

Jeni Williams

a new road map for healthcare business success

Four industry leaders share the ways in which business development is changing in an era of reform—and how CFOs and other healthcare leaders should prepare.

As health systems take their first steps toward preparing for payment and delivery reform, one thing is certain: Carefully analyzing the ways in which reform could affect an organization—and developing a comprehensive business development plan in response—will be critical to an organization's success.

“Healthcare organizations really have to have a handle on where their business is going, and they need to ask the critical question, ‘What areas will require additional investment and growth—and what activities will we no longer be able to support?’” says Michael Sachs, chairman and CEO of Sg2, a healthcare analytics company in Skokie, Ill.

“Under reform, hospitals will make less money in the areas where they have traditionally made money, and services that have not been profitable in the past will become even less profitable. Hospitals should be taking steps now to forecast what their volumes will be, where they will experience growth, where they should invest, and where they should partner.”

Business development strategies for healthcare organizations are changing in an era of reform. “Reform is going to require an affiliation or partnership mindset,” says Preston Gee, senior vice president, strategic planning and marketing, Trinity Health, Novi, Mich. “Historically, the harsh reality is that we’ve tended to operate in silos. Going forward, particularly as we think about all of the elements that compose the continuum of care, I think we’re going to see more collaborative and substantive partnerships, since a single organization will likely not have control over all of those elements of care. We’ll also begin to see more intensity around integration, whether economic or virtual.”

HFMA recently spoke with these two industry thought leaders, and two others, regarding how reform will shape healthcare business

AT A GLANCE

Action steps hospitals should take to prepare their organizations for a changing business development environment include:

- > Developing a comprehensive forecast of the ways in which reform and market forces will affect patient volumes and service line demand
- > Aligning with physicians and other care entities in a tightly integrated way
- > Heightening transparency related to quality and cost
- > Investing in marketing and social media to strengthen the organization's market position

development—and what CFOs and other health-care leaders should be doing now to prepare.

The Changing Face of Business Development

The increased number of Americans who will have insurance as a result of reform and the enhanced emphasis on value-based care and a coordinated patient care experience will shape healthcare business development and influence decision making by healthcare leaders. Providers should consider the ways reform—both legislated and market-driven—is affecting their business opportunities.

“What is beginning to emerge is the importance of demonstrating an organization’s ability to manage quality and costs,” says Catherine Jacobson, FHFMA, CPA, executive vice president for finance and strategy, chief financial and strategy officer, Froedtert Health, Milwaukee. “The ability to say that an organization provides high-quality care at low cost is a priority, because both consumers and payers are closely examining quality and cost. In regard to quality, providers are going

to be penalized for not producing high-quality care and not maintaining quality metrics that are in line with the rest of their market. When it comes to cost, healthcare leaders should examine not only the costs they incur for their organizations to operate, but also the costs around utilization of services and the total cost of care.”

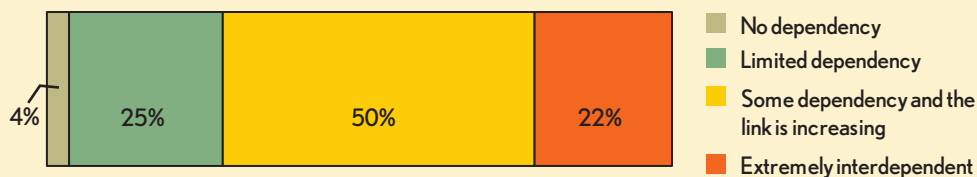
Regina E. Herzlinger, DBA, professor of business administration, Harvard Business School, Boston, points to expansion in the healthcare market as a clear opportunity. “This past quarter has been the first time that healthcare investments by venture capital firms have been the leading type of investment they are making,” she says. “And the composition of these investments is really interesting: In the past, health services and healthcare IT got short-shrift in favor of investments in pharimatech and biotech, but now, healthcare services and IT are the major components of venture capital investing. What these firms are considering is that 34 million people will be newly insured under reform, so clearly healthcare capacity needs to be expanded.

