

profile

December 2, 1996

Geographic Business Units: BCBSF putting new organizational structure in place

The GBU will serve as the "center of gravity" for the new organization working within corporate policy and strategy.

The health care industry is dynamic and changing at an increasingly faster pace. The biggest shift taking place within the industry is the growth of network-based health care such as HMOs and PPOs. This shift is occurring in a highly competitive market. In Florida, new competitors with deep pockets and mature network health care capabilities have entered the market, our historical competitors are evolving and investing in new capabilities, and we see rapid consolidation taking place.

Looking forward, competition will continue to increase and the basis of competition will become more focused on quality outcomes and service performance. The industry will continue to move to network-based health care and companies who continue to think of themselves as just being in the health insurance business are going to have difficulty competing.

It has been more than 10 years since we implemented Market Segment Teams (MST) at Blue Cross and Blue Shield of Florida and eight years since we established the current regional structure. Today's rapidly changing marketplace requires that we continue to challenge our

thinking and look beyond our current organization to ensure we remain competitive and achieve key business goals.

A new organizational structure

In January of this year, an Organization Design Task Force was created to evaluate the effectiveness of our company's current organizational design and to examine strategies that include:

▼ Our long-term strategy is to be the low-cost producer. How do we organize ourselves to capture economies of scale across markets, segments and products?

▼ We currently have three Market Segment Teams. Should we keep Market Segment Teams as part of the organizational structure going forward? If so, how many should there be?

▼ Which of the activities that comprise our core and business processes, and under what terms and conditions, should be conducted in the regions?

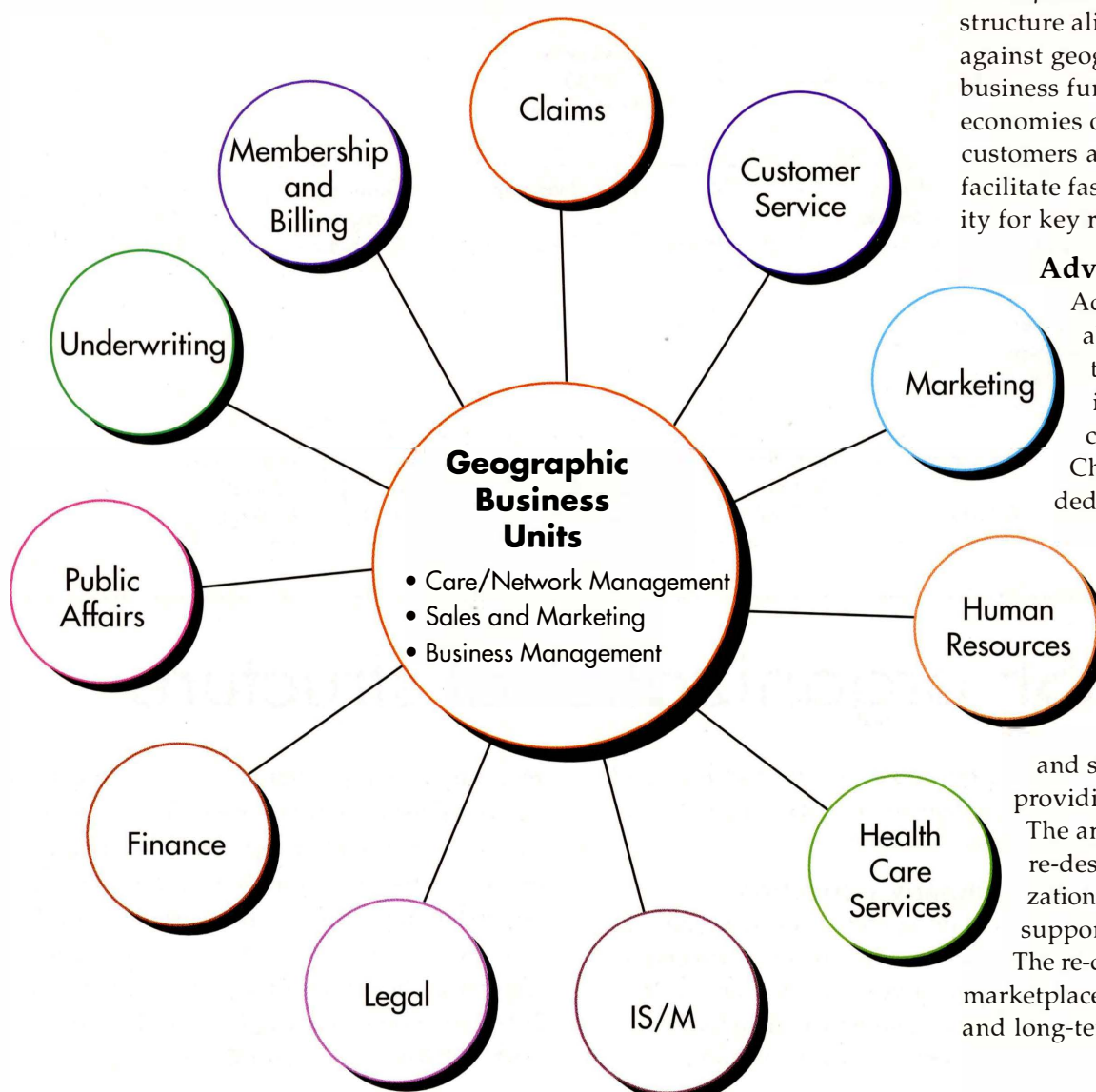
Working with Executive Staff, the Organization Design Task Force unanimously recommended a Geographic Business Unit (GBU) structure be adopted as the *primary* organizational axis for BCBSF. A GBU structure aligns key functions and accountabilities against geographic markets. By positioning certain business functions within the GBUs, we will capture economies of scale and move key processes closer to our customers and provider partners. This new structure will facilitate faster decision-making and clarify accountability for key results throughout the organization.

