Positioning for the Long Term The Opportunity for Integrating Senior Care

Brian Jurukta:

Okay. Thank you, and good afternoon. Welcome again to NIC's 2020 Spring Conference. We're excited to host all of you here. I think it's an amazing gathering of seniors housing and care providers, equity and debt capital providers, healthcare leaders and other sector stakeholders. The room is filled with folks that will be in a very real way shape the future of seniors housing and care in America. So before we continue, I do want to take a quick moment to acknowledge the sponsor of today's luncheon general session, Yardi, represented by Richard Nix and J.R. Sutherland. Thank you very much.

Brian Jurukta:

So it really is through the contribution of sponsors like Yardi and others that we are allowed to do what it is that we do here on a regular basis. So NIC is a 501(c)(3) not for profit organization. Our mission is to enable access and choice for America's elders. Now we do that really through three key ways. The first is we host events like these that allow investors and operators, as well as healthcare providers really to collaborate and establish networks and relationships. The second is we continually invest in the gold standard of data in seniors housing and care, our NIC MAP Data Service Platform. The third is we field extensive outreach efforts, which really take our subject matter experts, apply their expertise to the data and the information we have to provide insights and analysis, as well as trends in the space.

Brian Jurukta:

So this combination of data, analytics and connections has significantly increased the sector's transparency, boosted access to capital, and decreased the costs of financing, as well as renovating and expansions in new construction. So ultimately, this results in NIC's ability to deliver on our mission of enabling access and choice for America's elders. So our conference theme this year is Investing in Seniors Housing and Healthcare Collaboration. The theme reflects three trends that are driving for change in seniors housing and care. Now these trends will likely require collaboration between operators, investors and healthcare providers. So the first trends are the changes in the wants and needs of seniors, and particularly as we look at the boomers compared to those that currently reside in seniors housing and care.

Brian Jurukta:

The second trends are changes in health delivery pathways and payment models, as we move from fee for service to value based care. The third is the rapid development of technologies that will enable the delivery of care in the resident's home. So communities that make up seniors housing and care are home to about three million or so of America's frail elders on any given day. Many of these residents have multiple chronic conditions, and are need for help for activities of daily living. It's been shown that if you have need for help in activities of daily living, you tend to be a more high cost healthcare consumer. As a result, one of the main areas of collaboration that we've seen in seniors housing and care and in partnerships with healthcare, has been that collaboration to really take a look at the overlap of the needs of this population.

Brian Jurukta:

NIC is committed to facilitate the discussion focused on the overlap, and to help new partners through NIC's various initiatives via this spring conference. Now to keep abreast of many of these innovations now occurring between seniors housing and healthcare, I really would encourage you to go ahead and check out our Senior Care Collaboration website. The site was created to provide focused education and build awareness of many of the innovations and partnerships in the changing and overlapping space.

The website provides both NIC generated content, as well as curated content. So news articles, case studies, presentations, videos and a blog. All of which serve a valuable resource for anyone interested in learning more about the senior care continuum, and how it partners with the health care continuum. Over the past year, we've had thousands of visitors to the site.

Brian Jurukta:

So it's really a resource not just for seniors housing and care, but also for healthcare payers, healthcare providers, healthcare systems, home health, hospice, rehab, the broader senior care continuum and shows some of the value that seniors housing and skilled nursing brings to the broader senior care continuum. So in addition to educating investors on trends that influence the seniors housing and skilled nursing property markets, NIC also plays an important role in providing data and transparency that allow investors and operators to identify opportunities and risk. To this end, NIC began collecting data, actual rates data at a national level in 2016. Thanks to the supports of many leading operators in the space. Actual rates data provides the actual base rents and care fees paid by residents, as opposed to the market rates that are often advertised.

Brian Jurukta:

Actual rate site data is common in other real estate asset classes, and creating such a data set in seniors housing has been a priority of NIC's board for several years. We're excited to announce that we've grown the number of contributors such that we're able to provide not just national actual rates data, but now metro actual rates data for Atlanta, Philadelphia and Phoenix. So actual rates data at the metro level helps both investors and operators more clearly understand market dynamics. For example, at the national level, actual rates compared to market rates show about a one month discount on move-in rates at a national level. If you look in Atlanta where there's been quite a bit of developments and relatively low occupancy, the discount on move-in rates is about two months of rent. So we'll continue to roll out additional markets and as the number of contributors grows, as we gain scale, we'll provide enhanced reportings to actual rates data contributors so they can better understand their position within the market.

Brian Jurukta:

Now NIC can't do this without the partnership of operators, as well as other partnerships. One of the key components of this have been NIC's certified actual rates software providers. We rely on partners to help us provide transparency and attract the right amount of capital to the markets. To help and make it easier for operators to submit data in NIC's actual rates standard formats, we've partnered with these certified software providers to make it easy for operators to contribute the data. So we'd like to congratulate Medtelligent for becoming certified in providing NIC actual rates on its senior living platform ALIS. Medtelligent supports will help NIC continue to improve the coverage of actual rates reporting, and move the sector towards the level of transparency enjoyed by other property types. It will enable investors and operators to better identify risks and opportunities, which will further improve the sustainability and availability of the cost of capital in the seniors housing and care space. So thank you again, to Medtelligent for your support of NIC's priority initiative.

Brian Jurukta:

So we look forward to continuing to work with other software providers, as we expand the Actual Rates Initiative. Again, appreciate the support of everyone, both for contributing data as well as making it easy for operators to contribute data. So before we turn to this afternoon's keynote presentation, I would

like to first thank the luncheon keynote speaker sponsor, National Health Investors represented today by Eric Mendelsohn and John Spaid. Thank you again to NHI for your valuable contributions and commitment to NIC.