FINANCIAL IMPACT OF REFORM ON HOSPITALS	
Payment Area	Payment Reduction over a 10-Year Period (in billions)
New payments for uncompensated care	\$177.3
Payment reductions:	
Market basket update	–\$112.6
Disproportionate share hospital (DSH) payment cuts (Medicare and Medicaid DSH)	–\$36.1
Reduced readmissions	–\$71
Hospital-acquired conditions	–\$1.5
Accountable care organizations	–\$2.9
Net aggregate financial impact on U.S. hospitals	\$17.1

Sources: Health Care Facilities Managed Care Analysis, Bank of America Merrill Lynch, March 4, 2010; Congressional Budget Office letter to former U.S. Speaker of the House Nancy Pelosi, March 20, 2010; HFMA estimate.

THE LINK BETWEEN COST REDUCTION AND CLINICAL QUALITY IMPROVEMENT

More than 20 percent of respondents to an HFMA Value Project survey indicate that cost reduction strategy is extremely interdependent on clinical quality improvement efforts.



Source: HFMA Value Project Survey, January 2011.
Percentages total more than 100 percent due to rounding.

“The number of newly insured also will put great financial strain on our country, so innovations that control costs without harming quality are clearly of interest,” Herzlinger says. “We’re seeing private investment in healthcare services that reduce costs by improving care, such as respirator companies that manage asthma or COPD [chronic obstructive pulmonary disorder]. Meanwhile, private equity firms are shopping for hospitals that have put themselves up for sale or are thinking of doing so. As a result, I think we’re going to see a larger for-profit component among hospitals in our healthcare system, and more physician practices that are being acquired by insurers and hospitals.”

Gee notes that many hospitals and physicians are aligning in a more tightly integrated way, rather than aligning vertically, as was seen in the 1990s. “I think we’re going to see more collaborative and substantive partnerships between hospitals and physicians, and we’re going to see insurance companies that are vertically integrating with or purchasing physician practices and exploring a new model,” he says. “Providers also are recognizing the need to expand their continuum of care, making sure they understand the worlds of skilled nursing and home health care in preparation for bundled payment.”

Says Sachs: “Hospitals will be rethinking when patients need to be in the hospital—not just Medicare patients, but all patients. We saw this pattern in the 1980s, when Medicare DRGs were put in place: Length of stay declined not only for Medicare patients, but for all patients. Inpatient use rates actually declined subsequent to the implementation of DRGs because everyone was looking at clinical practice in total.”



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Anticipating the Challenges Ahead

The need to be a nimble organization has never been more important, as demographic and market forces and payment and delivery reforms require changes in healthcare strategy. Today’s providers face increasing pressure to predict the ways in which market forces and reform will affect their organizations—and to partner with other organizations to meet the challenges ahead. How can hospitals more effectively anticipate

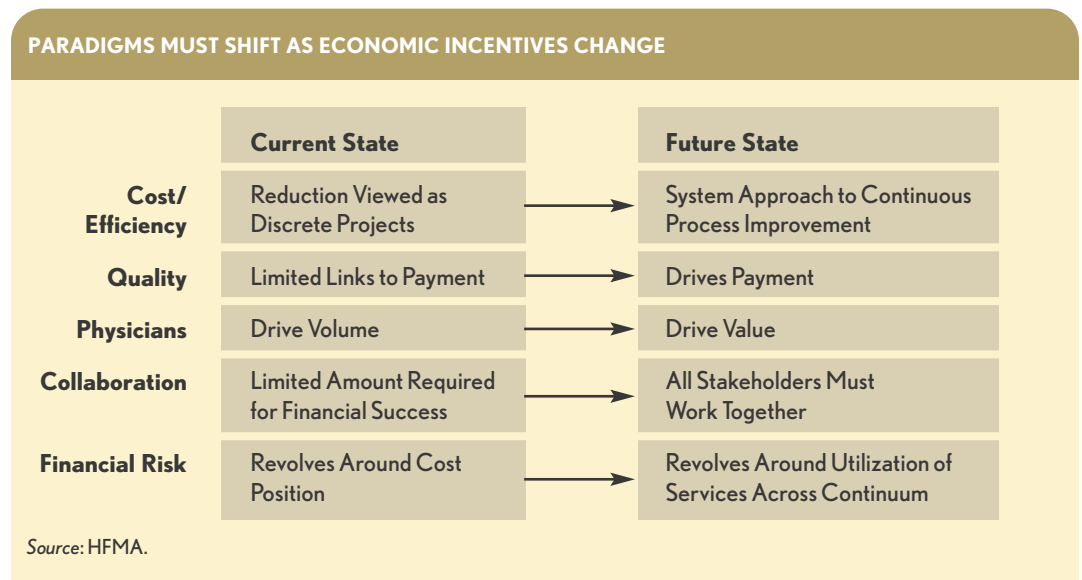
changes in patient volumes and identify where they will need to invest, partner with other organizations, or build upon services or service lines?

