

THE HEALTH MANAGEMENT ACADEMY

Strategic Survey Q1 2019: Strategic Priorities and Market Share

March 2019

Strategic Priorities and Market Share

INTRODUCTION

The healthcare landscape continues to evolve, with new entrants driving increased consumerism, intense financial pressure, and widespread market consolidation. As a result of these trends, Leading Health Systems (LHS) have adjusted their strategies accordingly. Restructuring care delivery allows health systems to not only improve quality and access but also enhances the patient experience, a key strategic priority for LHS.

In this report, The Health Management Academy (The Academy) continues to track strategic priorities and assess changes in market share across LHS.

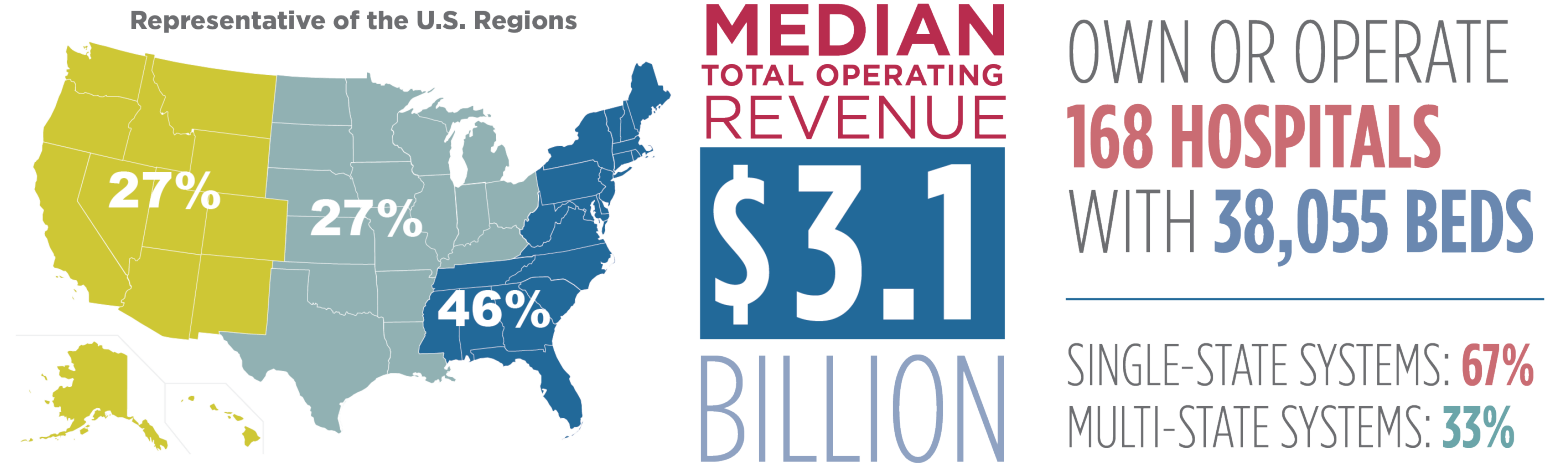
METHODOLOGY

In February 2019, The Academy conducted the eighteenth round of phone interviews for its quarterly strategic survey among LHS executives, including: CEOs, COOs, CFOs, CMOs, CNOs, and CSOs.

The survey for the interview consisted of:

1. A tracking section that provides insight into trends around primary strategic areas; and
2. A special topic area that allows for an in-depth look into a timely developing issue.

PROFILE OF PARTICIPATING HEALTH SYSTEMS



Key Findings

1 Priorities

In 2019, most health system strategic priorities are centered around enhancing the cross-continuum of care, a trend highlighting increasing consumerism in healthcare.

2 Budget

The most common area for anticipated budgetary increases in 2019 will be in IT, including initiatives focusing on the electronic medical record (EMR), the digital patient experience, and cybersecurity.

3 Market Share

Due to continued consolidation, LHS now control an average of 48% of the inpatient market share in their largest market, and 67% expect this number to increase.

Strategic Priorities Focused on Continuum of Care

In 2019, LHS are focused on a variety of strategic priorities that will enhance their services across the continuum of care. Health systems have a dual focus on improving care delivery and controlling costs, highlighting the trend of increasing consumerism in healthcare. The need to capture and retain patients through the delivery of high quality, convenient, and affordable care has become increasingly evident and will continue to be a key strategic priority.

