FYA For Your Advantage™
Volume 5, Issue 9
May 1, 2006

An Essential Tool for Healthcare Leaders

From TrendLeader Connections

Sponsored by PHNS The HealthCaring Solution

# Scenario Planning: A Better Way to Plan Strategically

By Nathan S. Kaufman

*Nathan S. Kaufman is a leading authority and consultant for hospital financing and planning. He is an extremely popular speaker. Most national healthcare conferences of importance include him on their faculty. FYA is proud to add him as a regular contributor to this newsletter.*

Most hospitals and healthcare providers engage in strategic planning. Few of these strategic planning efforts can be considered successful - in fact few organizations (or consultants) can define when a strategic planning effort is a success and when it is not.

***Strategy is a deliberate decision by an organization to make a significant, multi-year investment of resources (i.e., time, money, manpower) for the purpose of achieving specific, measurable improvements in the organization and/or the population it serves.***

Ultimately, this desired outcome of a strategy is measured by quality metrics and net income. In many cases, organizations base their strategy on the subjective beliefs (instincts) of executives and board members. This rarely results in successful strategy. It is argued that strategies can have "intangible" benefit to an organization and thus can still be "good strategy." But Nate's "Rule of Strategy Justification" is "Every strategy has no more than four degrees of separation from heaven." That is, one can make a compelling argument to support doing just about everything. Measurable positive impact on quality and net income is the key to differentiating good strategy from good intentions.

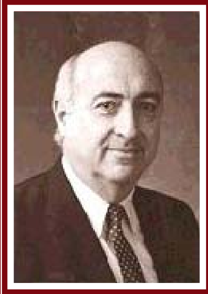
**Good Strategy Requires Investment and Divestment**

Strategy requires a significant multi-year investment of time and money. Since most organizations have limited resources, it is almost always necessary to divert resources from other areas of less strategic importance. Good strategy requires tradeoffs. It is as important for a strategic plan to identify where an organization is going to shrink (i.e., stop investing) as identifying where the organization is going to grow.

**Separating Visioning vs. Hallucinating**

Visioning can be one of the most harmful steps in a strategic planning process. Many planning "experts" will engage the leadership in a "visioning process" to determine the leadership's vision of what the organization should look like in five years. Then the organization identifies its gaps and develops a plan to fill the gaps and achieve their desired vision. This "Kabuki Theatre" creates a dream not a strategic vision. The key question in developing a "strategic vision" is: "Given a likely scenario for the

*(Continued...)*



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## About FYA

FYA - *For Your Advantage*, is a free twice - monthly newsletter published by TrendLeader Connections.

With every issue, FYA provides insights into the topics that concern healthcare leaders today and the challenges that will be faced in the near future.

The newsletter is provided free to healthcare CEOs only. CEOs may use the material in any way they wish—except for the editorial content that is copyrighted by the author. You are welcome to print copies of FYA.

TrendLeader Connections
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## Scenario Planning: A Better Way to Plan Strategically (Continued...)

healthcare market of the future, what will the organization *need* to look like to achieve its goals of measurable quality and net income. What do you *have* to be, NOT what do you want to be?" The former question is answered with detailed analysis rather than opinions and feelings.

**Scenario Planning: The Next Generation of Strategic Planning in Healthcare**

Scenario planning has been used successfully in other industries for years. Scenario Planning requires the following steps:

- Define the ultimate measure(s) of success
- Define probable scenarios for the future and their implications
- Define imperatives to achieve success in this future scenario and access your competencies for addressing these imperatives
- Develop metrics to monitor progress for addressing these imperatives
- Develop specific strategies to achieve these metrics

For example, after empirical analysis, most hospitals should conclude that in order to achieve a desired level of net income in the future, it will be necessary - i.e., an *imperative* - to reduce length of stay, without compromising quality. Specific metrics for monitoring length of stay and quality can then be developed to set goals and monitor the progress at meeting this imperative. Should the hospital implement a hospitalist program as the key strategy for this imperative, it can then monitor the success of the strategy and make mid-coarse corrections if necessary.

