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**FYA Staff**

**Publisher** Jerry F. Pogue  
**Editor** S. Harvey Price  
**Web Master** Joel Schlarb  
**Circulation Manager** Sheila Keizer

**TrendLeader Connections**  
20 Shawnee Way, Suite B  
Bozeman, MT 59715  
(406) 586-6400

## Predicting Healthcare for 2009: Be Prepared for Surprises

By Jeffrey C. Bauer, Ph.D. © 2009, ACS, Inc.

**A** prediction is a statement of what will happen and when, such as the recent pronouncement by CMS' Office of the Actuary that healthcare will consume 22 percent of the U.S. gross domestic product (what) in 2015 (when). To make a prediction, analysts examine existing data to identify specific relationships, find the mathematical equation that best fits historical patterns, and then use the formula to compute future values (e.g., linear regression analysis).

Somewhere in the process of learning how to make predictions, students are facetiously advised to offer only one half of each prediction – that is, to say a big change is coming, but not when, or to say that things will be very different next year, but not what the differences will be. Then comes the punch line: if by any chance you publicly state both what will happen *and* when and your prediction turns out to be correct, don't act surprised.

This humorous view of the "science" of making predictions is remarkably relevant to predicting what health system executives can expect in 2009. As a medical economist and formally trained forecaster, I do not believe that anything can be said about what will happen in healthcare during 2009 with a high level of confidence. The economic foundations of demand for healthcare have changed so much in the recent past that extrapolations from historical data are almost certainly misleading, if not completely wrong.

Providers, payers, purchasers and patients are all going to face serious economic challenges – unlike any they have ever experienced before. The results of the 2008 elections have raised hopes for reducing the number of Americans without health insurance, but economic reality suggests otherwise. If healthcare gets any new funding this year, it will most likely be money earmarked for investments in information technology infrastructure. Any other "reforms" in 2009 are likely to be savings, not increases, in Medicare and Medicaid reimbursement. Consequently, providers must mine their current operations to find wasted resources that can be reallocated to efficient and effective use. Congress is not inclined to bail out industries that waste money. (The Congressional response to pleas from the automobile industry has direct implications for healthcare.)

Although the overall medical industry outlook for 2009 is gloomy, the impact on providers will vary considerably. Some progressive healthcare systems have already positioned themselves well for a crisis, with adequate cash reserves and tight control over operations. At the other extreme, more than a few hospitals will be forced to reorganize or close. However, almost none will prosper as they have over the past few years. The name of the game in 2009 for most providers will be survival in daily operations.

Wise decision-makers will use the economic crisis as a strategic opportunity to position their organizations for success in the very different medical marketplace. The duration of the downturn is unpredictable, but it is not going

*(Continued...)*

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to be short. The current consensus among economists is that a return to "normal" economic activity will occur in 2010 at the earliest. In the meantime, leading healthcare providers will focus their organizations' efforts on new business models that respond to the demands of purchasers who are themselves forced to change the way they do business. All who survive will be acutely aware that the realities of the new marketplace will not be a return to the "good old days."

Although futurists are taught not to be surprised if their predictions turn out to be correct, leaders who rely on their predictions should be prepared for some surprises. The current economic crisis will force health industry leaders to deal with some serious challenges that are occurring much sooner than previously expected. Having been in this industry for 40 years, I specifically see three surprising – that is, unexpected – challenges in my crystal ball view for 2009:

- Providers will need to focus their operations in specific service lines where they can be efficient and effective. This year will mark the end of the era where a hospital could hope to offer all services to all patients. The strategic issue for a large number of providers will be deciding which service to eliminate, not how much to cut all operations across the board.
- Most hospitals and physicians will need to begin developing a new relationship, merging their operations on to a single balance sheet. Successful health systems will learn how to employ physicians, and a significant number of physicians will move into key management positions within the systems. (The model is not new. It already exists in some of the country's best health systems, but the economic crisis will cause many more systems to adopt it.)
- Providers will begin to develop formal partnerships with other players in the healthcare marketplace, including entities that have been seen as adversaries or friendly competitors in the past. In particular, forward-looking health systems will pursue win-win relationships with purchasers and payers in order to eliminate the operational bottlenecks and perverse incentives that have vexed American healthcare delivery for decades.

In other words, I do not think that the current financial crisis is a temporary deviation from normal economic activity. Healthcare leaders should not expect a return to business as usual sometime in 2009, nor should they expect help from the government. The future belongs to those who start to transform their organizations as part of collaborative efforts to create a new and better medical marketplace.

*Jeffrey C. Bauer, Ph.D. ([jeff.bauer@acs-hcs.com](mailto:jeff.bauer@acs-hcs.com); 773-477-9339) is the Chicago-based partner in charge of the Futures Practice for ACS Healthcare Solutions. As an internationally respected industry thought leader, he publishes extensively in healthcare journals and talks frequently about the forces that will reshape healthcare delivery over the coming two to five years. His latest book is Paradox and Imperatives in Healthcare (2008, Productivity Press), a prescription for efficiency and effectiveness in healthcare. Detailed information about his views on healthcare can be found at [www.jeffbauerphd.com](http://www.jeffbauerphd.com).*



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This is the first expanded issue of *FYA*. Thanks to additional support from Premier, we can carry further thoughtful insight into the tribulations you face.

*FYA* began on June 3, 2002, making it a pioneering electronic newsletter in the healthcare industry. With the July 7, 2003, issue, PHNS joined us as a sponsor. The PHNS support let us continue to provide opinions and analysis.

Our added association with Premier allows *FYA* to build on that base to increase the understanding of your challenges and how to lead through them.

Thank you PHNS and welcome Premier.