Healthcare Supplies – Necessary Cost or Revenue Opportunity?

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Goals and Objectives

Gain knowledge on the value of maximizing the revenue opportunities of your supply chain and charging systems

- Gain higher visibility into the revenue potential of supplies
- Achieve an understanding of how system configuration contributes to the revenue potential of your supply chain
- Recognize how the typical division of responsibilities can create “blind spots” and lead to untapped revenue potential
- Increase insight on how performing a supply chain assessment may provide immediate and sustained financial enhancement
- Explore methodologies and action items to enhance revenue from supply chain
- Review results from multiple facilities’ assessments and remediation activities

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Setting the Stage

Healthcare Insights – Critical Business Drivers

The Business Problem

Scorecards and Metrics

Data driven scorecards are increasingly used

Actionable Data

Value-based reimbursement and APMs are an inevitability and performance drives competitiveness

Actions

Scorecards improve through approaches that span the care continuum, not through silo'd approach

Marketing

Hospitals must compete for providers, patients and payers

Value Based Care

Improved outcomes with reduced overall expense

Payer Community

Most payers utilize fee-for-service and cost/case is a critical payer preference

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Comparative Analytics

Use current data about a facility to determine sales targets and to pre-position focus on areas of poor performance

Provide comparative analysis of hospital performance against cohorts and/or other target hospitals

Align focus to areas of opportunity across the healthcare continuum avoiding deep dives within specific verticals

What are the market share impacts driven by attracting more patients to the health system?

What are the revenue impacts created by improving performance with service lines?

What margin improvements can be realized by optimizing the costs of care delivery within service lines?

What is the impact of improving the quality of care metrics and reducing waste?

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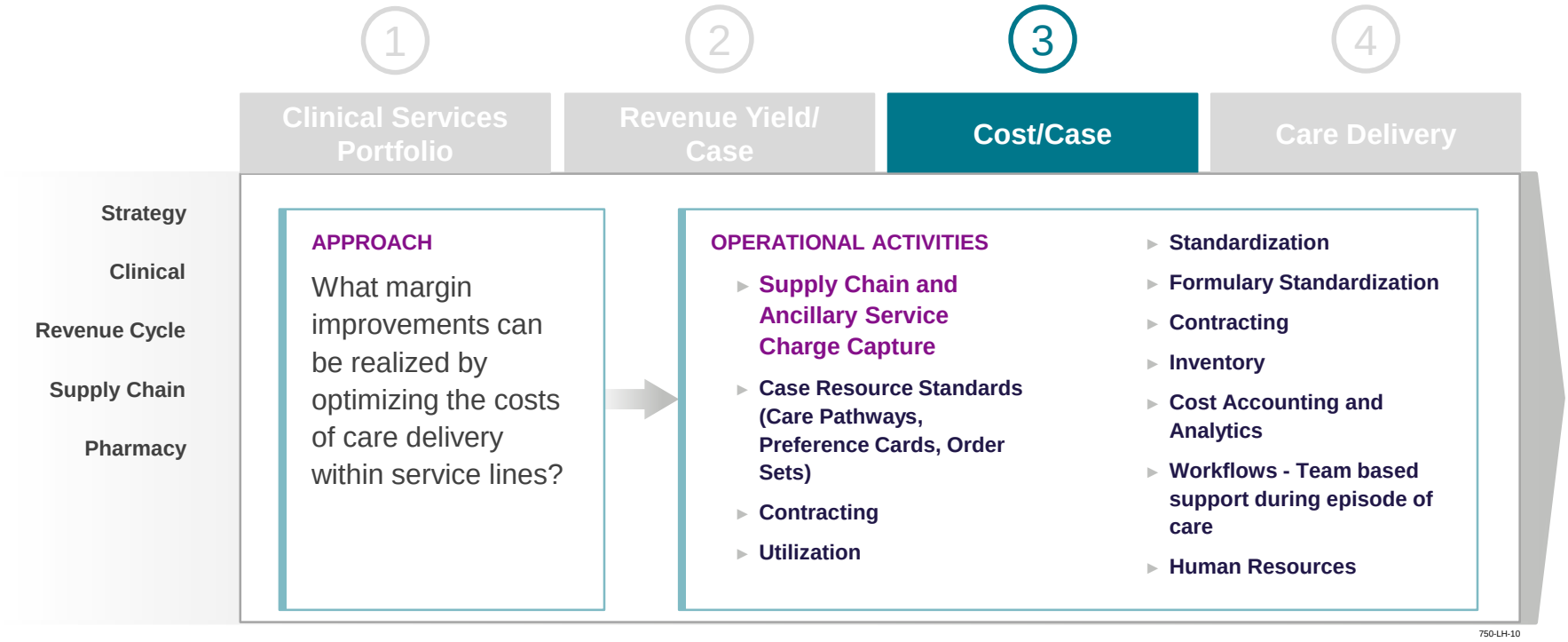
Performance Improvement

