

Strategies to Impact Revenue and Risk using Energy

Presented to
HESNI

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Welcome Back to School!

- 11:30 – 11:35 Introduction/Learning Objectives
- 11:35 – 11:40 History
- 11:40 – 11:45 Physics
- 11:45 – 11:50 Finance
- 11:50 – 11:55 Marketing
- 11:55 – 12:00 Thermodynamics
- 12:00 – 12:05 Home Economics
- 12:05 – 12:15 Calculus
- 12:15 – 12:20 Gym
- 12:20 – 12:50 Final Exam

Learning Objectives

- Take away at least one “Ah Ha!” that you can use.
- Connect the dots between the Facility and Revenue, Risk and Energy
- Understand the financial impact of energy
- Learn how to test for critical flaws in a strategy
- Get you to think about your Hedgehog.

First...A Trivia Question



What are the top three concerns of CEOs?

1. Financial Challenges 70%
2. Care for the Uninsured 38%
3. Physician/Hospital Relations 35%
4. Quality 33%

-ACHE – Research Publications 2007

Real Life "Ah Ha's"



History

A Little Greek History

Where Did Strategy Originate?

- Strategy is derived from the Athenian word *Strategos*
 - *which referred to a role or art of a General*
- Pericles (450 B.C.) – strategy referred more to one's managerial skills
- Alexander (330 B.C.) – strategy referred to skills that employed forces to overcome opposition and create a unified system of global presence

- Mintzberg and Quinn, *The Strategy Process* 1991

Today, there is no universally accepted definition!

“...the pattern or plan that *integrates* an organization’s goals, policies and *action* sequence into a *cohesive* whole”

- James Brian Quinn

How Are Most Strategic Plans Done?

Does this “Ring a Bell”?

“Most corporate strategic plans have little to do with strategy. They are simply three-year or five-year rolling resource budgets... Calling this strategic planning creates false expectations that the exercise will somehow produce a coherent strategy”

-Richard Rumelt

-Don Seymour’s Article in Futurescan 2008

So...

How do you know if you have a good strategy?

There is a very simple 4 step test

The “GUT” Check is Four Easy Questions!

- **Consistency** – strategy must not present mutually inconsistent goals and policies
- **Consonance** – business must match and adapt to environment while competing with other firms
- **Advantage** – strategy must provide for the creation and/or maintenance of a competitive advantage
- **Feasibility** – strategy must neither overtax available resources nor create unsolvable problems

- Richard Rumelt

IF ANY TEST FAILS – STRATEGY IS FLAWED

Strategy #1

Test for Critical Flaws in your
Business Strategy

Physics

- Impact - an impelling or compelling effect (Webster's Dictionary)
- Impact can be elastic or inelastic

Is This Elastic or Inelastic Impact?



Finance

“It’s all about the cash flow”

- Bruce Miller, Vice President, TriHealth

So...how do you ask for capital?

- Simple Payback
- ROI
- First Cost
- Net Present Value (NPV)
- IRR
- Discount Rate
- Financial Proforma
- Equivalent Revenue

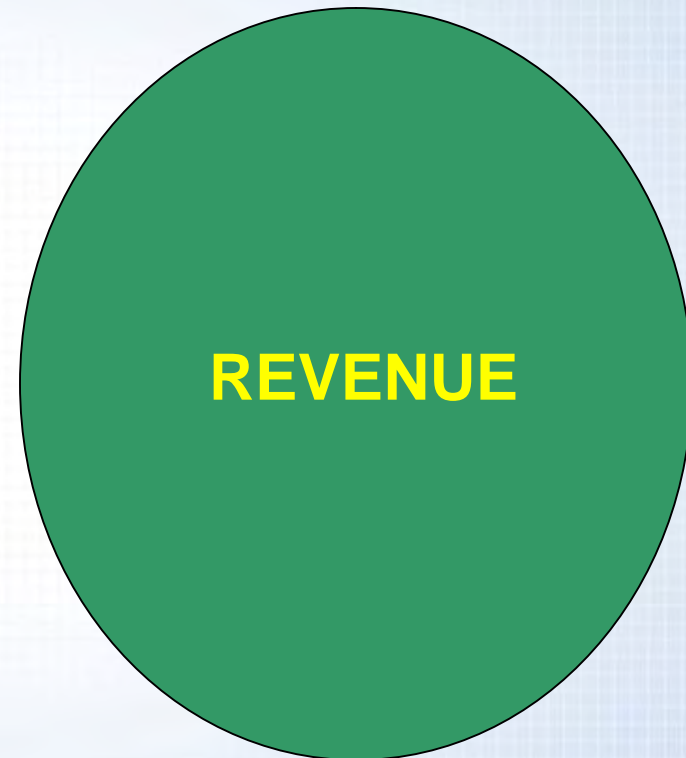
Trivia #2 – Can you name this movie?

