MIS 3534 Fall 2016 – Strategic Management of Information Technology

Week 3 – IT and Competitive Strategies (II)

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Fox School of Business
TEMPLE UNIVERSITY

We will discuss …

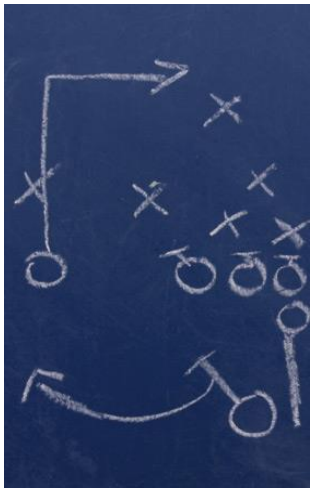
- Why merger and acquisitions (M&A)
- Why M&A in the healthcare industry
- How Trinity's M&A strategy drives its IT management

Trinity Health
Livonia, MI

https://en.wikipedia.org/wiki/Trinity_Health_(Livonia,_Michigan)

Strategy 101 (1/2)

- Competitive strategy: how a business firm competes in a particular business or industry (Institute for Strategy and Competitiveness, HBS)
  - how a company can gain a *competitive advantage* through a *distinctive* way of competing
- Examples?
  - introducing new products
  - lowering prices
  - entering new markets
  - providing superior services
  - M&A, diversification, vertical integration



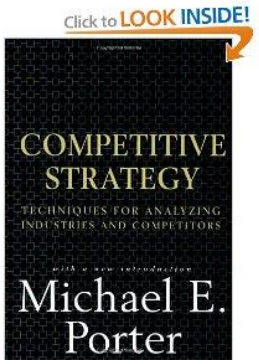
http://www.blackjack.org/strategy/

Strategy 101 (2/2)

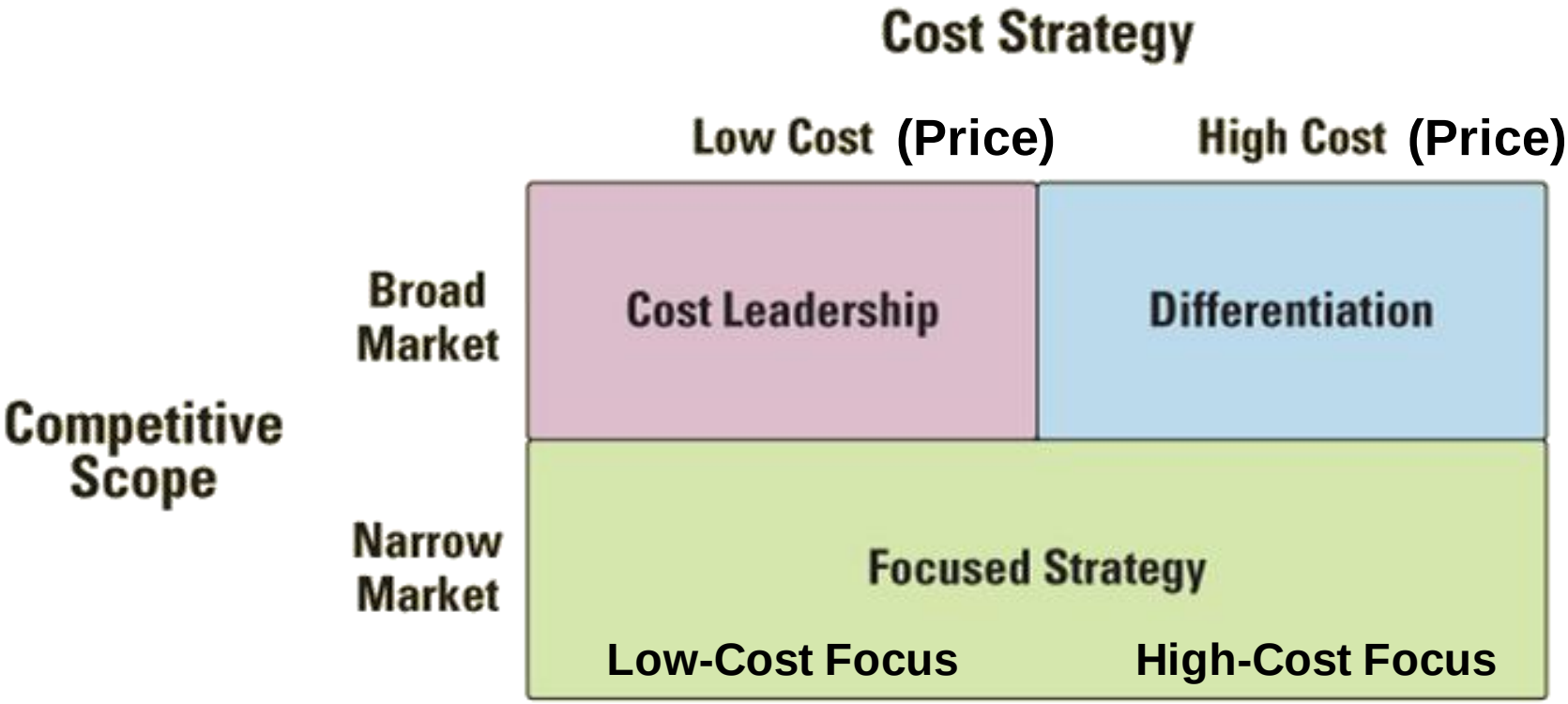
- Competitive advantage: strategic advantage a firm has over its rivals within its competitive industry
  - A product or service that customers place greater value than on similar offerings from competitors
  - Some competitive advantages do not last long (i.e. temporal competitive advantages),
  - since competitors keep copying, imitating, or replicating.
- *Sustainable* competitive advantages is a basis for *long-term* profitability for the firm
  - achieving financial performance that *consistently* outperforms industry peers

Steps in Strategy Formulation

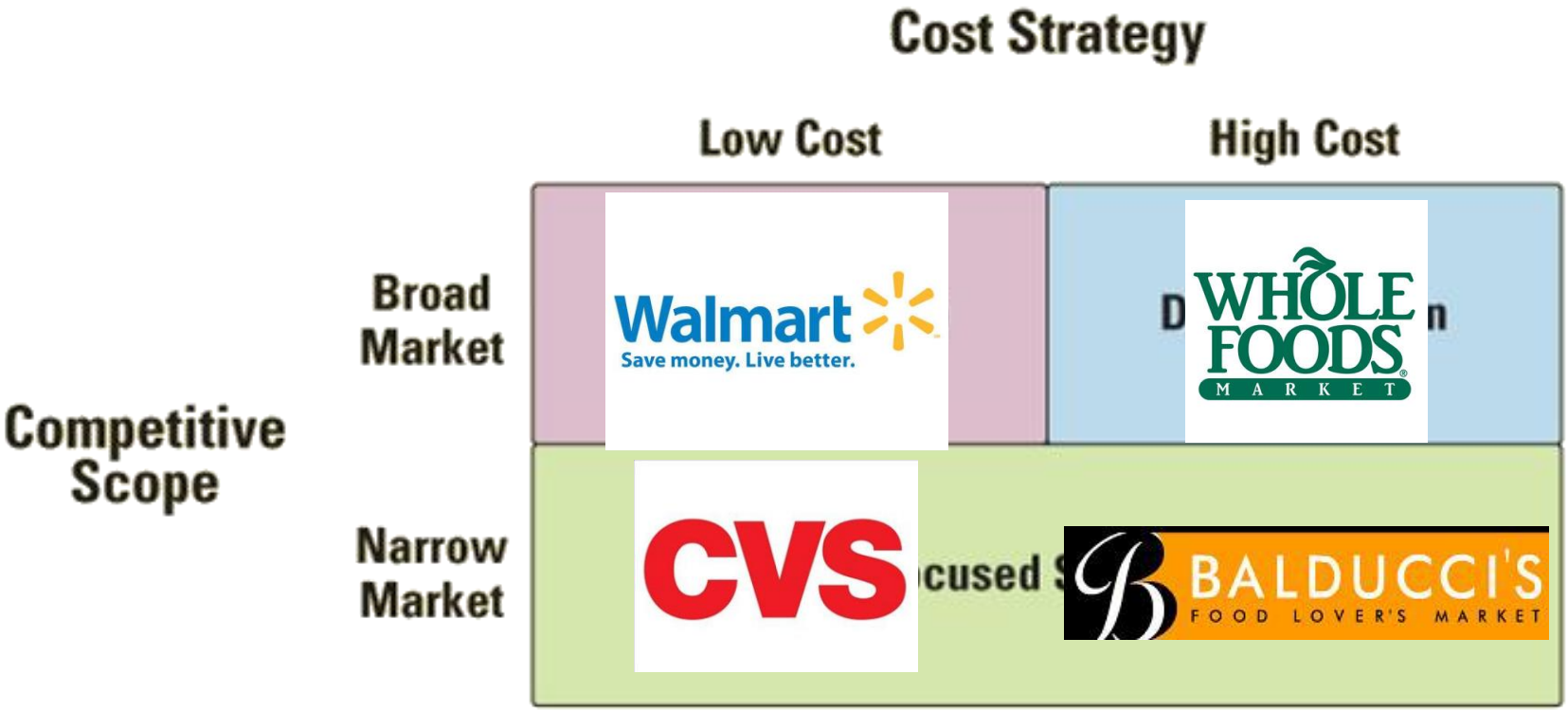
- Where to play: look out industries or markets and figure out which one is profitable
  - The five forces model for competitive analysis
- How to play: choose specific business strategies
  - The three types of generic strategies
- Play with what: know what is needed to succeed in the competitive industry (tools, skills, muscles, …)
  - Core competencies