Performance Drivers – Cost per Case



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Trends and Barriers

2019 Becker Predictions for Supply Chain in Healthcare

- U.S. hospitals experiencing record bankruptcies
- Development of new direct-to-manufacturer purchasing group structures
- Group purchasing organizations partnering to build supply chain departments that become profit centers rather than just cost centers
- Healthcare margins continuing to deteriorate
- Success for hospitals with the best cost management strategies
- Increasing necessity of collaborative tools designed to give visibility into supply chain costs
- Emergence of new purchasing models direct from original equipment manufacturers/product manufacturers
- Data visualization and analytics optimizing purchasing decisions and rules in healthcare

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Barriers
Regulatory

- We all recognize that payments are not going up
  - Regulations are tightening year by year
  - Government and commercial payers are reducing payments
  - Payer mix of hospitals shifting more towards fixed rate reimbursement and away from percentage of charge models
  - Baby boomers are coming on to Medicare

- Possible reasons for reductions being made by government payers
  - Average family size is shrinking: 1960 = 3.67 and 2017 = 3.14
  - Growing Medicare beneficiaries: 2009 = 44 million and 2030 = 79 million expected
  - With a shrinking family size, there are now fewer earners paying into Medicare but more people drawing from the system, creating a financial imbalance
  - No relief is expected at least in the near future

Barriers

Not Charging or Not Charging Correctly

Do charges even matter?

- Charges matter more than ever as every dollar counts
  - Whether your facility's commercial payers are 5% or 50%, there is still an opportunity to increase revenue by accurately charging for supplies
  - Accurate cost accounting that allows for the financial evaluation of procedures relies on accurate charging
  - In some cases, there can be a recuperation of charitable write-offs
  - Bundled charging is only appropriate for routine supplies
- Bundling non-routine supplies into procedures is easy, but not financially sound as visibility into actual cost is lost