Advantages of the GBU

Adopting a GBU structure will strengthen our ability to segment and better serve our customers. The Market Segment Teams were an important first step in this process. The MST concept will now evolve into Segment Champions and Product Managers—full-time, dedicated resources focused on enhancing our ability to understand customers' needs, values and expectations. This will strengthen our management capabilities and improve our ability to develop innovative products and networks. Our organization re-design provides an exciting chance to leverage the knowledge and skills of our senior managers while also providing important developmental opportunities. The article titled "Senior managers tapped for re-design positions" and its accompanying organization chart illustrates how BCBSF will align to support the GBU structure.

The re-design will improve our competitiveness in the marketplace and enhance our ability to meet immediate and long-term business objectives. To ensure a smooth

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Senior managers tapped for re-design positions

volume 45 number 5
December 2, 1996

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design and production
Swan Graphics, Inc.

profile is published by the Communications Division to educate, inform and recognize the employees of Blue Cross and Blue Shield of Florida.

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During the last several years, we have seen the market increasingly shift to managed care, and looking forward, we see this trend continuing. This rapidly changing marketplace requires that we continue to challenge our thinking and look beyond our current organization to ensure we achieve our key strategies and remain competitive. In late September, our organizational re-design was unveiled. Central to the design is the Geographic Business Unit (GBU).

Under the GBU structure, the current five regions will be consolidated into three units. In turn, each business unit will have a dedicated staff focusing on market segments. With the geographic units, there will continue to be corporate development staffs largely responsible for products and programs while trying to contribute to competitive advantage, especially economies of scale. This organization approach is very similar to that used by U.S. Healthcare (now Aetna), an industry leader.

Last month several new appointments were announced to lead areas within the re-design. These appointments include the following:

Bruce Davidson, currently the senior vice president of Government Programs and Public Policy, has the additional responsibility of Diversified Businesses and Public Affairs. The Diversified Businesses area will include Florida Combined Life, Workers' Compensation and other new businesses. Public Affairs will encompass Communications, Public Policy and Legislative Affairs. In his expanded role as senior vice president of Government Programs, Public Affairs and Diversified Businesses, Bruce will report directly to the president and chief operating officer.

Catherine Kelly has been promoted from vice president of Communications to senior vice president of

Human Resources. She will report directly to the president and chief operating officer.

Robert Lufrano, currently senior vice president of Health Care Services and Human Resources, has been appointed head of the Geographic Business Units. He will report directly to the president and chief operating officer.

Barbara Benevento has been promoted from vice president of Health Care Program Management to senior vice president of Health Care Services. She will report directly to the president and chief operating officer.

Ernie Brodsky has been promoted from vice president of Health Care Services to senior vice president of the North GBU. He will report to Robert Lufrano.

Peter Burchett has been promoted from regional vice president of Central Florida to senior vice president of the Central GBU. He will report to Robert Lufrano.