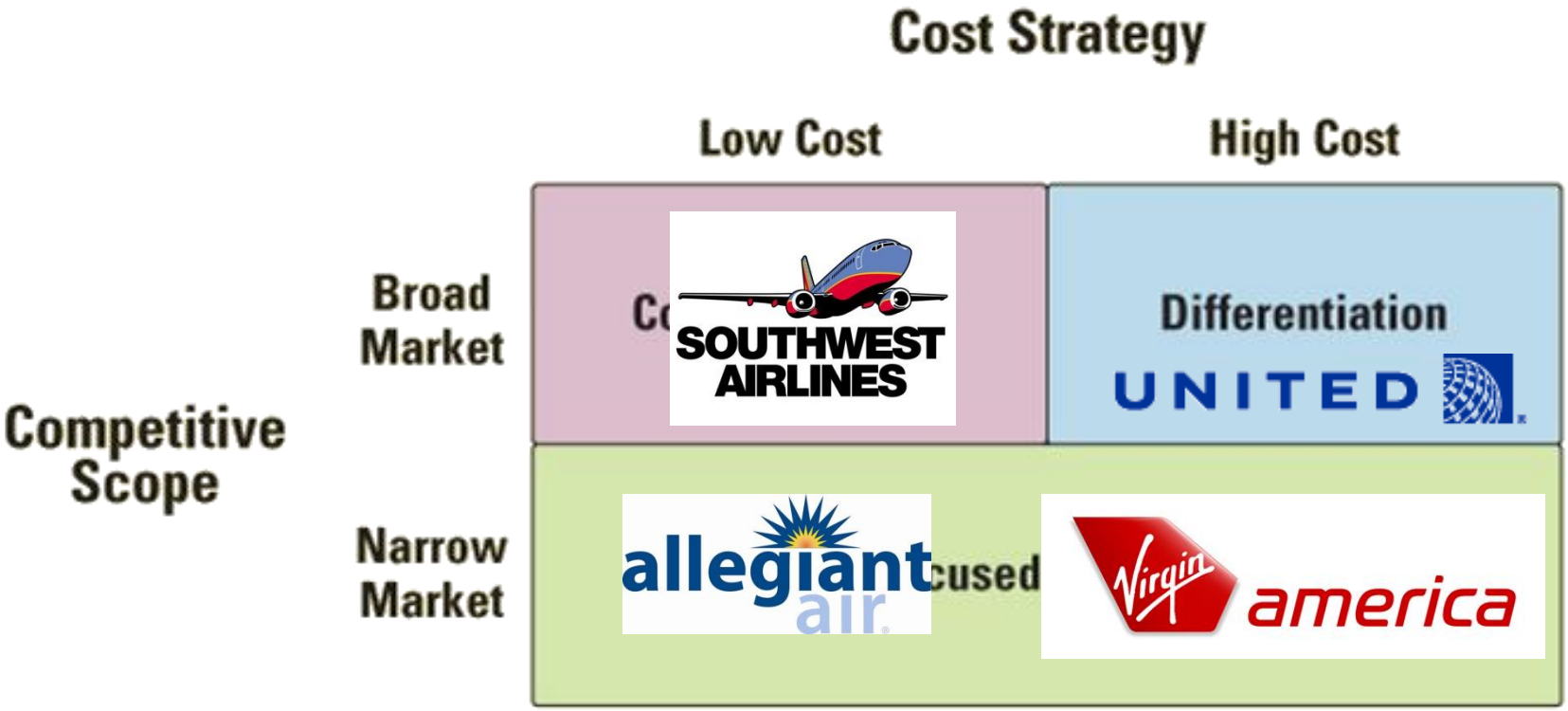
Generic Strategies



http://crux-xlri.com/porter%E2%80%99s-generic-strategies/



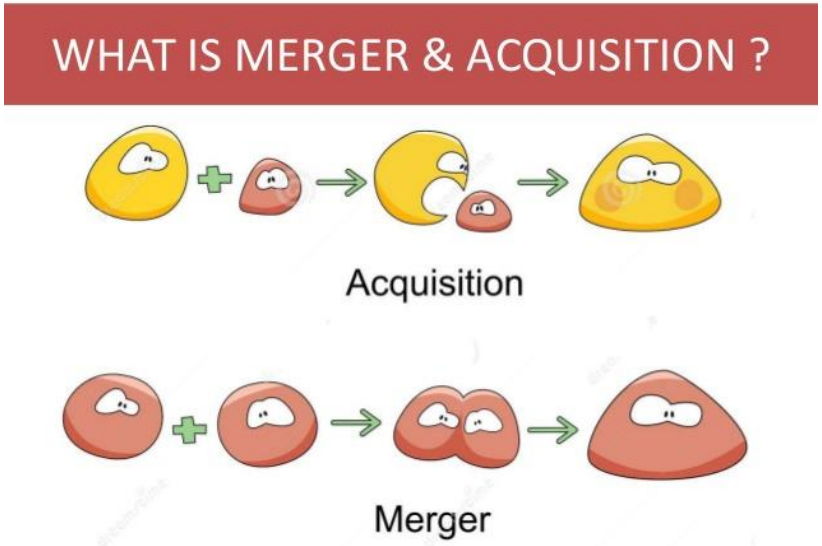
http://crux-xlri.com/porter%E2%80%99s-generic-strategies/



http://crux-xlri.com/porter%E2%80%99s-generic-strategies/

Why merger and acquisitions (M&A)?

- Why does a company acquire and merge another?
- Find out with your classmates!



