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Negotiating from Value

After reading Al Naqvi's book, "Taming the Ticker: How to Link Trading Floor to Shop Floor to Improve a Company's Stock Value" I was struck by the similar challenges facing hospitals as they try to define their value. For organizations used to fee-for-service this has become an important question. Both CMS and private payers are tying reimbursements to value. But what they mean by "value" can be a moving target. In order to effectively negotiate with payers, hospitals must be able to define and defend their own "value story." And the hospital CFO is in a unique position to do this.

Defining Your Value Story

In the past, payer's analytics systems were based on claims data. Your hospital was benchmarked against the payer's pool of providers, looking mainly at the services you delivered and their cost. In the

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past 5 years, payers have been actively working to enhance their analytics to include outcomes. As a provider, you will have better access to outcomes information than will payers. Translating those activities into financial terms is the basis for you telling your value story.

1. Benchmark Your Quality vs the Market

With the slow migration from volume based to outcomes based reimbursement, you will need to find correlations between quality measures, payment and cost. Payers will try to define risk as part of a "risk based payment model" and will attempt to analyze your clinical strategies. To frame this discussion, you need to equip yourself with Key Performance Indicators (kpi) that support your clinical strategies:

- Return to Acute
- Patient satisfaction
- Infection rates
- Mortality rates
- Fall rates
- Device-related infections : CAUTI, CLASSI, VAP
- Ventilator Weaning Rate
- Discharges to Home

Your quality compliance team is likely already capturing these measures. As part of your value story you will need to demonstrate how your performance stacks up against hospitals with similar patient populations to yours, and how you perform consistently (or even improve) over time.

While much of this information is likely already being gathered in your organization, consolidating it into one place still takes work. Comparing your performance to other LTCHS regionally can be very challenging without a robust benchmarking system that helps you understand performance variation. But the real question is whether or not you can negotiate without it. You don't want to be in the position where the payer is able to pick and choose the data that will place your hospital in a weaker position.

2. Quantify Your Cost Position

It is essential that your value story include an understanding of the correlation between cost and value. Value= Outcomes/Cost. In the section above we identified what type of quality outcomes should be

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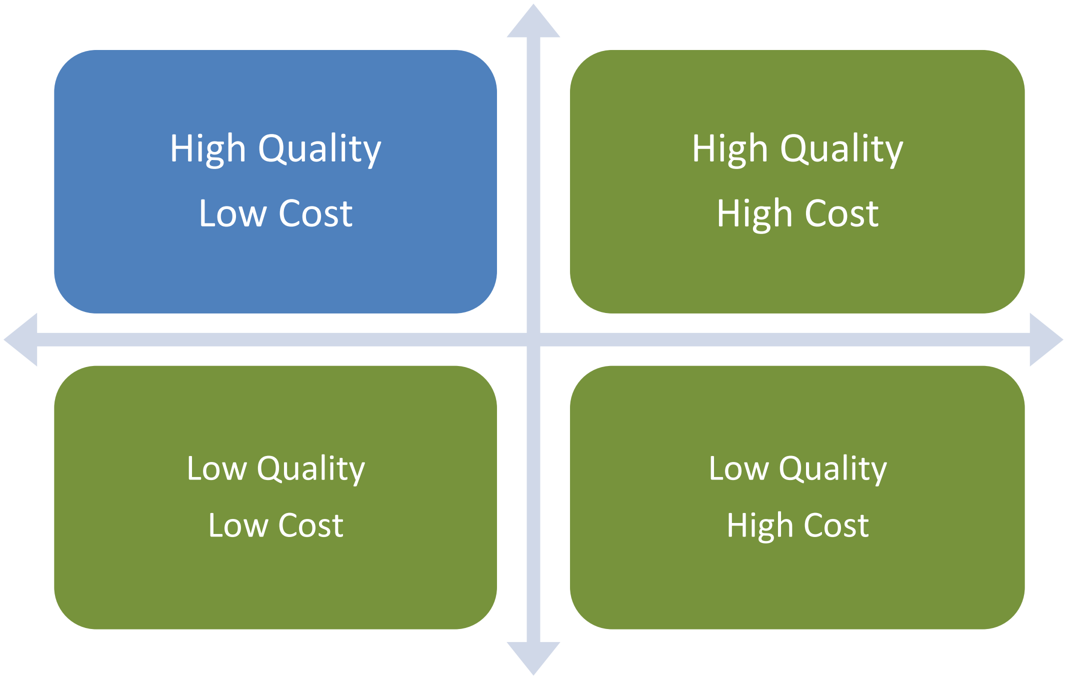
tracked and now we need to attach a cost to these outcomes values. Payers will favor “High Quality, Low Cost” providers over others. It will be difficult for a hospital to negotiate rate increases from the lower right quadrant!



