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RICK CHIRICOSTA

In the wake of Kent Clapp's death, Medical Mutual's new CEO brings a sense of history and a skeptic's eye to the job.

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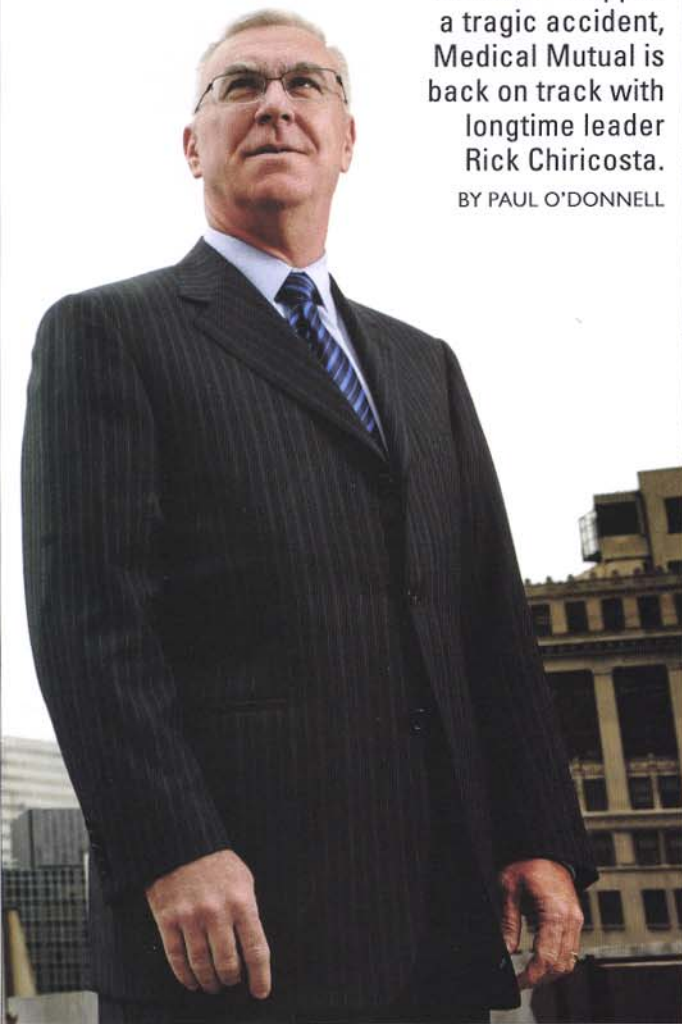
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ERIC MULL

The Feeling's Mutual

AFTER LOSING CEO KENT CLAPP IN A TRAGIC ACCIDENT, MEDICAL MUTUAL IS BACK ON TRACK WITH LONGTIME LEADER RICK CHIRICOSTA.

By Paul O'Donnell
Photography by Eric Mull

It's a spring day in early April, and winter isn't ready to release its grip on Northeast Ohio. Snowflakes the size of tulips whip around skyscrapers in downtown Cleveland as Rick Chiricosta gazes out the window of his 10th-floor office.

He's looking for the right words to describe how he'll manage Medical Mutual of Ohio as its new chief executive officer.

"You could tell me it's snowing outside, and I would probably want to go out and do something to validate that," he says, reflecting on his penchant for details and a natural skepticism honed during a 23-year career as a number cruncher at the state's oldest and largest health insurer.

"I'd at least look out the window."

Four months into the job, Chiricosta knows he's different than the man he's trying to replace, Kent Clapp, the company's revered CEO who died in early December in a plane crash in Puerto Rico.

"We'd been friends for a long, long time, but most people will tell you I'm a lot different than him," says the 53-year-old. "I'm not going to try to be Kent. At the end of the day, we're similar. Both of us like to treat people the right way."

With five internal candidates for the job, it seems only natural that Clapp's successor would come from its ranks. These same employees engineered a decade-long turnaround that rescued Medical Mutual from the brink of bankruptcy. Its healthy operating surplus today provides an enviable cushion in the nation's worst economy in 70 years.

To Chiricosta, understanding Medical Mutual's past is just as important as envisioning its future.

