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WHAT DRIVES PROFITABILITY FOR ACCOUNTABLE CARE ORGANIZATIONS?

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In the seven years since accountable care organizations (ACOs) were first recognized by the Centers for Medicare and Medicaid Services, ACOs have been operating on the leading edge of the healthcare industry. Currently, there are about 560 ACOs in the United States, with 10.5 million assigned beneficiaries. The ACOs vary in composition, but they share a common mission: to bend the unsustainable cost curve in U.S. healthcare.

To achieve their mission and help Medicare meet its cost reduction targets, ACOs need to pull every improvement lever at their disposal. The ways in which these levers can be activated will vary across an ACO's continuum of care. But no matter what kind of care is being delivered, or where, whether it is in a doctor's office, a hospital, a walk-in clinic, or some other setting, the levers remain the same: care improvement, cost reduction, and patient engagement.

The first lever, care improvement, is the sole province of the medical profession and the life sciences industry. It is governed by the development and use of more effective medical protocols, products, and technologies. But the remaining two levers—cost reduction and patient engagement—can be activated by drawing upon the proven tools and techniques from outside the realm of healthcare. ACOs that take full advantage of these tools and techniques can help reshape the healthcare cost curve by operating more efficiently, and profitably.

Performance Management

Care providers often have a negative reaction to demands for performance management. They assume the sole goal of performance management is cost reduction and that cost reduction will mean lower profits and salaries—they believe that they will bear the burden of cost cutting. But if the business world has taught us one lesson, it is that cost reduction and profitable revenues need not be mutually exclusive goals. For example, Walmart's low-cost strategy has made it the world's leading retailer.

The tools and techniques of performance management address direct and indirect labor costs, and the cost and utilization of facilities. They also provide insights that lead to new revenue opportunities. In short, performance management can reduce costs and boost revenue.

Cost-reduction strategies: Some ACOs have already embraced cost reduction. They have lowered costs by substituting generic drugs for brand-name medications. They also have directed patients to lower-cost care settings—walk-in clinics vs. hospital emergency rooms, for instance. They have begun to plug the leakage that occurs when in-network providers refer patients to more expensive, out-of-network providers. This is just the low-hanging fruit.

Greater cost reductions—and corresponding gains in profitability—are possible when providers begin to consider *who* is providing *what* services within their organizations. The costs associated with a doctor, a nurse practitioner, a nurse, and an office manager can be wildly different. Thus, shifting work among them can have an outsized effect on costs, as well as productivity.

Building analytics to understand the costs associated with the who, what, and why requires integration across a several different systems including clinical, claims and financial systems. To capitalize on these analytics quickly and cost effectively, an analytics tool like Qlik Sense should be used.

Revenue-boosting strategies: Some practitioners believe that the tools and techniques of performance management, including quality metrics, will interfere with their ability to run their practices. But others understand that the gaps in care they reveal, can be valuable new revenue opportunities.

Often, performance management surfaces missed opportunities for revenue generation in service delivery and ancillary care. For example, heart surgery is invariably accompanied by some level of physical and/or occupational therapy. Yet, many cardiologists refer their patients to outside therapists. What if they hired or partnered with a licensed physical therapist and kept that revenue in house?

Performance management enables ACOs to examine and enhance how providers are running their organizations, and how their productivity is related to expenses. It also helps identify and eliminate the costs associated with variances in care. For example, there are wide variances in care among surgeons, which contributes to different fees and costs for the same medical procedures.

Performance management also bolsters productivity. It is the rare physician office that runs as efficiently and productively as it could. Often, significant gains in productivity can be captured by examining the ways in which physicians schedule their patient panels, how they handle walk-ins, and other process-based activities.

Performance improvement is a continuous process. Once the first wave of improvements is realized, medical and financial professionals will need a tool that allows them to explore their data in an unstructured way like Qlik Sense. The tool should allow end users to associate data in an intuitive way.

Customer Centricity

Healthcare in the U.S. has traditionally been a reactionary business. Patients get sick and providers treat them. The aim of the lever of patient engagement is to transform that relationship—to take a page from the consumer markets and begin to consider patients as customers. When the providers within ACOs adopt this shift in perception, they become more proactive. They begin to reach out and engage with patients. In addition to curing sick people, they help healthy patients stay healthy and help people with chronic illnesses better manage their conditions.

When providers see patients as customers, patient relationships become much more positive and upbeat. Better yet, providers can tap into a far broader spectrum of use cases, drawing ideas from all types of companies. For instance, Millennials and the so-called digital natives following them prefer receiving services remotely versus going out into the world to get them. Why couldn't ACOs use the combined patient groups of their networks to strike a deal with a telehealth company to better serve them? Data from the telehealth session can then be easily integrated into the analytics platform.

The concept of the patient panel itself begins to morph and expand when ACOs and their providers think of patients as customers. The families of patients—their partners, their children at home, and their grown children and their families—can be customers, too. This suggests the need for new kinds of revenue strategies. One example is reaching out to students in the first year of college and new graduates entering the workforce to prevent and/or manage the stress that so often accompanies those transitions.

Patient panels can be wielded to benefit patients. For instance, they can be tapped to provide the data and generate the insights needed to create more effective programs for preventing and managing addictions and chronic diseases, such as smoking, obesity, and diabetes. These programs can serve as a platform upon which physicians can craft more timely, relevant, and personalized interventions for individual patients.

The reframing of patients as customers opens new sources of revenue growth that ACOs and providers can use to grow their profitability. Retailers regularly reach out to customers. Healthcare providers should, too.

For example, it's likely that most people have no idea that they should have a pneumococcal vaccination at age 65. Yet, how many providers send their customers who are turning 65 a notice to that effect? Adding a note to a birthday greeting could not only provide general practitioners with a small revenue boost, it also could enhance patient satisfaction and loyalty. Healthcare providers should also consider further customizing outreach based on customers' preferred platform - email, text, or phone. The paradigm shift to customer-centricity can create healthy, happy customers, as well as new revenue for providers

Look Outward to Profit Within

It's been over a decade since Harvard Business School professor Regina Herzlinger indicted the healthcare sector for its poor record of innovation. In her book, *Who Killed Health Care? America's $2 Trillion Medical Problem—And the Consumer-Driven Cure*, she argued that this was the only sector to consistently look inward for solutions, instead of outward, and that this habit has resulted in stagnation and an unsustainable cost structure.

There has been a concerted effort to address that problem in this decade. ACOs are one innovative response to it. ACOs can continue the good fight by turning their attention outward and adopting the tools and techniques of cost and performance management, as well as the customer-centric focus of consumer companies. These are proven means for simultaneously achieving cost reduction and profitable growth.

Gain Insight

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