It’s important to be able to evaluate quality and costs at the individual patient/DRG level. If there are particular groups of DRGs you are managing well you may be able to negotiate tiered rates by program. Also, by drilling down to the patient level detail, you may be able to identify certain high cost treatments that could be carved out from a daily rate. As an example you may be able to demonstrate that a therapy like hyperbaric oxygen therapy for treatment of wounds, a relatively expensive treatment, is justified if you can show favorable outcomes for complex patients.

Of course, costs will vary depending on your geographical location and there are many hidden factors that affect your rates. Benchmarking using general rate information will not be very relevant. You will be better off using DRG and CPT detail levels to build a more compelling argument about your rate.

In the example below, the hospital is able to show how cost per stays, costs per day and mean lengths of stay compares to hospitals treating ventilator patients within particular DRGs. In this example the

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hospital can demonstrate that its cost per discharge is 10% lower than other facilities in their region, driven by a shorter length of stay.

MS-LTC DRG		Benchmark Facility Data			My Facility Data		
		Cost per Discharge (mean)	Cost per Day (mean)	Mean LTAC LOS	Cost per Discharge (mean)	Cost per Day (mean)	Mean LTAC LOS
207	Respiratory system diagnosis w ventilator support	64,725	1,918	33.8	71,917	1,980	36.3
208	Respiratory system diagnosis w ventilator support	27,282	1,760	15.5	30,313	1,750	17.3

To demonstrate value this hospital will need to show that in addition to having shorter lengths of stay and lower costs, it achieves favorable outcomes. In the following example this hospital can demonstrate lower incidence of ventilator pneumonia, favorable weaning rates, a higher than average percent of patients discharged directly to home and a lower rate of discharges back to the acute hospital.

Indicator	All Hospital Score	My Hospital Score
Ventilator Assoc Pneumonia Per 1000 Vent Days	0.35	0
Ventilator Weaning Rate	0.65	0.68
Discharges to Home	0.33	.40
Discharges to acute	.14	.075

These favorable outcomes combined with its lower cost substantiate high value and helps to position the hospital well for contract negotiations.

The hospital will need to prepare similar scorecards for each key program or service line and routinely monitor and trend its performance. Other data may help to support the hospital's value proposition with regard to the larger "episode of care" such as how long patients typically stay in the acute hospital prior to transfer to the LTCH.

3. Differentiate Your Services

Before you start negotiating with payers you need to understand where your different program/services are positioned in the market place in terms of rate, quality and cost. If you provide an organized approach to quantifying your values proposition you will be in a much stronger negotiating position.

As part of your value story, you will need to be ready to answer these additional questions:

- What services do you provide that are considered the highest quality in your market?
- What services are growing and by how much?
- What service do you provide that is offered by no one else in your market?

For each service offered by your hospital be prepared to provide this type of information to defend or increase your rate.

Program	Rate position	Cost position	Quality position	Volume change
Ventilator	+	-	-	+
Wound	-	+	+	-

Summary

With these suggestions, the aim is to get more value out of the data you are already collecting, not to create more work. In order to get to your value story you will need to take a systematic approach to identify, target and track the performance indicators that matter to your hospital. Once you do, you will be able to benchmark your cost, quality and rates versus the market and control who you are compared to. You don't want to be penalized for lower quality measures if you have sicker patients, or dinged for higher costs if you are in a more expensive area.

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Yann has 20 years of experience in developing new products, business plans, and strategy. Prior to Vindicet, he served as VP of eBusiness Development & New Ventures at Aetna, where he developed innovative joint offerings with companies including WebMD, J&J, Pfizer, MasterCard and Discovery Health.