Engaging Physicians to Drive Financial Performance

Dan Michelson
CEO
Strata Decision Technology
A Cup of Coffee

A Flight to New York

An Orthopedic Implant
MDs are Ready to Engage in Driving Down Costs

Physicians at six major healthcare systems were asked to estimate the cost of 13 commonly used orthopedic devices. (Estimates within 20% of actual costs were considered correct).¹

Physicians don’t know...

~20%

Only 1 in 5 MDs could correctly estimate the cost for common orthopedic devices.

...but do care about cost

>80%

Over 8 of 10 MDs would consider cost as a key criteria in the selection of a medical device.

¹Survey Finds Few Orthopedic Surgeons Know the Costs of the Devices They Implant, Health Affairs, January 2014.
Financial Stewardship...

National Health Expenditures (in trillions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$3.0!</td>
</tr>
<tr>
<td>2019</td>
<td>$4.0!!</td>
</tr>
<tr>
<td>2023</td>
<td>$5.0!!!</td>
</tr>
</tbody>
</table>

The Reality: We are facing a crisis.

The Question: What will we tell others we did to fix it?

Source: Centers for Medicare and Medicaid
The Absence of Accurate Cost Data is “Astounding”

“The absence of accurate cost information in health care is nothing short of astounding”

“The existing systems are wholly inadequate”

“Healthcare organizations are flying blind in deciding how to improve processes and redesign care”

“Understanding true costs will finally allow clinicians to work with administrators to improve the value of care”

Michael Porter
Professor
Harvard Business School

Decision Support Penetration

Less than 10% of health systems have an advanced cost accounting solution

Source: HIMSS Analytics, Company Analysis
What is our common link?

Financial Stewardship

Driving value for patients + Delivering on your mission
The **OLD** math...

\[ \text{Success} = \text{Quantity} \]
The **NEW** math...

Value = \( \frac{\text{Quality}}{\text{Cost}} \)
Two baskets...and a new business model

Drive Volume

Drive Value
The changing landscape of healthcare...

Change in Inpatient Utilization

1,800 hospitals will see value-based purchasing bonuses in fiscal 2016

By Virgil Dickson | October 26, 2015

Medicare will reward more hospitals than it will penalize in fiscal 2016 under its value-based purchasing program, the CMS said Monday.
The changing landscape of healthcare...

Our collective call to action...

“The future is here...

it’s just not evenly distributed.”

- William Gibson
Providing Cost Data...Works

Controlling Costs With Computer-Based Decision Support
Leonard S. Feldman, MD; et al

Presented MDs cost information on lab tests at the point of care via computer

~10% reduction in test volume ($400,000+ in savings)

Surgical Vampires and Rising Health Care Expenditure: Reducing the Cost of Daily Phlebotomy
Elizabeth Stuebing, MD, MPH; Tom Miner, MD

A weekly announcement to surgical house staff and attending physicians of dollar amount charged to non-intensive care unit patients for lab services during prior week

> 25% reduction in dollars charged/patient/day for routine blood work
Typical cost improvement issues

83% of Providers’ Cost Improvement Initiatives are Not Producing Results

Reasons why Cost Improvement Initiatives Fail

- Difficult to Quantify & Track Savings: 55%
- Difficult to Keep Track of Projects: 44%
- Lack of Accountability: 44%
- Projects Don’t Produce REAL savings: 27%
- No Staff to Lead Projects: 26%

Labor Intensive

- Doing Math!: 85%
- Take Action: 15%

©2015 Strata Decision Technology
Reduce the Cost of Cost Improvement

- Take Action: 15%
- Doing Math: 85%

- Taking the RIGHT Action: 15%
- Doing Math: 85%
The opportunity of physician variation
Need to test...
Need to try...
The Breakthrough...

Yale New Haven Health System
The YNHHS Revenue Challenge

- **Revenue per Equivalent Discharge**
  - **Revenue/Case (Up 21.1%)**
  - **Revenue/Case (Down .1%)**

FY 2005: $10,687
FY 2006: $11,146
FY 2007: $11,268
FY 2008: $12,338
FY 2009: $13,231
FY 2010: $13,961
FY 2011: $14,935
FY 2012: $15,428
FY 2013: $15,137
FY 2014: $15,414
FY 2015 June YTD: $14,864

- **Clinical Redesign kicked off**
- **EMR Implemented**
- **Advanced Cost Accounting; Quality Definition**
FY 2014 Cost and Value Results

Steady State Target

- $7.1
- $60.8
- $21.4
- $35.7

Total: $125M

Actual

- $27.4
- $33.4
- $45.9
- $42.7

Total: $150M

$1.2

NEMG
HR
Clinical
Non-Labor
Labor
Better Quality Generating Better Margins

Revenue per case up 21.1%
Expense per case up 20.3%

Revenue per case down .1%
Expense per case up 1.4%

Clinical Redesign kicked off
EMR Implemented

Advanced Cost Accounting;
Quality Definition

©2015 Strata Decision Technology
Three components required...
“Open Sourcing” the Fix

The Best Care, The Lowest Cost: One Idea at a Time

Every day, patients, clinicians and financial administrators see opportunities to provide more affordable care.

We want to hear your story.
‘Open Sourcing’ ideas...

FREE e-Book Available at:
www.stratadecision.com/nationalstorycontest
“Doc, I need an MRI for my back”
Maryland Experiments With Capping Hospital Spending

Measure Aims for Costs to Rise No Faster Than Economy

By JENNIFER CORBETT DOOREN And AMY SCHATZ
Updated Jan. 10, 2014 6:34 p.m. ET

BALTIMORE—Maryland said Friday it would cap spending on hospital care in the state and ensure that costs rise no faster than economic growth, an unusual experiment in government-imposed controls that is likely to draw attention from other states.

The plan, backed by the state's 46 hospitals and major insurance companies, also involves paying hospitals a fixed annual sum based on broad measures such as the population of the region they serve rather than paying fees for each service.
The numbers...

A Significant Decrease in 911 Calls and ED Visits

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>911 Calls</td>
<td>195</td>
<td>146</td>
<td>34%</td>
</tr>
<tr>
<td>ED Visits</td>
<td>190</td>
<td>148</td>
<td>28%</td>
</tr>
</tbody>
</table>

34% Decrease

28% Decrease
The numbers...

A Significant Decrease in Admissions and Re-Admissions

- AAMC Admissions: Decrease from 84 to 48, a 43% decrease.
- AAMC Re-Admissions: Decrease from 20 to 4, an 80% decrease.
“The power of community to create health is far greater than any physician, clinic or hospital”
The one equation that matters the most...

Margin + Mission
Spreading the word...

www.stratadecision.com/marginplusmission
Contact Information

dan@stratadecision.com