Strategic Planning Within an Environment of Constant Change

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Learning Objectives

• Who is Cape Medical Supply
• What Strategic Planning actually is
• Our experience and results with disciplined strategic planning
• Why the time is now to implement and execute a tight strategic plan
• Academic fundamentals of strategic planning
• How to measure strategic plan execution
Practical Experience

- CEO, Cape Medical Supply
- Board Chairman, Chamber of Commerce
- Co-founder/Chairman, Regional non-profit
- Board Chairman, HOMES (NEMED)
- Board Member, ~$800mm Community Bank
“On the bright side, we can stop planning our exit strategy.”
“According to Darwin’s Origin of Species, it is not the most intellectual of the species that survives; it is not the strongest that survives; but the species that survives is the one that is able best to adapt and adjust to the changing environment in which it finds itself.”

- Professor Leon C. Megginson
Product Portfolio

- Med Equipment, 3%
- Orthopedic Bracing, 22%
- Oxygen, 10%
- Sleep Therapy, 65%

Payer Portfolio

- Medicaid and Related, 15%
- Patient Pay, 15%
- Medicare, 20%
- Private Insurance / HMO, 50%
Our Organization – Service Area

INNOVATING PATIENT CARE
throughout eastern New England

NH ME MA RI
Our Organization - Revenue Growth

10 Year Revenue CAGR = 12.4%


- December 2013 - First formal strategic planning process
- June 2011 - Acquire out of market distressed provider, begin executing multi-state expansion
- July 2016 - Acquire in adjacent market distressed provider with 100% sleep therapy focus

10 year Growth Rate = 221%
7x Inc 5,000 Honoree: 2007-2010, 2014-2016
Revenue “Headwinds”

- 2008 Medicare Improvements for Patients & Providers Act of 2008 (MIPPA) $3-4 billion (9.5%) reduction in HME reimbursement nationwide Required the implementation of a Competitive Bidding program for select HME
- 2013 Competitive Bidding Program: Round 2 $12.84 billion (45%) reduction over 3 years in select HME in 100 metropolitan areas starting July 2013 72% reduction over 3 years in diabetic testing supplies nationwide starting July 2013
- 2014 Competitive Bidding Program: Nationwide Expansion $4.4 billion reduction over 5 years in select HME nationwide starting January 2016
- 2015 Omnibus Bill $4.3 billion reduction over 10 years in HME reimbursement in state Medicaid programs by limiting the federal portion of Medicaid funding to the Competitive Bidding rates for Medicare starting 2019
- 2016 Competitive Bidding R2RC
"This is our plan for the next 1,000 years."
Understand where your business is
Does Strategic Planning Require Outside Expertise and/or Facilitation?
Next Several Slides from an All Company Strategy Meeting in May of 2013
- **Sleep**: Repeatable, consistent processes yield distinct competitive advantage, numerous opportunities to take share.

- **Oxygen**: We are looking to maintain our oxygen business.

- **Orthopedics**: High volume, high margin, specialized solution through partnership, area where we have a clearly defined competitive advantage and growth left to harvest.

- **HME & Other**: Not a continuing focus for growth, massive pricing cuts, turning into pure commodity business.
Retail Business

- Example of flawed strategy
- There was no way forward
- Decision heavily informed by financial analysis, as all will have to be in the future
- We have limits to where and how much we can invest – whether that is our time or our capital
- Was important part of our growth and development as an organization
Healthcare in 2013, Snapshot

• Massive consolidation trend across healthcare spectrum; creating larger, more integrated and more diversified healthcare providers, payers and related entities [Bigger customers, more sophisticated needs]

• Specialized managed care attacking spending in very narrow areas (sleep therapy has attracted a lot of focus) [How can we partner??]

• Accountable Care (shared savings) creating increased attention and new models for care, particularly post-acute care [BIG opportunity]
Provider Consolidation
LESS COMPETITION AND HIGHER COSTS

Research demonstrates that when hospitals consolidate, either merging with other hospitals or buying up physician practices, healthcare costs go up. Provider consolidation gives hospitals greater negotiating strength and limits competition, resulting in higher prices for services, higher costs for patients, and no improvement in the quality of care delivered.

Physicians Are Becoming Hospital Employees

In 2000 1 in 20 specialists was a hospital employee... Today 1 in 4 specialists is a hospital employee.

“Last year, a 15-minute visit to a doctor in private practice cost $69...That same visit to a hospital-employed physician cost $124.”
- Orlando Sentinel

Increasing Market Concentration Leads to Higher Prices for Consumers

Percentage increase in market concentration from 1999-2003.

