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White Paper

Emad Rizk, MD
President
McKesson Health Solutions

Mastering Change: Succeeding in Healthcare's New World Order

Part 1: Breaking Down Barriers, Building Collaboration

The healthcare industry has been forced to accept change. Nearly every speech, article and white paper by healthcare executives begins by acknowledging this. However, there is no precedent for the depth, range and complexity of change facing payers and providers at this time.

This series on mastering change and succeeding in the new world order will describe the conditions and strategies necessary to manage the pressures that payers and providers are facing today, while positioning those organizations to thrive in an industry that will be transformed by advanced payment and care delivery models.

In part 1, we examine why rapid transformation has become an imperative, where it needs to start, and what innovations are creating a promising path forward.

The New Drivers of Change

Three trends are causing the greatest disruption in the current healthcare landscape.

The leading trend is implementation of the Patient Protection and Affordable Care Act (ACA). The ACA will influence every aspect of the industry, as well as drive the other trends that center around determining how better medical care can be delivered for less money.

The ACA will have a profound effect on healthcare spending in the coming years. Because of the nation's fiscal situation and the ACA's reimbursement reductions in Medicare, we must take a trillion dollars — approximately 30% of total spending — out of our national healthcare expenditures within the next few years. At the same time, the ACA will also increase the number of Americans obtaining regular medical care, as the uninsured gain coverage and access the healthcare system on a regular basis. As the two forces of decreased spend and increased usage overlap, the healthcare industry will face unprecedented pressures that can only be met through significant transformation.

The second trend affecting the healthcare industry is a move toward new reimbursement models that pay providers for the value of the services they provide rather than the volume of services they deliver. The goal of these advanced payment models is to reorient the priorities of providers toward lowering costs and improving outcomes.

One such approach is the "bundled payment" model, which sets a single fee for all agreed-upon services in an episode of care (e.g., a total knee replacement). This model encourages the providers involved to coordinate the care they deliver to patients and to deliver evidence-based care. The goal is to motivate participating providers to work together as a care team and, through this coordinated effort, to reduce costs, complications and duplicative services.

Bundled payments are in their infancy and today comprise only 5 to 10% of current care, in McKesson's estimation. In the next eight to 10 years, we anticipate that medical payments will transition from fee-for-service (FFS) payments to variants of performance-based payments for at least 50% of all medical care.

The third trend is the adoption of new care delivery models. Many of these new models have providers assuming greater financial risk for the care they deliver. Providers are taking the lead with this trend and are experimenting with such models as the patient centered medical home (PCMH) and accountable care organization (ACO).

Provider motivation varies. Some providers are trying these models because they seek greater control and thus accountability for the care they deliver. Other providers are drawn to the potential for making more money as they deliver higher quality, more cost-effective care. Payers support these models for similar reasons.

These trends are happening now, and the healthcare industry will need to

fundamentally change how it operates to succeed in the face of the challenges they create. Payer and provider organizations, already struggling to manage increasingly complex processes, regulatory pressures and thinning margins, are being forced to act. Leading organizations are reorganizing themselves by integrating their internal silos and implementing more efficient work processes. Some organizations are focusing on collaborating with one another to deliver on the coordination required for success with the new care and payment models.

However, the depth of the transformation that our industry needs to succeed in the future is more extensive and complex than the piecemeal solutions or one-sided overhauls that are currently under way. To achieve the comprehensive cost-savings and performance improvements that are needed, payers and providers will have to remove the barriers that currently impede collaboration.

Inside a Payer's Four Walls

To those outside healthcare, the case for integration and collaboration in our industry seems intuitive. Most do not understand why healthcare operates in a different era from other industries. Those of us inside, however, know that decades of tradition, legacy technologies and operating procedures have created formidable walls that stand in the way of transformation.

The payer industry still operates using siloed work processes developed years ago for an FFS system. Collaboration or coordination among stakeholders was not a consideration when these processes were developed; the goals were to administer the system and manage the transactions.