Case Study

Charge Analysis and Cash Impact

2017 Revenue File

Actual charges identified

$171M
in charges

Extrapolated 2017 Data

Based on cost-based automated charging

$137M
charges

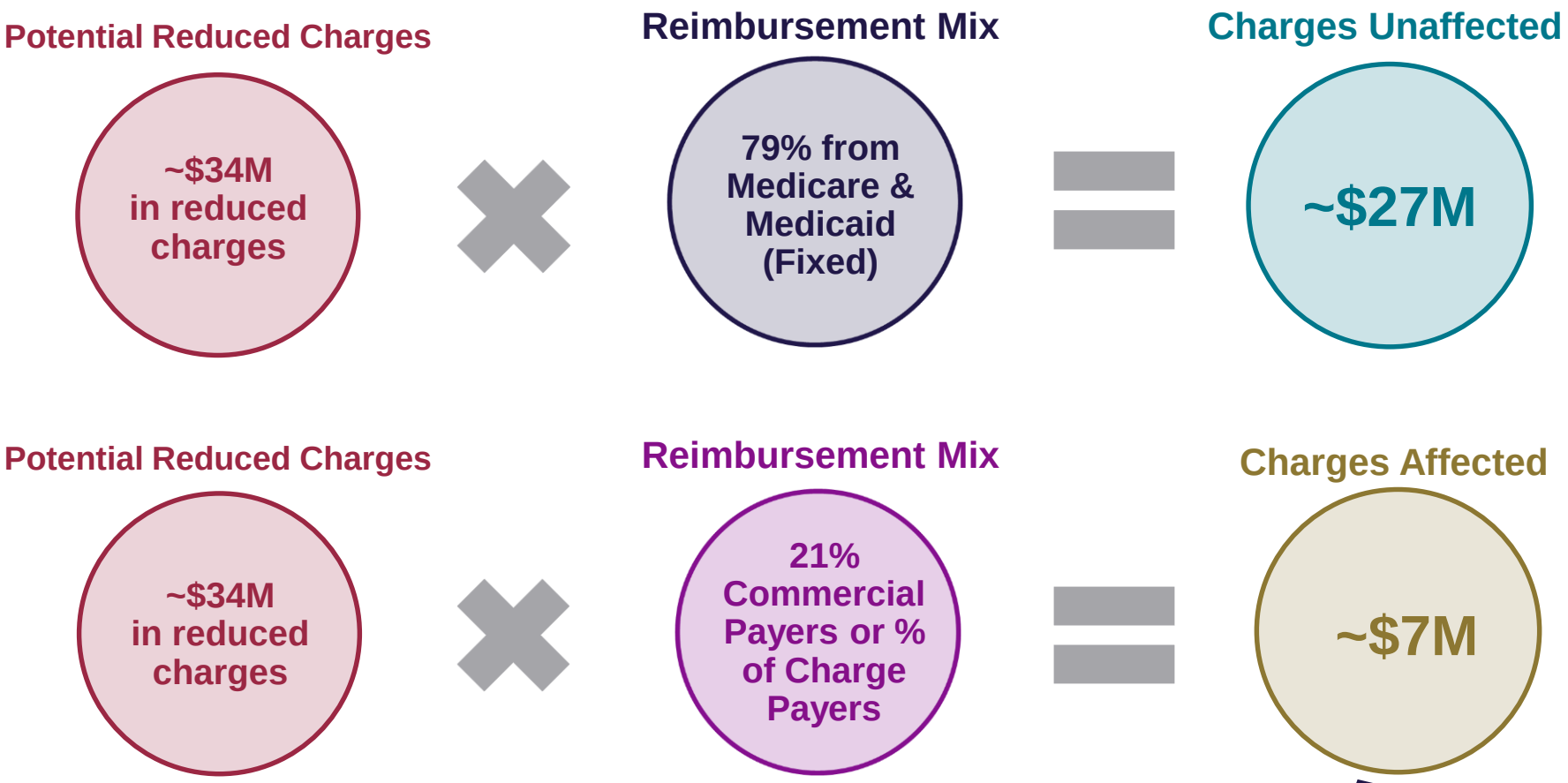
Potential Reduction in Charges

Due to method change

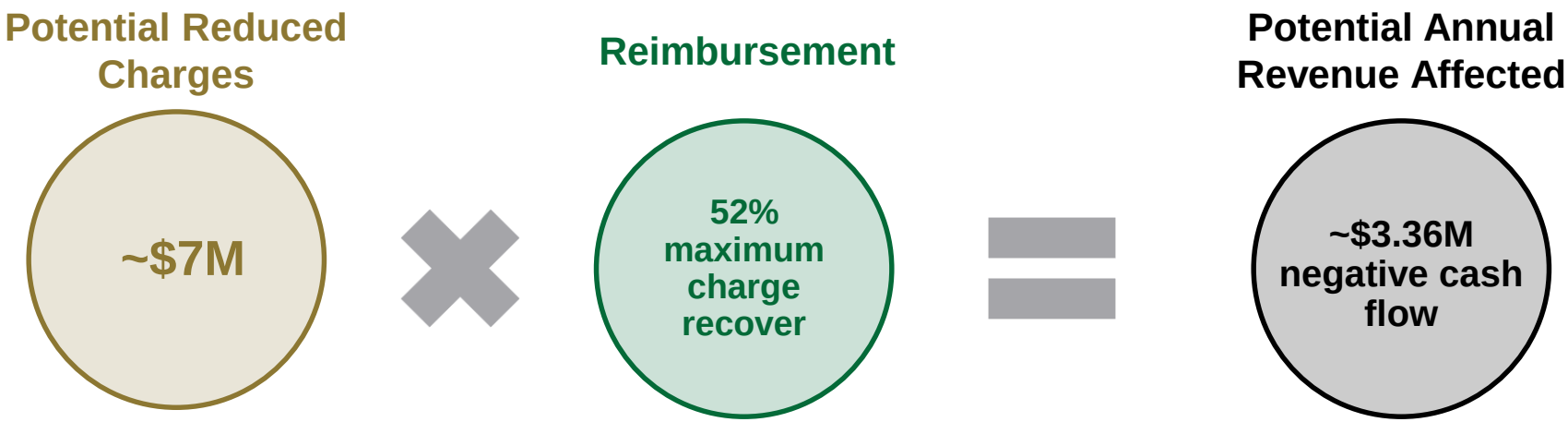
$34M
reduced charges

Case Study

Charge Analysis and Cash Impact



Potential Impact on Cash



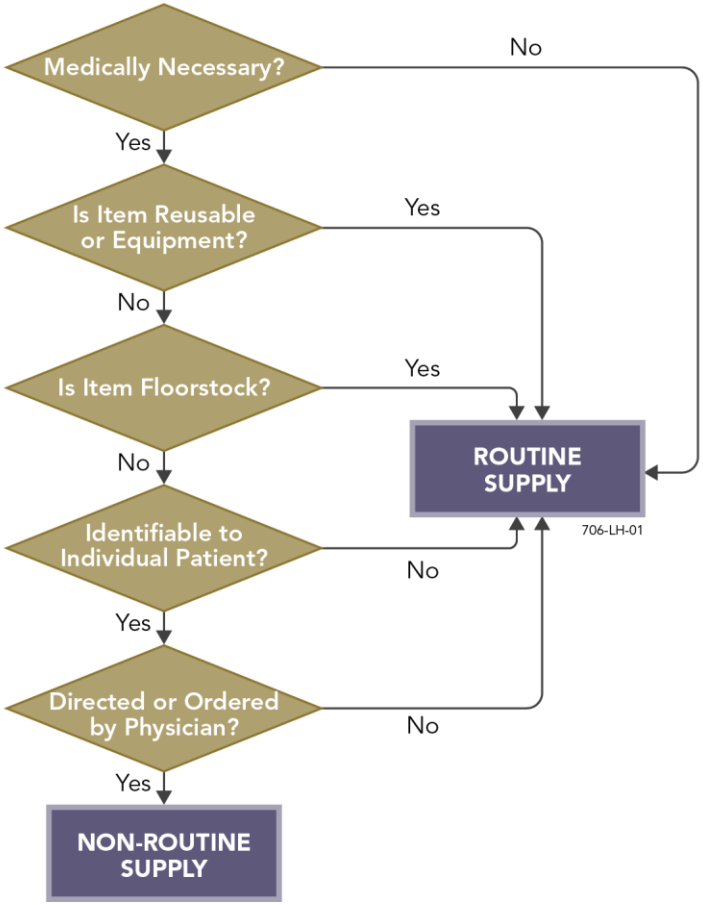
Potential Outcome:
Based on the assumptions, the negative impact on cash could be ~$3.36M annually or ~$280K monthly

Barriers

Supply Charging Knowledge

- Are you confident in your knowledge of what constitutes a routine vs. non-routine supply?
- The questions here can help guide your determination of what can or cannot be charged
- Routine supplies can only be charged inside of a procedure
- Non-routine charges are typically chargeable on an individual basis
- Lack of knowledge in this area causes significant billing errors

Routine vs. Non-Routine Decision Tree



Barriers

Impact

- Not charging correctly the first time can impact revenue and have significant other downstream effects can be significant
  - Gross Revenue
  - Rejected claims
  - Payer audits (current and historical transactions)
  - Increased A/R days
  - Reduced cash on hand
  - Rework cost and administrative burden
  - Potential regulatory non-compliance
  - Increased staff frustration
  - Increased patient frustration

Barriers
System

- **Insufficient maintenance and clean-up of system**
  - There never seems to be a good time to do this, but it is critically important work
  - Key dictionaries: Category (for charging), Vendor, Item and Stock
  - Charge Description Master (CDM)

- **Not utilizing system capabilities**
  - Automated Markup Function using Materials Management (MM) to patient charge items
    - Setup requires time and patience; however, the payoff is significant

- **Inconsistent linkage between MM item dictionary and CDM**
  - While MEDITECH will allow for multiple items to be linked to one charge master code, this can be extremely problematic