WEST +5.5%
SOUTHWEST +6.7%
MIDWEST +7.4%
SOUTH +9.4%
EAST +7%

“Research suggests that hospital consolidation in the 1990s raised prices by at least five percent and likely significantly more. Prices increase 40 percent or more when merging hospitals are closely located.”
- Robert Wood Johnson Foundation
Limited Network Insurance products impose tiered pricing models and restrict providers out of the network the payer will provide coverage for. In an era of cost containment being in-network remains critical for success and this trend will likely accelerate dramatically in the future.
Selected Regional Consolidation

• Cerberus (Private Equity Co.) forms Steward Healthcare acquires Caritas Christi Health (several acquisitions since) - 2010
• Partners Healthcare acquires Neighborhood Health Plan (NHP) – 2012
• Beth Israel acquiring Jordan – Pending, ‘13/’14
• Beth Israel, Lahey and Atrius Health involved in merger talks currently – 2013/2014
Continuing Trends

- Hospitals acquiring other hospitals, creating large healthcare systems
- These large systems in turn acquire physicians groups and ancillary care groups
- These ancillary care groups often consist of sleep labs, HME, VNA, Hospice, etc.

- The other move that is afoot is integrating payers directly into systems (Partners & NHP)
Environment within DME

• Continuing **consolidation** (companies buying other companies, there are fewer but larger companies as result)

• Access to payer networks being restricted

• Larger customers expecting more from providers in terms of professionalism, business sophistication and innovation

• Audit and regulatory activity higher than ever, no sign of abatement
Strategy, Defined By P&L

• Profit (Revenue)
  – High Volume, High Margin
    Business is the Goal
  – Lower Margin, Lower
    OPEX at High Volumes
    Also Works

  How??
  – Partner with large
    integrated systems
  – Define and deliver value

• Loss (Costs)
  – Reduce Operating
    Expenses
  – Negotiate Aggressively
    with ALL Vendors and
    Drive Cost out of COGS

  How??
  – Focus on Process Design
  – Continuous Improvement
    and refinement
Strategy in Action

2011

6 Years – Disciplined and purposeful transformation of product lines – 152% revenue growth
Sleep therapy revenue growth of ~900% - 10x patient volume growth

2016
Strategy in Action

2011

- Hospice & SNF, 15%
- Medicaid and Related, 10%
- Patient Pay, 15%
- Medicare, 35%

2016

- Hospice and Related, 15%
- Patient Pay, 15%
- Medicaid and Related, 15%
- Private Insurance / HMO, 25%
- Medicare, 20%
- Private Insurance / HMO, 50%

6 Years – Medicare -15% points, Private +25% points
Hospice and SNF businesses sold
Our Vision of Strategic Planning

• Select product and geographic markets where there is a competitive advantage
• Clear selling and value delivery strategy
• Understand financial and operational drivers
• Align the organization around the goals
• Over-communicate the “Why?”
• Always measure progress
Our Fundamental Thesis

• Industry transitioning from broad spectrum “all things to all people” providers to specialized niche providers

• Too much margin has been taken away to meddle in too many categories

• Success requires extraordinary operational expertise and control

• *Our industry needs to learn the value in saying “No!”*
“The essence of strategy is choosing what not to do.” —Michael Porter
What is Strategic Planning? (1)

• “Strategic planning is an organizational management activity that is used to set priorities, focus energy and resources, strengthen operations, ensure that employees and other stakeholders are working toward common goals, establish agreement around intended outcomes/results, and assess and adjust the organization's direction in response to a changing environment. (Cont.)
What is Strategic Planning? (2)

- It is a disciplined effort that produces fundamental decisions and actions that shape and guide what an organization is, who it serves, what it does, and why it does it, with a focus on the future. (Cont.)
What is Strategic Planning? (3)

• Effective strategic planning articulates not only where an organization is going and the actions needed to make progress, **but also how it will know if it is successful.**

- The Balanced Scorecard & The Strategy Management Group
Key Failings of Strategic Planning

• In my opinion, from what I have seen;
  – Too many goals
  – Inadequate forecasting of resources
  – No measurement for success
    • No intra-cycle check-in mechanisms (annual only)
  – Disconnected from organizational KPI’s
  – Disconnected from organizational workflow
  – Pretty plan turns into a dust gathering door stop
  – No front line visibility (exec only knowledge)
Threat of New Entry
- Time and cost of entry
- Specialist knowledge
- Economies of scale
- Cost advantages
- Technology protection
- Barriers to entry

Competitive Rivalry
- Number of competitors
- Quality differences
- Other differences
- Switching costs
- Customer loyalty