Now, the payer industry finds itself with processes that are woefully inadequate for payment models that focus on value, collaboration and coordination. To deploy one new payment pilot, payers have to develop manual processes to work across the many silos.

Going back to our earlier example of a bundled payment for a total knee replacement, consider the cross-functional work that a payer must engage in to support this model. Traditionally, the financial/operational group alone would be responsible for creating and implementing a new payment process, with minimal input from other groups.

However, for the bundled payment to be successful, other groups must be involved. The perspectives of network, benefit and medical management groups must be included with the financial one. For example:

- The network management function must design a network with providers that can deliver on the cost and quality targets for the bundled-payment episode, then draw up contracts supporting those targets.
- The benefit design function cannot develop and sell the product without the network in place to accommodate the new product.
- Care management cannot coordinate the services involved without understanding when an episode begins and ends and which providers are included.
- Claims management cannot make payments without first knowing what is included in an episode and which providers are participating. Furthermore, the claims department must also be able to identify and manage claims for those same providers that are unrelated to the episode.

Many health plans have dozens of pilot projects going on at the same time. The pilots often include a range of new payment models, including pay-for-performance, episode-of-care bundled payments, partial capitation and global capitation. Multiple provider networks are likely participating in the pilots; these are the same networks delivering FFS care for the payer. With all of this going on at the same time, one can readily appreciate the complexities and challenges that payers face.

The complexities do not disappear once the experimentation phase ends. As payers enter production mode, they need to adjust for the lessons learned during pilots. In addition, pilots that may have been run with manual processes cannot easily transition to full-scale production of a new model, which brings an entirely new set of complexities that must be dealt with, such as new regions, networks and populations. Health insurance exchanges only add to the complexity. Payers will face production challenges that go from administering plans for thousands of employer groups to administering many multiples of the same for individual consumers.

Reaching Out to Providers

Payers are not the only ones facing the challenges of new payment models. Providers cannot be effective with value-based reimbursement models if they do not have the information they need, when they need it.

Providers must know whether the medical care they are prescribing is appropriate based on the medical evidence, and they must understand the implications of their actions at the point of care. Providers also need to understand how other providers will manage care across the continuum. In addition, financial information is an increasingly required component of medical decision-making; providers need to know what impact the medical care they are prescribing will have on the financial models they have agreed to with payers, as well as the benefit coverage and design that their patients have.

These are significant new burdens for providers as they reconfigure their internal processes to prepare for new care delivery models. At the same time, most practices still deal with more than one payer, which means providers will need to grapple with even more new payment models than payers.

Some leading payers are trying to help. Johns Hopkins HealthCare, for example, is placing care managers inside practices to help coordinate care for its patients who need disease and care management services. This program has been so successful that practices often request Hopkins' care managers to also work with patients from other payers. Hopkins is responding to this need by developing a new business in which it provides practice-based care management services to competitor plans.

The financial impact of payer-provider collaboration remains difficult to quantify. As Dr. Robert Kritzler, deputy chief medical officer at Hopkins, notes, "Collaborating with providers feels like the right thing to do, and we know practices and patients like it but, from a business perspective, the models haven't evolved enough to truly demonstrate ROI."

Enter the Cloud

The adoption of new payment and care delivery models is forcing organizations to collaborate both internally and externally to achieve a meaningful measure of