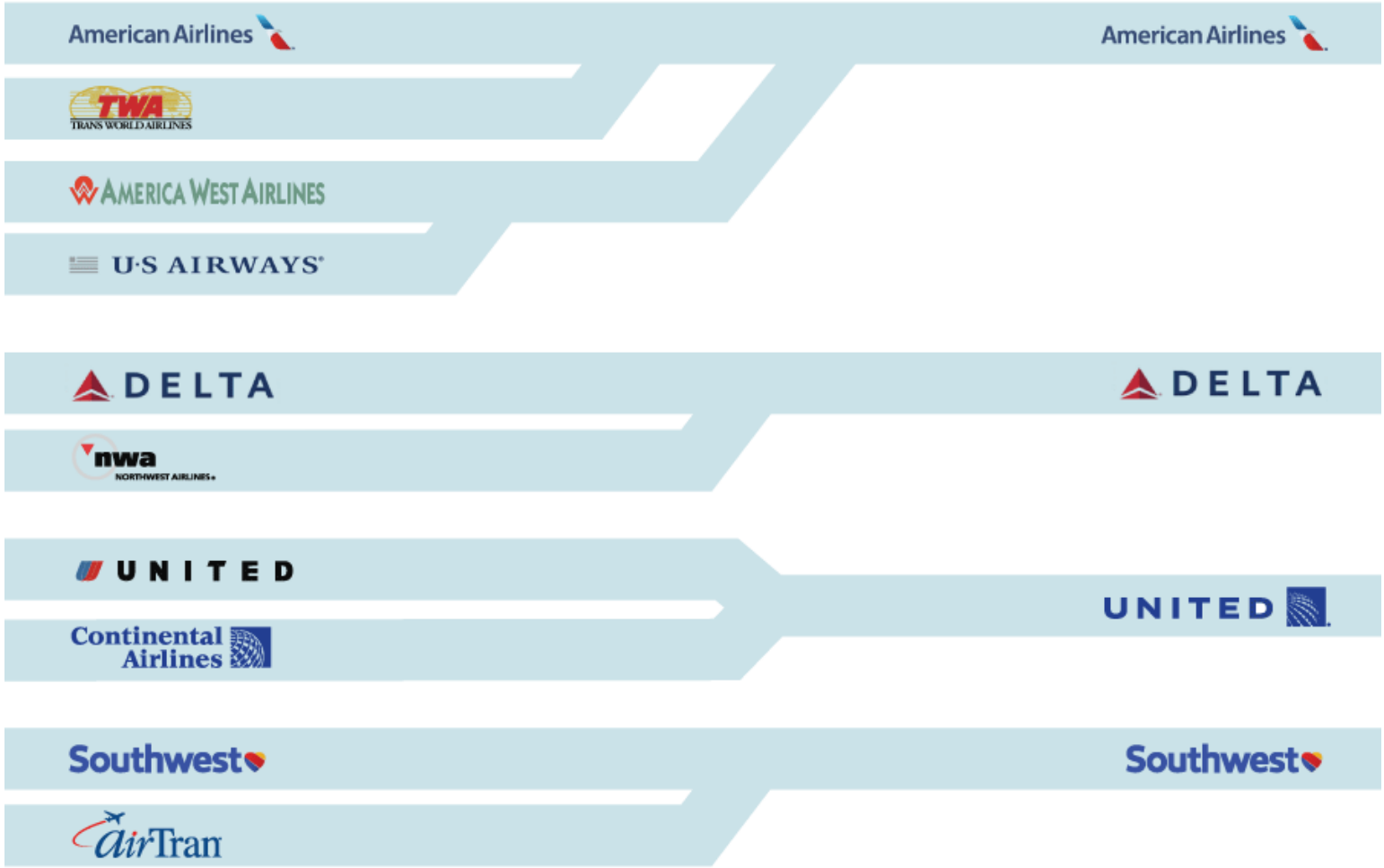
http://www.slideshare.net/SandeepMane22/merger-acquisition-of-tata-jaguar-land-rover-demerger-of-hero-honda-26823281

Why M&A?

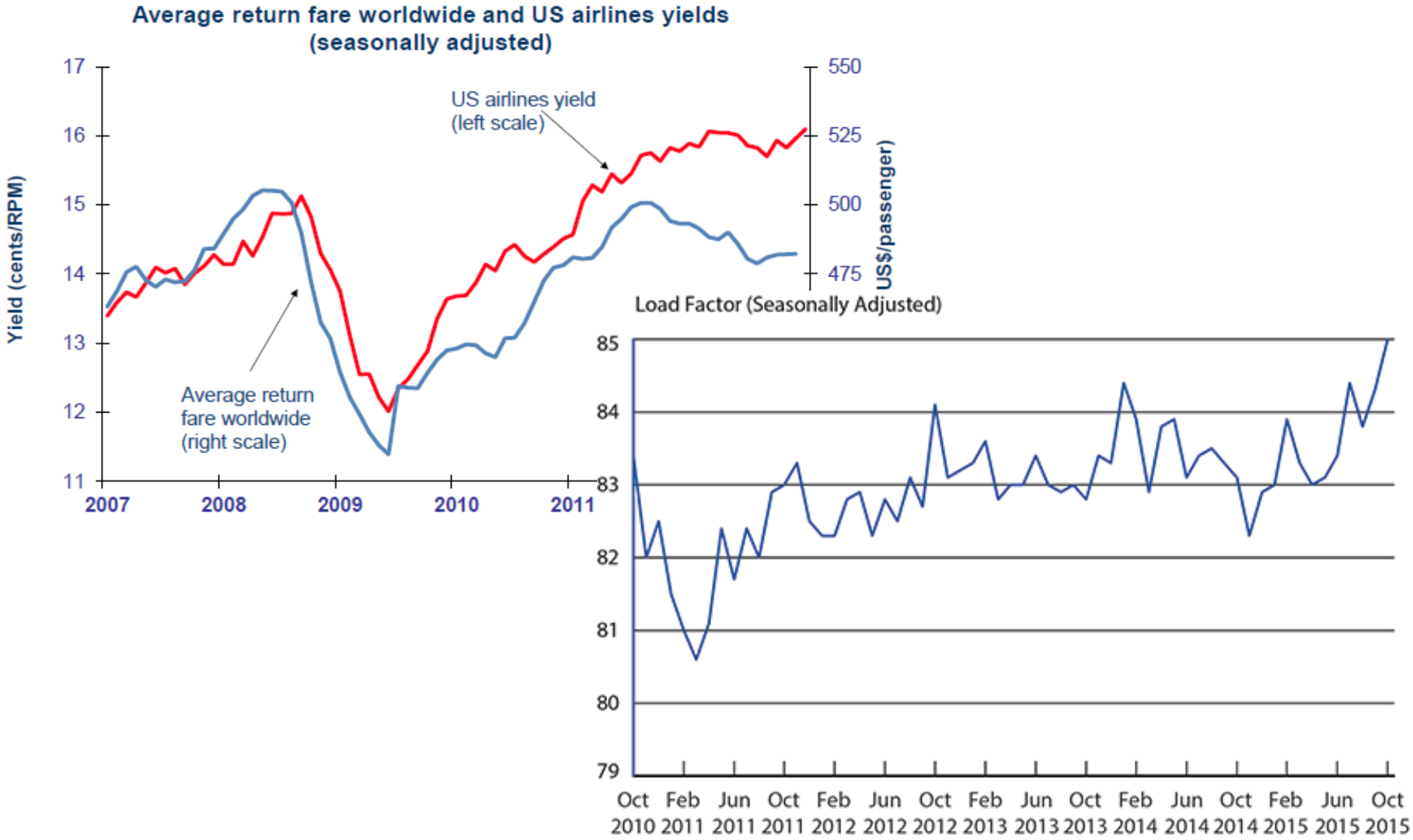
- To enter a new market for growth
- To reduce costs (economies of scale, synergies)
- To diversify (economies of scope)
- To acquire new assets (e.g. factories, brands)
- To achieve vertical integration
- To kill competition
- To get bigger!

http://blog.vistage.com/business-strategy-and-management/mergers-and-acquisitions-understanding-the-essentials-of-strategy-and-execution-in-the-ma-ecosystem-part-1-of-4/

CONSOLIDATION STRENGTHENED THE U.S. AIRLINE INDUSTRY



www.usfunds.com



http://www.travelindustrywire.com/article87388.html

http://centreforaviation.com/analysis/us-airlines-finally-find-business-stability-but-government-intervention-threatens-to-thwart-profits-103400

Why M&A in Trinity Health?

Hospitals & Facilities

http://www.trinity-health.org/hospitals-facilities

M&A in Penn Medicine

Why M&A in Trinity Health?

