

The Philips logo is displayed in a white rounded rectangle on a dark blue background. The logo itself is the word "PHILIPS" in a bold, blue, sans-serif font.

Managed Services and
Enterprise Partnerships

A photograph of a large, modern, multi-story building with a grid-like facade of windows. The building is light-colored, possibly concrete or stone. In the foreground, there are several tall flagpoles with white flags that have the GRHealth logo on them. The sky is blue with some light clouds.

First-of-its-kind alliance facilitates innovative, affordable healthcare

Philips and GRHealth create a 15-year strategic partnership to transform care through new technologies and services, consulting, operational support, and innovation

Who/Where

Based in Augusta, Georgia, Georgia Regents Health System (GRHealth) is a world-class healthcare network, offering the most comprehensive primary, specialty, and subspecialty care in the region. Georgia Regents Medical Center, the clinical center of GRHealth, provides skilled patient care, conducts leading-edge clinical research, and fosters the medical education and training of tomorrow's healthcare practitioners through Georgia Regents University.

Challenge

To improve outcomes and deliver more effective and cost-efficient care to the four to six million people being served across Georgia and South Carolina through GRMC, Children's Hospital of Georgia, Georgia Regents University Cancer Center, and the health system's numerous outpatient clinics.

Solution

Philips and GRMC formed a strategic Managed Services Alliance, the first of its kind in the United States. Through the agreement, worth approximately US\$300 million, Philips will provide GRMC with a comprehensive range of advanced medical technologies, consulting services, and operational performance, planning, and maintenance services with pre-determined monthly operational costs over a 15-year term.

As the only academic medical center in its area, Georgia Regents Medical Center (GRMC) has a threefold mission: to deliver care, conduct research, and educate the state's next generation of clinicians. GRMC's care delivery system comprises an expansive multicounty network of primary and ambulatory care as well as comprehensive hospital-based specialty and subspecialty services. Their catchment area is in one of the most challenging demographic regions of Georgia. According to the 2013 County Health Rankings report,¹ Richmond County (Augusta and surrounding towns) ranked 135 of 159 in summary measures for mortality, morbidity, health behaviors, social and economic factors, and the physical environment.

1. <http://www.countyhealthrankings.org/>

A vision to transform

To better meet the needs of their patient population while advancing their research and education agendas, the GRMC leadership team had laid out a vision for transforming care delivery as early as 2010. Their **Transform 2020** initiative was an ambitious and comprehensive plan dedicated to delivering quality care to their community within sustainable cost structures. But like so many other health systems, they faced serious challenges in implementing their vision. Their reality was mired in a poor payer mix, flat reimbursements, aging technology across modalities, inefficient processes, competing priorities, and a need to take cost out of an already constrained set of resources. They knew they had to do something to change the status quo. They also knew they needed to look for answers beyond their own resources and capabilities.

Aligning to support the GRMC vision

GRMC turned to Philips to help them create a new reality wherein “vendor” and “provider” would work together in planning and provisioning the technology, workflow, education, and services needed to deliver high-quality care throughout the health system. Equipment and service were, of course, at the heart of the proposition. They needed a solid solution to address the current and future clinical technology requirements of the medical center, particularly related to imaging and patient monitoring. But beyond technology, GRMC’s leadership envisioned a scenario wherein innovation, risk, and reward for care delivery outcomes would be shared. They wanted a partner who would be willing to “stand in their shoes with them.”

According to David Hefner, GRMC’s CEO when discussions commenced in early 2012, Philips was the only company prepared to “belly up to the bar” to architect the kind of partnership they were envisioning. As mutual ground for discussions, both parties understood that business as usual could not address the dramatic changes in the healthcare industry. To deliver on the Triple Aim of quality, access, and affordability would require a new, shared commitment to outcomes, a flexible and innovative business model, and a joint pursuit of innovation and excellence over the long term.

