>BANKING</th>
<th>AIRLINES</th>
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<tr>
<td>10,961 Commercial banks in 1993</td>
<td>9 Major domestic airlines in 2004</td>
</tr>
<tr>
<td>5,876 Commercial banks in 2013</td>
<td>4 Major domestic airlines in 2014</td>
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Health Care Industry Parallels
- High infrastructure costs
- Technology disruptors
- Changing consumer preferences
- Disintermediation

Health Care Industry Parallels
- High infrastructure costs
- Fluctuating occupancy rates
- Low margins
- Disintermediation

Have these industries realized the benefits of consolidation?

Market Incumbents Are Being Disintermediated

**B2B**

WHOLESALE

Providers sell themselves to physicians and insurers.
Employers make decisions on behalf of individuals and their families.

**B2C**

RETAIL

Providers sell themselves to consumers.
Individuals make decisions on benefits, providers and course of care.

Why Is This Happening?

Factors Driving the “Retailization” of Health Care
1. New benefit and network designs are making the health care consumer more selective and cost conscious.
2. Public and private insurance exchanges are making the consumer a more active participant in the health care process.
3. Entrepreneurs, governments, payers and health systems are bringing price transparency to the marketplace.
4. Consumers continue to be attracted to convenient and cost-effective sites of care (eg, retail clinics, virtual care).
Exchange Markets Have Brought Back Narrow Networks; Consumers Trading Access For Price

**Hospital Exchange Networks by Breadth, 2014 Individual Exchange Market**

- Broad networks = 52% of all exchange networks across the US.
- Narrow networks = 48% of all exchange networks across the US.

**Survey of Consumer Network Breadth Selection**

- 74% of respondents were aware of network breadth.
- 58% of network breadth was broad and 42% was narrowed.

**Notes:**
- Broad networks include participation by more than 70% of hospitals within a rating area. The narrow network category used above consists of standard narrow networks, ultra-narrow networks, and tiered networks. Standard narrow networks have 31% to 70% of hospitals within a rating area participating in the network. Ultra-narrow networks include participation by 30% or less of hospitals within a rating area. The tiered network category reflects models where a payer puts different hospitals into different tiers with different co-payment requirements. Data was collected via the National Exchange Markets Network.
Consumer Pricing Is Becoming Mainstream

ELLIOI HEALTH SYSTEM, MANCHESTER, NH

ELLIOI CAREBUNDLES

- $1,995 Colonoscopy
- $4,995 Hernia Repair
- $5,995 Knee Arthroscopy

- The price covers costs for the procedure, physician, lab, imaging and anesthetics.
- The fee is paid up front, and the patient will not receive any bills after the procedure.

Sources: Elliot Health System, Elliot CareBundles offer high quality care at the lowest price with no bills [press release]. February 26, 2014.

Nontraditional Players Are Moving Directly Into the Provider Space and Meeting Consumer Needs

By 2020, Walmart and pharmacy-based clinics combined will be the largest providers of primary care services.

WALGREENS HEALTHCARE CLINICS

Annual percentage of return patient visits increased from

15% in 2007, to more than
50% in both 2012 and 2013.


Are You Tracking the Retail Clinic Dynamics in Your Market?

Retail Clinic Utilization
Select E&M Visit Volumes
Northwest Chicagoland, Q1 2011–Q1 2014

- Despite volume declines, remains overall market share leader
- 32% growth in a three-year period

Sources: Health Intelligence Company, LLC; Sg2 Ambulatory Market Share v1.0; Sg2 Analysis, 2014.

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A More Retail Market Will Spur New Care Options, New Opportunities and New Competition

- Take "SPECIALTY" Virtual conferencing
- Virtual consults
  - Urgent care
  - Specialty care
- Mobile apps
  - Social media
  - Geo-tagged devices
- Patient web portals
- Online support groups

CASE STUDY | Virtual Visits Propel Patients Toward Consumerism

FRANCISCAN HEALTH SYSTEM, TACOMA, WA

- 50,000 Landing Page Visits
- 2,000+ Patients Served

If Not for This Service...
- 11% would have gone to the ED.
- 58% would have gone to an urgent care center.
- 21% would have visited their PCP.
- 10% would have done nothing.
- 75% Patients Previously Without a PCP
- 45% New Patients Who Schedule a Follow-up Appointment After a Virtual Consult