"Oh, uh, there won't be any money, but when you die, on your deathbed, you will receive total consciousness."

Bill Murray - Caddyshack

Look at ALL of the sources of revenue?

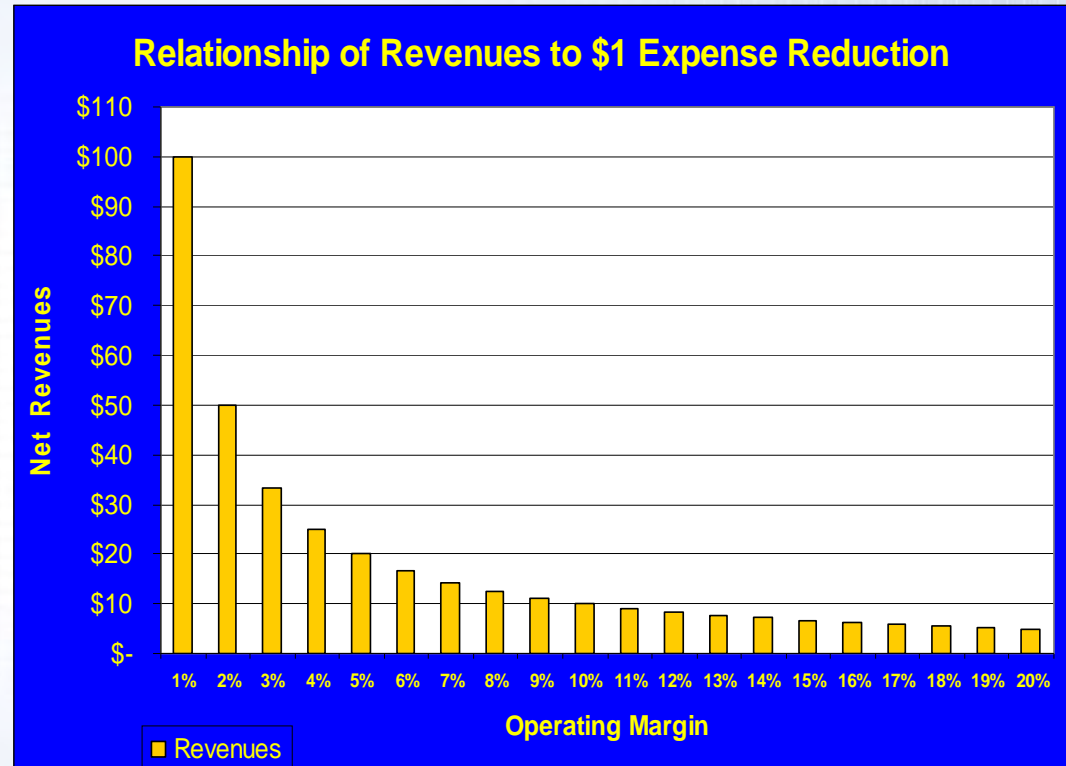
- Building Envelope
- HVAC Systems
- Energy Consumption
- Indoor Air Quality
- Humidity
- Supply Chain
- Sustainable Programs
- Grants, Rebates
- Tax Credits
- Renewable Energy Credits
- Water



What's a \$1 Worth?

- Average Operating Margin for Chicago MSA was **-4.1%**.
- Average Operating Margin for Illinois Hospitals was **-3.0%** in 2007
- Average Operating Margin for the US was **-2.6%** in 2007