Approach

MAXIMIZING SUPPLY CHAIN REVENUE

Approach

Maximizing Supply Chain Revenue

- Gather data on potential opportunity to present to Administration
- Obtain C-level agreement and full support to proceed
- Create a multi-disciplinary team
- Set up weekly team meetings for status updates and problem solving
- Initial phase: clean up data elements
- Accomplished via scripting to improve timeline and accuracy
- Investigate regional charging issues
- Evaluate local charging methodologies
- Utilize best practices to update charging data and methodologies
- Typical timeline is 3 - 6 months

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Findings

Example #1 – Colorado Hospital

Findings

- 78 licensed beds, small rural hospital on the Western Slope in CO
- Very profitable historically, but revenues sharply declining
- Hospital now over 50% government payers, a significant increase over previous years
- Conducted project to repair errors in supply charging

Glenwood Springs, Colorado

Example #1 – Colorado Hospital

Findings

- **Materials Management findings:**
  - Item dictionary not maintained well
  - Supply markup matrix not evaluated for over 17 years

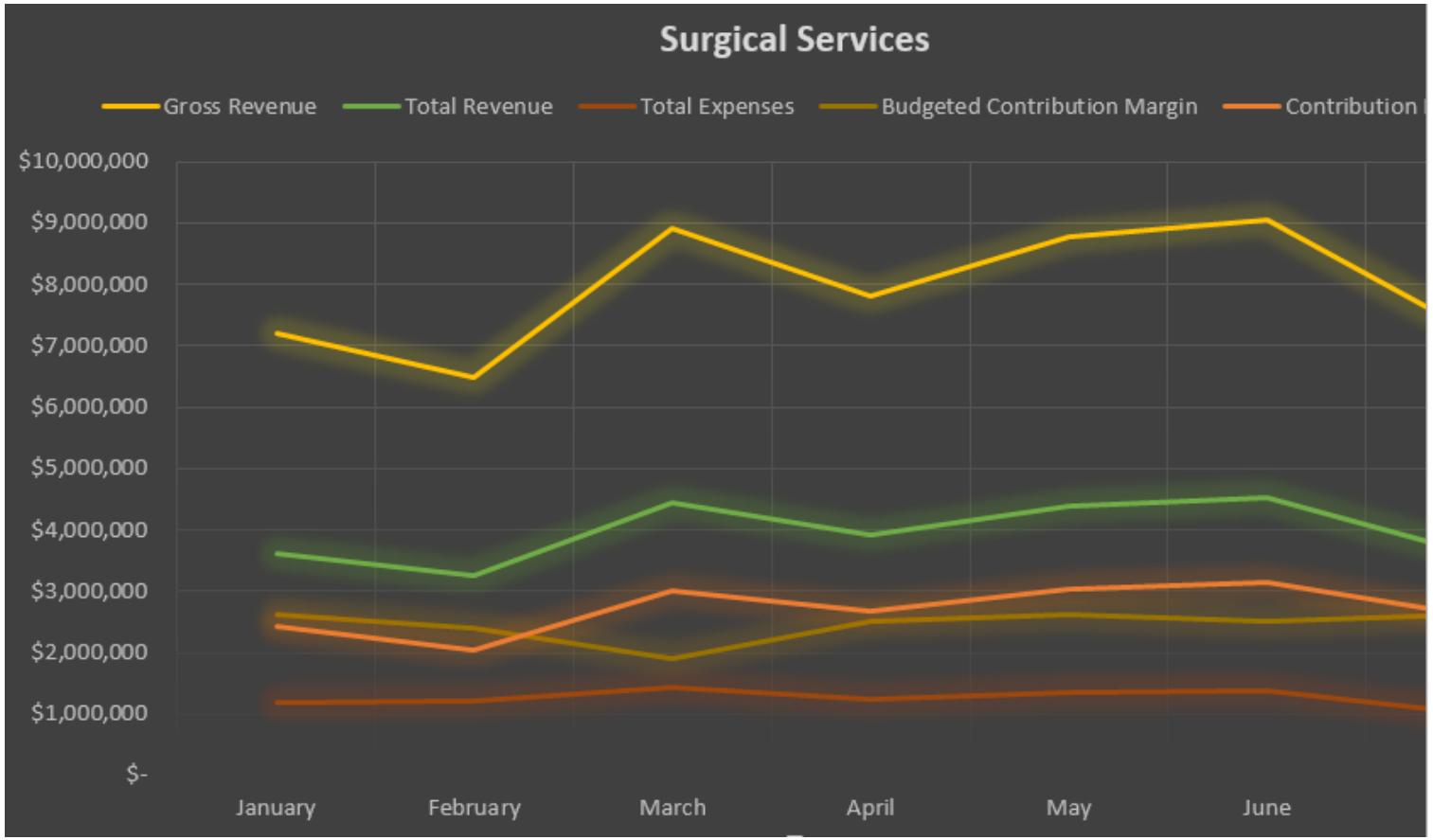
Outcome: Increased revenue over $770K per month in the OR alone*