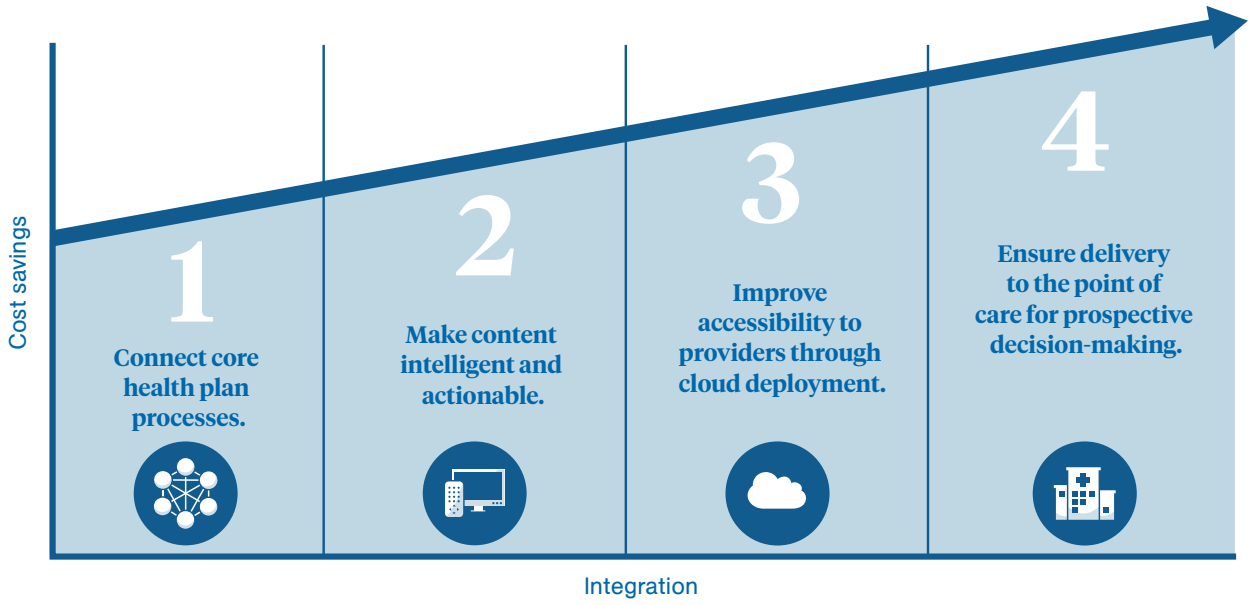

figure 1
Cross-segment Optimization

coordination. Technology is a key enabler. For example, a knee replacement bundled payment can be managed manually across the different silos within a payer. However, if the payer needs to manage 20 or 30 different types of episodes for sizable populations of patients and large numbers of providers across multiple networks, then these become very complex, labor-intensive efforts that can overwhelm organizations without automation.

Payers and providers, therefore, are investing in technologies to automate processes and data exchange, seeking to facilitate integration, accelerate the implementation of value-based healthcare, and take costs out of the system. In doing so, they are grappling with familiar challenges. Hard-wired integration of point solutions, for example, is only an option if payment models are small, not if organizations want to successfully scale innovations beyond the pilot phase. In addition, providers frequently have to contend with multi-payer technology implementation issues while also upgrading their own systems. Every physician order entry application, clinical support tool or new scheduling system installed is likely to face multi-payer complexities.

Cloud-based technology offers a solution to these challenges. Cloud-based technology has the potential that traditional healthcare technologies do not to streamline technology adoption, reduce implementation burdens and interoperability challenges, integrate applications and processes, and support broad collaboration across organizations at a system level.

Cloud computing is often viewed as a way to provide low-cost data storage, computing and information technology administration because these functions are centralized and moved away from costly on-site servers. Although this will undoubtedly help payers and providers control the cost of automation, the real potential of the cloud is its ability to connect data, systems, applications and people through one shared solution.

Cloud computing can offer access to common information, which is a requirement for integration across functions. Information from diverse sources becomes normalized as it enters the cloud, eliminating the data translation issues of the past along with the inconsistencies or gaps in information that exist today as a result of interoperability issues between applications and data providers. Better information stored centrally and accessible in real time by all stakeholders solves both the inter- and intra-organizational information-sharing issues that payer and provider organizations have.

Although integrating many different point solutions will create broader, more flexible functionality, it also adds complexity to data translation and interoperability. The cloud integrates a technology portfolio by lifting each piece from its physical hardware and software existence. These “callable services” sit in the cloud, where each stakeholder can access them. While the burden of implementation is not entirely removed, a cloud environment offers a much faster cycle time that is both easier and more cost-effective. New functionalities, software versions, upgrades and updates can be introduced automatically.