Brian Jurukta:

Our keynote speaker today is Andy Waldeck, who's a senior partner at Innosight where he leads the healthcare practice. So over the course of the last 10 years, Andy has advised senior leaders at companies like Aetna, Baxter, Covidien, and Walgreens. He has extensive experience across the healthcare industry, including payers, providers, medical devices, pharmaceuticals, pharmacy and health information technology. At Innosight, Andy's work focuses on helping clients to develop long-term growth strategies, manage enterprise transformation, and build enduring growth and innovation capabilities and design new disruptive growth businesses. He's a frequent speaker and author on topics of healthcare transformation, disruption and long-term growth. He's also co-author most recently of How Disruption can Finally Revolutionize Health Care, Knowing When to Reinvent and The New M&A Playbook. So please join me in welcoming Andy to the stage.

Andy Waldeck:

Thanks Brian. Good afternoon. So we've been talking a lot about this idea of disruption. That is a word that means a great deal to those of us who work at our organization. Our company was founded by the academic who actually came up with that phenomenon. A guy named Clayton Christensen, who just recently passed away. Clay's research describes a way to talk about how industries transform. There is a very clear process that industries go through. An example after example, and so I thought I might spend some time talking about that. Then what that might mean as we start to see greater, cross your fingers, integration between healthcare and senior housing. So I like to start conversations like these talking about one of my most favorite people in the entire world.

Andy Waldeck:

This is my 13 year old son, Luke, who as the picture might give away likes to play baseball. In fact, he's a pitcher. So that right hand and that right arm in theory are pretty important. Well, not too long ago, Luke had an accident and he broke that thumb. So what I want to show you is the process that we went through as a family over four days, to determine what is a relatively simple question for somebody in healthcare to answer. We knew his thumb was broken. The question is, does he have ligament damage and does he require surgery, or can we just put his hand in a cast? So what you'll see over the course of four days is a process that no one would have designed from scratch. To orient you to the picture, anytime you see a red dot, that's where the system let us down, right?

Andy Waldeck:

It did things it was not supposed to do, like originally splint my son's thumb and do that incorrectly. Or direct us to not great physicians, but average physicians. Or make it really hard to get an appointment in a timely fashion even though the pediatric hand specialist demanded that he be seen the next day. So the reds are where the system screws up. The whites are where the system actually performs relative to our expectations. My kid breaks his thumb, I'm expecting I can get in to see my pediatrician that same day. The yellows are the ones that are perhaps most interesting. Those are where people have to work outside of the system just to get the system to work in the ways that it should. Fortunately, we have two friends. They both are doctors. One of them happens to be a radiologist at our local community hospital.

Andy Waldeck:

If you actually follow the words on the page, you can see the heroic efforts our friends went through. First of all, to get us to the right doctor, to the right specialist. Then in the end, all of this came together at the last minute where my friend is literally texting instructions to my wife along with images from an MRI so she can then tell the pediatric hand specialist on Friday what really is going on. So just show of hands, how many people in the audience have had an experience like this with our healthcare system? Some of you are standing up and waving your hands. We've all been here, right? By the way, this is a really simple thing. My little guy broke his thumb. It's not certainly not life threatening, but it's a major, major frustration. It's an even greater frustration when you actually tic through, there's tremendous waste. We were directed to literally the opposite of the places we should be directed to, and we don't know any of this stuff.

Andy Waldeck:

So we have to burden people who are as qualified as the person who actually runs the community hospital just to get to the right answers. So I shared this journey with a group of health systems, and this was a specific group. This was the group of health systems who are some of the leaders in the push towards consumerism. This room is filled with incredibly talented leaders, who are in charge of patient experience, in charge of consumer experience for the relative health systems. I said, "Hey, what problems do you see here? What things would you try to fix?" You can imagine what their answers were. They're talking about the need for greater coordination. Some of them were talking about the need for greater signage. Some of them talked about the need for all these people to be employed by one monolithic thing that could make it easier and make it simple. Some of them talked about digital.

Andy Waldeck:

We had a ton of different options, but nobody in arguably the most forward thinking group in the industry asked the simple question. Why in the you know what did anybody design it this way to begin with? Nobody thought about reinvention, and there's a reason why that's the case. The reason why that's the case is they all work in organizations that are really good at what they do. Everything inside of those organizations are focused on how do I make those organizations better at the current operations? What they tend to then focus on is how can I drive the performance of the current product or service? So how do I make that gobbledygook experience more coordinated? How do I create a new role, a navigator to hold my hand and walk me through? All these different things are driven by trying to make my organization better than it possibly could be.

Andy Waldeck:

This is why when Kodak invents digital photography in their own labs in the 1970s, they take that new technology and they try to use it to drive sales of analog film, because the culture in a successful organization drives you to do what has made you successful. What it does not lead you to do is to think about how can I disrupt? How can I actually expand the market? The reason why is because to expand the market, you have to do things differently. You have to find new customers, you have to deliver new benefits for them. To expand a market, you have to solve for things like affordability. So as you look at the progression of how computing technology has evolved over the last 70 years, you see wave after wave of disruption. Incredible companies like Westinghouse, it focused on mainframes. A new technology comes in and they are caught flat footed and unable to change in the industry. The reason is, is because they're so focused on operating what it is that they do today.

