The Game Has Changed

Has Your Strategy?

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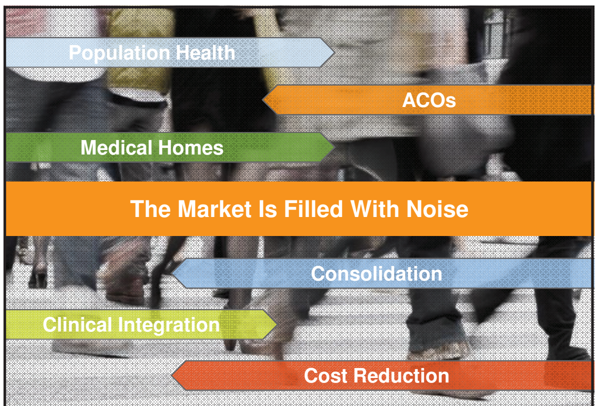


ACO = accountable care organization.

The Real Game Changers

Health Care Is at a Point We Have Seen Other Industries Go Through

BANKING

10,961 Commercial banks in 1993

5,876 Commercial banks in 2013

AIRLINES

9 Major domestic airlines in 2004

4 Major domestic airlines in 2014

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?

Sources: Federal Deposit Insurance Corporation; CNN Money. The runway to the final four. http://money.cnn.com/infographic/news/companies/airline-merger/; All websites accessed September 2014.

Market Incumbents Are Being Disintermediated

B2B WHOLESALE	B2C RETAIL
Providers sell themselves to physicians and insurers.	Providers sell themselves to consumers.
Employers make decisions on behalf of individuals and their families.	Individuals make decisions on benefits, providers and course of care.

B2B = business to business; B2C = business to consumer.

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. **Source:** McKinsey Center for US Health System Reform. *Hospital Networks: Updated National View of Configurations on the Exchanges*. June 2014.

CASE STUDY | Walgreens Was the Tipping Point in Private Exchange Adoption

AON HEWITT CORPORATE HEALTH EXCHANGE

- Employers are required to be fully insured.
- 600,000 covered lives include family members in 2014.
- Clients include Walgreens, Sears Holdings, Darden Restaurants.

MERCER MARKETPLACE

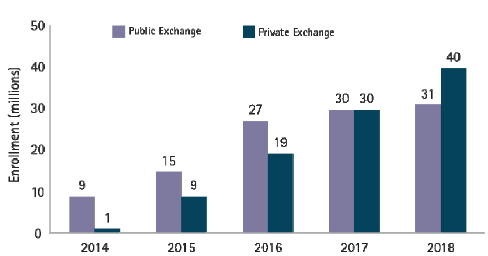
- Employers choose fully insured or self-insured.
- 200,000 covered lives include family members in 2014.
- Clients include Petco, Kinder Morgan, Metro Transit–St Louis.

- 80% of enrollees chose the lowest cost plan within their metallic tier.
- All 18 companies that participated in Aon Hewitt's exchange in 2014 are returning for 2015.

Sources: AIS Health. Mercer Touts 52 Active, Retiree Exchange Clients for 2014. October 2013. For more information, go to www.AISHealth.com; Aon Hewitt. Aon Hewitt analysis shows lowest US health care cost increases in more than a decade [press release]. October 17, 2013; Aon Hewitt. Aon Hewitt shows continued cost savings for companies and individuals participating in the Aon Active Health Exchange [press release]. September 18, 2014; Sg2 Interview With Aon Hewitt, September 2014.

Private Health Insurance Exchanges Will Transform the Industry More Than Anything in the ACA

Public and Private Exchange Enrollment



ACA = Patient Protection and Affordable Care Act. **Note:** Permission granted by Accenture on September 23, 2014, for use in The Game Has Changed: Has Your Strategy? **Source:** Accenture. Are you ready? Private health insurance exchanges are looming. March 2013.

CASE STUDY

Consumer Pricing Is Becoming Mainstream

ELLIOT HEALTH SYSTEM, MANCHESTER, NH

ELLIOT CAREBUNDLES

$1,995
Colonoscopy

$4,995
Hernia Repair

$5,995
Knee Arthroscopy

- The price covers costs for the procedure, physician, lab, imaging and anesthesia.
- 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%

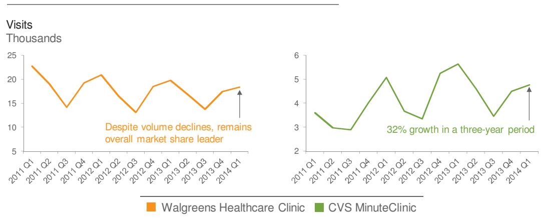
in both 2012 and 2013.

Source: Walgreens. More patients turning to retail clinics for chronic care and preventive services, new Walgreens study shows [press release]. July 17, 2014.

Sg2 ANALYTICS

Are You Tracking the Retail Clinic Dynamics in Your Market?

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



E&M = evaluation and management.
Note: Analysis consists of 14 diagnoses commonly treated in the retail clinic setting. Examples of these diagnoses include acute otitis media and sinusitis, allergy, bronchitis, eye infection, tonsillitis, and urinary tract infection.
Sources: Health Intelligence Company, LLC; Sg2 Ambulatory Market Share v1.0; Sg2 Analysis, 2014.

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

Clinician to Clinician

- Tele "SPECIALTY"
- Virtual conferencing
- eICU, eED
- Telestroke

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Clinician to Patient

- Virtual consults
  - Urgent care
  - Specialty care
- Remote monitoring
- Virtual medication management
- Telehealth kiosks

Consumer Driven

- Mobile apps
- Social media
- Geo-tagged devices
- Patient web portals
- Online support groups
- Personal activity monitors
- Patient scheduling apps
- Quality and price transparency tools

eICU = electronic intensive care unit; eED = electronic emergency department.