■ - CMS Data 2007



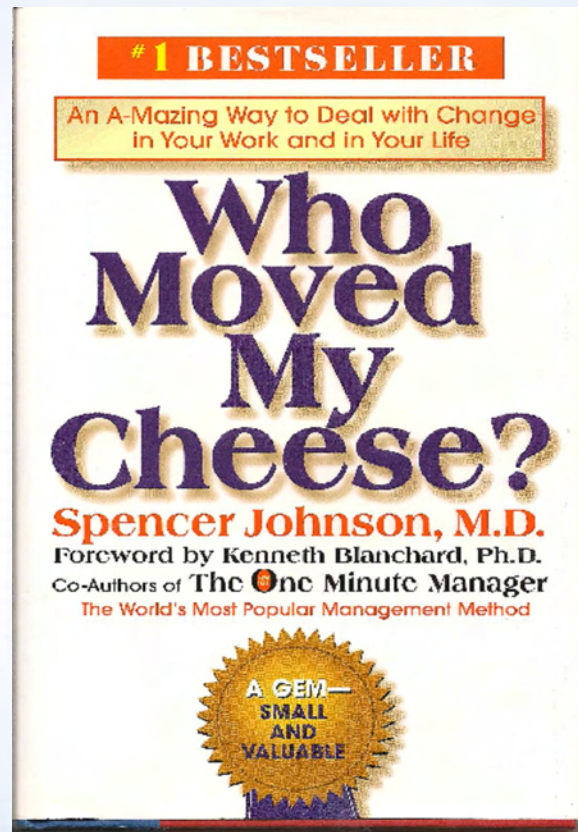
Strategy #2

Step Back and Look at the Forest

Marketing

Cheese can disappear!

Trivia # 3 – What type of characters are in this book?



Whose Moving Your Cheese?

- Joint Commission
- Patient Satisfaction
- Government
- Aging Population
- Low Operating Margins
- Shrinking Capital Markets
- Bond Agencies
- Aging Infrastructure
- Energy
- Environment



Cost and Risk Exposures

- Existing infrastructure is the 2nd biggest expense of most organizations (#1 is labor)
- Those responsible for facilities manage one of the largest portfolios of the nation's wealth
- Planned work versus unplanned work may have a cost ratio as high as 1:5
- Indirect costs range from two to fifteen times the cost of the maintenance repair. The average is usually 4:1
- Through preventive maintenance, the service life of an asset increases from 30% to 100%

Strategy #3

Keep Your Eye On The Cheese!

Thermodynamics

Work Takes Energy!

How are Work and Energy Related?

Work – the act of changing energy of a particle, body or system

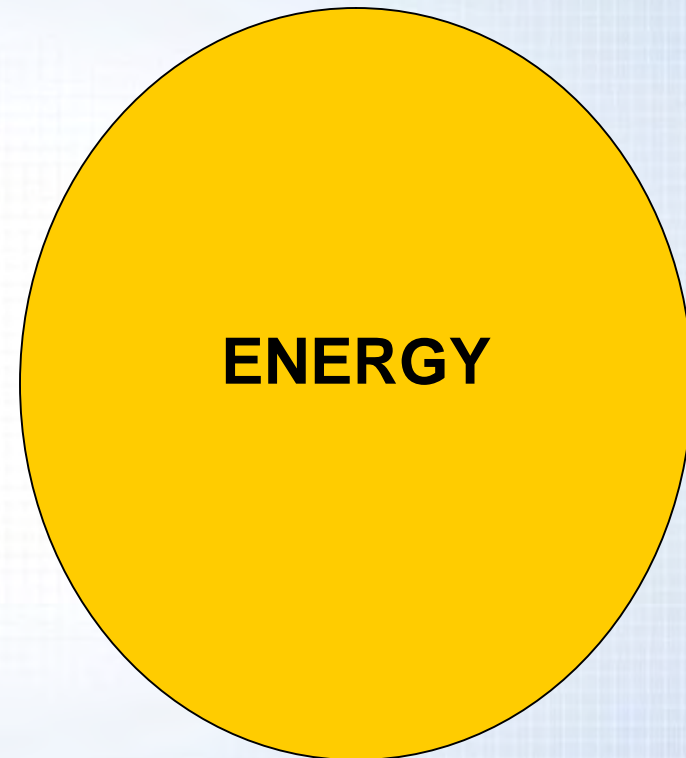
Energy – the capacity to do work

Trivia # 4 - Name Three Things That Are Constant?