Andy Waldeck:

Why was Bob pushing you so hard to think about the potential of disruption? Because it's a very clear story. If I look at the problem and I think about it through the lens of my current business model, that is a good thing to do for a while. But eventually, that sets the seed of disruption. That is why Kodak today no longer exists, because even though they spent $6 billion in eight years and put some of their best R&D folks on the problem, they filtered it through the lens of how do I drive share growth? They didn't think about the opportunity for how do I actually expand the market and drive affordability. So when I talk about affordability, I do not mean reducing the price. This is a value equation. It is the cost relative to the value that it delivers to the individual. Dr. Nash this morning said, value is in the eye of the beholder. Walmart can simultaneously be affordable and unaffordable, depending upon who they are serving and what they are delivering. Similarly, that Mercedes-Benz could be deemed to be very affordable depending upon that individual's own interest and own needs.

Andy Waldeck:

So how do you get to affordability? The first thing you have to do is you actually have to make a great product. So if you read what Bezos talks about when he talks about disruption, to him it's all about customer adoption, right? How many of you in the room use Netflix? Why do you use Netflix? It's because it's better. Why is Netflix today the largest, most watched network in the country? It's because they offer benefits that the legacy traditional broadcasters couldn't match. I can't binge watch on ABC, but Netflix, by understanding what job to be done consumers have, understanding what people are looking to do with entertainment builds a fundamentally better mouse trap. The other thing to get to affordability is you actually have to design the business model to be affordable. So Southwest has been written and talked about endlessly in their success, but the question is why were they able to offer more affordable transportation to their customers?

Andy Waldeck:

So when you talk to people about this question, folks who have lots of ideas, they had better processes, they had lower costs. I can assure you at the scale that Southwest has operated historically, they are not able to negotiate a better price for the 737 than the incumbents were at the time. The reason why they could get to affordability is their business model was different. That's what the 36 versus the 48 represents in the picture. That's the average daily revenue that one plane in that system would generate. So TWA, American Delta at the time were based on long haul moving from hub to spoke. So on average, they'd get those birds in the air four to six times. Average price per ticket would result in about $36,000 per plane per day. Southwest said there is a better way to do this. I can more heavily utilize the asset if I get it in the air more frequently. So by having a different revenue model, they're able to take the same asset, generate $48,000 per day for that same asset.

Andy Waldeck:

As a result, they can then take some of that value and turn that back into lower prices for their consumers. So if we're going to get to affordability, and this is where healthcare is victim of, healthcare is not going to get to affordability by just lowering and lowering the prices. Our government is going to continue to put pressure on rate, that is a sort-of helpful thing. But in the end, I've got to design a new business model purpose-built to actually deliver affordability. Something like what these guys have done.

Southern New Hampshire University, it is as their own CEO would describe a nondescript private college in Manchester, New Hampshire. When Paul LeBlanc, the CEO took over in 2004, enrollment at Southern New Hampshire University was about 3,500 people. Today, enrollment is over 150,000 people, because

what they figured out was the only way that they were going to remain sustainable and competitive is if they figured out a new business model. So there was a little distance learning thing that Southern New Hampshire was doing when LeBlanc took over.

Andy Waldeck:

He did some research to understand well, who's actually using this thing called distance learning? What he found was that the participants looked very different than the folks who actually attended the four year college. The four year college is what he describes the coming of age experience. The distance learning people were predominantly single moms and they were much older. They're in their late 30s. So as you start to talk about them and you say well, why is it that you're spending your nights and weekends on this? You find that they're trying to solve a very important and fundamental problem in their life, which is they want to get ahead. So if you are in the help an individual get ahead business, you think very, very differently about how you design literally everything. Number one, I don't force them to go to a place. I use technology to make it as virtual as possible. Number two, I let them pace. I don't make the pacing based on what a professor wants to do. You let them go at the fastest speed that they can.

Andy Waldeck:

The curriculum needs to be entirely different. I don't teach to what a professor thinks is important. I teach to what employers need and the skills that they require. The other thing is you have to support this population much more than you do your own campus group. These are failed students, right? These are people who need help even before they become a student. Southern New Hampshire knows through using data and analytics, I have to give you an answer to financial aid in 10 minutes and I have to support you throughout the process. So I can see, has Andy actually opened the syllabus when he's got a quiz in two days? So by building a different business model purpose-built to solve the job to be done of getting ahead and doing that in a way that is cost-effective, they're able to grow to become the largest provider of online education in the country. They just signed a deal with the state of Pennsylvania, where anybody who wants to go to a community college in the state of Pennsylvania can now take classes in Southern New Hampshire University.

Andy Waldeck:

So as we talk about disruption in an industry, we talk about disruption in healthcare and senior housing. It's about number one, building a better product. A better product in the eyes of the people who are consuming it, and putting a different business model around it that allows you to get to a much more cost effective point than other alternatives. So disruption is actually a process. It explains how industries change, how they become more affordable, more accessible and actually quality goes up through the process. The reason we're talking about disruption today is not to scare you, is not to say you are the potentially next Kodak. Instead, it is to remind you it is one of the greatest economic forces that you see out there. So as you look at how the makeup of the S&P 500 has changed over the last 20 or so years, it's now predominantly made up by organizations that are pursuing disruptive business models.

Andy Waldeck:

If you just look at the top 10 players in their collective market cap, the vast majority of that comes from our now trillion dollar market cap companies like Apple, like Microsoft and Amazon and Google are not far behind. So this is as Bob talked about and as Brian talked about, a story about opportunity. The question is where is healthcare today and what is it going to take for that industry to realize the opportunity? So

there's a lot of different ways to cut the data. Unfortunately, it sometimes gets lost when we look at rates of increase, when we talk about percentage of GDP that the industry eats up. The very simple answer here is no one can afford to pay more in healthcare than what they pay today. If you look at the increase in premiums for employers, and more importantly the contribution that they make relative to their employees, you can see a very clear pattern that employers have basically capped the amount that they will contribute for their employees, which is why employee contributions are growing over the last five years at a rate of two to one relative to employer.