"We'd been through a lot of adversity together over the years," he says. "Kent's unfortunate tragedy is just one more thing in a long history. What happened in 1996 and 1997 ... it would make one of the most incredible business movies of all time. By all rights, we shouldn't have been able to pull through that."

MEDICAL MUTUAL



Medical Mutual CEO Rick Chiricosta photographed on top of the Rose Building on May 7, 2009

The movie would start with an overthrow of the company's CEO by the then second-in-command Clapp, who had grown convinced that a sale brokered by his boss wasn't the best course of action for Blue Cross and Blue Shield of Ohio, the predecessor to today's Medical Mutual. The \$300 million deal — an eyebrow-raising amount for the time — would have enriched the Ohio insurer's board members and key executives.

As the deal underwent state scrutiny, the national Blue Cross and Blue Shield Association threatened to deliver a deathblow — yanking permission to use its name and coveted cross and shield emblem. By November 1996, Blue Cross and Blue Shield of Ohio was losing \$6 million a month and regulatory seizure loomed. Clapp ultimately gained control of the company but lost the Blue Cross and Blue Shield affiliation.

Reclaiming a name from its history, the company went back to Medical Mutual, and executives set out to reverse the money drain that saw it finish 1998 \$95 million in the red. Today, Medical Mutual employs about 2,800 people and serves 4.3 million customers in Ohio, Indiana, South Carolina and Georgia. Its annual revenue tops \$2 billion.

An accountant by trade, Chiricosta was advancing through the company's financial hierarchy during Medical Mutual's turbulent days.

He started as a controller in the company's Toledo office in 1986. By 1989, he had become chief financial officer of the company's life and disability insurance business, Medical Life Insurance Co.

When that business was sold to Illinois Blue Cross in 1998 to generate cash for Medical Mutual's transformation, Chiricosta decided he didn't want to leave Ohio for Chicago. He left the company to join Richfield-based National Interstate Corp. as its CFO.

That lasted nine months. In March 1999, Medical Mutual wanted him back as its vice president of finance. "I was thrilled to get the call, except for one thing," he says. "It's a call I would have rather had a year or two later." Chiricosta knew the company's financial position was "touchy." "For two or three years, everything we were about was getting this company into a position to succeed," he says.

Chiricosta is modest about his role in fueling the company's comeback. He says he "played a pretty significant role" in selling three of Medical Mutual's key buildings — the Rose Building where it's headquartered, a data center in Beachwood and an operations center in Toledo.

"That made employees nervous," he says matter-of-factly, "but we signed 20-year leases."

Selling the buildings brought in \$65 million cash and, more importantly, bought Medical Mutual time. "That was step one," Chiricosta says. "Without step one, you don't get to step two and step three."

The next step involved becoming more disciplined in determining costs. As a nonprofit company, Medical Mutual prices its products to make only 2 to 3 percent profit, Chiricosta says. "With that slim of a margin, that means you've got to have a good handle on your costs."

He also spent a lot of time talking with worried customers, explaining Medical Mutual's financial situation. "We never were in a position where we couldn't pay our bills, but we certainly couldn't battle with the financial strength of some of the public companies," he recalls. The company needed to get to a place where financial stability was a nonissue.

"It's amazing to sit here today. It used to be something we dealt with morning, noon and night. Now it never comes up."

The calm surrounding Medical Mutual's finances is a harbor from the whirlwind Chiricosta walked into when he put himself in the running for CEO.

He interviewed for the job about a month after Clapp's death. He was offered the position the next day in a phone call from Charles Bryan, a retired Nationwide Insurance Co. executive who serves on Medical Mutual's board of directors. The day after that, he was the star attraction at two employee open houses. The pace hasn't slowed since.

He describes the difference between being the company's finance chief and its CEO as "astronomical." Yet he says his family will always come first — even if his new post runs a close second now.

"My kids and my wife are the most important thing and always will be," he says. "That's the No. 1 thing in my life."

History of Innovation

One of Cleveland's leading corporate citizens got its start during the depths of the Depression.

In 1934, a group of Cleveland hospital administrators got a \$7,500 loan to start a prepaid plan designed to help people pay for hospitalization and medical expenses. It was one of the first plans of its kind in the nation in what evolved into today's health insurance industry.

Developed by the Cleveland Hospital Service Association, it laid the groundwork for Medical Mutual of Ohio, the state's oldest and largest health insurer, which is celebrating its 75th anniversary this year.