*An independent audit discovered and confirmed the financial results, along with validation of methods used to achieve those results

- **BAR/RCG findings:**
  - Supplies charged out through BAR/RCG at fixed rate
  - Supply procedures codes updated for inflation, but cost rarely re-evaluated
  - Procedures missing in BAR/RCG for many supply charges

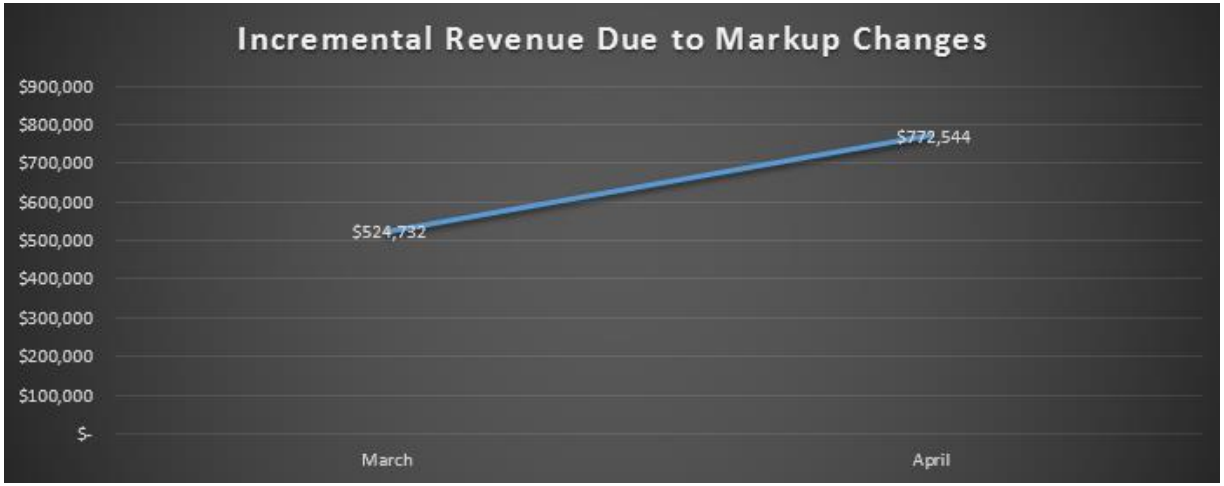
Example #1 – Colorado Hospital

Data

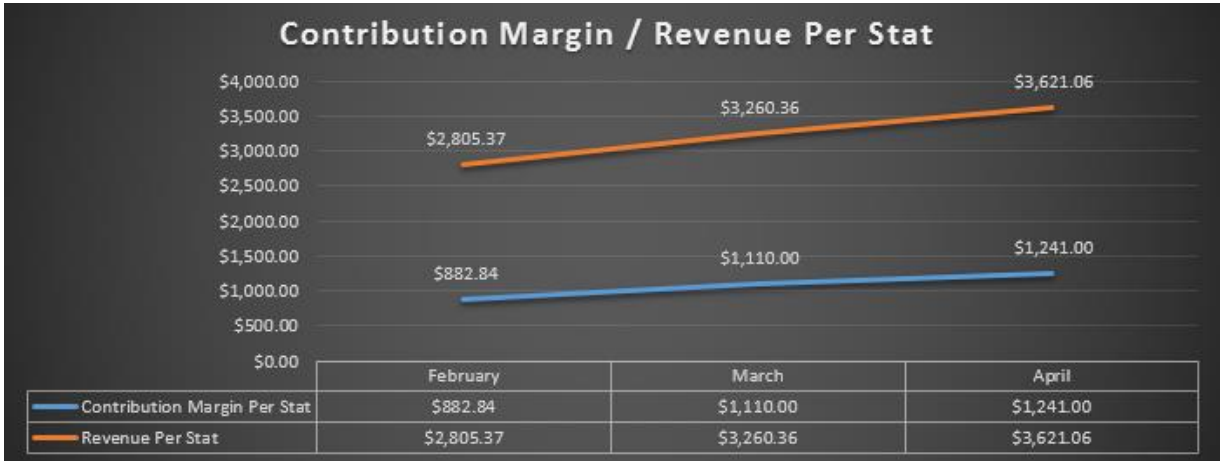


Example #1 – Colorado Hospital

Data



- 47% increase in revenue in one month



- 29% increase in revenue per stat
- 40% increase in margin per stat

Example #1 – Colorado Hospital

Final State

- System supply patient charging was automated, eliminating need for future manual updates
- Significant financial gains and results
  - Enabling facility to make annual budget
  - Automation will save significant update work in the future
- Additional opportunities were identified, e.g., inventory structure
- Successful project and approach was used as template for subsequent projects in the facility
  - Endo procedure cost within OR
  - Acuity charge review
- Close working relationship between OR, MM, and Patient Charging areas
  - Meetings continue for the purpose of continuous improvement
- Financial gains from supplies paid for complete optimization

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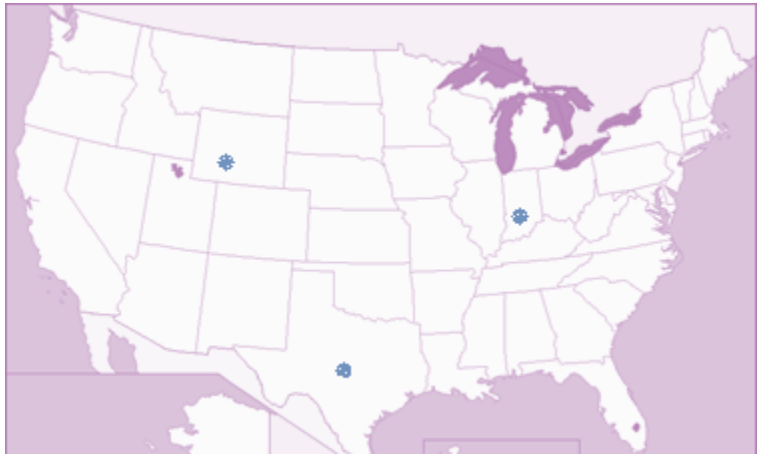
Example #2 and #3

- Small community hospital in Indiana
  - 78-bed, community-owned hospital
  - Almost exactly the same findings and methodology
  - **$492K per month in incremental supply revenue realized**
- Small community hospital in Texas
  - 99-bed, community-owned hospital