Andy Waldeck:

When you look at the government, we talked about that this morning, governments don't have any more money. On its current course and speed, Medicare is going to run out of money, the trust that supports it. The States are in even worse shape. Then when you look at consumers, it's an even worse picture. So the average us household today, two out of five Americans can't deal with an unplanned expense of greater than $400. The average deductible for a single person in 2019 was $1,650. So we can talk all we want about the prices that a hospital charges, the prices of this and that when the average person can't pay a $400 expense and their deductible is 1,600 bucks, the whole thing is unaffordable. Right? So the forces that are driving change in healthcare are the realization that there literally are no other pockets to dip into. When you then look at what is it we're getting in return for all that spending, it's pretty underwhelming.

Andy Waldeck:

Number one, we pay two to three times per person what any other developed economy in the world pays for healthcare. The UK is two, two and a half. We pay two to two and a half times over what the UK does. What do we get in return for that? We are dead last. So if you want to look at the top 10, we're number 10. OECD does a study that has 35 countries on it and we are 34. The reason we're 34 is because we have such massive disparities. So I live in the Boston community. We have literally some of the world's best hospitals. So when you look at the expected life expectancy of people who live in the community right around Massachusetts General Hospital rated number two in the country versus somebody who lives six miles away, you'll see a difference in life expectancy of 30 years. Back to the earlier point in the morning about what drives your health is the things you do on a day in, day out basis. You could guess what the difference is in those two communities. The impact of poverty, the impact of violence, the impact of drugs, the impact of education.

Andy Waldeck:

All sorts of factors that no matter how talented our physicians and our clinicians and our caregivers might be, they are ill equipped to deal with those problems. So we spend a ton, we can't spend anymore and the stuff we get isn't nearly what we would expect and what we need. That's what's driving disruption in the country today. So I talked about my experience with my son. So the 4X is the number of times that we've gotten called by the health system telling us that we have unpaid bills for that fabulous experience that I just described for you that occurred over four days. By the way, they're wrong four times in a row. They don't understand what our benefits are. They've quoted us different prices. It's an absolute, it drives you crazy. But if you didn't know that actually they're wrong, most people would go ahead and pay that, which is why we have the personal bankruptcy problems. So these issues are all reaching a boiling point in the industry. The trick is for those of you who might recognize this is from the infamous World War Z. This is the zombies invading Jerusalem at the time.

Andy Waldeck:

So the question is, why is it that healthcare hasn't yet been disrupted? The reason that the zombies have not gotten over the proverbial wall is that healthcare is structured very differently. I would argue there are few industries that give such an advantage to the incumbent. So the whole idea of a network, right? You can only see physicians who are within your network is incredibly, incredibly insulating. If I wanted to start a new company and I wanted to provide healthcare services for you, I basically have to either go to the local health system or the local health plan and ask them permission to allow me to participate in their respective networks. There are a whole host of other things that are goofy. We got all these different intermediaries, different people who are the buyers and people who are the users. Data is trapped. It's captive. It's displayed in ways that don't make sense. As much as this is an industry that's built on compassion and healing, it is as far from being consumer-centric as you could imagine.

Andy Waldeck:

So there are a whole hosts of issues that make it challenging for disruption in healthcare. What's different about it is the work that these folks along the bottom are doing. So when you look at all of the national payers, all of them have made substantial investments in things that will accelerate disruption. Optum is the services arm of United healthcare, the largest plan in the country. They own 50,000 doctors. They own basically their own delivery system with the exception of high cost inpatient care. Aetna, $78 billion transaction to merge with CVS. Humana has made a number of moves. The partnership with Kindred, the continued acquisition of various home care and hospice companies. They just announced a $750 million partnership with a private equity firm to grow primary care, and other community based services. The list goes on and on across the payers. Then you look at people like Amazon. You look at Walmart. Walmart's experience in Dallas, Georgia, where they are offering their own healthcare clinics, where they deliver basic primary care services at a fraction of the cost of what you could get anywhere else.

Andy Waldeck:

You have Tim Cook saying that that healthcare is going to be the biggest driver of Apple's growth over the next decade. So while there are tremendous forces that drive an insular view inside of healthcare, the moves that these significant incumbents have made, plus all the money that's being invested in new startups are creating conditions where the industry is now starting to move. So health systems, health plans are partnering together in new ways. They're partnering with new ventures, and it's this activity that starts to give us confidence that actually disruption will happen in an industry that's been very slow relative to others. So if that's what disruption is, a cultural phenomenon that is driven by past success, past success leads me to want to replicate that past success. In doing so, I then miss all these great new sources of growth. The question then for you is what does one do if they have a business today, and how do they think about capturing the potential of disruption?

Andy Waldeck:

I have a picture here of the Ford F-150, this is the most popular vehicle sold in the U.S. over the last 40 years. So in 2016, we did the strategy work with Ford where on one hand, it's criminal if your strategy going forward doesn't say well I'm going to invest a lot in this thing. I've got a great product, I've got to drive that as hard as I possibly can. So Ford is doing exactly that. They're going to spend seven to 10 billion over the next five years to make their truck and SUV portfolio as awesome as it possibly can be. The problem is the military grade aluminum on the F-150 and making that evermore perfect, does nothing to help me compete against Elon Musk. It does nothing to help me figure out autonomy. It does nothing to help me figure out what transportation in the future will look like. So Ford made the courageous decision that they're going to spend 18 to $20 billion on what they call mobility solutions.