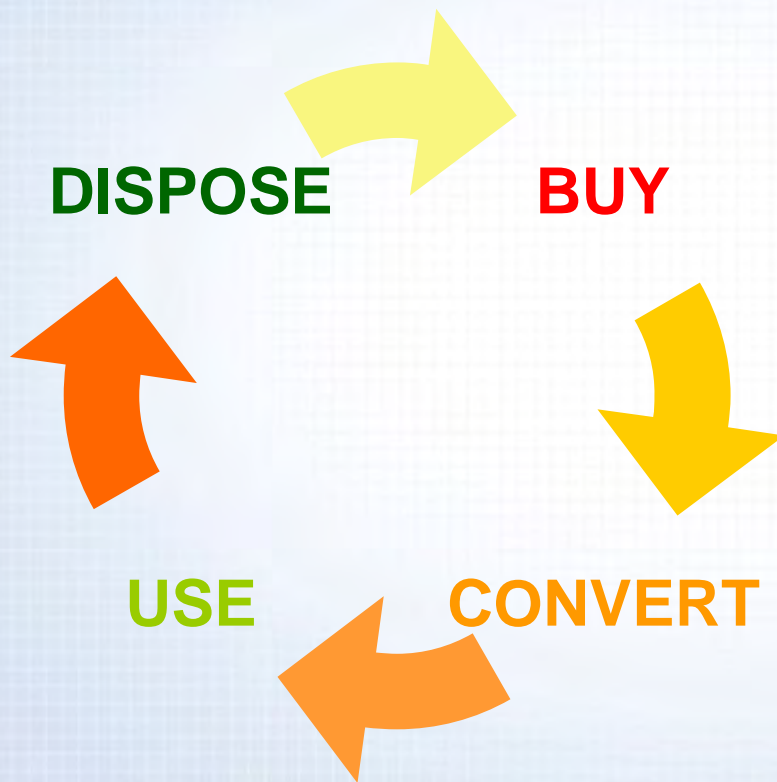
1. Death
2. Taxes
3. **ENERGY!!!**

The First Law of Thermo Rules!

- Natural Gas
- Electricity
- Solar
- Wind
- Biomass
- Water



How can I use the Energy Value Chain?



- Total cost of operations is typically 2-2.5 times your energy costs!
- Today, potential operational savings ranges from 10-25%
- How does that translate into revenues???

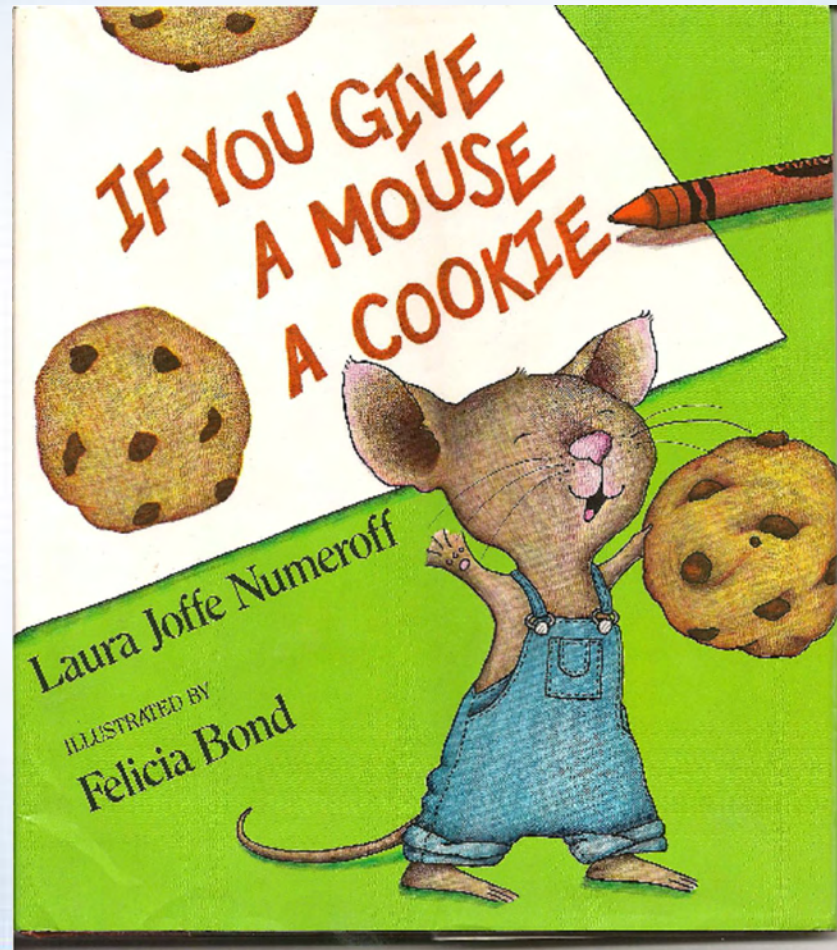
Strategy #4

Know how to utilize the First Law!