When the Cleveland Hospital Service Association opened June 15, 1934, it didn't require subscribers to take physicals. It charged premiums of 60 cents a month for ward service and 75 cents a month for a semiprivate room. Its maximum hospital stay was 21 days.

Similar associations sprang up throughout the country and officially came together in 1939 under the Blue Cross Association.

Medical Mutual of Ohio was created from the original Cleveland Hospital Service Association, which provided hospitalization insurance, and Medical Mutual of Cleveland, which handled insurance for payment of physicians' bills.

CHSA merged with its Akron counterpart in 1957 to become Blue Cross of Northeast Ohio. Medical Mutual of Cleveland joined the Blue Shield System in 1961. In 1984, Blue Cross of Northeast Ohio merged with Medical Mutual to form Blue Cross and Blue Shield of Northern Ohio.

In 1997, the Cleveland-based company reclaimed the Medical Mutual name. Since then, Medical Mutual has expanded by purchasing a South Carolina-based HMO and a provider network in Atlanta. It also re-entered the life insurance business in 2008 through a subsidiary, Consumers Life Insurance Co.

In a 2009 study by J.D. Power and Associates, Medical Mutual ranked highest in member satisfaction among Ohio health plans.

The company is marking its diamond anniversary with employee events throughout the year. It also commissioned Cleveland artist Hector Vega to design original artwork and placed street-pole banners around the downtown neighborhood surrounding its corporate headquarters.

Describing himself as a product of modest means in Springfield, Ohio, Chiricosta earned a college scholarship to the University of Toledo for tennis. He had played the sport since age 6 but had never taken a private lesson in his life.

He learned to play through a unique summer program started by a YMCA dentist that attracted more than 400 kids to twice-a-week sessions at a public park.

"The price for the summer was you had to bring one tennis ball," Chiricosta recalls. As children grew into teens and improved their skills, they became leaders and volunteered their time teaching younger kids. "It was all about leadership," he says. "That's how I learned to play tennis."

He met his wife, Sheila, at the University of Toledo in 1978, during his senior year. She was a freshman on the women's tennis team. They became the school's first varsity athletes to marry.

All three of Chiricosta's children have been high school tennis stars, and the two oldest play collegiately. Matt, 22, recently graduated from Allegheny College, which he attended after a 100-win career at St. Ignatius High School. Christina, 19, plays at Bowling Green State University.

Christina paired with her younger sister, Nikki, to win a state high school tennis title in 2006 as doubles partners for Avon Lake High School. She also partnered with her mother in 2007 and 2008 to capture the National Mother-Daughter Clay Court title.

Though open-heart surgery a little more than a year ago temporarily halted Chiricosta's game, he's still playing, teaming with his wife in occasional mixed doubles tournaments.

Off the court, Chiricosta's an avid record collector with about 2,500 vinyl albums, a "substantial" CD collection and close to 400 gigabytes of digital music. He attends several concerts a year with his son, Matt, who "likes all my music," he says. "I go to a lot of concerts. I'd much rather do that [with vacation time] than sit on a beach somewhere."

Chiricosta knows he isn't particularly well-known outside Medical Mutual's world. His job never required that. "I'm a pretty low-key, low-profile person," he says. "I can't say I relish the spotlight, because I don't."

He describes himself as a demanding, results-oriented boss. "I don't have any apologies about asking people to perform. I'm not real diplomatic. That doesn't mean I yell and scream. ... What I've found is people really like clarity."

At a typical staff meeting, Chiricosta spends about 90 minutes discussing important issues with his staff. He's not keen on post-meeting jockeying, so he ends the discussion by asking if there's anything else anyone wants to add. "I would rather deal with it up front," he says.

Businesspeople who've worked with him over the last two decades know him as a man of integrity, a problem solver.

"I like to do business with people I like and trust," says Dennis Jancsy, chief financial officer of Akron Children's Hospital, which offers Medical Mutual insurance coverage to its employees. He got to know Chiricosta while working as an audit partner at Ernst & Young.

"[The board] saw in Rick a quality that is important in a CEO," Jancsy says. "He's humble."