This is their partnership with VW. This is their investment they're making in a number of startups. This is their push into electrification.

Andy Waldeck:

Then to be able to pay that bill, they actually have to make the decision to get out of small cars. A segment that's been challenging for them for the past 30 years. So Ford's move to solidify its base in trucks and SUVs while simultaneously pursuing mobility, is what we call a dual transformation. This is the both and that Dan was talking about this morning. So in disruption, you still need to focus 80-ish percent of your time, effort, and energy on the business of today, but we can't let that blind us to then miss the great growth opportunities of tomorrow. So what does the future healthcare system look like? First and foremost, it was great to see the health data shown this morning. It's quite revealing when you start to think about how healthcare should transform, and what the business actually needs to be in the future. So if 60% of your health is driven by the choices that you make on a day in day out basis, if I am in the health business, then I am in the business of helping people to change their behaviors.

Andy Waldeck:

I'm in the business of understanding the individual's own unique definition of health. If we did a poll and we asked all of you in the room today what does health mean to you? We would have literally 1,000 different answers. It is the most personal thing that we have. It's an integrated view. It's not just your physical health, it's your emotional health. It's your social health, it's spiritual and purpose. Whatever it might be, but we all have our own unique definition of health. So in most of the time, the only thing we really want to do is we want to maintain that health. We have a plan, we have a routine and as long as my pants don't feel too tight, I can still button my jackets. I can exercise at whatever amount I want to do. I'm okay, and no matter how awesome your thing might be to improve my health, I am not going to listen, because by my own definition things are fine. The only thing I will listen to you is if you want to make things cheaper, you want to make it easier.

Andy Waldeck:

But then there are times where that condition changes, where you start to have a deviation between my definition of health and what I want and how I'm feeling on a day in, day out basis. There the game is about enablement. Enable me to get back to the point that I was previously. Then on some occasions, the whole thing gets thrown out the door. A loved one passes away, you get fired. You get diagnosed with cancer. Major, major changes in your life and the whole thing gets reset. Now I'm looking for somebody, tell me what health ought to be going forward. Help me get back to a new normal. There is a very different situation. I'm much more open to changing my behavior than I would have been otherwise. So the intelligence, the ability to use data and analytics to understand your own definition of health, when am I in that maintain stage? When am I in the enable stage and then when am I in the reset stage, and how do I respond accordingly is actually what the future health-oriented models are being built around.

Andy Waldeck:

In order to do that, the system itself needs to change quite significantly. It has to be integrated and connected. So I can't have the continental divide that I've had between the healthcare world and your world. Health is where you spend your time and where you live. It is the community that you are a part of. It is not something that happens inside the four walls of an institution. So it's got to be integrated and connected in ways that make sense to you. It has to be personalized and it has to be relationship-

based, because it's a business built on trust. I got to hit both sides of the affordability equation, the cost and the value and the quality that I'm delivering. I also have to deal with a whole host of problems I never had to deal with previously. How do I really understand an individual? How do I understand their capacity to change? From an economic standpoint, the model flips on its head. The model historically has been I'm going to funnel people to the highest cost location, because that's where the greatest care and the greatest services are.

Andy Waldeck:

In a model like Medicare Advantage, you do the exact opposite. I want to do everything I can to keep that individual out of the high costs, out of the expensive location. I want to manage them in their community, I want to manage them in their home. So we are in the early innings of the industry transitioning to the vision that I am talking about, but given the lack of affordability, both the cost and the value that we get in return, incumbents are motivated to finally start to act upon these ideas. So in the end, what this looks like in healthcare is the version of dual transformation in healthcare is number one, I do need to continue to invest. I need to make things like intensive care as great as it possibly can be. I want to be responsible about the cost of those things, but in the end that is the F-150 and I need to drive that forward, pardon the pun. There's a bunch of stuff, however that sits in the middle.

Andy Waldeck:

Things that are high persistent, they happen frequently. They're also incredibly high cost. Have a picture of a dialysis machine. The dialysis population makes up less than 1% of the Medicare population, but it drives 10% of their costs. Most of that is driven by the cost of dialysis treatment, which is done at a facility. There is technology available that allows that to be done at home at a far, far lower cost. So innovating both the quality and the cost of things like dialysis treatment become a really important mechanism, to make the system of today more cost effective. In the end, I actually have to create entirely new models. I have to create business models that are based on the idea of maintain, enable and reset as I talked about. Because in the end, the only way we are going to reduce the burden of healthcare costs is if we actually shift the demand curve. We have to help people be as healthy as they can be, so that way we put off the higher cost interventions that lie downstream from there.

Andy Waldeck:

So why are we talking about this in a group full of senior care? The reason we're doing it is very simple. You have the people that are the most expensive and the most complex out of the industry. But historically, these have been two different worlds. Bob talked about not even having a seat at the table. You have a very industrialized healthcare system that has gone through many different flavors, shapes and forms. Then you have this thing called post-acute and senior housing is even further off in the distance. Now as these systems start to come together, you start to see some interesting challenges. On the left hand side, healthcare in itself is trying to become more organized. It's increasingly operating as a system, but it's a very B2B institutionally focused business. On the right hand side, senior housing really doesn't operate today as a system, right? It is still very siloed depending upon where you sit within the ecosystem, but your advantage is you are community resident.

