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## MedStar Health and the art of upheaval

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MedStar CEO Ken Samet talks with Dr. Andrew Lee, medical director of the health.



A couple of years ago, [MedStar Health](#) CEO [Ken Samet](#) fielded a complaint from a notable patient: his own daughter.

The 20-something had tried to schedule a doctor's appointment over the phone, only to be put on hold for several minutes, a clear faux pas in the world of millennials.

"Dad, I don't mean disrespect," Samet recalls her saying, "but do you really run your business that way all the time? Why can't I go online and make my appointment?"

He had an epiphany.

“I thought, ‘Even I use OpenTable,’” he said, referring to the online restaurant reservation service.

The executive got behind a proposed 18-month exclusive regional deal with ZocDoc in January 2014, allowing patients to book appointments with MedStar online for the first time. It was good for patients. But it also ended up being pretty good for business, too, as last-minute cancellations were filled.

It’s an example of a massive movement at Columbia-based MedStar, which is changing the way patients access care at a magnitude and pace unmatched elsewhere in the region. The system began implementing its MedStar 2020 strategy in 2009, at least a year before Democrats approved President Barack Obama’s Affordable Care Act. Obamacare, as the act is commonly referred to, embraces many of the same elements being instituted at MedStar: incentivizing health systems to push patients from hospital to outpatient care, emphasizing preventative measures and using technology to better coordinate care and improve its costs.

“We are disrupting the largest health care system in the region. This is not a little experiment,” Samet said. “It’s serious enough, we’re willing to disrupt our own business model.”

For MedStar — with \$4.6 billion in revenue in its 10 hospitals and more than 250 outpatient access points — the experiment has begun paying off, with the health system reporting its strongest financial results in the last two years even as health systems around the U.S. have faced serious financial challenges. As it adapts to a new business model itself, MedStar says it could ultimately help the region’s employers rein in ever-escalating health care costs by leading the shifts brought on by health reform.

### **Getting ahead of Obamacare**

Samet began working on the new strategy soon after being appointed CEO of the system in 2008.

He knew health care would undergo radical changes in the coming decade, driven by unsustainable growth in utilization and cost. The system, even with its sizable hospital assets, could no longer focus on episodic acute care in an emergency room.

Key to that 2020 strategy was shaking up what was widely considered a successful regional hospital network, whose holdings include [MedStar Washington Hospital Center](#), which has 769 beds and its cardiovascular institute, and MedStar Georgetown University Hospital, with 396 beds and a National Cancer Institute-designated cancer center. Even as it grew a research agenda and one of the largest medical education programs in the country, MedStar began aggressively pursuing a distributed model of community-based facilities. That included primary and specialty care physician offices, to family care centers, multispecialty care centers, urgent care centers and large-scale “hospitals without beds” — connecting them all electronically.

Another key: Samet recognized he may have to spend — or lose — money in the short term to achieve long-term success. “There’s no question the CFO could come in here and say, ‘Ken, it cost you X dollars for that,’” said Samet, who ran Washington Hospital Center for 13 years before becoming chief operating officer and then CEO of the entire system.

The way Samet tells it, MedStar quietly got way ahead of health reform by swallowing costs and pushing its business outside of traditionally more lucrative hospital care before there was a financial incentive — i.e., Obamacare — to do so. Before health reform, hospitals got more money for admitting a patient to the hospital than for offering a wellness visit to keep them out of one. Health care reform overturns that, paying health systems based on patient outcomes, not volumes.

“It’s a particularly interesting and challenging time from a financial standpoint to run health care organizations like MedStar because it’s running an organization in both a today and a tomorrow world,” Samet said. “We have to believe we’re doing the right thing for the long-term benefit.”

MedStar is already touching more patients, has increased its scale and purchasing power, and is on track to make \$5 billion in revenue this year, a 9 percent increase from \$4.6 billion the previous year. That’s significantly better than the national average — Moody’s Investors Service reported last fall that operating revenue growth among nonprofit hospitals dropped from 5.1 percent in 2012 to 3.9 percent in 2013.