  - Similar findings with exceptions:
    - No annual charge updates
    - Automated markups utilized
  - **Over $300K per month in supply revenue identified**



Example #4: Illinois Hospital

- 150-bed hospital in Illinois
- Progressive workflows and department structure
- Limited use of technology
- Markups not applied uniformly in all cases
- Supply charges are not uniformly updated on annual basis
- Automated markup currently not used
- Assessment Identified **$200K+** per month in potential revenue

Test Case Conclusions

Why would multiple, unrelated hospitals in different geographical locations all show similar opportunities?

- Most hospitals do not have positions with an integrated charging process focus
- Details are overlooked because they cross typical, historical hospital silos

Best Practice Financial Approach

Discover to Performance

Summary

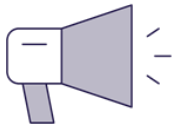
Informed by data analytics, further analyze current data to derive additional support for findings

Utilize data analytics to generate current, updated data from current UB04 data to underscore opportunity

With current data, assess areas in previous data set and align value

Capture areas of improved performance and/or course correct to apply additional focus on areas resistant to change

Demonstrate ongoing ROI associated with improvements provided through Performance Improvement



Improve overall performance by exposing areas of greater marketing opportunity to drive share across patients, providers and payers

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Questions and Discussion

Thank You!!!

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