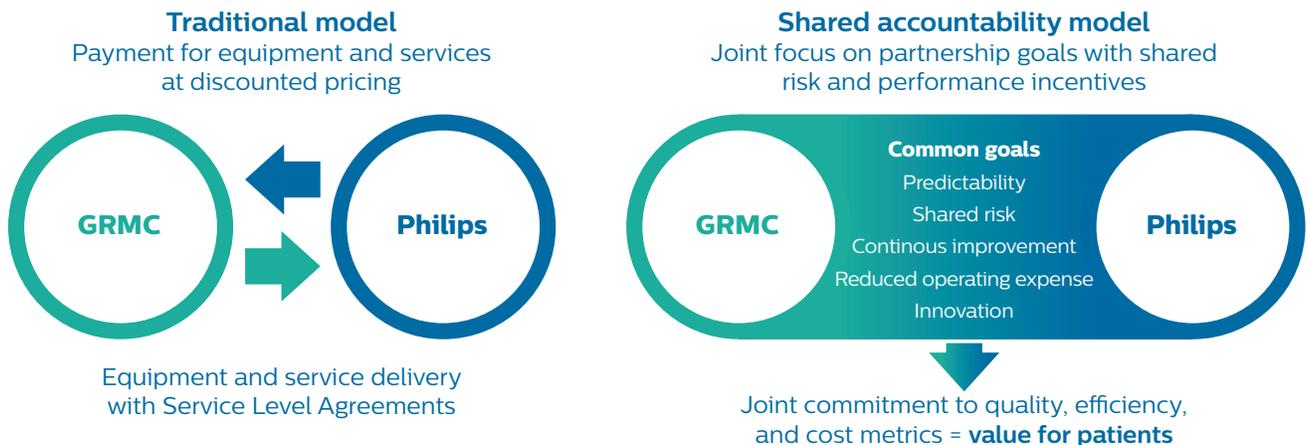
A Managed Services Alliance for healthcare transformation

What GRHealth was asking for was essentially a radical redefinition of Philips’ place in their value chain. They wanted us to help them forge a new way of working that would shift and share responsibility for creating value for patients, with a focus on improving healthcare delivery for an entire community.

In June 2013, Philips and GRHealth announced an industry-defining Managed Services Alliance valued at \$300M over a 15-year term. The Alliance model, which Philips has implemented successfully in dozens of health systems around the world, is the first ever partnership of this type in the U.S. and one of the largest in the world.

In the new business and operating structure, Philips assumes the risk and accountability for the **ownership, management, and maintenance of the medical technology** to meet the requirements of the care delivery teams. Moreover, we provide **educational, design, strategy, planning, clinical, and process improvement experts** with a commitment to delivering continuous performance improvement. The program incorporates **change management and an open innovation framework** to deliver a more integrated and sustainable approach to transformation. Progress is measured – in technology performance metrics as well as clinical outcomes (e.g., HAI rates and Length of Stay). Accountability is enforced. Success against key performance indicators entails financial upside for Philips, and coming up short carries a price. “Our success is dependent on the success of Georgia Regents,” emphasizes Brent Shafer, CEO of Philips North America. “Our alliance is based on contracted metrics that are tied to improving patient outcomes, increasing patient satisfaction, and reducing costs.”

The GRHealth relationship was founded upon a joint commitment to innovation and patient-centric care and informed by our belief that our success and growth depend on the long-term success and growth of our partner. The 15-year timeframe was intended to structure a shared, long-term perspective and realistic period during which the partners would work together to cost-effectively design and deploy innovative patient care strategies.



In David Hefner’s words, “We were looking for a partner to welcome as part of our enterprise-wide family and help us craft better methods to care for our patients at a lower cost while improving their experience. So we no longer relate to Philips as simply vendors selling their wares. Philips is now sitting with our executive and physician teams, devising new strategies. We are also sitting with their executive team, helping to craft the future of healthcare.”

Business model innovation as a lever for transformation

The scale and scope of transformation that GRMC desired could not be implemented within a traditional, transactional business relationship. The Managed Services model offers innovative alternative financial structures to create financial predictability while also providing the flexibility to respond to changes in strategy and market conditions.

Steven M. Scott, GRMC’s Chief Operating Officer, emphasizes that, “Unlike many typical vendor arrangements, with Philips we aren’t squared off against a problem statement or the market.” Instead, he says, “We are constantly, mutually engaged in issues like efficiency and quality from a strategic and mutually beneficial perspective.”

The ability to keep pace with technological advancements and facility design innovations, reduce costs associated with workforce training, and rapidly execute high-ROI improvement projects are just some of the ways this model delivers value to the Alliance partner along entirely new dimensions. “Philips works with us not only to install equipment as with vendors in the past, but they study the design and workflow of our processes,” says Tad Gomez, Vice President of Professional Services at GRMC.