Moody’s also has given MedStar an A2 rating, a prime rating that indicates the health system has a strong ability to repay short-term debt obligations. Moody’s said MedStar has positioned itself well in the market with its growing network, allowing it to evolve with the nation’s health care system, praising its leadership for proactive planning for potential future challenges.

That’s not by coincidence. While other hospital systems in the region have promoted major investments in research — see Inova Health System CEO Knox Singleton’s major push into precision medicine in Northern Virginia — Samet has placed more emphasis on the business side.

“Knox wants to be remembered for genomics,” said Jay Shiver, a former D.C.-area health care administrator who now teaches health care administration at George Mason University. “Kenny’s a much more grounded person. He’s thinking the business of health care. And right now, this is where it’s going.”

### **Follow the Starbucks**

In a Mitchellville strip mall with a grocery store and a McDonald’s, a MedStar multispecialty clinic appears packed one recent weekday morning. Patients in the Prince George’s County center are there for everything from X-rays to primary care appointments and follow-ups with cancer or surgical specialists.

The manager on duty said it is a slow day.

Since 2009, MedStar has poured \$186 million dollars into building out a network of more than 250 such outpatient access points, many in or near shopping centers, to attract patients across the region. Eight years ago, it had 95.

MedStar looked for established retailers like Starbucks nearby as it chose sites to build what it calls the “distributed care” model. Following the success of CVS’ retail Minute Clinics, MedStar created 10 of its own stand-alone urgent care centers called MedStar PromptCare around Greater Washington. It plans on having about 20 within the next 18 months. All are connected electronically when it comes to patient records.

The outpatient sites tie back to the health system. For instance, a third of all patients who come into urgent care don’t have a primary care physician yet and receive referrals.

“It becomes another front door to the system,” Samet said.

MedStar is going so far as to make some clinics “big-box” or “hospital without beds” multispecialty locations. That includes the planned downtown D.C. location at Lafayette Center, a 92,000-square-foot clinic that will offer six floors of primary care and specialty services, including surgical care and sports medicine. It is meant to be a more accessible way for patients to receive care they might typically receive at multiple locations throughout the city without the inconvenience of having to book multiple appointments. The center, which boasts a large parking structure, is blocks from the George Washington University Medical Faculty Associates, an independent physician group with more than 750 providers and 51 specialties.

## **Strength in (insured) patients**

The health system's new distributed network has made it a target for criticism, however, that it's cherry-picked commercially insured patients.

After MedStar opens outpatient centers nearby, the D.C. Primary Care Association has complained that smaller nonprofits get fewer numbers of insured patients who help make their own clinics viable for caring for the uninsured. In August, MedStar looked to shed that reputation as it established a memorandum of understanding with DCPCA to help get uninsured patients improved access to MedStar specialists and improve coordination with primary care providers outside its system, said Jackie Bowens, CEO of the D.C. Primary Care Association.

DCPCA wasn't the only one. MedStar also entered into a similar MOU with Mary's Center, a regional network of clinics to help low-income residents.

"Being [that] MedStar is a well-capitalized health center, Mary's Center didn't have a choice but to enter into an MOU," David Tatro, chief operating officer at Mary's Center, said when it was signed last August. "But we seem to be making progress toward ensuring the community has better access."

For MedStar, the investments solidified its strength across the region as its outpatient visits dominated its business and drove market growth. Last year, the health system counted 4 million outpatient visits, compared with 160,000 inpatient admissions. For the 10 months of this fiscal year that ends June 30, the system's outpatient revenue growth, pegged at 7 percent, is outpacing its 1.2 percent rise in inpatient revenue in that time.

Year over year, MedStar steadily increased its market share in D.C., growing 3.7 percentage points from just shy of 18 percent in 2007 to more than 21.7 percent in fiscal 2013, according to D.C. Hospital Association data.