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Finding the Signal in the Noise

Don’t Forget What You Know About Strategy

Fundamental Strategic Questions That Never Change

- What is the long-term vision for the organization?
- What is our product?
- What are our core competencies? What are we good at?
- What are the organization’s sources of sustainable differentiation?
- What will be our priority lines of business?
- What are the geographic and consumer segments we should target?
- What channels do we use to drive new consumer acquisition?
- How do we retain existing consumers?
Traditional Strategic Planning Processes Apply, but They Must Be Modified

CLASSIC STRATEGY

VALUE-DRIVEN STRATEGY

How Do You Really Win?

*Sg2* Go-to-Market Strategy

**SET CORE**
**PRODUCT FOCUS**
Community-Based Care
Acute Care
Post-Acute Care

**SEGMENT OPPORTUNITIES**
Target Geographies
Target Consumers

**CREATE AND CONTROL ACCESS**
Mature Channels
Emerging Channels

Establish Supporting Metrics
Reassess Your Payment Models

ASSESS, BUILD AND EVOLVE YOUR SYSTEM OF CARE

*Sg2* System of CARE™
Know Your Target Markets and Consumers

Spine Services
Chicago North Shore Area
2012–2013

Total Spine Services for 2 Zips

13% Physical Therapists
12% General Acute Care Hospitals
69% Chiropractors
5% Other

KEY QUESTIONS
Where are patients going for care?
Who are they seeing?
What is the patient pattern across System of CARE?

Spine Services Chicago North Shore Area 2012–2013

Comparison:

Sources:
Health Intelligence Company, LLC; Sg2 Ambulatory Market Share v1.0; Sg2 Analysis, 2014.

Build a Multichannel Approach for Sustainable Growth

Sg2 Channel Spectrum by Maturity

MATURE EVOLVING EMERGING

*Ambulatory campuses vary widely, from multidisciplinary, comprehensive centers to facilities focused on specific services (eg, outpatient rehab, endoscopies, urgent care).

Appreciate the Employer’s Perspective When Considering This Channel

MYTHS

• All employers are eager to work on managing their health care spend.
• Employers are willing to partner with health systems.
• National bundled pricing networks (eg, Lowe’s, Boeing) have driven significant volumes to network providers.

REALITIES

• Local economic conditions shape the appetite of different employer segments.
• Most employers are skeptical that health systems are interested in doing more than just driving downstream revenue.
• Local networks with a strong benefit incentive (eg, reference pricing) hold much more promise.

In general, employers view offerings such as on-site clinics and virtual care primarily as a benefit and a way to reduce employee absenteeism.
Combine Advanced Growth Metrics and Market Performance Metrics

**ADVANCED GROWTH METRICS**
- Product Position
  - Share of Care™
  - Network leakage
- Access Channel Vitality
  - Unique patient counts
  - Primary care strength scorecard
- Financial Sustainability
  - Revenue quality
  - Percent of revenue from novel sources

**MARKET PERFORMANCE METRICS**
- Community-Based Care
  - Potentially avoidable admissions
- Acute Care
  - Wage-adjusted, mix-adjusted total cost per case
  - Inpatient length of stay index
- Post-Acute Care
  - 30-day readmission index

Quality Across the System of CARE

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Tap Into Alternative Payment Models

- CaPERS reference pricing launches.
- National Orthopaedic and Spine Alliance forms.
- Kroger designates 19 hospitals for total joint replacement.
- Walmart partners with six hospitals for spine surgery.
- General Electric pursues direct contracting strategy.

2011 2012 2013 2014

The Science of a Successful Health System Strategy in 2014 and Beyond

- Assess, build and evolve your System of CARE.
- Know your target markets and consumers.
- Build a multichannel approach for sustainable growth.
- Combine advanced growth metrics and market performance metrics.
- Tap into alternative payment models.

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Sg2 is the health care industry's premier provider of market data and information. Our analytics and expertise help hospitals and health systems understand market dynamics and capitalize on opportunities for growth.

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