Most health systems consider an element of care delivery improvement to be in their top three system strategies for the year, with the ultimate goals of improving access and quality while transitioning to a value-based delivery model. Health systems are also focused on their own financial health, including a desire to improve margins and decrease costs, as well as their patients' financial health, including efforts to improve affordability and increase price transparency.



"We are focusing on the customer and redefining our success metrics based upon how they define it. For example, we've always defined 'access' by seeing a doctor within a certain amount of time, and you either met it or didn't based on parameters that we set. Now, we're saying the goal for access is how the customer defines it. If they want to be seen tomorrow and you can't see them until next week, we have failed by their definition." (COO)

IT is the Most Common Area of Anticipated Budgetary Increases

Health systems continue to invest in capabilities that will help realize their key strategic priorities. LHS anticipate that their budgets will increase in the broad areas of IT, labor, pharmaceutical spend, expansion of care settings, and quality and patient safety.

Across health systems, IT is the most common area of anticipated budget increases. Initiatives within this space include building out customer interfaces and the digital patient experience, enhancing data analytics & informatics, replacing outdated enterprise resource planning (ERP) software, upgrading the EMR, investing in artificial intelligence, and building out a robust cybersecurity infrastructure.

Health systems are investing in technology solutions to ensure a secure, efficient, and consumer-centric approach to care delivery, aligning closely with LHS' strategic prioritization of care delivery and the patient experience.

“IT definitely has always been a big area of focus, if not for any other reason than cybersecurity issues, which just keep eating money.” (CFO)

Areas of Greatest Anticipated Budget Increase



IT

- Cybersecurity
- Data Analytics
- Digital Front Door
- Upgrading EMR
- Replacing ERP Solution
- Artificial Intelligence



Labor

- Growing the Physician Network
- Improving Physician Alignment
- Increasing Entry-Level Wages
- Adding Nurses & Physician Support Services



Pharmaceuticals



Expansion of Care Settings

- Expanding Freestanding Venues of Care
- Investing in Community-Based Care
- Merger Integration
- Primary Care & Urgent Care Clinic Expansion



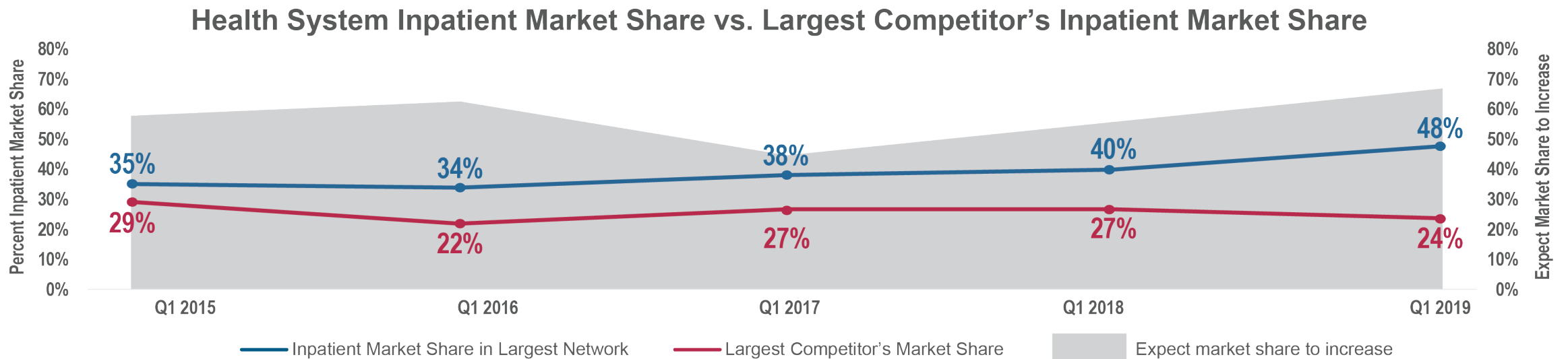
Quality / Patient Safety

LHS' Inpatient Market Share Continues to Increase

As a result of health system merger and acquisition activity, LHS report that their inpatient market share in their largest market has reached 48% on average, an increase of 8 percentage points since this time last year. Reflective of this consolidation, LHS and their largest competitor control an average of 72% of the inpatient market share in their largest markets.

Despite highly consolidated markets, two-thirds of responding health systems anticipate that their inpatient market share will increase over the course of 2019 due to continued expansion efforts as well as organic growth. The remaining one-third of responding health systems expect their inpatient market share to remain constant, while none anticipate a decrease.

