



*Rebuilding the Clinical Enterprise
in Progressive Steps Across
Payment Structures: Keys to
Success*
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Stephen Kardon
North Highland Consulting

What are we going to talk about?



1. Where is the Hospital Industry Going?
2. Who wins in the future?
3. How will change in payment structures impact the Clinical Enterprise?



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Hospitals are going to have to change significantly to survive.



Past and Current	Future
1. Hospitals were the perfect Job Shop	1. Organized around Episodes of Care
2. Took care of everyone with no real focus	2. Maybe selective in services they provide
3. Lacks the systems to take care of population health	3. Need to redesign clinical enterprise for population health
4. Reimbursement is declining and capital is becoming scarce	4. Understand activities and cost structure outside the four walls of the Hospital
	5. Make vs. Buy decisions will become more prevalent in the future



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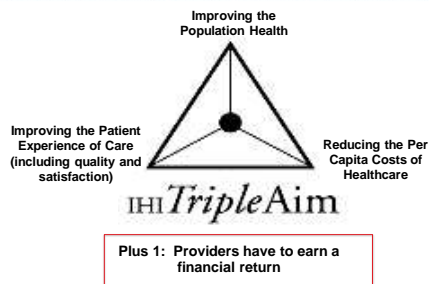
Building a Clinical Enterprise in Orthopaedics

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Case Study

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We define the Clinical Enterprise as an organization focused on the Triple Aim for a Discrete Population or Episode of Care



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Who Wins in this Scenario?

<p>Multi-Specialty Group w/100 Surgeons across Atlanta</p>  <p>Physicians & Staff Locations Services</p>	<p>Large Community Health System</p>  <p>Atlanta - Cherokee - Forsyth</p> <p>MEDICAL SERVICES LOCATIONS PATIENT INFO</p>
<p>Large Community Health System</p>  <p>MEDICAL CARE PHYSICIANS LOCATIONS CLINICAL</p> 	<p>AMC w/Specialty Hospital</p>  <p>Emory University Orthopaedics & Spine Hospital</p>

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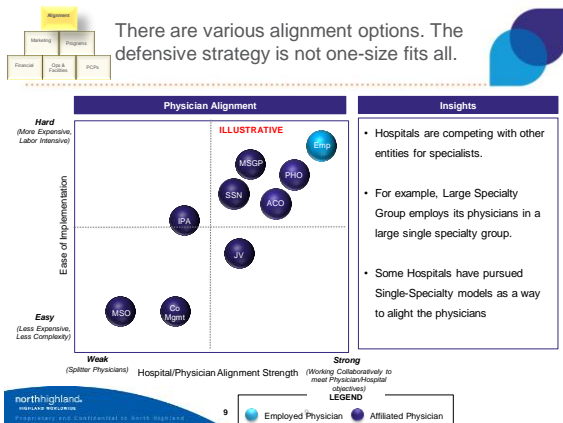
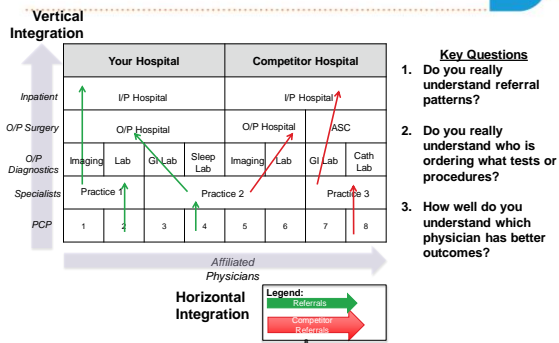
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There are six core strategic and operational activities for building a successful Orthopaedic Clinical Enterprise.



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Physician Alignment Strategies are necessary to align Physicians and Hospitals





Hospitals must aggressively market the Orthopaedic service line.

Marketing Challenges

1. Difficult to market individual physicians
2. Branding a new name could take years
3. Must work within the Health System to market the overall service since Hospital CEOs want their name to be marketed
4. It is difficult to market each unique Hospital for a given service line such as Orthopaedics
5. AMCs typically want cases sent to them and sometimes want a fee to use the AMC's name.