The cloud also allows payers to share rules and edits with providers to help guide care decisions and support claims payment transparency. Analytic tools can empower the cloud by applying intelligence to information and interactions in ways that enhance recommendations and decisions, the accuracy of data and the analysis of results. With this information, payers and providers can continually study and optimize processes and outcomes, and the full power of this information can be brought to the point of care to improve decision-making.

Most importantly, payer-provider collaboration enters a new phase as the two groups share access to the same data, applications and tools. Collaboration transforms from a forced manual process to a seamless, automatic process — the difference between needing to know how to fix a car to drive one and merely needing to know how to drive.

About the Author

Dr. Emad Rizk, president of McKesson Health Solutions, is a world-renowned expert in transformational strategies, including the application of healthcare information technology to achieve operational excellence. A sought-after speaker at industry events, he is author of the book *The New Era of Healthcare: Practical Strategies for Providers and Payers*, as well as many articles on the clinical, administrative and economic alignment necessary to bring about more efficient, cost-effective and accessible care. Considered one of the 50 Most Influential Physician Executives in the United States by Modern Physician, Dr. Rizk serves on the board of the Care Continuum Alliance, the National Association for Hispanic Health, the University of Miami and the University of North Texas. He is also a senior scholar professor at Jefferson Medical College.

Consider a physician treating a patient. He or she does not need to know the parameters of a particular bundled payment model. Instead, inputting required information will automatically set the system into motion. Coverage will be approved, claims will be reimbursed, and the appropriate care will take place. All the administrative processes are automated.

The result is a shared and transparent system that works for all stakeholders, an intelligent hub where optimal collaboration can take place.

The Path Forward

Steps taken in isolation inside payer or provider organizations offer limited opportunities to effect the productivity, quality and efficiency gains needed to manage the burden of the new cost baseline. Gains are possible, but the "cost" of achieving them is very high, and the complexity of managing new payment and care models conflicts with the need to develop a more efficient, cost-effective and integrated system.

In contrast, collaboration via the intelligent hub of the cloud optimizes those gains, increases the speed of adapting to future change and provides a scalable approach flexible enough to accommodate any number of stakeholders.

How is this development going to take place? A number of different scenarios are possible where cloud-based collaboration can begin. Payer organizations will likely take the lead and design these types of systems to integrate their internal functions. Payer organizations will then connect their networks of providers to this new infrastructure to roll out new payment models and care coordination so they can leverage the new technology and reduce administrative burdens and costs.

There are some risks with this "payer-out" approach. Providers may resist collaborating if they feel the change is being forced upon them. However, over time these sentiments are likely to dissipate as providers experience the value of a cloud environment. In fact, joint funding of a cloud environment is easy to imagine as both payers and providers will gain equal value from it.

In addition, multiple payers can participate in the same hub, reducing the administrative burden and operating complexity for providers. Payers have historically liked to protect the rules and edits that distinguish them from other payers. This mindset may change, however, as payers are able to collaborate more effectively with providers in a cloud environment and competitive advantage shifts toward provider collaboration.

In this time of wrenching change, payers and providers are engaged in arduous, intense, resource-consuming work to improve the performance of their internal systems, even though many of them know that these systems will not support their needs in the future. However, they do not need to choose between near-term and long-term success. Flexible, adaptable and expandable systems can tackle the challenges of today while helping organizations prepare for tomorrow.

Each organization must ask itself, "Are we doing enough to manage the crises of today and the cost and collaboration imperatives of the future?" An honest assessment is needed. If a course correction is necessary, the path forward has become much easier with the arrival of the cloud.

In part 2 of this discussion, we'll take a look at "actionable content" and the critical role it plays in healthcare transformation.

McKesson Health Solutions

McKesson Corporation
275 Grove Street
Newton, MA 02466

1.800.782.1334

www.mckesson.com

Connect with us:

mhs@mckesson.com
www.mhsdialogue.com
twitter.com/mckesson_mhs
www.linkedin.com/groups/McKesson-Health-Solutions-4509971

MHS-MC1-WP-0313