Supplier Power
- Number of suppliers
- Size of suppliers
- Uniqueness of service
- Your ability to substitute
- Cost of changing

Buyer Power
- Number of customers
- Size of each order
- Differences between competitors
- Price sensitivity
- Ability to substitute
- Cost of changing

Threat of Substitution
- Substitute performance
- Cost of change
<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td><strong>Knowledge</strong>: Our competitors are pushing boxes. But we know systems, networks, programming, and data management.</td>
<td><strong>Price and volume</strong>: The major stores pushing boxes can afford to sell for less.</td>
</tr>
<tr>
<td><strong>Relationship selling</strong>: We get to know our customers, one by one.</td>
<td><strong>Brand power</strong>: We can't match the competitor's full-page advertising in the Sunday paper. We don't have the national brand name.</td>
</tr>
<tr>
<td><strong>History</strong>: We've been in our town forever. We have the loyalty of customers and vendors.</td>
<td></td>
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<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
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<tbody>
<tr>
<td><strong>Training</strong>: The major stores don't provide training, but as systems become more complex, training is in greater demand.</td>
<td><strong>The larger price-oriented store</strong>: When they advertise low prices in the newspaper, our customers think we are not giving them good value.</td>
</tr>
<tr>
<td><strong>Service</strong>: As our target market needs more service, our competitors are less likely than ever to provide it.</td>
<td><strong>The computer as appliance</strong>: Volume buying of computers as products in boxes. People think they need our services less.</td>
</tr>
</tbody>
</table>
Finance
- Balance investment w efficiency
- Reduce OPEX and COGS
- Create profitable growth
- Improve collections performance
- Enhance reporting

Internal Processes
- Reduce cycle times
- Set clear goals and post clear results
- Document and follow best practices
- Identify, reduce / eliminate waste

Customers
- Manage customer expectations
- Create IT enabled solutions for access
- Communicate professionally & effectively
- Create customer loyalty and retention

Learning and Growth
- Build culture of continuous improvement
- Get middle mgmt. to manage, not just do
  - Build outcomes based culture
- Enhance professionalism at all levels
- **Specific:** State exactly what you want to accomplish (Who, What, Where, Why)

- **Measurable:** How will you demonstrate and evaluate the extent to which the goal has been met?

- **Achievable:** Stretch and challenging goals within ability to achieve outcome. What is the action-oriented verb?

- **Relevant:** How does the goal tie into your key responsibilities? How is it aligned to objectives?

- **Time-bound:** Set 1 or more target dates, the “by when” to guide your goal to successful and timely completion (include deadlines, dates and frequency)
“However beautiful the strategy, you should occasionally look at the results”
– Sir Winston Churchill
About the “Balanced Scorecard”

“The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.”

- The Balanced Scorecard Institute
The Balanced Scorecard
‘Culture eats strategy for breakfast’
- Peter Drucker
The PuMP® Performance Measure Blueprint

**STEP 1**
Understanding Measurement’s Purpose
Fixing the focus firmly on continuous improvement as the purpose for measurement.

**STEP 2**
Mapping Measurable Results
Translating our strategy into clear, focused, and measurable performance results.

**STEP 3**
Designing Meaningful Measures
Choosing the most feasible and relevant measures that evidence our performance results.

**STEP 4**
Building Buy-In to Measures
Getting ownership from our stakeholders, quickly, easily and engagingly.

**STEP 5**
Implementing Measures
Documenting in detail the data, analysis and reporting requirements for each of our measures.

**STEP 6**
Interpreting Signals from Measures
Focusing ourselves on gaps between as-is and to-be performance.

**STEP 7**
Reporting Performance Measures
Creating useful and usable performance reports that inspire us to action.

**STEP 8**
Reaching Performance Targets
Improving business processes to move as-is performance toward to-be.
Financial Perspective
What are our most important financial outcomes?

Customer Perspective
How should we appear to our customers?

Process Perspective
At what do we need to excel to meet customer expectations?

Organizational Perspective
How will we sustain our ability to improve?

Mission
Cape Medical Supply improves the lives of those we serve through the compassionate, responsive delivery of healthcare solutions.
Resources

• “Competitive Strategy” – Michael Porter
• “The Balanced Scorecard” – Kaplan & Norton
• “Good to Great” – Jim Collins
• “Built to Last” – Jim Collins
• “The Strategy Machine” – Larry Downes
• “The 4 Disciplines of Execution” – Sean Covey
End with a Plea

• These are fragile and dire times for our industry
• I urge everyone to keep up the fight
• First and foremost focus on running a tight operation with clear goals and a clear plan for the future
• Know your business, be honest about your strengths and purposeful about your weaknesses and risks
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