

Strategic Planning for Healthcare Expense Reduction: An Urgent Need

The web site of a prominent national healthcare consulting firm states, “Future processes will require a different playbook than the one healthcare systems are operating with today.”

Which “plays” must be in the book to “win” at meeting the rapidly evolving needs of the industry relative to expense reduction and which players will be able to execute them for optimal outcomes?

Strategic Planning: Continued

William McFaul, the pioneer of the introduction of the application of the industrial concept of value analysis into healthcare and the strategist behind the development of the nation's first platform for non-labor expense reduction that was used by 1,300+ hospitals throughout the US and Canada states: "The models we developed in the late 1970s and early 1980s were predicated on the likely evolution of reimbursement of the first model of DRGs (circa the NJ Experiment). When The Center for Modeling Optimal Outcomes (The Center) was formed in 2003, we realized that these early models were inadequate to meet then-current needs and further changes to reimbursement could make them an impediment to providers as they are forced to rethink their playbooks."

Utilizing a team of more than thirty experts in various aspects of healthcare delivery, The Center literally disassembled nearly every aspect of non-labor expense reduction strategies McFaul and his team created and utilized from 1978 – 1997. All of these processes were then reconfigured to create the next generation of non-labor expense reduction; the one that must evolve to meet future needs.

Strategic Planning: Continued

Hospitals and health systems currently have varying degrees of success with their expense reduction initiatives. That being said, nearly everyone involved with executive level operations agrees that the evolution from fee-for-service to population health based on decision making driven by evidence-based comparative effectiveness is inevitable.

To prepare for this transition, The Center has focused its efforts on identifying what exists in comparison to what must evolve to meet the inevitable cost – quality challenges in a bundled payment environment. The following two slides provide a high level overview of concepts and processes that exist today in comparison to those that must exist to optimize outcomes to meet tomorrow's needs for fiscal stability.

The remainder of the slides provide further insight into several aspects of operations that must be incorporated into strategic plans that will transform old playbooks into innovative solutions.

The Future of Non-labor Expense Management



Value Analysis

- Purchased Services
- Focus 18-25% of Non-labor Expenditure
- Supply Chain
- Disease Management
- Data Capture
- Nurse Shortage Mentality
- Integrated Delivery

Resource Maximization®

- Shared Services
- Focus on all non-labor expenditures; i.e. 53 – 57%%
- Expense Chain
- Disease Prevention
- Data Maximization
- Dollar Shortage: ROI Mentality
- Integrated Operations

The Future of Non-labor Expense Management

Using the seat – person analogy from the Jim Collins book, *Good to Great*



Current

Tomorrow

- | | |
|--|--|
| <ul style="list-style-type: none">• Right person• Right seat• Knowledge• Skills• Participant• Value analysis team focus | <ul style="list-style-type: none">• Right seat• Right person• Skills• Knowledge• Leader• Consultant for Resource Maximization |
|--|--|

Most current non-labor expense reduction efforts use outdated value analysis models with many individuals lacking the leadership attributes and skills set required to meet tomorrow's needs (wrong seat – wrong person)

Moving Ahead: Strategic Planning to Meet Tomorrow's Needs

Thinking in terms of being able to be ahead of the curve in the healthcare industry is a formidable challenge; one that requires the ability to understand inevitable needs and match them with solutions that do not disrupt current activities.

The objective of the following slides is to highlight some of the steps that most providers should follow to avoid unnecessary expenditures, stimulate cost savings in the short term, maximize internal resources and put in place initiatives that can be smoothly transitioned to meet a changing environment without disrupting day-to-day operations.

Population Health Reimbursement : Critical Preparations

Senior executives throughout the hospital industry are aware of the fact that bundled payment (population health) reimbursement is inevitable. Accordingly, many providers are preparing for this process.

