

profile

SPECIAL ISSUE CORPORATE DIRECTION

Our future success hinges on radical change

There's no doubt our financial and enrollment performance over the past five years has been impressive. We've experienced five consecutive years of both steady enrollment growth and solid financial gains. We are the largest commercial Health Maintenance Organization in Florida, the fifth largest Preferred Provider Organization in the country, and the sixth fastest growing HMO in America. And while we were attaining these important achievements, our PPO and HMO were earning one of the highest customer satisfaction levels in Florida.

These solid accomplishments didn't occur by chance—they resulted from a carefully developed plan. In order to continue our success, we've refined our "plan," or corporate direction, for 1995, 2000 and beyond. Our corporate direction will require a number of significant changes in the company because our business environment is changing dramatically. "The best time for a company to make changes is when they're on top—that's how they stay on top," says Mike Cascone, executive vice president of Private Business Operations. "So we will see changes occurring within our company during the next few years."

Our vision is to be recognized as the industry leader for quality, service and value. We want to consistently deliver excellent service to our customers and sustain a competitive advantage by managing the cost of health care. "In my vision of the future, our company is leading the way in lowering health care costs, expanding access to more people and providing caring and responsive service to our customers," says Bill Flaherty, president.

CASE FOR CHANGE		
CATEGORY	CURRENT	FUTURE
Membership (Florida Market)	1.9 million customers	4.0 million customers
Dimensions of Competition	Cost Access Service (transactions)	Cost Access Service Quality
Organizational Effectiveness	Command/Control	Participative/Adaptive/Continuous Learning
Administrative Expenses (based on current environment)	15% plus	5%–10%
Medical Cost Increases	Consistent with CPI	0 or less
Delivery System/Provider Relations	Control Cost: • Contracts • Discounts • State-wide	Collaborative: • Influence Performance • Cost Management • Market by Market
Product Development and Roll-out	Internal: • Reactive • 18 plus months	Collaborative (BCBSF, members, providers): • Proactive/Innovative • 1 to 6 months
Diversification	• No consistent transferable model • Not prepared for business acquisition and integration with corporate processes • Limited within Florida	• Model Office for Managed Care • Acquiring and effectively integrating new businesses in the corporate environment • Outside of Florida
Competition	• Companies evolving to Managed Care	• New entrants include mature managed care companies

Initial corporate direction set in 1980

In the '80s Executive Staff selected the *low-cost producer strategy* as our overarching goal for our corporate

Definition—

LOW-COST PRODUCER STRATEGY:
to provide the best value to our customers, to produce services at the lowest cost possible and to sell it to our customers at the most competitive price.

direction. This means we want to provide the best value to our customers, to produce services at the lowest cost possible and to sell it to our customers at the most competitive price. As part of this direction, we want to lead the way in lowering health care costs, expanding access to more people and providing care and responsible service to our customers.

We chose managed care as the best way to move in the direction of becoming the low-cost producer and we developed managed care programs to help control health care costs while delivering quality care to our customers. Over the past 14 years, this corporate direction has been remarkably successful and has made us the state's leading health insurance company.

Corporate direction for 1995 and beyond

Since our initial corporate direction, the market has undergone significant changes. The health care industry is in the process of reforming itself, and the government is imposing even more changes. We need to understand the various environmental changes that are occurring and determine what implications they will have on our business.

"We have to constantly assess the future and ask ourselves questions about what products and services we should offer, how we should be organized, and what new skills and abilities we need as individuals and as a corporation," says Cascone.

Executive Staff continues working the strategic management process to

ensure that BCBSF remains strong and competitive in the future. The process requires careful analysis, continual assessment, ongoing dialogue, and effective coordination and collaboration to yield the best results. This task is rarely simple. There aren't any rules that guarantee success.