- To enter a new market for growth
- To reduce costs (economies of scale, synergies)
- To diversify (economies of scope)
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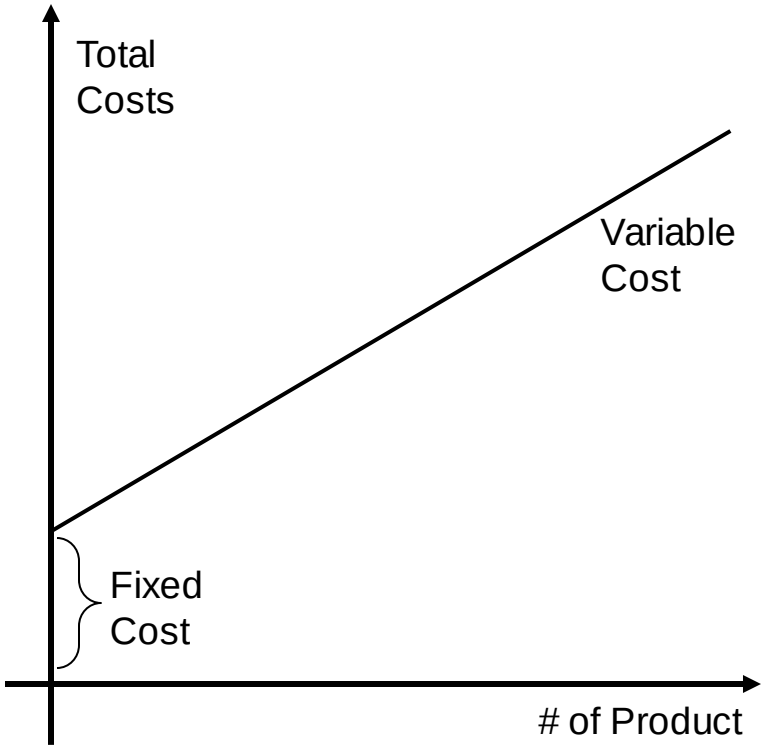
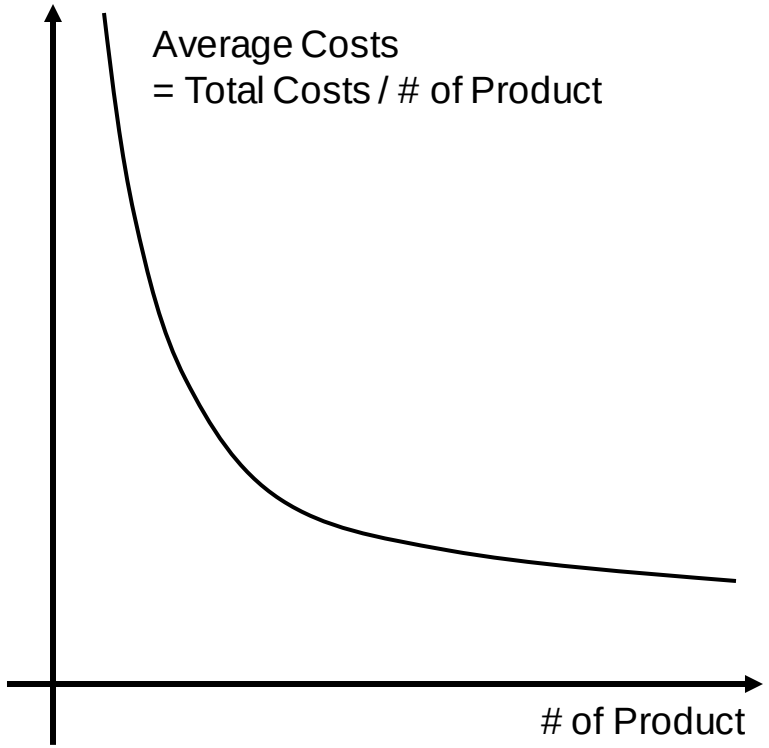
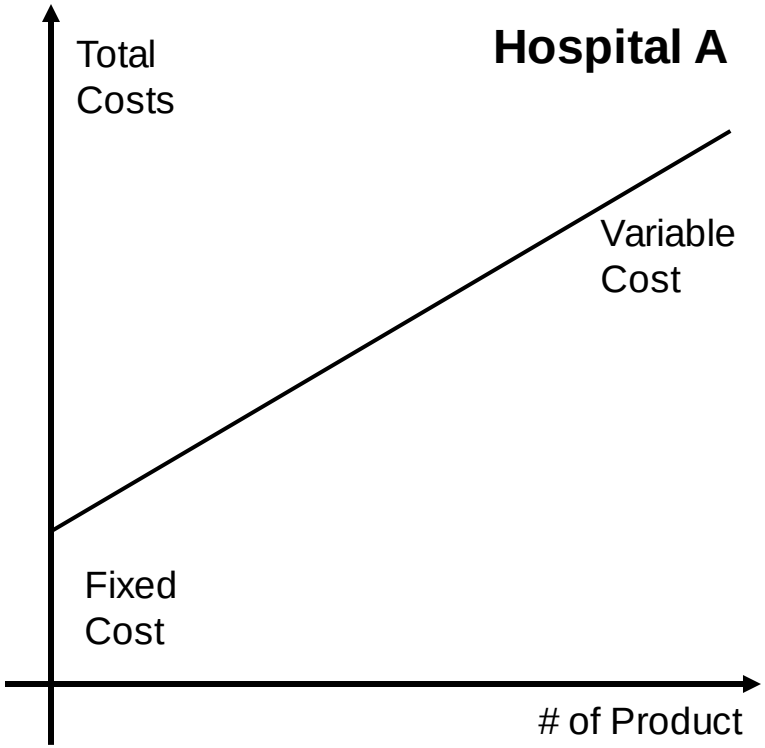
Economies of Scale

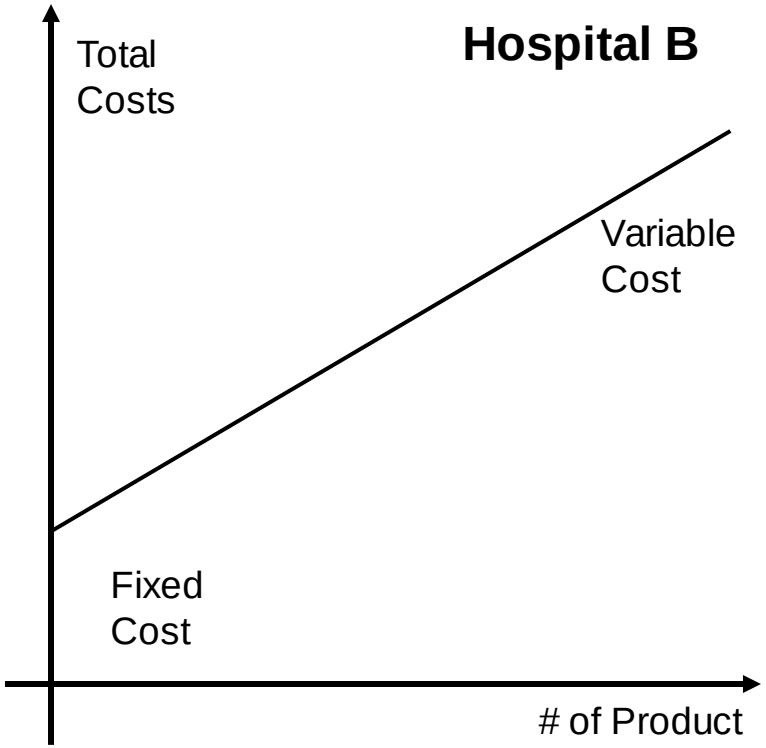




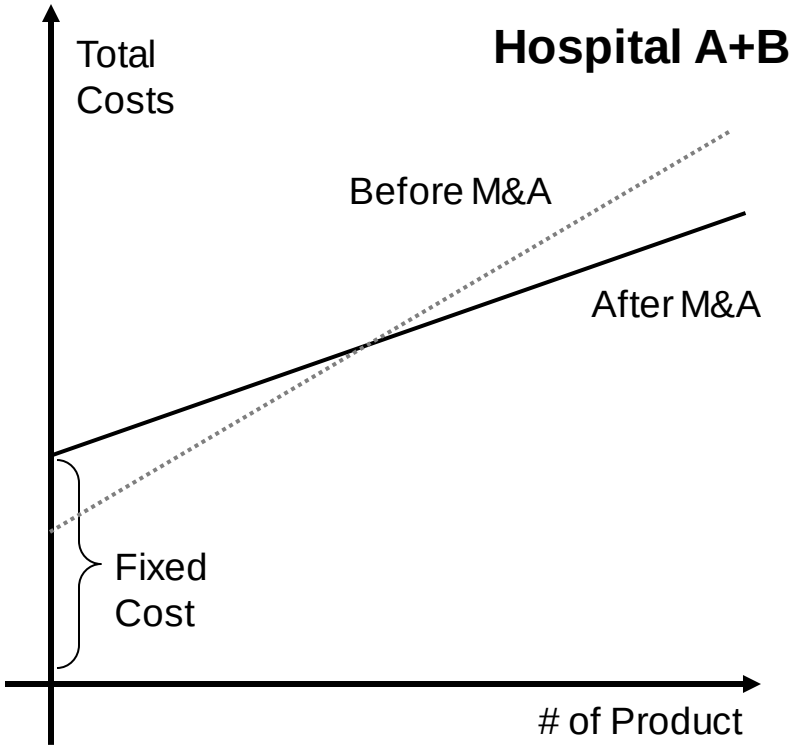
- What are the fixed costs in hospital?
- What are the variable costs?