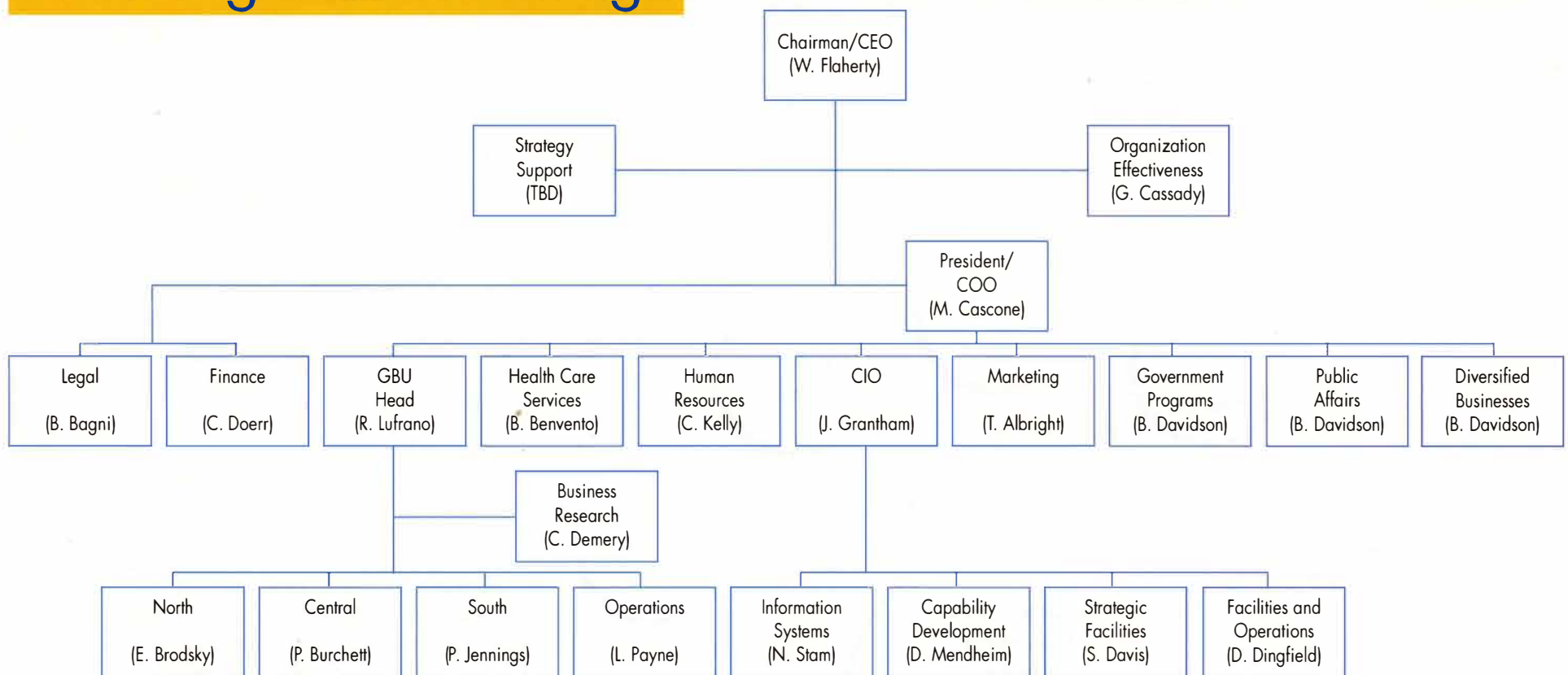
Paul Jennings has been promoted from regional vice president of the Northeast Region to senior vice president of the South GBU. He will report to Robert Lufrano.

Larry Payne has been promoted from vice president of Private Business Operations to senior vice president of Operations. He will report to Robert Lufrano. In his new role, Larry will oversee operations for the Geographic Business Units.

Nick Stam has been promoted from regional vice president of the Southern Region to senior vice president of Information Systems. He will report to Joe Grantham, the chief information officer of the company.

Dudley Mendheim has been promoted from vice president of the Local Group Market Segment to senior vice president of Capability Development. He will report to Joe Grantham. In his new position, Dudley will continue to provide leadership for the company's reengineering and capability development initiatives.

New Organization Design



BCBSF organizational structure

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transition and manage the impact on our customers and employees, detailed implementation planning will take place over the next several months.

Your role in the company's direction

This organization re-design sets a course for our new direction. At the same time, we recognize it also creates uncertainty and questions. Two-way communication meetings will be held in the coming weeks to further discuss the organization re-design with you and to

respond to your questions. Also, a comment line has been established for employees. If you have a comment, concern or observation regarding the organization re-design, let us know. Your feedback is important to understanding employee needs and for developing future communications regarding changes in the company. The Re-design Comment Line number is 791-8200. (Employees outside of Jacksonville may call 1-800-333-9797 extension 18200.)

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