**Strategy Sessions Should Make Your Palms Sweat**

The Law of Group Polarization states:

"When people only engage in deliberation with like-minded others, they end up more confident, more homogeneous and more extreme in their beliefs…even though they may be dead wrong."

It is critical to invite key stakeholders with different perspectives to participate in the planning process. Some hospitals invite participation by multiple consultants in order to encourage different points of view. Strategic planning meetings need to be uncomfortable.

A key by-product of the planning process is development of a common mindset among stakeholders that initially held diverse opinions.

*You can reach Mr. Kaufman with questions or comments at NKaufman@foryouradvantage.com*

**About**

PHNS is an innovative healthcare services company providing strategic outsourcing services in information technology, health information management and receivables management to over 400 hospitals. PHNS is not a consultant, vendor or software company but a partner, a solution. PHNS understands healthcare because our partners are healthcare and healthcare only. Unlike its competitors, PHNS strategically aligns itself with a hospital's clinical and financial goals and objectives. Through its unique business model, PHNS reduces costs by aggregating, consolidating and sharing resources among its participating hospital partners. PHNS helps hospitals manage information systems, computer technology, patient records, coding and patient billing to improve patient care, safety and efficiency and increase profitability and efficiency. For more information, visit www.phns.com.

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# Personal Responsibility, Cost and Quality

*By: Rick Kneipper, Chief Administrative Officer and Co-Founder of PHNS*

Recent FYA commentaries have discussed the need to address the role of personal responsibility as a critical part of healthcare reform. To continue this discussion, consider the following excellent analysis of this issue by Ron Anderson, M.D., who is the Chief Executive Officer of Parkland Health & Hospital System in Dallas:

"Magical thinking shows up in our expectation that we can have it all at the highest quality and for a cheap price without any notion of personal responsibility. This leads people to live unhealthy lives with the expectation that the health care industry will fix them in the end. Where is the personal responsibility? Perhaps this is a good case for why the public needs to be engaged in dialogue about this issue and why the marketplace cannot be relied upon to fix the problem. Building healthier communities is a strategy that can be done locally. We don't have to wait on federal changes to build healthy healthcare providers; and we need to build a common lexicon that includes accountability both from the field and from the community. Safety net is just an apology for a system that failed. Health does not equal healthcare access alone. There also has to be an emphasis on prevention and that has to come from the community. Even if everyone is insured - in Dallas the rate of the uninsured is 32 percent - there is not enough capacity to serve everyone at the current rate. People have abdicated personal responsibility. Where/how do we get that value infused throughout the community? We could give people more information, but what about the challenge of poverty? What good does it do to tell people it's important to wash your hands if they don't have indoor plumbing?"

Also consider the following comments from Gary Tiller, CEO of Kingman Community Hospital in Kingman, Kansas, regarding ways to reduce healthcare costs:

"Right off the top let's get something clear - no one is going to be able to buy more for less, no matter how many EMRs you install, how big your company is or how monopolistic your insurance company is. Quality and automation have never reduced cost in any measurable, long term way…I have felt for 30 years the answer is a tiered system whereby each individual or family buys only the coverage they routinely use. Why buy coverage for pregnancy when you are 60 years old? Another factor is human nature - everyone wants a Cadillac and society can only afford to give you a small Chevy. Who says you should even get a car? No one has yet made health care an entitlement in the sense of Medicare or Social Security. Not everyone gets electricity or water without paying for it in some way. If you want a truly consumer oriented system, let's do it like Wal-Mart. We'll not hire the best in each area, we'll buy from the cheapest source not the highest quality, and everyone pays before they go out the door. Healthcare and education are two "black holes" - they will suck up every dollar you can possibly throw at them. Not everyone will get well or graduate, but hey, we feel great because we spent the money to try to do it. As long as people want it, and we can get someone to pay for it, it is our duty to provide it-that's capitalism…Healthcare is delivered eye to eye, one patient at a time. If you want to reduce costs, ration. Countries with national health insurance do it in various ways."