Under the terms of the Managed Services Agreement (MSA), GRMC pays Philips a monthly **unitary payment** that covers all technology and services in the Agreement over the term of the contract. This allows GRHealth unprecedented stability in managing their operating expenses, capital expenditures, and cash flow related to medical technology and service.



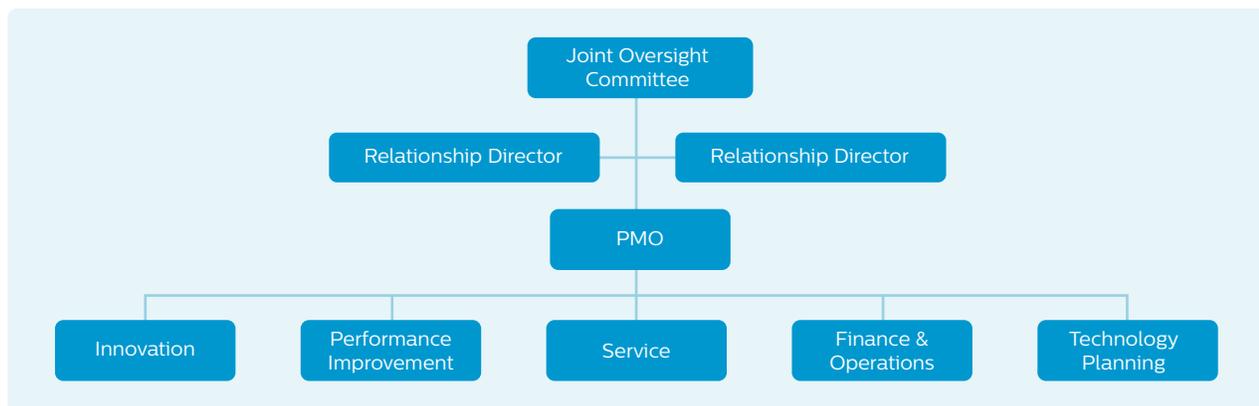
February 2014

Cardiology and Radiology PACS go live

The installation of Philips IntelliSpace PACS created a single, integrated clinical IT platform that allows clinicians to access a patient’s complete imaging history from any department. The enterprise-wide platform affords GRMC a more holistic view of a patient’s health and the ability to extend access to imaging data to its more remote regional care facilities.

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– Steven M. Scott, Chief Operating Officer, GRMC



The Alliance’s robust governance structure includes a Joint Operating Committee, a program management team with shared staffing, and Philips’ participation in most major GRMC working groups.

Freeing up cash to update aging technology

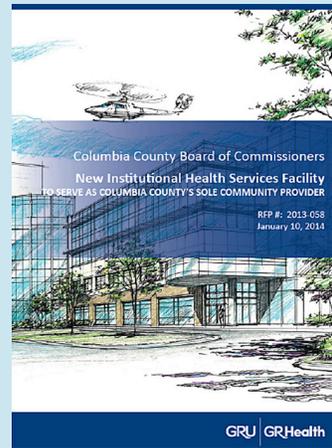
Philips provided a meaningful service at the beginning of the Alliance by purchasing GRMC's existing fleets of medical equipment. In total, GRMC transferred ownership of over a thousand medical devices, with a fair market value of roughly \$22M. Payment for these assets was applied to the monthly unitary payment, covering more than the entire first year. In this way, GRMC was able to effect an otherwise impossible "big bang" upgrade across multiple modalities and service areas, dramatically improving their clinical technology capabilities in critical areas.

Moreover, the nature of the Alliance protects GRMC from future budgetary upheavals and service interruptions related to equipment failure. "Having unexpectedly to replace an imaging system is a huge endeavor and can wipe out an entire capital budget for a year," says Gomez. "At the most fundamental level, with the Philips alliance there are no surprises – we know what we're getting, and we are controlling the factors that can up-end our stability."

Says Kelley Connolly, Director of the Alliance from Philips' side, "The way this model is structured elevates our relationship to a genuine partnership. GRMC's ability to keep pace with technological advancements, reduce costs, and innovate care delivery will serve as key market and operational differentiators in a challenging, competitive market. We share their aspirations. We're vested in their success. And we believe that the strength and breadth of our partnership will enable us to create the future of healthcare together."