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%** of patients 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

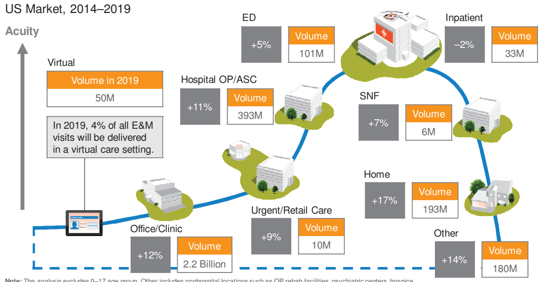
45% New Patients Who Schedule a Follow-up Appointment After a Virtual Consult

PCP = primary care physician. **Sources:** Sg2 Interview With Franciscan Health System, 2013; Sg2 Webinar: Developing Your Virtual Health Strategy, featuring Franciscan Health System. March 12, 2014.

Sg2 ANALYTICS

These Changes Are Occurring Within a Shifting Care Delivery Landscape

2014 Site of Care Volumes and 5-Year Forecast, Adults
US Market, 2014–2019



Note: The analysis excludes 0–17 age group. Other includes nonhospital locations such as OP rehab facilities, psychiatric centers, hospice centers, federally qualified health centers and assisted living facilities. ASC = ambulatory surgery center; E&M = evaluation and management; OP = outpatient; SNF = skilled nursing facility. **Sources:** Impact of Change® v14.0; NIS; PharMetrics; CMS; Sg2 Analysis, 2014.

Finding the Signal in the Noise

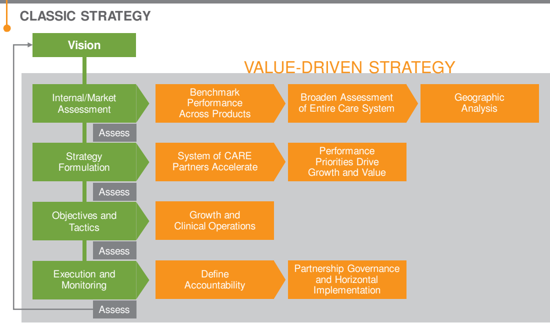
Source: Silver S. *The Signal and the Noise: Why So Many Predictions Fail—but Some Don't*. Penguin Press: 2012.

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



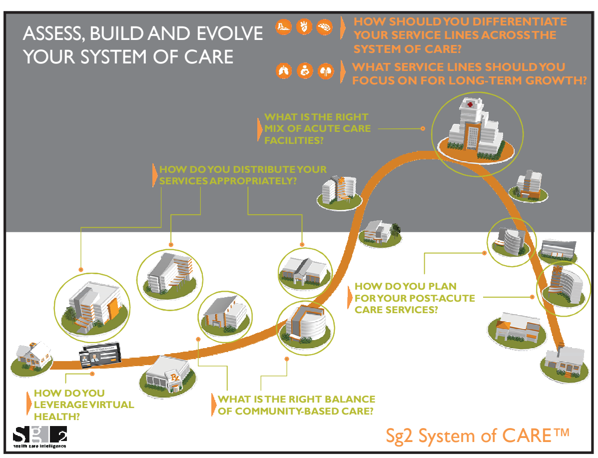
How Do You Really Win?

Sg2 Go-to-Market Strategy

SET CORE PRODUCT FOCUS	SEGMENT OPPORTUNITIES	CREATE AND CONTROL ACCESS
Community-Based Care	Target Geographies	Mature Channels
Acute Care	Target Consumers	Evolving Channels
Post-Acute Care		Emerging Channels

Establish Supporting Metrics

Reassess Your Payment Models



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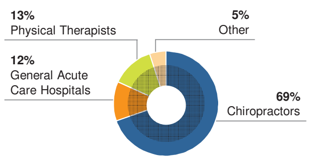
Know Your Target Markets and Consumers

Spine Services
Chicago North Shore Area
2012–2013

Volume by Zip Code

- 100,000 to 119,000
- 50,000 to 99,999
- 20,000 to 49,999
- 3,000 to 19,999

Total Spine Services for 2 Zips



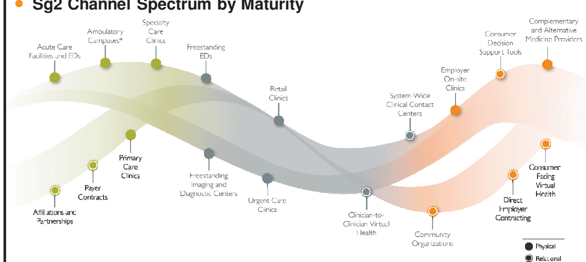
KEY QUESTIONS

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

Note: Other includes emergency medicine physicians, internal medicine physicians, sports medicine specialists; this analysis excludes lab and other.
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



*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	REALITIES
• 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.	• 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

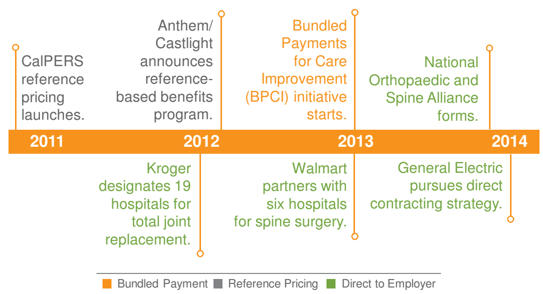
Community-Based Care
- Potentially avoidable admissions

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

Tap Into Alternative Payment Models



CalPERS = California Public Employees' Retirement System.

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.

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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