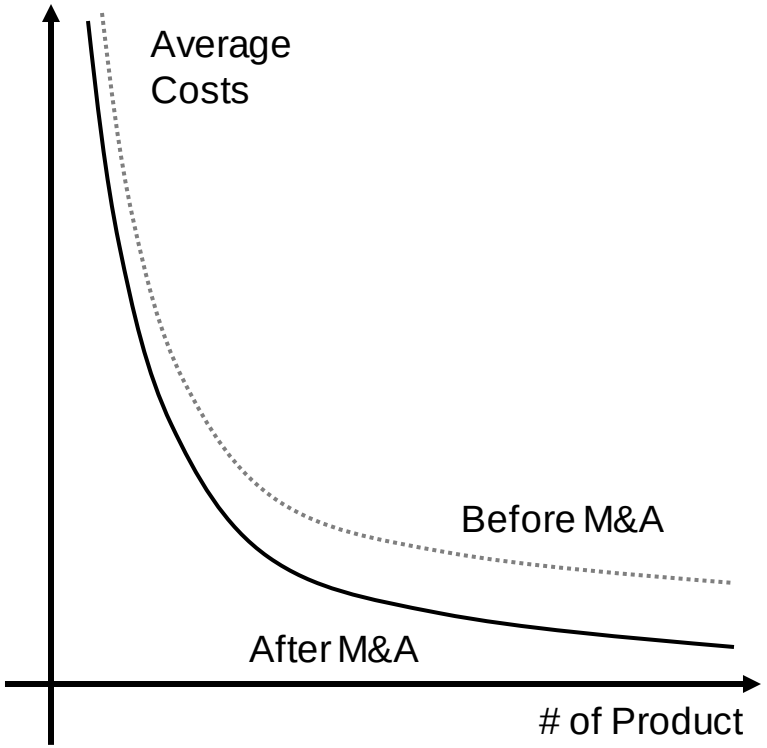
Economies of Scale





Economies of Scale in M&A (1/2)

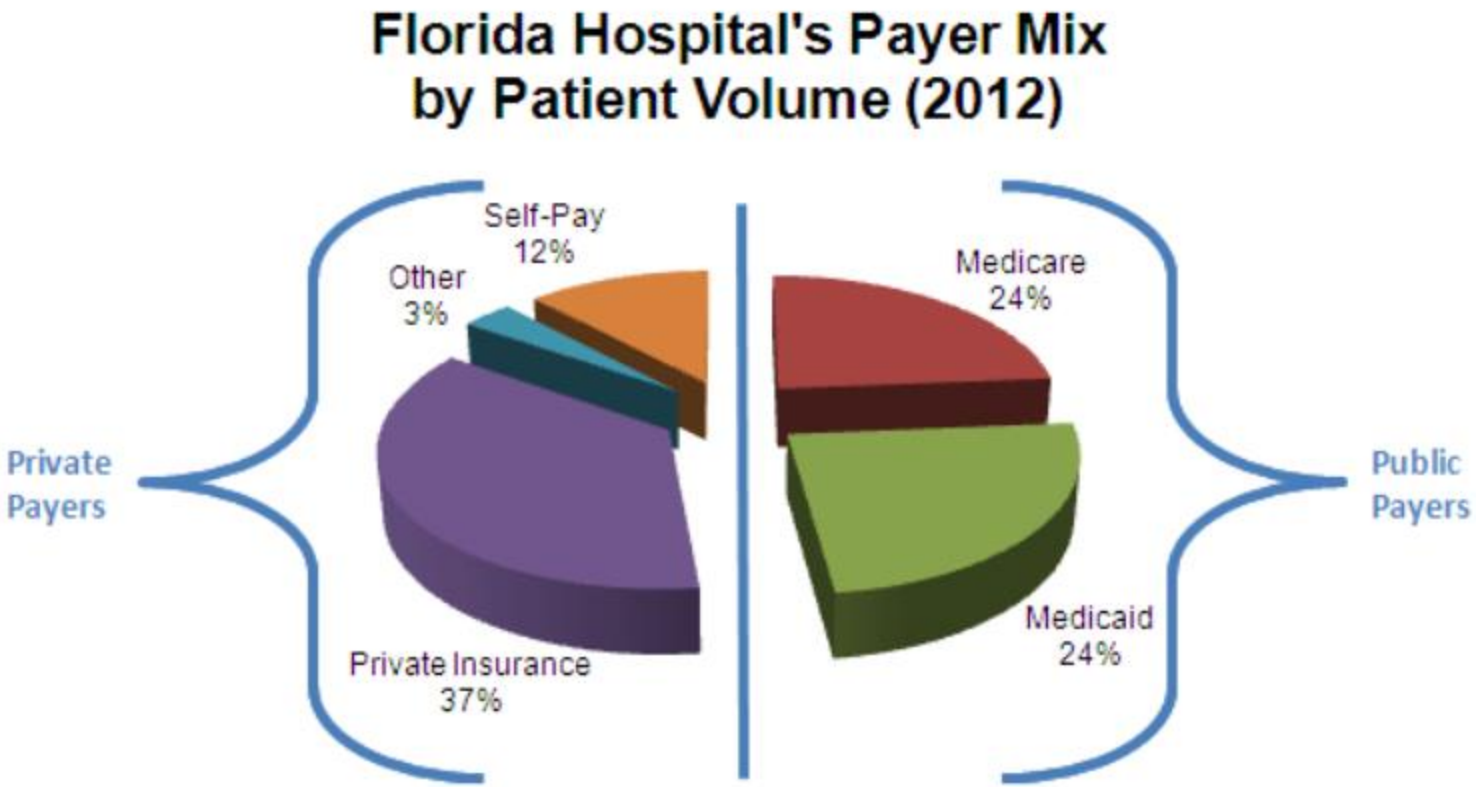




Economies of Scale in M&A (1/2)

- Fixed Costs in hospitals
  - Capitals – building, medical equipment, license
  - Supporting functions – HR, finance/accounting, IT, procurement
- By M&A, the hospitals can save the fixed costs by consolidating capitals and supporting functions, reducing the average costs.

How Pays Hospitals?
(They are not customers!)



https://www.floridahospital.com/sites/default/files/finance_part_i_revenue_hib_november_20131.pdf

Have you tried to understand your bill?

Explanation of benefits

for a claim received for ALEX W GOLDSTEIN

Summary of a claim for services on March 7, 2011

Amount Billed	$400.00	This was the amount that was billed for your visit on 03/07/2011.
Discount	$151.39	**You saved $151.39.** CIGNA negotiates discounts with health care professionals and facilities to help you save money.
What CIGNA plan paid	$208.61	CIGNA will pay $208.61 to ROBERT M LERCH MD on 03/24/2011.
What I owe	**$40.00**	This is the amount you owe after your discount, what your CIGNA plan paid, and what your accounts paid. People usually owe because they may have a deductible, have to pay a percentage of the covered amount, or for care not covered by their plan. Any amount you paid since care was received may reduce the amount you owe
You saved	**90%**	You saved $360.00 (or 90%) off the total amount billed. This is a total of your discount and what your CIGNA plan paid. To maximize your savings, visit www.myCIGNA.com or call customer service to estimate treatment costs, or to compare cost and quality of in-network health care professionals and facilities.

http://www.siegelgale.com/better-explaining-in-explanation-of-benefits-statements/

Why is "Getting Bigger" important?

Trinity Health
Livonia, MI

aetna Anthem Cigna
MetLife Humana AARP
ASSURANT PROGRESSIVE USAA
KAISER PERMANENTE UnitedHealthcare

https://twitter.com/trinityhealthmi
http://insurance.24hourly.com/dallas-tx/

Fee-for-Service vs.

Service Charges Detail

Resident	Assessment Date	Points	Res Service Charge	Service Total
[redacted], Billie J.	7/30/2009	27.75	$ 40.00	$1,110.00

Service	Service Points	Service Charge
Staff Orders Routine Medications	0.25	$10.00
Staff Dispenses Medication	6.00	$240.00
Coordination of Communication between Physician and other Health Professionals	0.25	$10.00
Physician Orders	0.25	$10.00
Assignment of medications	0.75	$30.00
Bathing Assistance: Stand by	3.50	$140.00
Dressing: Choose and lay out clothing	1.25	$50.00
Grooming: Assist with make up	0.75	$30.00
Mobility assist via wheelchair to/from dining room	6.75	$270.00
Reminders for upcoming activities	0.25	$10.00
Social: 1 on 1	3.50	$140.00
Bed making	0.75	$30.00
Transportation: requires assistance arranging non-scheduled transportation	0.50	$20.00
Pet Care - Feed	2.00	$80.00
Financial management services: assist with paying bills, phone calls to providers, etc	1.00	$40.00

Fee-for-Value

$15,000

https://www.openplacement.com/community/blog/top-8-things-to-consider-when-discharging-to-senior-care/
http://www.ltlmagazine.com/article/fee-service-increases-resident-satisfaction-profit

Special Commission on the Health Care Payment System's Recommendation

FOUNDATION MASSACHUSETTS

CURRENT FEE-FOR-SERVICE PAYMENT SYSTEM

THE PROBLEM

Care is fragmented instead of coordinated. Each provider is paid for doing work in isolation, and no one is responsible for coordinating care. Quality can suffer, costs rise and there is little accountability for either.