Physicians:
Want to market the physicians individually or by practice and the programs

Hospitals:
Want to market a bigger name

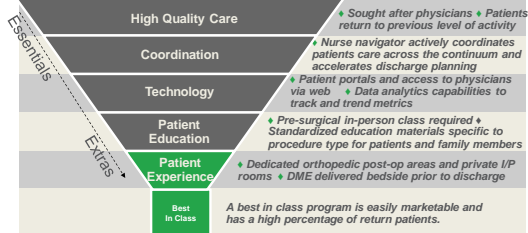
Want to market their musculoskeletal programs



Hospital needs to build stronger patient-centered programs.

Program Development Strategy

Prioritized Steps to Build a Best-in-Class Orthopedic Program



Hospitals will have to be prepared to answer these questions depending on the payment structure.

Outpatient MRI Example

FFS

1. Does the Hospital know the Contribution Margin and Profit by different modality and Specialty?
2. Can the Hospital quote a patient with a high deductible plan a rate?
3. Does the Hospital know if the rate is competitive?

Bundled Payment

1. What is the cost associated with the outpatient MRI?
2. If variable cost is the Contrast (\$35/MRI) then the physicians will want a significant share of the savings.
3. If \$500, then physicians may underutilize the service in order to get 50% of the savings (\$250)

Capitation

1. How much does the Capitation Pool get charged for the outpatient MRI? (\$5K Gross Charges, \$2k Reimbursement, \$500 Market Rates, \$35 Contrast VC)
2. The answer to the above will drive very different behaviors.

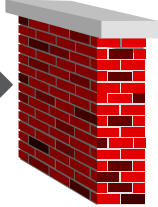


Hospitals should allow physicians to govern the operations and facilities with limited Hospital oversight.

Physicians typically do a better job at managing physician practices. Therefore, Hospitals should consider developing a model that allows physicians to govern their daily operations with oversight from the Hospital.

Physician Desires:

- Physicians want to maintain control over daily practice operations and managerial decision-making.
- Physicians want to control the compensation model within their practices and the mechanism to distribute profits.



Hospital Desires:

- Hospitals want to create incentives for physician productivity and usually implement work RVU metrics.
- Hospitals want to have some decision-making power on how the practices operate & future growth.



Develop a PCP strategy that is broader than just Orthopaedics.

Primary Care Physician Strategy

- To align the PCPs and Specialists consider the development of a multi-specialty group practice with the Hospitals.
- The goal is to align the PCPs with the Specialists that work at your facility
- Consider creating an ACO or PHO to contract for either Medicare or Commercial lives.
- Consider developing "New Co." for the ACO/PHO with ownership by PCPs and the Hospital.
- The goal would be to develop an ACO/PHO to begin to align the PCPs and Specialists through contracting arrangements without losing referrals to competing Hospitals.

How will the Clinical Enterprise have to change its operations to accommodate different payment structures?



- Not all Hospital payments will be capitated. We believe there will still be FFS in the future
- The shift in payment types will force the Clinical Enterprise to consider questions such as:
 - How much of a service should I own or employee
 - Should I buy the service from Partner?
 - What are the risks purchasing from a Partner?

Shift in Payment type will drive Health System's need for knowledge Deeper and Wider

Key Questions

1. Are Health Systems ready to be completely transparent with direct and indirect costs?
2. Are Health Systems ready to take on risk on the information in the Cost Accounting Systems?
3. Can your Cost Accounting System be defended against by physicians trying to earn their share of the savings?
4. Do you know your costs at the activity level?
5. Have you eliminated all the internal waste to get to the lowest cost possible?

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Any last thoughts?

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Stephen Kardon

Principal
North Highland Consulting
3333 Piedmont Road, NE
Suite 1000
Atlanta, GA 30305

Cell - 404.229.5839
Stephen.Kardon@northhighland.com
www.northhighland.com

northhighland.
INSURANCE RESTRUCTURING
PROFESSIONALS AND CONSULTANTS TO NORTH HIGHLAND