“The first thing hospitals should do is to develop a comprehensive forecast of how patient volumes will change in an era of reform, and where they will experience growth,” says Sachs. Sachs notes that there will be growth in the inpatient sector for the treatment of diseases that relate to an older population and procedures that relate to orthopedics and neurosciences. There also will be growth in the outpatient sector—growth will shift away from traditional areas, such as imaging, but will increase in areas such as outpatient procedures and nonprocedure visits as more care is shifted out of the hospital setting, he says.

“One key question to consider in regard to potential partnerships with other providers—be they physicians or other care entities in your market—is whether they will be well integrated with your organization’s information system and your team,” Sachs says. “You need to build a comprehensive system of care, and that really means in an integrated fashion. The best example of

integration in the past 10 years is in the airline industry, where the major carriers have partnered with regional airlines. Airlines such as United have put their colors on the planes of regional providers, interfaced these providers with their own reservation systems, and integrated these providers in such a way that you think you’re on a United plane, but it’s operated by another company. That’s an example of a very tight integration. In the same fashion, a health system doesn’t have to provide all of the services a patient needs, but it should have a tight integration around those care entities and physicians with which it partners.”

Gee observes that hospitals are trying to understand how their volumes will change and where they will need to develop partnerships or invest. “Some hospitals are participating in ACO [accountable care organization] pilot projects or collaborating with other organizations to try such an approach with their own employees, so that they can better understand how to move from a volume to value concept and how to move from fee for service to bundled payment in the management of a patient population,” he says. “Not





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many organizations are that far down this path. Most hospitals and systems in the nation have just begun dipping a toe into these waters.”

Herzlinger suggests that clear opportunities exist for hospitals to reduce costs, mostly in chronic diseases and disabilities that are typically mistreated. “Let’s consider a disease like CHF [congestive heart failure], which is a leading cause of unnecessary hospitalizations,” she says. “A CHF admit is not that profitable for hospitals. The average commercial payment for CHF is \$15,500 on a risk-adjusted basis. Many people believe that the average risk-adjusted CHF patient could be treated for about \$7,000 to \$8,000 if an integrated team were to manage the patient’s care to avoid unnecessary admission or readmission to a hospital. Let’s say a hospital is part of that team, and the hospital offered a bundle of care for \$14,000. That hospital would be looking at a potential profit of \$7,000 per CHF patient while avoiding a potentially unprofitable CHF inpatient admission. And it’s a do good, do well for the organization: It’s a way for the hospital to say to CHF patients, ‘We’re going to give you so much care that you’re going to feel better and you won’t have to go the hospital to be decongested.’”

“If I were a hospital CEO or CFO, I’d be looking for my hospital’s sweet spots in managing these types of diseases or disabilities. I’d sit down and analyze what types of services the organization does an especially good job of providing and what the organization is capable of providing for a particular disease or disability. Pain management, stroke, hypertension, asthma, and COPD are all areas to consider as starting points for bundled care.”

Opportunities for Investment and Growth

As more patients gain access to healthcare services under reform, and as the aging baby boomer generation places greater demand on the nation’s healthcare system, the demand for specific services and service lines will increase significantly. Hospitals should prepare for increased demand in specialties such as primary care, orthopedics, neuroscience, and cardiology.

Primary care is an area that will be in great demand as more Americans become insured and seek access to healthcare services and as the aging population requires more care, says Jacobson. “Primary care physicians also will be needed as the trend toward comprehensive care management is realized, because they will be the ideal representatives to manage care coordination, and there just aren’t enough of these physicians to fulfill this role,” she says. “If you can find a primary care physician or a nurse practitioner who is interested in moving to your area, hire that person. It’s also important to ensure that your organization’s access points are open and that people in your community have access to the care they need.”

Gee also stresses the importance of primary care in an environment of reform. “If you think about this question in the broader context of making the dramatic transition from a fee-for-service model to a bundled payment model, and of hospitals becoming responsible for the full continuum of care, it’s obvious that the primary care element is going to be critical,” he says. “This will require a new mindset for hospitals: All of a sudden, they will be thinking not only about the acute



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care services they provide, but also about the public health initiatives in their communities and all the touch points and organizations that have an impact on a person’s well-being, care, and access to care and services. It will be a very different dynamic from what providers are used to. It’s also important for hospitals to look at the types of patients who represent the lion’s share of costs for their organizations and develop ways to better manage these patients’ care, because those efforts are really going to have an impact on cost.”