A technology "big bang"

In Year One of the Alliance, GRMC was able to replace 800 imaging and patient care devices, including many that were several generations behind. The team completed analog fleet replacements for 15 C-arms and 12 mobile X-ray systems, moving both to premium digital fleets. In addition, three new incubators were introduced to the Labor and Delivery suite, and five mobile disinfecting ultraviolet light machines arrived in an effort to reduce hospital-acquired infections. A total of 525 patient monitoring devices were replaced, and migration of 18 months of PACS data occurred. In total, these product replacements constituted \$15M of the financial model.



January 2014

Columbia County Hospital RFP and Certificate of Need

GRHealth and Philips collaborated closely to scope demand, program, design, and develop forecasts for a new community hospital in Columbia County. The project was awarded to GRHealth.



Children's Hospital of Georgia: Pediatric imaging department experience design development

On-site analysis



Experience themes

AN INSPIRED, CHILD-FOCUSED ENVIRONMENT

- Bright, playful & uplifting spaces
- Engaging positive distraction; a sense of delight
- Various waiting spaces to accommodate all age groups
- Intuitive orientation provided by light and color

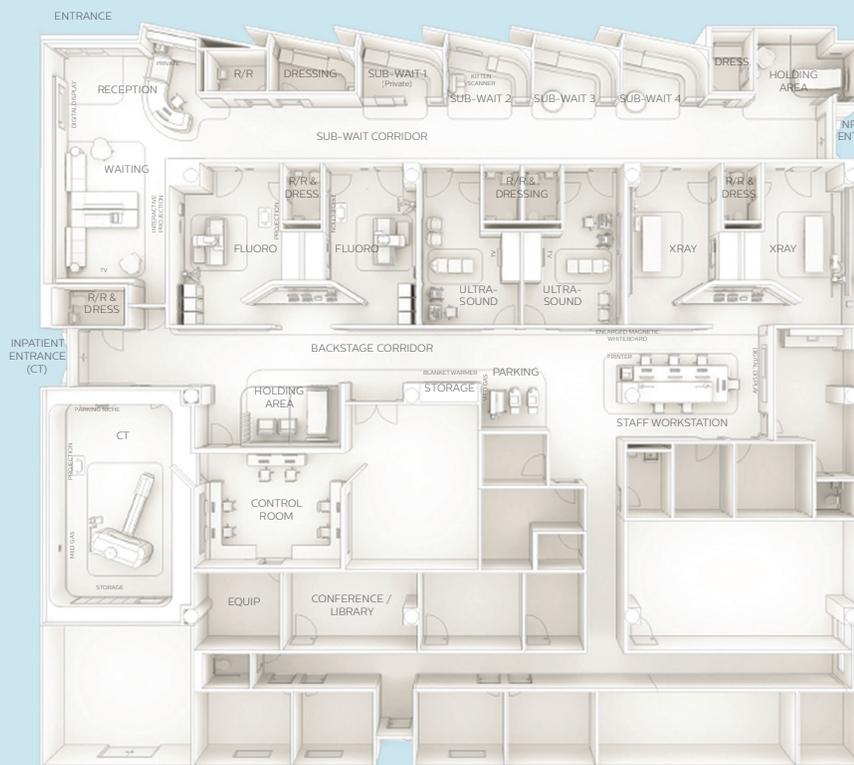
AN EFFECTIVE WORK ENVIRONMENT

- Community feeling & sense of pride in the workplace
- Supports continuous collaboration & formal / informal learning
- Leading academic health center
- Ergonomic and attractive workplace
- Streamlined clinical workflow

A SENSE OF PLACE

- A clear and visible department identity
- Department mascot(s) that support a memorable patient journey narrative
- Environment communicates the department values and quality of care
- Overall memorable experience for children and their families
- A "Destination Area" for patients and families seeking care

Imaging department layout



KEY IMPROVEMENTS

IMPROVED PATIENT EXPERIENCE

- Consistent and seamless overall experience
- Dedicated changing rooms for increased privacy
- Bright, uplifting, and colorful environment
- Positive distraction elements to reduce anxiety
- Clutter-free and calming environment
- Staff "Welcome Wall" screen to create a more personable experience
- Improved dedicated inpatient holding areas
- Improved acoustics (noise reduction) to reduce anxiety
- Familiar materials for a non-clinical feel
- Modernized bathrooms