“We expect our market share to increase another 7-10 points with the acquisition of another health system in our primary market.” (CMO)



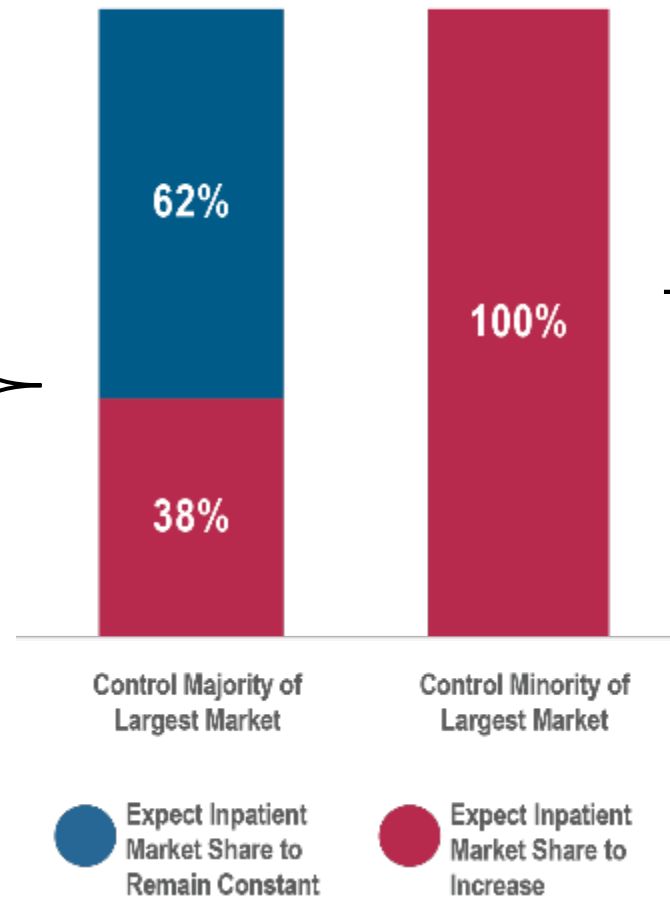
Health Systems with Majority Control of their Market Expect Minimal Growth for 2019

53% of health systems control **50% or more** of their inpatient market

Among the health systems that control 50% or more of their largest market, only 38% anticipate that their inpatient market share will continue to increase over 2019. These health systems often indicate there are few other players in their immediate market and that federal antitrust laws sometimes prevent them from continued consolidation efforts. Instead, they focus on other ways to grow their footprint, like expanding into new services lines or moving more services into the ambulatory care setting.

These health systems believe other metrics beyond traditional inpatient market share should be used to measure the scope of their impact. One health system executive prioritizes measuring the percent of the community's population with which the health system owns the primary relationship.

Impact of Current Market Share on Anticipated Change



Among the remaining 47% of health systems that control less than half of their largest market, all anticipate an increase in market share over the next 12 months. This is largely driven by more substantial acquisitions, including hospitals, long-term care/rehab centers, ambulatory centers, and health plans. Therefore, it seems that anticipated changes in health system market share is highly dependent on the percentage of the inpatient market already controlled.

“We have no other plans to acquire anything beyond physician practices. There are only two other health systems in our market. If we tried to acquire them, the feds wouldn’t let us.” (COO)

About The Academy

The Health Management Academy, “The Academy”

The Health Management Academy (The Academy) is a membership organization exclusively for executives from the country’s Top-100 Health Systems and most innovative healthcare companies. The Academy’s learning model identifies top priorities of health system leaders; develops rich content based on those priorities; and addresses them by convening members to exchange ideas, best practices, and information. The Academy is the definitive trusted source for peer-to-peer learning in healthcare delivery with a material record of research and policy analysis. Offerings include C-suite executive peer forums, issues-based collaboratives, leadership development programs, research, advisory, and media services. The Academy is an accredited CE provider. More information is available at www.academynet.com.

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About Lumeris

Lumeris is a value-based care managed services operator for health systems and providers seeking extraordinary clinical and financial outcomes. Lumeris aligns providers and payers across populations with technologies, processes, behaviors and information to achieve high-quality, cost-effective care with satisfied consumers — and engaged physicians. For the past eight years, Essence Healthcare, Lumeris' inaugural client and learning laboratory with more than 65,000 Medicare members in Missouri and Illinois, has received 4.5- to 5-Star Ratings from the CMS and produced the highest consumer and physician satisfaction scores in the industry along with significantly better clinical outcomes and lower costs. For more information, go to www.lumeris.com.

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