That genuineness also stuck with Bill McDonnell, who worked with Chiricosta for several years as a relationship manager for National City Bank, which handled the corporate banking for Medical Mutual.

"He's someone you want to go the extra mile for," McDonnell says. "He's not afraid to make a decision, and it's a fair and open decision. He has no hidden agenda."

McDonnell admires Chiricosta's ability to remain grounded. "I look up to somebody like Rick. He's a real person."

Jerry Guenther, who hired Chiricosta as his No. 2 officer at Medical Mutual's former life insurance subsidiary two decades ago, doesn't think his understudy will have any difficulty going from a numbers guy to the guy in charge.

"He's got a lot of integrity. He plays it the right way," Guenther says. "He's a hard worker, intelligent and a quick learner."

CEOs must be adept at delegating, yet masterful at solving problems and analyzing details. "I think Rick has all of those things," he says.

He'll need those qualities to continue moving Medical Mutual forward. With health care reform on the horizon, Chiricosta could eventually find himself managing under a new set of health insurance rules determined by Congress.

"One of the hardest things to deal with is the uncertainty," he says. "The devil is going to be in the details. Only in the most radical proposals are they really talking about blowing up the insurance system as we know it."

If Congress takes aim at competition in the health insurance industry, Chiricosta thinks Medical Mutual is well positioned because of its comparatively slim profit margin.

Still, a national insurance exchange or a plan in which the government is able to negotiate unbelievable discounts with providers is troublesome. "That's what the larger insurance industry is concerned about," he says, "being put in a situation where it's just impossible to be competitive."

Chiricosta says the fundamental question ultimately rests with what Americans are willing to do to lower health care costs. "If people really want to impact costs, the only way that I know how is to start rationing care," he says. "I don't know that anybody is really ready to do that."

He points to the Canadian system. "There are lots of people up there who come down here to buy supplemental coverage. At the end of the day, those who can afford [it] still get preferential treatment. It's clearly a problem."

As Ohio's population steadily shrinks, Medical Mutual is turning its attention outside the state for ways to shore up its customer base. In 2007, it bought Carolina Care Plan, an HMO based in Columbia, S.C.

"While we don't have to grow the top line 15 or 20 percent to satisfy Wall Street, we can't watch our revenue base shrink," he says. "We had this idea that we were going to go outside Ohio and hopefully find some opportunities to help compensate for that, while never giving up on Ohio. I personally believe Ohio is going to be our bread and butter for the long haul."

Carolina Care Plan represented a gamble. As Medical Mutual's executive vice president of mergers and acquisitions, Chiricosta remembers having exactly one weekend to conduct due diligence on the purchase.

The South Carolina HMO was a \$200 million company with a strong provider network, but it was losing \$1.5 million to \$2 million a month. Medical Mutual would have to improve the bottom line by 10 percent just to break even.

"We knew we weren't going to get there overnight," he says.

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The Feeling's Mutual

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"Here's an opportunity where we're going to have to live with some losses until we get it turned around. But if we do get it turned around, what have we got? We've got a \$200 million company in one of the areas where we think we can make something happen. But let me tell you, none of us were sure."

In his M&A role, Chiricosta jokes that he was "paid to be the skeptic. I always had some kind of reason not to do something."

But he felt like the South Carolina deal could work. "If we're ever going to do something outside Ohio that's meaningful, this is the one," he says.

Carolina Care Plan finished 2007 with a \$17 million loss. The losses dropped to \$2 million last year. Chiricosta expects the company to make a profit this year. "We're poised for that to be one of the best success stories we've ever had."

Acquisitions may be a continuing part of Medical Mutual's growth strategy, but it will have a laser focus. "I want to focus on the states where we're at," he says. "Georgia, South Carolina, Indiana."

Chiricosta takes over Medical Mutual with two intentions — protect the company's employee base and safeguard its surplus. "One of my personal goals is that everyone who's here who wants to be here is still here in 10 years," he says.

He thinks Medical Mutual can grow its market share both outside Ohio and within the state, such as the Toledo area where the company recently added a key hospital system. His growth target is 10 to 20 percent in five years.

"When we're talking about growing, we need to cover our costs and get a little money to our bottom line," Chiricosta says. "We don't have to go out and get rich off it. It gives us a unique position in the marketplace if we take advantage of it." 