IMPROVED FAMILY EXPERIENCE

- Better defined entrance with clear signage and identity
- Improved communication to staff with easy-to-access reception desk and private consultation room
- More comfortable main waiting area with two seating zones
- Increased number of seating area options for families (sub-wait bays)
- Digital screen to provide information about procedures beforehand
- Multi-activity environment to reduce sibling boredom
- Kitten scanner to allow parents and staff to explain CT procedure
- Dedicated inpatient holding areas where family can wait comfortably

IMPROVED CAREGIVER EXPERIENCE / WORKFLOW

- Improved observation and oversight from reception desk
- Dedicated changing rooms for faster throughput
- Centralized, ergonomic sit/stand workstations
- More ergonomic control room workstations and enlarged window
- Improved lighting
- Digital display for education and training
- Clearly defined staff and patient / family zones
- Private consultation bay

ENHANCED CLINICAL LAYOUT & STORAGE

- Improved overall departmental lighting
- Dedicated parking zone for crash carts and anaesthesia cart
- Phased plan for storage / equipment / conference room reconfiguration
- Improved and integrated storage solutions in exam rooms
- New centralized storage with integrated blanket warmer & small fridge

April 2014

CHOG Imaging Experience Flow

Georgia Regents and Philips share a strong focus on the patient experience. As part of Children's Hospital of Georgia's imaging department, the Philips Experience Design team developed a comprehensive set of recommendations to create an improved experience.

Accomplishments in the first 18 months

The activities and accomplishments of the first year and a half of our Alliance are summarized below. They are expansive and too numerous to list. **But perhaps above all, the first phase has been about aligning and positioning the GRMC-Philips team shoulder-to-shoulder to face next year's challenges – and those of the next 13 years.**

Clinical

Transformed from aging to state-of-the-art technology across multiple modalities in 12 months

- Replaced 800 imaging and patient care devices and trained clinicians on how to use them
- Built state-of-the-art telemetry facility and switched to cableless monitoring devices

Increased high-tech imaging volumes

While several pieces of existing equipment were upgraded or replaced, there was no net increase in the number of imaging devices. During this time, Radiologists decreased by 2.5 FTE.

- CT ↑ 11%
- MRI ↑ 33%
- Ultrasound ↑ 29%
- Vascular IR ↑ 39%

Connected Radiology systems and assets to create new value across the GRMC system

- Implemented complete switchover from analogue to digital radiology (diagnostic X-ray and portables)
- Implemented enterprise-wide radiology & cardiology PACS
- Introduced digital C-arm fleet
- Launched digital mobile X-ray system to connect remote facilities and enable “access from anywhere”

Optimized, reallocated imaging resources to support growth

- Conducted analysis and plan to optimize ultrasound fleet
- Developed value stream maps of telemetry unit to identify process waste, patient safety issues, staff education needs, and revenue opportunities
- Revised CT and MR purchase plans based on data-driven guidance and technology roadmap insights

Implemented programs to improve patient safety

- Achieved lower radiation dose for GRMC patients
- Launched sepsis improvement program
- Introduced alarm management program

Improved the patient and staff experience

- Developed comprehensive plan to create an improved experience in Children's Hospital of Georgia's imaging department

Supported substantial quality reprogramming initiative

- Redesigned Quality Improvement Measurement System (QIMS), identified opportunities to reduce non-actionable alarms by 35 percent, and identified best practices in the areas of infection prevention, early detection, and treatment to reduce hospital-acquired infections and sepsis mortality rates

Operational

Simplified and aligned resources to support new, collaborative ways of working

- Implemented Governance structure and communications
- Transferred all service responsibilities to Philips, including rebadging affected service employees

Supported GRMC strategic growth initiatives

- Collaborated to respond to RFP and Certificate of Need for new community hospital in Columbia County; the project was awarded to Georgia Regents

Created “future-proof” technology management plan with guaranteed performance metrics

- Secured minimum and targeted Technology Compliance metrics
- Guaranteed performance against defined risk sharing metrics

Improved hospital enterprise throughput by assessing the entire continuum of care

- Assessed opportunities and ranked recommendations to improve patient throughput and consequently reduce Average Length of Stay across entire hospital.