$ $ $ $

HOSPITAL SPECIALIST PRIMARY CARE HOME HEALTH

PATIENT-CENTERED GLOBAL PAYMENT SYSTEM

THE SOLUTION

Global payments made to a group of providers for all care. Providers are not rewarded for delivering *more* care, but for delivering the *right* care to meet patient's needs.

$

PRIMARY CARE
HOSPITAL
SPECIALIST
HOME HEALTH

GOVERNMENT, PAYERS AND PROVIDERS WILL SHARE RESPONSIBILITY FOR PROVIDI
INFRASTRUCTURE, LEGAL AND TECHNICAL SUPPORT TO PROVIDERS IN MAKING THIS TRA

http://yes.goinvo.com/articles/health-reform-2-0-envisioning-a-patient-centered-system
http://bhmpc.com/2014/04/bundled-payments-rewarding-quality-value/

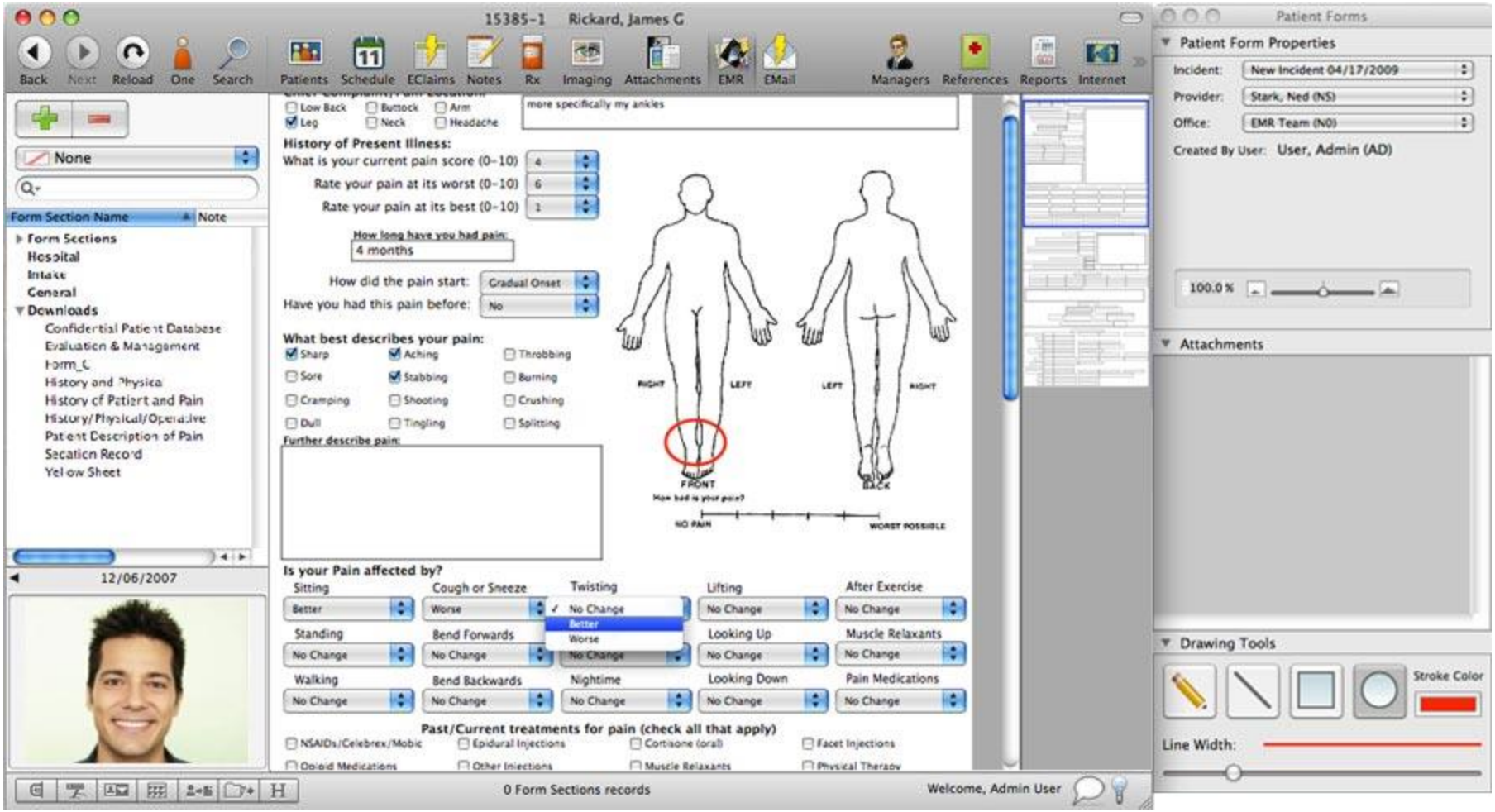
Why M&A in Trinity Health?

- To get bigger
  - to decrease the bargaining power of buyers (vis-à-vis insurance companies)
  - so that the insurance companies pay more for its services
- To reduce costs (economies of scale, synergies)
- To diversify (economies of scope)
  - Under the fee-for-service model, hospitals do not have much incentive to reduce costs.
  - The transition from fee-for-service to fee-for-value requires to reduce costs and improve the quality of care.

IT Management at Trinity

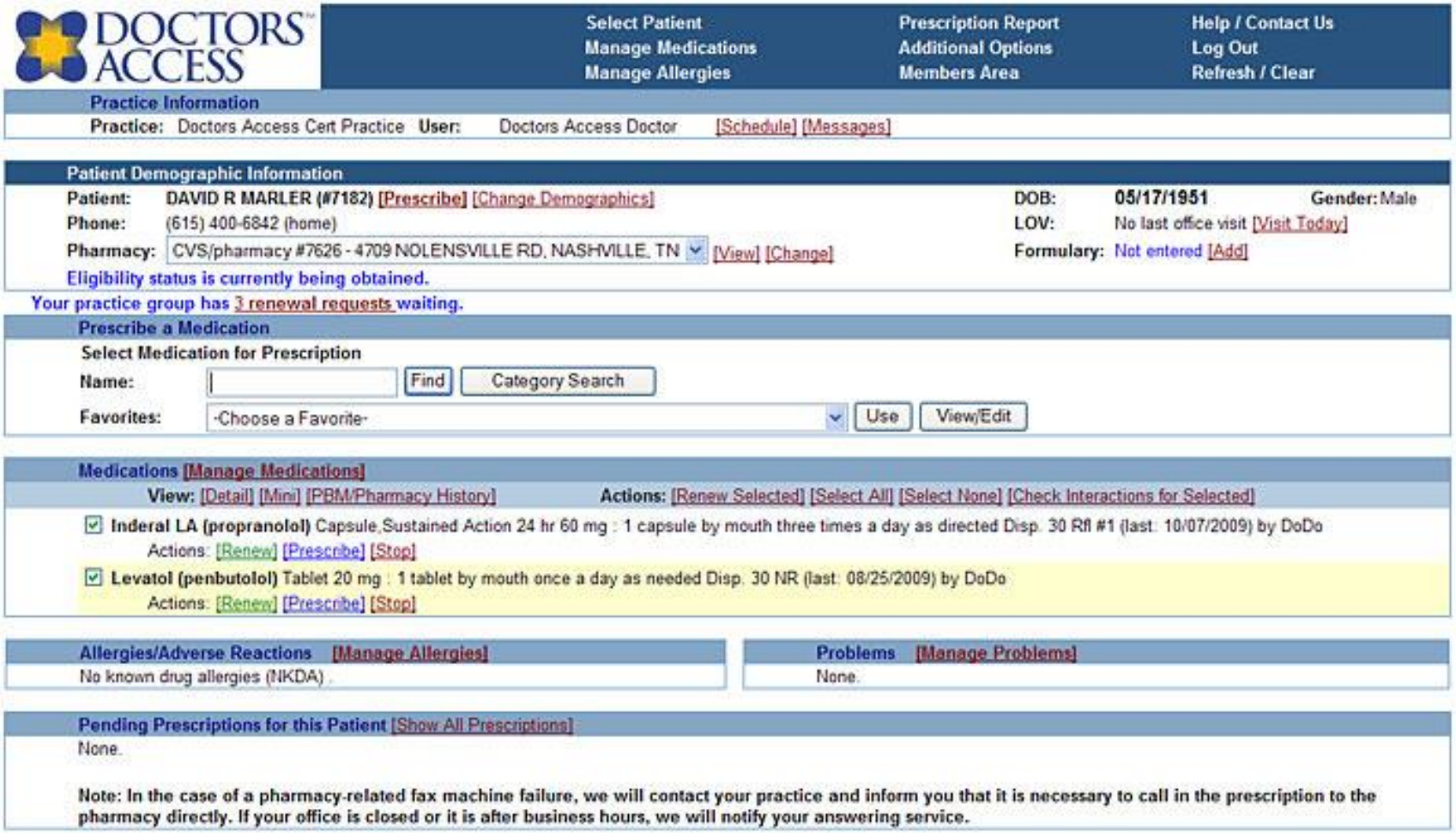
- What is a Unified Service Organizations (USO) (p. 3)?
  - It aims to reduce the fixed-costs in supporting functions (e.g. HR, finance, supply chains, and IT).
- Why does Trinity implement a "Common Digital Platform"?
- Why is IT important in hospitals?
  - IT in hospitals is mission-critical. Well-functioning IT is essential for quality care for patients.