Today, our corporate direction remains unchanged—to be the low-cost producer. However, the market is evolving at such a rapid pace, we must also make radical changes—or improvements—to maintain our success. Incremental change continues to be necessary, but it will not be enough. We'll need radical change to achieve our desired business outcomes and continue to survive and prosper in the future.



Why we need direction

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So how do we develop our corporate direction? Corporate direction is an evolutionary process, an on-going cycle of strategic thinking and planning. This process results in a vision, a purpose, and a series of related goals and strategies for the company to ensure that we are prepared for the future. Together these components provide direction for the company.



Establishing a corporate direction is important if we are to meet increasing customer demands, to remain competitive and to achieve our business objectives. In thinking of the future we must ask, "How will we remain competitive in the future?" and "What will it take to win?" We'll have to consider what we can expect from the competition and how the social, political,

economic and technological factors may affect us in terms of what changes they'll require us to make and what opportunities they might offer.

Executive Staff set our initial corporate direction in 1980. They used the strategic management process to set our corporate direction for the future. The strategic management process is a systematic, disciplined process through which Executive Staff identifies our operating values and determines the strategies and initiatives needed to achieve our vision of the future.

"It's important that we all understand the company's present position and the direction in which we must move."

—Mike Cascone, Executive Vice President, Private Business Operations

A Case for Change

As part of our corporate direction setting process, a set of strategic goals have been defined. Collectively, these goals are referred to as the "Case for Change."



"The Case for Change begins to paint a picture of what we have to do to compete in an environment in which there are new competitors, in which

customers are more discerning and in which change is constant," says Joe Grantham, senior vice president, chief information officer.

The Case for Change can be summarized as follows:

- We need to double the number of customers from about two million to four million. To do this, we'll need to develop and maintain a continuum of products to attract new customers. We'll also need to achieve a customer satisfaction rate of 100 percent.
- We need to compete on all four dimensions of competition: cost, access, service and quality.
- We need to speed up the product development process. It now takes 18 months for us to develop and roll out new products. Our goal is to be more proactive and innovative and to develop and roll out products in less than six months.
- We must cut our administrative expenses from today's approximate 15 percent to less than 10 percent and probably closer to five percent.

- Medical cost increases need to be kept flat so that we have a zero percent increase.
- We need to improve the effectiveness of our company by changing from a command/control environment to a participative and adaptive environment in which we are continuously learning.
- We need to explore diversification opportunities.

"It's important that we all understand the company's present position and the direction in which we must move," said Cascone. "The key is to know exactly where we're going, but to be flexible in how we get there."

Key strategies identified

To accomplish the radical change necessary to succeed in today's competitive, evolving market, some of the strategies we developed in 1980 have been changed and new strategies have been added. We have developed a series of business and enabling strategies to help us achieve the strategic goals outlined in the Case for Change. During the past two years, we focused on two key business strategies—marketing and managed care. However, other strategies will play an important role in helping us to achieve our goal of low cost producer. These enabling strategies include Human Resources, Information Technology and Finance. In addition, reengineering is the enabling strategy or tool we are using to help us make the radical changes necessary for us to remain competitive. Reengineering the corporation will enable us to achieve our business objectives and reduce our costs. In future issues of

Profile, we'll focus more on specific strategies such as reengineering, marketing and managed care.

In the months and years ahead, we'll need tremendous collaboration—not only with our customers and providers but also within our organization—to ensure that our goals, strategies and the changes ahead all fit together to support our corporate direction. Every employee has a role in helping us achieve our vision of being a world-class organization that provides the highest quality health insurance and health care services for our customers.

"As I look around our company, I see an organization that is evolving to world class. I also see a level of team work exhibited on a daily basis which we have not always seen in the past. These two factors, along with a commitment to change, will be the deciding factors in our company's future success. While the changes ahead may not be easy or without frustration, I believe they will make us stronger as an organization," said Flaherty.

"Our vision is to be recognized as the industry leader for quality, service and value."

—Bill Flaherty, President