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– Brent Shafer, Chief Executive Officer, Philips North America

Financial

Instituted stable and predictable operational, capital, and cash flow structures

- Simplified cash management from volatile capital outflows to consistent unitary payments
- Secured investment schedule to ease budgetary planning
- Minimized acquisition costs through consolidated procurement
- Enabled strategic capital deployment through definition of a long-term technology roadmap

Clinical growth planning

- Assessed market opportunity and business strength of 15 clinical programs and developed corresponding growth plans for the health system. Tied the 15 growth plans into a unified strategy and an ongoing planning schedule to improve growth orientation

Realized \$7M in market savings vs. “business as usual” procurement

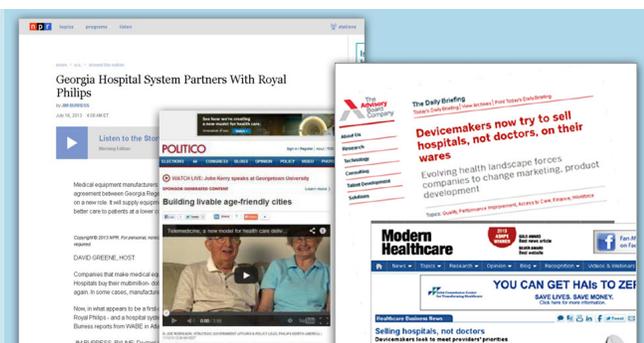
Gained extensive media exposure for GRMC through joint marketing and PR efforts

Positioned for a future of continuous improvement and innovation

The GRMC-Philips Managed Services Alliance is a living, changing entity, built to provide financial predictability while offering the flexibility to respond to changes in strategy and market conditions. To that end, each year GRMC identifies three additional, new metrics against which the Alliance performance is measured. Moving into the second fiscal year of the Alliance, GRMC identified reduction of Average Length of Stay (specifically, by 3/10 of a day), improvement of sepsis mortality rates, and reduction of non-actionable alarms as critical to the enterprise and as areas where they expect Philips consulting and IT solutions to deliver meaningful improvement.

Separately, the Alliance has laid the groundwork and begun to institute an **Innovation Working Group**, which will provide seed funding and dedicated staff from Philips and GRMC. The joint team will identify an overarching vision and key areas of focus for innovation work that seeks to measurably improve the health and well-being of the population served by GRMC. Both entities want to realign traditional research and development thinking to focus instead on persistent health problems. Identifying common focus areas and problems to solve together is the core of the Alliance model.

As Philips looks to the future, we believe more parts of the health system will see value in identifying common goals and constructing deeper ways of working with shared purpose and ambition. In fact, we are fairly confident that the only way we can innovate fast enough to keep pace with the financial, operational, and clinical challenges of health care is to do so in lock step with our customers.



Media exposure

The Philips-Georgia Regents Alliance was reported by more than 320 media outlets globally, including Associated Press, *Modern Healthcare*, and DotMed. Extensive local and regional TV coverage, as well as NPR Morning Edition radio segments, reached more than 13 million. The Alliance generated more than 660,000 conversations and exposures on social media.



“You can find lots of people who do multi-vendor service. You can find lots of people to do management consulting. But what you can’t find is someone who has shared values – and whose solutions are going to occur in the framework that you live in and want to stay in.”

“The most valuable thing that Philips brings to the table is a shared value of taking care of the patient. And if you align yourself with people who have the same values and the same desire, then you actually can do things that nobody else would believe were possible.”

– Dr. James Rawson, Chief of Radiology, Georgia Regents Medical Center

About Royal Philips

Royal Philips (NYSE: PHG, AEX: PHIA) is a diversified health and well-being company, focused on improving people's lives through meaningful innovation in the areas of Healthcare, Consumer Lifestyle and Lighting. Headquartered in the Netherlands, Philips posted 2013 sales of EUR 23.3 billion and employs approximately 115,000 employees with sales and services in more than 100 countries. The company is a leader in cardiac care, acute care and home healthcare, energy efficient lighting solutions and new lighting applications, as well as male shaving and grooming and oral healthcare. News from Philips is located at www.philips.com/newscenter.