That said, however, the following are currently factors that must be addressed:

- Population health modeling will necessitate a shift from fee-for-service that necessitates prevention and cost-effective decision making that utilizes evidence-based options.
- Solutions will require collection of specific data and its dissemination relative to each chronic disease as it pertains to causes and treatment options

Population Health Reimbursement : Critical Preparations

- Provider processes will necessitate new team structures to interface multiple disciplines to interpret data, analyze cost comparisons between treatment options and monitor outcomes from different options (cost v quality). Such integrated activities are currently missing in the majority of hospitals and systems.
- Costs associated with preparation for population health cannot be capitalized and, therefore, must be planned appropriately in order to avoid unnecessary strain on current operating margins. Reference: **Investing in Population Health Strategies Creates Financial Risk**
<http://www.healthleadersmedia.com/print/FIN-309713/Investing-in-Population-Health-Strategies-Creates-Financial-Risk>

Population Health Reimbursement : Cost Effective Preparation

The facts are rather obvious with regard to preparation for the inevitable shift to population health-based reimbursement:

- ✓ Current initiatives are gathering massive amounts of information and warehousing it without knowledge of what will be required or how it will need to be manipulated to be maximized; a costly process and **risky** because many variables needed for the causes of chronic diseases will not be available based on prospective data.
- ✓ Team dynamics and leadership skills are not being addressed despite the fact that they will be critical factors; needs that are currently set aside in order to avoid time commitments and costs for training and education
- ✓ Physicians and supporting personnel are unaware of how evidence-based information and comparative-effectiveness must be used to ensure optimal outcomes that balance cost and quality; i.e. true value. This factor results in a problem addressed in 1998 when Steve Jobs said: **"A lot of times, people don't know what they want until you show it to them."**

Population Health Reimbursement : Cost Effective Preparation - Solutions

The Center for Modeling Optimal Outcomes has utilized the input of more than two dozen experts in various aspects of the healthcare industry spanning in excess of 16 years to the identification of optimal decision making for maximizing the balance between cost-effectiveness and quality outcomes. This unprecedented endeavor has enabled us to formulate the strategies outlined in the following slides.

Population Health Reimbursement : Cost Effective Preparation - Solutions

1. Explicit examples of the causes of chronic diseases must be used as a foundation for training from which clinical applications pertaining to evidence-based assessments and comparative-effectiveness for cost versus quality can be become part of decision making. We have selected the evidence-based (scientifically grounded) causes of asthma for this purpose. This documentation is available upon request.
2. Efforts must focus on the identification of medical/clinical factors that are contributing to hospital readmissions that are currently being penalized for CMS. These activities will, in essence, be addressing factors associated with the disease states that are not being adequately addressed in order to prevent readmissions. Examples of these diseases include COPD, acute myocardial infarction, congestive heart failure and community acquired pneumonia.

Population Health Reimbursement : Cost Effective Preparation - Solutions

To facilitate smooth transitioning from fee-for-service processes into to a population health environment, it was necessary for The Center to also create models to address:

- Evidence-based documents for disease states currently associated with CMS penalties. This information is necessary for use by providers as part of readmission initiatives; i.e., to immediately enhance operating margins and for use as “training” tools to prepare for population health
- A comprehensive portfolio of innovative and proprietary educational materials for overcoming change inertia and the development of leadership skills. This information will be essential to facilitate training and education of personnel who will manage the internal processes to integrate activities within each facility as well as to interface multiple facilities. These skills will enable the “right” people to become “internal consultants” for hospitals and health systems.

Population Health Reimbursement: Cost Effective Preparation - Solutions

Continued.....

- The Center has assembled an array of novel features that must be incorporated into IT solutions to ensure collection of necessary information can be converted into optimal data for evidence-based assessments using comparative-effectiveness methodologies. These critical features will be shared with entities selected by The Center as partners for implementing the next generation of expense reduction programs.

Summary

Strategic planning for expense reduction must take the following into account:

- ✓ Short term activities must focus on the development of a platform (including IT tools) that can reduce current expenditures while simultaneously developing cost-effective methods that can be transitioned into a bundled payments (population health) environment. This planning must optimize internal resources and minimize expenditures for costly and sub-optimal IT solutions that may not be able to be adequately transitioned into optimal population health solutions.

Summary

Continued...

- ✓ Non-labor expense reduction efforts will require personnel with new skills sets that shift from technical knowledge into the ability to lead integrated teams of physicians and clinicians. These skills must include but not be limited to facilitated leadership (i.e. without authority) and the ability to overcome inertia for change.

Unlike current value analysis personnel, these individuals (Resource Maximization Coordinators®) will be charged with the responsibility to optimize the collective expertise of internal resources, identify new opportunities for action by the appropriate internal review teams and the ability to facilitate access to data for use by each separate team charged with comparative-effectiveness modeling.