Sachs suggests that hospitals look at their referral process and where those referrals are coming from and make sure that their referral channels are well-articulated, managed, and controlled, both from a physician referral perspective and a patient direct access perspective. He also says hospitals should ensure that they have the surgical talent to perform procedures that will be in greater demand effectively and efficiently. “It used to be that everyone looked for high-volume surgeons, especially in areas such as orthopedics and cardiology,” he says. “Now, what hospitals should look for are high-volume surgeons who are amenable to standardization around implants—surgeons who are very focused not only on outcomes, but also on case costs, and who are willing to critically examine what their total case costs are.”

The Increasing Importance of Market Position

The role of market position will become even more important for providers as reforms are implemented and as consumers are given greater accountability for managing their care.

“Market position will become particularly important as a large percentage of the population enters health insurance exchanges,” Gee says. “This will change the entire dynamic of the healthcare purchase equation, particularly as it relates to the decision-making role of the consumer. It is estimated that 20 to 30 percent of people who are currently insured through their employers will enter the health insurance exchanges. That is a massive number of people who are going to be accountable, individually, for accessing their care, paying for it, and more.”

But how can healthcare providers strengthen their marketing approach to attract patients who will boost the organization’s bottom line?

“Hospitals should invest in a comprehensive market strategy that focuses on those areas that are going to continue to bring profitable volume to the hospital,” says Sachs. “This strategy should take into account not only brand development, public relations, and targeted marketing to consumers, but also the array of services offered for specific conditions and the locations at which they are being offered. Going back to the airline analogy, you can be the largest airline, but if you treat customers poorly on every flight, sooner or later, no one is going to want to fly on your planes. In the same respect, even if you’re the largest provider in your area or if you offer the most locations for care, if you can’t deliver high-quality care and service, the result will be unhappy patients. It’s important to ensure that a marketing strategy includes strategies for providing high-quality care and the highest level of service.”

Sachs notes that the role of social media also will be very important to a hospital's marketing strategy. He says: "People feel very comfortable sharing their thoughts on their healthcare experiences via social media sites. Sites such as Yelp feature comments about individual doctors and hospitals. The use of social media to facilitate conversations between providers and consumers, rather than simply to disseminate information about providers' services, will become an important component of not only building a brand, but also service delivery. The whole notion of a physician not wanting to give patients his email address is an anachronism in today's healthcare environment."

Gee says consumers will be looking for a heightened level of transparency from providers, examining factors such as quality, cost, and value.

"Providers should take steps to heighten transparency, making sure that information regarding the quality of care their organizations provide and the cost of care is front and center," he says. "Every step in the continuum of care is going to be on the radar screen in regard to its component of cost."

Providers also should take care to enhance the level of accessibility that consumers have to their organizations, Gee says. "Accessibility is not just about whether patients can get an appointment with a physician or for a treatment or procedure," he says. "It's also about whether patients can make these appointments online; whether their information is transferable; whether there is interconnectivity between clinicians throughout the provision of care. There also will be an ongoing exchange of information between providers and patients. The ability of a provider to communicate with patients electronically throughout the course of care is really going to differentiate that provider from other providers in the future. A critical role for IT departments in supporting

these interactions is to ensure that information is conveyed to the individual and that there is follow-up on the information that is being conveyed."

Jacobson suggests that providers should focus on metrics or measures that have an impact on their reputation, such as metrics reflecting quality of care. "It's also important that providers appeal to their commercial market base, because no matter what's going on in regard to market reform, commercial insurers still pay better than anyone," she says. "The ability of a provider to manage its payer mix will be critical. Marketing should be focused on service lines that are more heavily reimbursed or on growth areas for the organization, and should be directed toward populations that could benefit from these services."



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—Preston Gee, Trinity Health

Rethinking Traditional Care Delivery

As hospitals develop new business strategies for an era of change, they may find that the need to redefine their identity lies at the heart of this process.

"Hospitals will need to stop thinking of themselves as hospitals. They will need to think of themselves as part of a healthcare providing team," Herzlinger says. "The bricks-and-mortar consciousness has to go away. It's not about preserving bricks and mortar. It's about preserving a team that can render high-quality health care." ●

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