Ron and Gary have expressed some strong opinions and raised some great questions. Anyone else want to join the discussion?

**I would like to hear your comments.**
**Send them to:**
**Richard.Kneipper@phns.com**

### About TrendLeader Connections

FYA - For Your Advantage is brought to you by TrendLeader Connections. The function of TrendLeader Connections is producing educational materials and seminars that help healthcare executives differentiate between fads and trends; and making connections with "Trend Leaders" within the healthcare industry.

We are committed to delivering new perspectives and ideas, creative and innovative healthcare solutions, provocative concepts and quality educational materials to today's healthcare leaders. We want to concentrate on "what comes after what comes next."

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# Patient Loyalty Is Too Important To Be Blurred with Satisfaction

*By Fred Lee*

World-class service organizations like Disney count only the fives on their customer satisfaction surveys. They don't try to make their fives say anything other than "very satisfied" on a scale that has two other numbers for those who are merely "satisfied." This is because they are genuinely trying to measure loyalty, not satisfaction. If knowing what percentage of their customers is highly likely to be loyal is important, why would organizations blur that distinction by trying to combine loyal customers with satisfied but not loyal customers?

Marriott uses a company that sends out surveys with a 10-point scale. Here the customers who give a 10 are considered highly likely to be loyal. Think of how much more difficult it is to get a 10 on a 10-point scale than a five on a five-point scale! And during your stay, there is no mention of a survey or coaching on how to respond. Marriott, like Disney, measures to improve, not to impress.

Frederick F. Reichheld, the world's leading authority on customer loyalty with his books, *Loyalty Rules* and *The Loyalty Effect*, has spent over a decade looking for the right questions with the right yardstick to determine customer and employee loyalty. In the December, 2003, issue of *Harvard Business Review*, he purports to have finally found it through exhaustive research involving 14 companies in six industries. The best question was, "How likely is it that you would recommend (company X) to a friend or colleague?" In order to reduce the effect of "grade inflation" inherent in five-point scales, he and his researchers settled on a score where10 means "extremely likely" to recommend, five means neutral, and zero means "not at all likely." He goes on to explain:

> When we examined customer referral and repurchase behaviors along this scale, we found three logical clusters. "Promoters," the customers with the highest rates of repurchase and referral, gave ratings of nine or ten to the question. The "passively satisfied" logged a seven or an eight and "detractors" scored from zero to six…
>
> Not only did clustering customers into three categories…turn out to be the simplest, most intuitive, and best predictor of customer behavior; it also made sense to frontline managers, who could relate to the goal of increasing the number of promoters and reducing the number of detractors.

A further refinement of this measurement system is to plot a company's "net promoters" as the one number a company needs to grow. He went on to describe what the research showed:

Where we could obtain comparable and reliable revenue-growth data for a range of competitors, and where there were sufficient consumer responses, we plotted each firm's net promoters-the percentage of promoters minus the percentage of detractors-against the company's revenue growth rate.

The results were striking. In airlines, for example, a strong correlation existed between net-promoter figures and a company's average growth rate over the three-year period from 1999 to 2002. Remarkably, this one simple statistic seemed to explain the relative growth rates across the entire industry; that is, no airline has found a way to increase growth without improving its ratio of promoters to detractors…"

To my knowledge no hospital has risen to this level of scorekeeping yet. Most of them are still thinking as we thought 30 years ago: people are either satisfied or dissatisfied. We used to lump all the satisfied numbers (three, four and five) together and essentially turn our five-point scale into a two-point scale. If you are going to do this, why have a five-point scale at all? Why not simply have Yes/No boxes beside questions like "Were you satisfied with your nursing care?"

It makes no sense to adopt scoring systems from other service industry leaders without adopting their rigor in protecting the subtle difference between customers who are highly likely to be loyal promoters of their services and those who are likely to defect, even though they said they were satisfied. They know their future depends on the honest difference in the customer's mind between satisfaction and loyalty.

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*Fred Lee is a highly popular speaker; and the author of "If Disney Ran Your Hospital." His book was named the 2005 book of the year by the ACHE.*

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