"They are coming together as an increasingly sophisticated health care system," said Dr. Toby Cosgrove, CEO of Cleveland Clinic, which has partnered with MedStar's tech transfer program, as well as its cardiovascular program. Cosgrove, himself a 40-year veteran at Cleveland Clinic, calls Samet "aggressive."

MedStar has a long way to go before it ever has the national reputation of a Johns Hopkins, but Cosgrove praised its growing regional clout even as more nationally renowned institutions struggle with their research-based budgets.

"Increasingly," he said, "what you're getting paid for is the efficient delivery of care."

## **Investments in innovation**

Samet initially planned to pursue a career in medicine at Old Dominion University. He excelled more in business ventures and, in one instance, organized a group of fraternity brothers to help sell souvenirs where he worked as a concessions manager for the local convention center.

After taking a course taught by the chief financial officer at a local hospital, he was hooked on a new plan: the business of health.

After graduate school, he began an administrative residency at the Washington Hospital Center in 1982 and has been connected with the hospital ever since.

"My hands aren't going to touch a patient, thankfully," Samet said. "But I feel like my contribution can be in creating and organizing and turning loose the energy and the creativity and the passion of our people."

His new strategy did just that. In 2009, he set aside \$2 million to establish the MedStar Institute for Innovation, called MI2. The institute now has an annual budget of \$10 million.

Many health systems say they have innovative cultures, but new ideas can easily get buried in bureaucracy, said Mark Smith, MedStar's chief innovation officer. That hasn't happened at MedStar, Smith said, because Samet was clear the institute would report directly to him.

Six years later, Samet is still vague about why he created it. "If I actually knew what it was going to do, it wasn't very innovative," he tells anyone who asks.

What we know is this: It was an infrastructure for innovation, Smith said, by offering a safe space for employees to pursue ideas that could impact health care.

The innovation center launched the Global Healthcare Innovations Alliance with Cleveland Clinic in 2011 — essentially outsourcing its work to commercialize ideas.

That partnership has resulted in 255 ideas, including 33 this year. It has also resulted in 13 patent applications, an app on the Apple App Store, five technologies in license negotiation and three proof of concept studies. Most recently, a physician invented an implantable device that could help patients with pulmonary failure live independently. MedStar is moving that product to market.

MI2 eventually led to the formation of the Center for Digital Health & Data Science, which is designed to incubate ideas, for instance, in personal health and telemedicine. The center also serves as a portal to the outside world for both established and early-stage companies, becoming a founding partner of D.C. startup incubator 1776.

MI2 is working with six startups on remote monitoring systems, informatics, telemedicine and other digital health solutions to change health care delivery. In exchange, MedStar has the first rights to use any innovations within its own delivery system.

Most large integrated health systems have begun developing innovation programs, but the overall breadth of MedStar's program is unique, said Dr. Molly Coye, the entrepreneur-in-residence at the Network for Excellence in Innovation, a health policy institute not affiliated with MedStar.

"MedStar was an early entrant in this," said Coye, who served on the American Hospital Association board with Samet.

She said MedStar's focus on combining internal ideas with outside resources makes sense.

"Some health systems insist they want to exclusively do their own innovations or approaches," she said. "But because MedStar uses this approach, the chances they'll produce something useful is quite high."

One of MedStar's creations was its National Center for Human Factors in Healthcare, which looks to capture safety and quality lessons from such industries as aviation and manufacturing. The name of the center itself is enough to make many health administrators squeamish by virtue of the implicit connection to the mistakes that can happen when humans run a health system. But it put the health system in the company of more established institutions, such as John Hopkins, which has a leading patient safety and quality institute of its own.

Too often, changes in health care are being attempted from the top down, said Dr. Peter Pronovost, a nationally recognized leader in patient safety who heads Johns Hopkins Armstrong Institute for Patient Safety and Quality. "Evidence shows that pay-for-quality has motivated hospital executives, but what about

the care provider on the night shift?" Pronovost said. "That's why innovation is so important because it can inspire and motivate. Fundamentally, you've got to engage your employees."