Andy Waldeck:

You are the home for seniors, and because of your historical focus on hospitality, you are much, much more consumer-oriented than your healthcare brethren. So the question is how do these pieces start to

come together? Which is really then a question of as you look at this picture, which problem do you want to solve? Do you want to solve the well, how do I integrate as a means to gain greater share? Or how do I want to think about as expanding the overall size of the pie? There are a couple of different startups that are interesting. One of them is Aidin. I don't know if any of you actually work with Aidin. Aidin is an organization that's trying to help the situation on the left. What Aidin does is they basically run an exchange business which allows them to put out for bid in any community to any healthcare provider. The opportunity to bid for services when a person gets discharged from a hospital.

Andy Waldeck:

So that might be home-health coincide with the SNF, but it allows them to work on behalf of health systems and set the definitions for quality, present that data to a consumer and allow a consumer to make a choice. They work with about 35 to 40 different health systems across the country, and for health systems this is great because this helps to deliver a more consumer-focused experience. It also makes a significant improvement in impacting length of stay. The thing that I think is most interesting is Aidin's been around for almost a decade now. So they have this treasure trove of data that they're sitting on. So in a market like Houston, they've got eight years of data, quality and performance data for every player in the senior care ecosystem. So as we start to think about senior care moving towards risk-based models, data the likes of which are resident inside of Aidin become incredibly helpful accelerants to move that forward.

Andy Waldeck:

So as you are thinking about your own portfolio balance between supporting today and doing tomorrow, you start to see signs of businesses like this who are creeping in to enable that transition and that transformation to happen. The other side of the page shows Medically Home. Medically Home is a virtual hospital business. So they aren't thinking about how do I help the system work better? They're leapfrogging and saying, "Well, I'm just going to create my own system." So they can do all sorts of complex things at home. They can do infusions, they can install central lines. They can do x-rays, they can handle very, very complex patients at home. Frankly, they can deliver benefits that no system can match in terms of that individual feeling safe, them feeling secure, them feeling comforted by being at home. So that physician interacting virtually with their patient can see everything that's going on. So they can see the anxiety on their patient's face as they're talking about a new condition.

Andy Waldeck:

They can also see what else is going on in the background. The food that maybe the patient doesn't want the doc to see. In the case of one of their very first patients, they can see that that individual was under tremendous financial stress. The reason they were under tremendous financial stress was because of a deteriorating relationship with their family. So as we go back to what is it that actually drives health, and 60% of your health being driven by the choices you make. The reason for this patient's decline had everything to do with the stress that they felt at home, and the incredible isolation. So new technology in the case of medical home does not just offer me something a little bit better. It offers me something dramatically better, because now I can see the whole picture. I can see Andy in his home environment. I can see when Andy is lying to me. I can see what the underlying drivers of care are for that individual.

Andy Waldeck:

So these are just two examples of some of the stuff that's going on in the periphery that would be interesting for you to be looking at as you think about how you want to answer this question, of which problem do you want to solve. If you're thinking about how do I integrate today in a way that will link better, there are a whole hosts of problems that you got to wrestle with. Number one, we don't have great data. We have very poor ways of understanding and assessing both costs and quality. Data sharing across players, as you talked about earlier today is a real nightmare. A lot of this behavior is still siloed, it's still volume and orientation. There are significant mistrust between the parties. There might even be a little bit of a disagreement of who owns the care plan. As you see an individual move from one site to the next to the next, you see care plans being rewritten because each provider needs to demonstrate their value in those cases. There are a whole hosts of problems that have to be wrestled with.

Andy Waldeck:

These are important. They require work, they require investment, they require your attention. The problem is do you spend all of your time and thoughts on figuring out how to integrate into the system of today, or do you spend time thinking about how do we co-create the system of tomorrow? So as you think about the fact that every day for the next decade, 10,000 people retire. Turn 65 every single day, right? The wave that that will have coupled with the growth in Medicare Advantage, it was talked about on our morning panel. You have a tremendous influx of new potential customers that you could think about creative ways to solve as Dan has done in Minneapolis. So how do you want to deal with this increasing volume? Go back to the 4X problem that I talked about, the idea that consumerism is finally going to come to healthcare. Something that has been in your DNA and in your roots, right, now becomes the core capability and means by which systems will compete.

Andy Waldeck:

We have new clinical models that allow those things like medically owned can do. They can bring the ICU to your home. So technology now makes this stuff far more capable than it has been even five years ago, and it starts to open up the opportunity to actually compete on the basis of cost and quality, as opposed to what you might historically talk about. Be it your location, your strength of relationship, et cetera, et cetera. Those are the good things. The bad thing is, by the way, the labor problem doesn't get any better. So as healthcare finds more innovative ways to deal with complex and difficult patients, the people who end up in your systems in your facilities are going to be sicker and more complex. The range of needs that they are going to have is going to continue to become more and more diverse, placing greater stress and strain on the people that you have and your talent.

Andy Waldeck:

So as you think about and reflect on this story of disruption, you're faced again with a very simple question. What is it that you want to do in the face of all these things going on? Do I want to spend time fixing today, or do I want to spend time fixing today and figuring out how to create what will be the business of tomorrow? So that's it for my remarks. I think we have about 15 minutes for questions. I know we are handing out mics in the back. So I would be happy to take any questions you all might have.

Audience:

So conceptually, I love what you're talking about.

Andy Waldeck:

Cool.

Audience:

I'm a senior living operator and I'm saying okay, I really want to reinvent. I want to disrupt. Where would you tell me to start?