Electronic Medical Records



http://www.macris.com/mp/md/emr/

Electronic Prescribing Software



http://www.doctorsaccess.com/electronic-prescribing.html

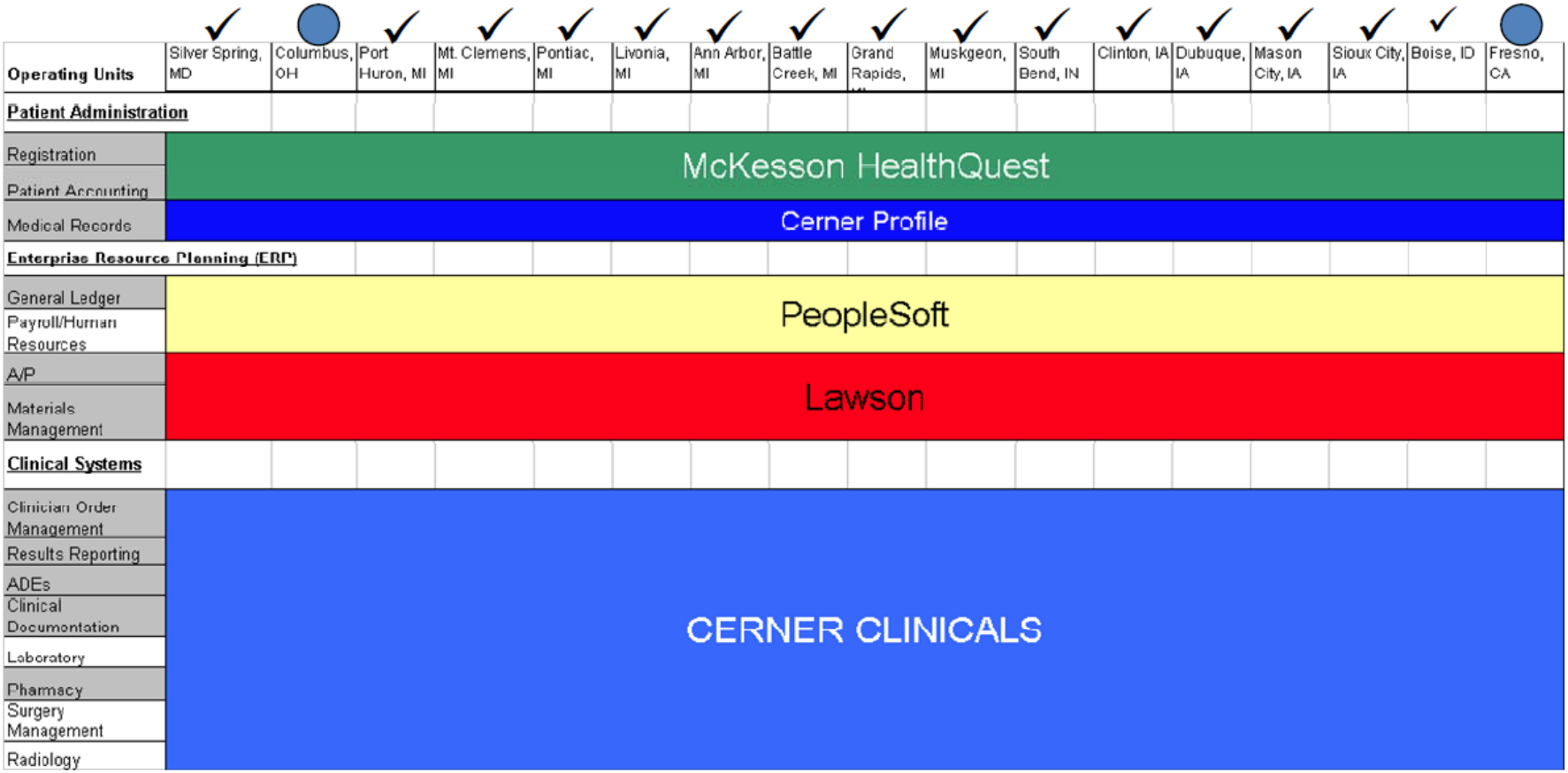
Common Digital Platform (1/2)

- "Genesis also provided a common software package across the enterprise for each of five key functions" (p. 4)
  - electronic health records
  - computerized physician order entry
  - adverse drug event alert
  - revenue management
  - supply chain management
- Why is this necessary?

Before the Genesis Strategy

	Eastern Division							Western Division									
Operating Units	Silver Spring, MD	Columbus, OH	Port Huron, MI	Clemens, MI	Pontiac, MI	Livonia, MI	Ann Arbor, MI	Battle Creek, MI	Grand Rapids, MI	Muskegon, MI	South Bend, IN	Clinton, IA	Dubuque, IA	Mason City, IA	Sioux City, IA	Boise, ID	Fresno, CA
Patient Administration																	
Registration	HBOC STAR		SMS Med Series4	HBOC Plus 2000	HBOC Health-Quest	HBOC Series	HBOC Health-Quest		SMS Med Series4		HBOC STAR			SMS Med Series4			HBOC STAR
Patient Accounting																	
Medical Records																	
DRG Grouper		3M	3M	Quadramed							3M					QuadraMed	3M
APC/APG Grouper					HSS		HSS										
Enterprise Resource Planning (ERP)																	
General Ledger	People Soft		SMS Med Series4	GEAC		Global	GEAC		SMS Med Series4		People Soft			SMS Med Series4		People Soft	
Payroll/Human Resources						Ceridian											
A/P	HBOC										HBOC					HBOC	
Materials Management						Global											
Cost Accounting		Self Developed (Analysis & DSS)		TSI Mainframe			TSI Mainframe		TSI AS400		Self Developed (Analysis & DSS)		TSI AS400			Self Developed (Analysis & DSS)	
Contract Management																SARMC	McKesson HBOC
Clinical Systems																	
Physician Order Management					TDS		TDS								SMS MedSeries 4	Eclipsys	
Order Entry	HBOC STAR		SMS MedSeries 4	HBOC Plus 2000		HBOC Series		SMS MedSeries4			HBOC STAR					HBOC STAR	
Results Reporting		In-house/3M		CWS					CWS		Cerner					In-House	
ADEs					Cerner		Cerner		Cerner				Cerner				
Clinical Documentation	Eclipsys	HBOC Care Manager			TDS	HBOC Care Manager	TDS									Eclipsys	LifeServ Petronics
Laboratory	HBOC STAR	Cerner Pathnet	Cerner Pathnet	Sunquest	Classic	HBOC ALG	Classic	Cerner Millenium	Classic	Classic	Cerner Pathnet	Cerner Millenium	United Clinical Labs	Sunquest	Cerner Millenium	Sunquest	HBOC STAR
Pharmacy Hospital			Cerner MsMeds	Cerner MsMeds	Cerner MsMeds	HBOC Series	Cerner MsMeds	Cerner MsMeds	Cerner MsMeds	Cerner MsMeds	HBOC STAR	Cerner MsMeds	Cerner MsMeds	Cerner MsMeds	Cerner MsMeds	Mediware WORX	
Surgery Management	RES-Q Healthcare	Per-Se' ORSOS					Omni-server				Medline Systems	Omni-server					
Patient Scheduling				HBOC Pathways					HBOC Pathways							HBOC Pathways	
Radiology	HBOC STAR		IDX		ADAC MARS II	HBOC Series	ADAC MARS II				HBOC STAR			ADAC MARS II		Per-Se' Consort	HBOC STAR
Transcription	Softmed	Dolbey		Softmed		Dolbey	Softmed	Medrite		Softmed		Dictaphone		Softmed		SARMC	Softmed