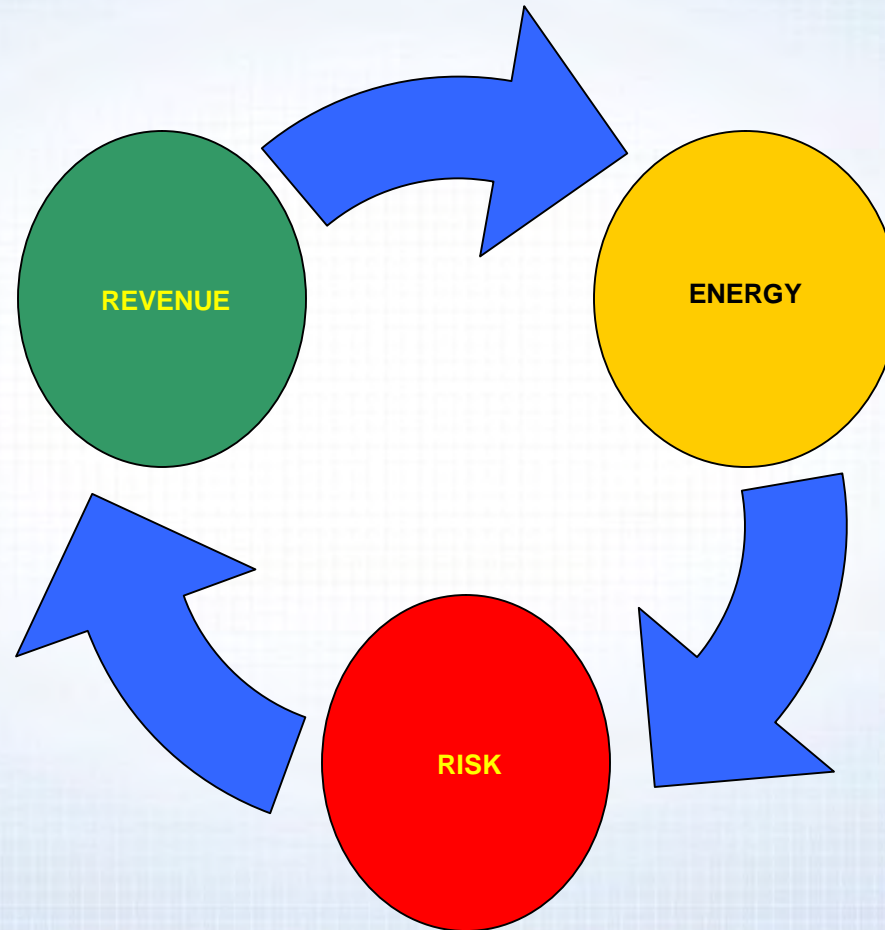
Home Economics

Time for Cookies!

Trivia # 5 – Can you complete this sentence?



Everything is Connected!



Strategy #5

Give a Mouse a Cookie!

Calculus

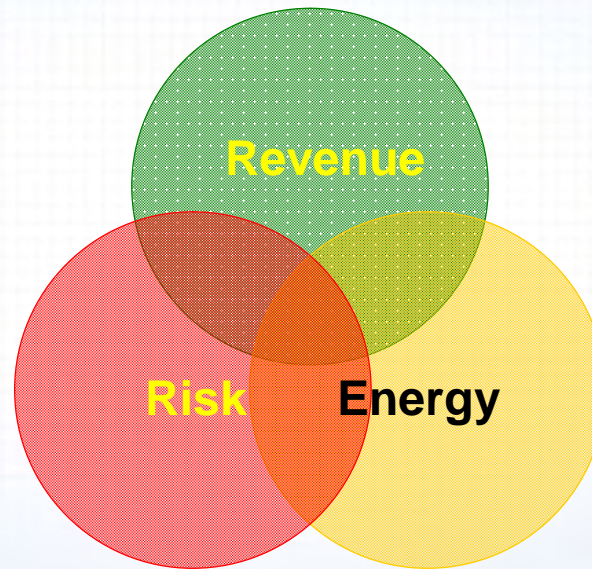
Integration can be powerful

Strategy 6 – Integrate to become Great

$$H^2 d(t) = \int ER^2 d(t)$$

What is your Hedgehog* (H²) Concept

Improved Operating Margins
Improve Budget Process
Sustainable and Renewable
Grants, Rebates and Tax Credits



Government
Availability of Capital
Aging Facilities
Economy
Energy

Renewable Energy
Solar
Vegetated
Wind
Natural Gas

*Jim Collins – *Good to Great*

Gym

Time for **Red Light** / **Green Light**

Keep working to “GO GREEN”

- Replace the **Red**
- Restore the **Yellow**
- Repair Any **Green**



Strategy #7

Use Red, Amber, Green to
Prioritize!

Final Review

In Summary

1. Test for Flaws
 2. Look at the Forest
 3. Watch your Cheese
 4. Know the First Law
 5. Give a Mouse a Cookie
 6. Integrate for Greatness
 7. Red Light/Green Light
1. Consistent
 2. Consonance
 3. Advantage
 4. Feasibility

Thank You For Your Time