Andy Waldeck:

So I would tell you to start number one, thinking long and hard about what role do you want to play. I think Dan's story is incredibly informative. It's about what are the capabilities that I really have, and I need lots of friends to pull this off. So it's not coincidental given the provider environment, and the payer environment that you see experiments like this happening and succeeding at the pace that they are in Minneapolis. So part of this is thinking about what is it that I've got that I then want to port to that new model. So when I talk about a hospitality and consumer focus, do I really have that? I have the presence with that individual. Now who am I going to partner with and what am I going to partner with them for? The mistake that organizations make is one, they try to do all this stuff on their own and that is a recipe for disaster. As well as this is a balance.

Andy Waldeck:

So as exciting as some of what I talked about might be, I still have the business of running the day-to-day operations. I still need to drive utilization in the core. So the 80/20 rule is also a really important one here as you think about your focus and your attention on both the business of today, versus the business of tomorrow. Other questions?

Audience:

Enjoyed the presentation, but whenever I hear a speaker talking about comparing the U.S. to other healthcare systems around the world on the costs, my question immediately is how do you take the Trial Lawyers Association beast, the U.S. Trial Lawyers Association beasts and the politics behind it out of the equation? Or I can't remember what your metric was, three to one or whatever. What would it be if the U.S. Trial Lawyers System was the same say as England's Trial Lawyer System or something?

Andy Waldeck:

Yep. So with all analogies, there's a degree of usefulness. There's then a degree of stretch, where they become unuseful. The point is, and I could point to the pharmaceutical industry and the spend we have on drugs. We pay eight to 10 times what every other country in the world does. We're kind enough to subsidize the world's investment in pharma and biotech. Our legal system is different. The expectations and behaviors of individuals are different. So we can definitely get into a debate about whether or not the comparisons are in fact comparable. I think you could very simply say we are significantly lacking what we get in return for the 20% of our economy that we spend. It could be dramatically better than it is.

Andy Waldeck:

It's interesting when people talk about that 20% stat. They talk about it as being a bad thing. If our life expectancy was actually increasing not decreasing, if we didn't have the highest rate of infant mortality relative to other organized systems, we'd actually feel great about the fact that we're spending 20% of our economy on this particular industry. The reason that stat gets thrown out is because we're disappointed with the experiences and the results that we have. Other questions?

Audience:

Andy, why don't I own my own healthcare data?

Andy Waldeck:

So it relates to how the industry has operated and how it grew up. So the industry grew up incredibly siloed. Siloed between hospitals not even acting as a system, physicians, many of whom are not employed by the hospital. They actually have privileges, but they're free agents. They can go where they want. So historically, holding on to data has been a source of competitive advantage for one system, one physician practice, one hospital relative to another. We now have incredibly sizable companies like Epic and like Cerner, whose business model is predicated upon making it really hard and expensive to get data out of those systems. So in a classic disruption, the conditions that lead to success in one become hindrances and we want to go to another data, and the ownership and lack of availability of data is one of the core things that's hindering the health systems transformation.

Andy Waldeck:

You see people trying to work around this. So there was a lot of news a while back about Ascension partnering with Google, and whether or not that data was being protected in the right ways. That's a different discussion for a different day. That work is to figure out how to make your data portable. So as you are treated by a physician who has a different EHR than the hospital uses, they might even be different than the hospitals themselves within the system, your data can actually flow with you as you would expect to have happen in any other industry. Like your bank does, is you go anywhere in the globe, you can still get access to your accounts. In healthcare, for historical reasons of the way in which the industry has been organized and the basis of competition, data and the sharing of data is just an absolute nightmare today.

Audience:

So, Andy over here.

Andy Waldeck:

Sorry, where is over here? There we go. Thank you.

Audience:

So many times we see innovations coming out of periods of stress or limitations, and we're certainly seeing that right now where the Coronavirus. I'm wondering what innovations you have seen from pandemics worldwide. Historically, what innovations have come out of those that have actually improved on something, and has only been possible because people have been restrained and had to think differently.

Andy Waldeck:

Yeah. So absolutely innovation you can look across the examples of how does innovation happen. It's a creative process, but it is driven by the application of constraints. This is why Edison went through 1,000 experiments to figure out how to make electricity move from point A to point B. So coronavirus is a big, big deal. It's a big, big deal because one of our health system clients, they had a patient come in who was undiagnosed. The patient got diagnosed, and then the state made our client quarantine the 21 people that interacted with that patient for 14 days. So the biggest worry that health systems have right

now is actually not how do we manage this potential virus and its implications. The biggest worry they have right now is how the heck do I keep my hospital running if I end up with a major chunk of my staff in quarantine.

Andy Waldeck:

So we'll see what that leads to in terms of innovation. Hopefully, the bright side of this story is that that creates new labor models that can drive the greater efficiency. But right now it is a major, major logistical nightmare, not even getting into any of the clinical issues around diagnosis and treatment. Other questions?

Audience:

Yeah, thank you. Changing business models is very difficult from within, and I thought your example of TWA and Southwest was a really good one. So it's possible. I think Dan showed that it's possible this morning to shift that business model. My question relates to Amazon, Google and Apple. They don't have to shift the business model. They've got tremendous resources. Each of them has a great inroad into the consumer market, and they've got plenty of money. So where do you think that's going?

Andy Waldeck:

So I think you can only say they are going to have significant, significant businesses in healthcare. It's impossible for them not to. Number one, they can't continue their growth trajectory. If you are Apple right now you don't really play in healthcare. It's the largest industry in the economy. The only way you support your trillion dollar market cap is you figure out a way and a foray into that industry. When you look at Google and Amazon, they have set themselves up to be serial disruptors over time. So Amazon has run the Ford play better than Ford has multiple times over. They go from books to retailing everything. They then create AWS. Actually, the Cloud business inside of Amazon is actually what drives all the growth and the profit in that business. They create Prime, they keep moving and eventually they will figure out the right ways in which they want to play in healthcare.