Indeed, "a lot of innovations are created by medical nerds like scientists," Coye said. "But human factors engineering means you're really studying the patients, their families, the nurses at the bedside and really trying to understand them."

### **How do you measure success?**

Whatever Samet and MedStar are doing, they should brace for some serious competition. Other health systems, such as Tenet Health, are doing this on a much larger scale, said Venson Wallin, a managing director in BDO Consulting LLC's health care advisory practice.

"From a regional perspective and a general strategy perspective, they are ahead of the game," Wallin said. "But they won't be on their own for much longer. That's where the focus on health care is going." Instead, Wallin believes MedStar could be more of an example to similarly sized systems that can't measure up to Tenet's scale. "If they are able to cut costs by getting people into the community rather than the hospital, as a result, the costs from employers' and employees' perspective are hopefully reined in," Wallin said.

To be sure, the Supreme Court's decision on whether to uphold the Affordable Care Act, due out by the end of the month, has the potential to create massive ripples across health care if millions of patients across the country were to suddenly lose health insurance. It was the health reform law that helped incentivize much of the momentum happening in the industry.

And while health executives have said it's unlikely they'll roll back the steps they've taken toward value-based care, it could create some serious financial hurdles and slow progress.

"The region needs us to be successful," Samet said. "There's no replacement strategy for the activities and the services that get provided."

How will Samet and MedStar know if they are successful in the long term?

Samet said he'll know if MedStar continues to grow even while inpatient revenue makes up less than 40 percent of the health system's total revenue in five years. But ultimately, he said, success will mean the health system built a value equation recognized nationally as a key to solving the quality, safety and ultimately cost of health care.

"I'm proud of our organization that we had the courage to start this journey before all of that," Samet said, referring to the health reform legislation. "But I also know it's a good thing we did."

### **Ken Samet, CEO MedStar Health**

- **Age:** 57
- **Residence:** Bethesda
- **Family:** Wife Stacy, two children
- **Education:** Bachelor's in business administration, Old Dominion University; master's in health services administration, University of Michigan
- **Background:** CEO of MedStar Health since January 2008 and president since 2003. Former president, Washington Hospital Center, 1990 to 2000; board of directors, Georgetown University; director, National Coalition of Burn Center Hospitals and University of Maryland School of Nursing; board member, American Hospital Association, and D.C.'s delegate and chairman, American Hospital Association's Region III Policy Board; former chairman, D.C. Hospital

Association. In 1996, he was named the [American College of Healthcare Executives'](#) Young Healthcare Administrator of the Year.

### **Outpatient network by the numbers**

**MedStar Health:** Has more than 250 outpatient access points across Greater Washington and Greater Baltimore. These include big-box multispecialty centers, smaller multispecialty care centers, urgent care and primary care offices.

**Johns Hopkins Medicine:** Has more than 30 outpatient centers scattered around Greater Baltimore and Greater Washington, including primary care clinics, internal medicine offices, heart specialty centers, a pulmonology and sleep center and a few general surgery centers. In D.C., these locations include Sibley, General Surgery at Foxhall and a primary care and internal medicine clinic on Eye Street NW.

**Inova Health:** Has about 112 outpatient access points, including seven urgent care centers, 22 primary care centers, about 50 outpatient specialty centers for adults, 10 surgery centers, two healthplexes and two medical pavilions.

**George Washington University MFA:** Has 750 providers working in dozens of locations throughout Maryland, Virginia and Washington across 51 clinical specialty areas.

**Children's National:** Has about 65 outpatient access points, including 22 primary care centers and 42 specialty centers, many of them inside other medical centers, across D.C., Maryland and Virginia and stretching as far as Delaware.

**Sentara:** Operates more than 100 sites of care across Virginia, including in Woodbridge in Northern Virginia, and North Carolina.

**Kaiser Mid-Atlantic:** Has more than 1,100 doctors and 29 locations, including 10 urgent care locations.