

Strata Decision Technology: 2016 Leading Edge in Cost Savings

By Kayt Sukel | March 8, 2016

Strata Decision Technology: winning company in the Leading Edge Awards' cost savings category

Over the past decade, Healthcare Informatics has recognized healthcare leadership teams who have gone above and beyond in their use of information technology solutions with the Innovator Awards. But those innovators could not have achieved such success without dedicated vendor partners. To that end, Healthcare Informatics announces the winners of the second annual Leading Edge Awards, honoring vendors whose combination of expertise and innovation are shaping the future of healthcare systems. The 2016 winner in the category of Cost Savings is Strata Decision Technology, a Chicago-based firm that offers better information to drive better decisions in healthcare. Dan Michelson, Chief Executive Officer of Strata Decision Technology, spoke with Healthcare Informatics about healthcare's cost crisis—and what it will take to cure it.

Healthcare Informatics: Tell me about Strata Decision Technology's vision for cost savings in healthcare.

Dan Michelson: Healthcare is an industry that has spent the last sixty years focused on the top line. Changing to a philosophy where you manage the bottom line, as we move towards a capitated environment, is analogous to the record industry. Think about it: when Napster first started making waves, the record industry was a \$28 billion industry. Ten years later, the industry was half that size—and it transitioned into the music industry. It wasn't just the name that changed. The way people made money changed.

Today, you have enterprises like Taylor Swift who will give away music and make money on concerts. It's a very different way of doing business than selling CDs at Tower Records. Now we are restructuring the entire industry in healthcare. Every physician practice, for the most part, has been bought up. All these hospitals are consolidating. Now we talk about healthcare delivery systems where the way hospitals get paid is almost the opposite of the way they get paid now. One hospital CEO explained it like this, "There's a front door at the hospital and a basket at that door. When patients walk in, they put a dollar in that basket. If we do more, if they need to stay longer, they have to put more dollars in that basket. So the more people walk in, the more money we make. The more we do, the more we make." But in the future, while there will still be a basket at the door, now it's going to be full of money. And every time a patient walks into the hospital, they will take a dollar out of that basket. Every time we do more tests or procedures, they

take more money out of that basket. It's a huge shift. And, to succeed, you have to climb ahead of the rope and take a risk.

Many organizations are answering this shift by becoming vertically integrated so they can add in an insurance offering into their stack. With that, they'll take on the risk premium and run through a population health schema. It will be a new business model. It's just like taking the record industry and creating a music industry in healthcare.

Healthcare Informatics: How do you see the competitive marketplace moving in this cost savings area?

Dan Michelson: We're in the first inning of the game. It took fifty years to build up a revenue cycle management industrial complex—which is how I refer to it—where the more a hospital did, the more they coded, they more they built, the more they collected, and the more money they made. Now we are moving towards value, or a "margin and outcomes management" approach. You're going to get paid based on your ability to deliver value. That is going to create a ten-to-twenty year arc of companies that are going to come into this market and attempt different approaches at building it out.

Strata has been the first company to really step into this market. We are essentially an operating system for a Chief Financial Officer, offering everything from how you set up your long-range financial plan, to your operating budget, your capital budget, to understanding your cost and margins, and then drive in continuous improvement from what the data can tell

you. We are a flywheel for driving performance improvement in hospitals. People haven't been focused in that zone traditionally. They've been more focused in trying to squeeze a raisin for more juice.

The market isn't there yet. But it is building. And we'll be seeing more of that growth in the next few years.

Healthcare Informatics: To what do you attribute Strata Decision Technology's success?

Dan Michelson: Currently, we're doing things that other people aren't. Everyone has had this concept for a long time that better quality is more cost effective. But the data hasn't been there to prove it. But now, Yale-New Haven Health, a large academic medical center, has created "quality variation indicators" and, in doing so, saved about \$150 million just by delivering higher quality care.

There are indicators that reveal that quality can be improved—and now they have tied financial metrics to that. They can see actual cost and margin. We now understand that if you deliver better care, you can save a significant amount of money and improve your margin. That is a much different language to go with to your physicians when you are talking about more cost-effective care. This quality-first approach has enormous financial impact. And what Strata does is enable that. We provide accurate cost data so that healthcare organizations can run the right analyses. We're able to match cost data to the outcomes so hospitals can understand if they're making or losing money when they're improving care.

It may sound a bit basic. But it's been a difficult thing to do in healthcare.

Healthcare Informatics: How do you see the future—both in terms of challenges and opportunities—in the cost savings space?

Dan Michelson: You don't have a choice about moving to a value-based world. You are going to be given a capitated rate. The more you do, the less you'll make. So hospital organizations need to deliver high quality care but also make sure it's cost effective. You can't do that unless you know your cost. But what does that mean? Today, when someone says "cost," one person may think it means "price," another may think it's a charge, another thinks it's about reimbursement, and still another may believe it's about the true acquisition cost of a supply or labor associated with a particular service.

So what do I need to be talking about when I'm talking about cost? As the CEO or CFO of a healthcare delivery system, I need to know what my true costs are if I'm going to negotiate a fixed fee or set agreement. Right now, too many healthcare organizations are flying blind and don't know how to begin to operate in this new value-based.

What we see happening is that cost accounting has become a very hot topic. On the clinical side, people are investing in population health care systems. They can then look at outcomes across the continuum and manage them through the right kinds of analytics. But there aren't the same kinds of systems on the financial side of the house to operate in that environment. It's a pretty basic thing but it's not something people really have their heads around today. So it's emerging as an amazing opportunity to really make a difference. At the end of the day, it's all about delivering great care. But if you're spending all your money on things that aren't adding value, that is going to limit your ability to do that.

It's estimated that \$3 trillion is spent in healthcare and a third of that, roughly, is considered waste. Roughly a trillion dollars. But if you can look at that and say, "Okay, these dollars aren't adding value here, let's use them where we can add value," that is going to make a tremendous difference. We are entering a value-based care world. And with the right capabilities, the data, and the systems to support it, you can harness one of the great socioeconomic opportunities of our time.