Andy Waldeck:

They're building an incredibly interesting pharmacy business, DME business, supply business. Like they're leveraging all of their capabilities, and what's actually quite frustrating for people who spend all their time working with health systems and health plans to get them to move, is you can misread the patience by which Google and Amazon and Apple are operating. Like they're outside of the walls. They are definitely coming in and they're going to take their sweet time to figure out how to do it, because of the complexity and the goofiness of healthcare. But they will figure it out. The industry is simply too big and too inefficient for them not to. Other questions. You're back. That's good.

Audience:
Here you go.

Audience:

There you go. When you look at senior living, this is a question that really intrigued me fairly early on. From your perspective, what problem do we solve?

Andy Waldeck:

You are solving the problem of how do you actually create an environment for an individual that is personalized, and enables the health-oriented models that I've talked about? So the thing that I think is so tremendously exciting for you all is you literally see and are with those consumers all the time. You understand them, you have a relationship with them. So your ability to be able to diagnose your capacity for change and what's going on on a daily basis, to have low cost touches, to get me back on track is an incredible, incredible asset. The problem is you operate in an environment that in and of itself is heavily regulated. That is complex. It tends to be very asset focused in its history. So you've got your own dual transformation that you have to pull off, but the name of the game going forward is consumer-oriented community residents highly, highly personalized.

Andy Waldeck:

I don't mean create a better hospitable experience, I don't want a fresh coat of paint on the wall of my primary care physician's office, but I do want that thing to be personalized and integrated with what's going on and important in my life. So you're trying to take an old dog in healthcare and teach it how to be something that's very different than what it has been. You all have lived in that environment. You just have to figure out how do you then integrate into some of the new health models, and what I suspect will be most challenging is how do you partner with the multiple different actresses that have to be part of the equation going forward. Other questions? Bob is going to definitely ask me a difficult question.

Audience:

No. Recently, last April, NIC published a major study called The Forgotten Middle, focusing on the issue of accessibility, affordability by the booming income cohort of middle-income boomers. I'm interested as you talk about disruptive innovation and you talk about accessibility and affordability, apply some of that thinking to the market disruption opportunity. This industry primarily, not exclusively, but primarily has served an upper-middle or upper income cohort. We're now facing, and the country is facing this huge challenge of how we deliver a new and different model completely that'll enable us to serve, give more people access to the types of care we would want for our parents and ourselves. Can you apply some of your thinking to this market disruption opportunity?

Andy Waldeck:

Absolutely. We had the question earlier about how does the potential for a pandemic create a constraint that then drives innovative thinking? I think your question around how do you solve for the affordability gap for the forgotten middle is in a very equivalent kind of brief to that same question. You can look at lots of different examples. Why did Southwest focus on affordability? It's because they had to, because their competition in the early days when Herb Kelleher started the airline was the bus. So there was a reference point, and there was an out-of-pocket spend that those consumers in the state of Texas would put towards air travel. So when he started the company, he started it to be affordable from the get-go. Netflix did the same thing. The reason why Blockbuster doesn't exist anymore is yes, Netflix made an awesome product and I talked about that.

Andy Waldeck:

But the whole idea of making it subscription-based and not having late fees allowed them to cater to a segment of the population and deliver affordability that was very, very different. So can you use things like the rise in growth in Medicare Advantage to create an economic formula to go after underserved populations? Or can you create a different model that has a different financing structure that allows that to happen? But again, that is not going to happen by taking what I do, and figuring out how to apply a

discount to my bed that might become available. I have to start from scratch, take a piece of paper and say what do I have to believe to be able to safely and quality deliver an experience to an individual at X dollars a month, or whatever the appropriate benchmark might be. That's how those businesses that have had tremendous success since then thought about that first question when they got started.

Andy Waldeck:

So it's a question of framing. It's a question of how you want to think about the problem, and then to the point of leadership. The reason why we're talking about this topic with many of you is at the end of the day, it's a choice. So you can figure out how to make senior housing affordable for the forgotten middle if that is something you commit resources to, and you believe that it can be a significant growth business for you over time. If that's something that someone is assigned to do off the side of their desk, if that's an experiment, if that's an early step that you might take in the future, you will not be successful. So the core of disruption is a leadership question, which problem do you want to solve, grow, share, or expand the market? Then your ability to actually commit resources to those new ventures, where you're going to experience a lot of missteps and things that go in different ways, but having the courage to stick with it. So those are all part of the equation. Other questions? Brian, I think I'm going to hand it back to you.

Brian Jurukta:

Andy, thank you again. Sincerely appreciate your insight as it pertains to innovation and disruption. Certainly a good conversation, and some good questions here at the end. So I want to encourage everyone. Next set of concurrent sessions are going to go ahead and start at the bottom of the hour, and then go on from about 2:30 to 4:00. After that, we'll have a short networking break. Then 4:15 to 5:30, we'll have the next set of concurrent sessions. Then the networking reception will be back here at 5:30 PM. Then of course, I'd also like to remind you to go ahead and save the dates. We do have our fall conference coming up, which is just going to be six weeks prior to the election in Washington, D.C. We also have our bootcamp, which is for those are just getting started in seniors housing and care, which will be July 15th in Denver, Colorado.

Brian Jurukta:

That said, please enjoy the rest of the conference. Ensure you're taking in some sessions. Make sure you partake in the networking events as well, and thank you so much for your support.