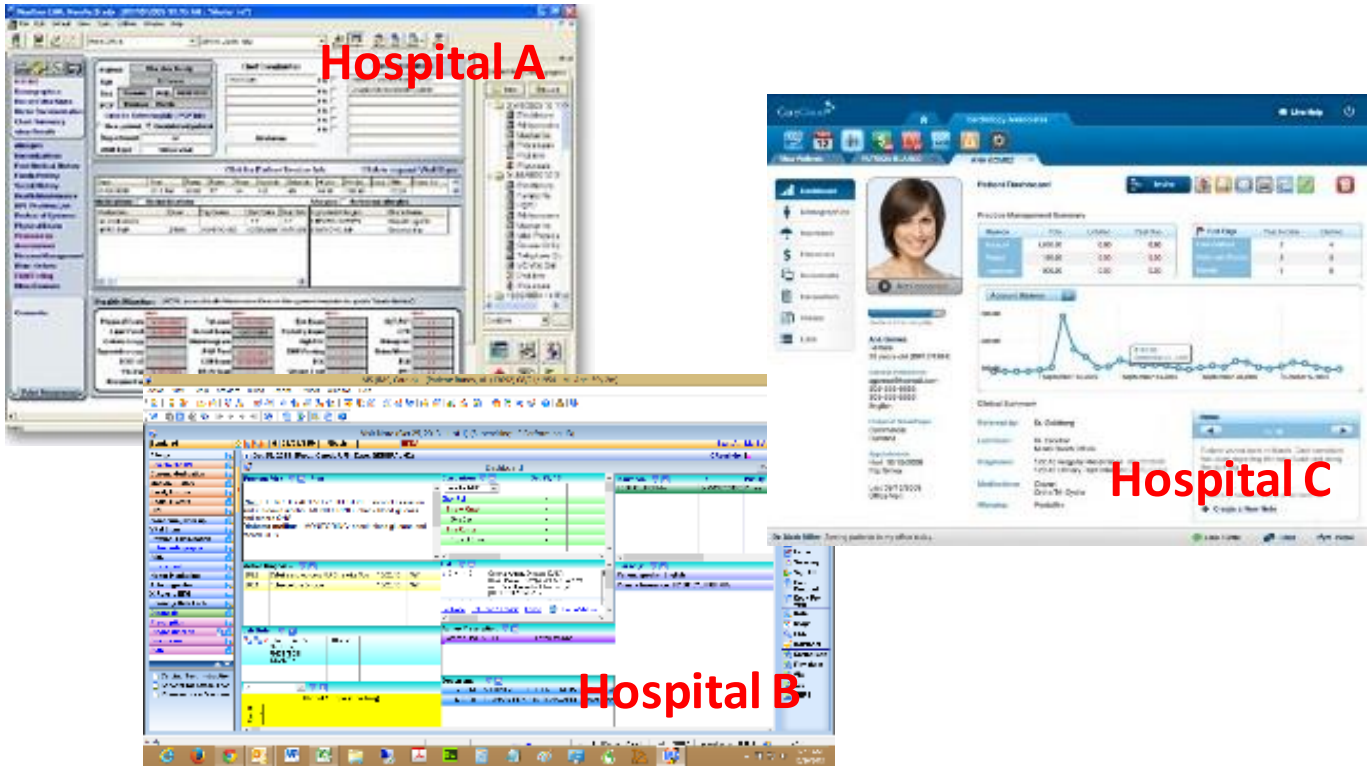
After the Genesis Strategy



- What is the improvement in Trinity?

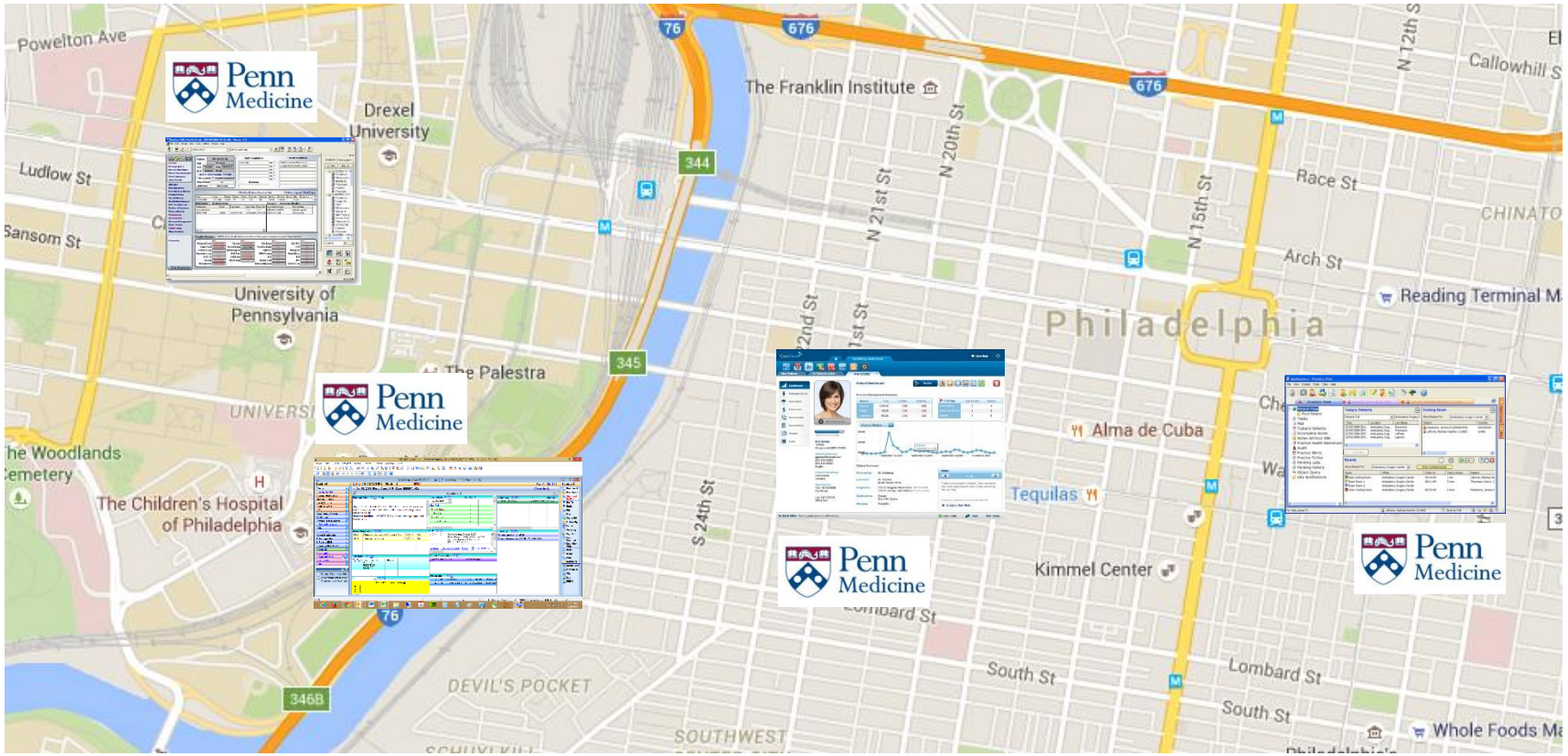
Common Digital Platform

- What if a patient at Hospital A needs to get a lab test at Hospital B and meet a specialist at Hospital C?



Common Digital Platform

- What would happen if each hospital uses a different kind of EMR?



Common Digital Platform (2/2)

- The Common Digital Platform reduces the costs
  - not only in managing day-to-day IT operations
  - but also in integrating the IT of acquired hospitals.
- It enables effective communication and coordination among hospitals and other care providers (e.g. specialists, primary care, labs).
  - reducing errors and wastes of time
  - improving the quality of care

Trinity's M&A Strategy and Digital Platform

- Without the Common Digital Platform, Trinity could not have achieved the objectives of M&A.
  - to reduce costs in IT management (economies of scale)
  - to reduce costs in patient care
  - to improve the quality of care
- In addition, without the platform, the organization could have become so big and complex
  - that its cost could *increase* compared to before M&A.