BECKER'S
Hospital Review
BUSINESS & LEGAL ISSUES FOR HEALTH SYSTEM LEADERSHIP

Written by Bob Herman | October 23, 2013

The New Do or Die in Healthcare Finance: Margin and Outcomes Management

Volumes are declining, the payer mix is worsening, consolidation and competition are increasing, pricing transparency is gaining traction, patients are incurring more of their medical costs through high-deductible health plans — these issues are not new for healthcare finance executives.

Handling these issues, however, is still an evolving process.

Dan Michelson, CEO of Strata Decision Technology, kicked off the 2013 Strata Decision Summit in Chicago on Oct. 22 by discussing how the healthcare market has changed over the past five years. He said the multitude of challenges hurting hospital and health system revenue can be predominantly solved through value-based care.

"Value — cost divided by outcomes — will be the major driver," Mr. Michelson said. "We all know that for sure, the question is, 'What do we do about it?'"

The state of healthcare has a parallel historical metaphor. In January 1961, President Dwight Eisenhower gave his famous address warning the nation of the military industrial complex. Two world wars and other multiple international conflicts essentially "created an industry built for war, and the influences around it could potentially create different questions than we faced in the past," Mr. Michelson said. "There were unintended consequences."

Healthcare evolved in the 1960s on the foundation of fee-for-service, and coverage exploded through the tax exemptions of employer-based health insurance and the creation of Medicare and Medicaid. However, this system is based on the concept of only managing the volume and frontline revenue processes, which Mr. Michelson called the "revenue cycle management complex."

"We are dealing with an industry that's incredibly difficult to change because that's how we've been compensated," Mr. Michelson said. "The one thing we know for sure is that that same model practiced the same way fundamentally won't work."

So how can hospitals and health systems transition to a value-based system? There are several initiatives to take on now, Mr. Michelson said, and they fall under "margin and outcomes management" instead of revenue cycle management.

- Physicians and finance executives must collaborate to reduce the cost of care.
- Providers must put major one-time cost reduction plans in motion so they can reinvest those savings into new value-based projects.
- Advanced decision support and cost accounting technology must be part of financial processes.
- Price transparency must become a competency. Patients are advocating for more information on the price of their healthcare, especially in light of TIME's article earlier this year, and hospitals must meet that demand. Spectrum Health in Grand Rapids, Mich., has been an industry leader in transparency, as an example.
- Providers must shift to an end-to-end financial platform approach. In other words, hospitals have to move away from their current finance technology system, which is often complex and involves many systems that are not interoperable with each other.

Mr. Michelson said margin outcomes management has to be the new mindset for healthcare financial leaders today because finances can no longer survive in a vacuum. A hospital's mission depends on its margin, but that margin must be coupled with an emphasis and investment in value-based, outcomes-driven care.

This shift may put many hospitals on the bleeding edge over the next few years. However, as a CFO of a large health system told Mr. Michelson recently: "I can either take it on the chin now or get knocked out later."