Choosing the Future

Critical Information for Critical Times, Edition of Wednesday, February 3, 2016

Making It Happen!

As discussed in our last issue, to optimize organizational effectiveness, the hospital must achieve excellence in all of these critical outcome areas:

- Cost
- Clinical and Service Quality
- Physician and Patient Satisfaction
- Employee Relations
- Community Image

Today we're going to explore one of those critical outcome areas from a strategic market perspective: Cost.

In the legacy system, "cost" mostly meant cost to the hospital from an operations or budget point of view or, alternatively, the allowable cost for which reimbursement could be received from the Third Party Payer System. That's where the rub comes in. Every health care reimbursement scheme undertaken in the last half-century has insulated the consumer of health care services from paying (or even knowing) the real cost of the service provided. That includes the Medicare program's original "cost based" reimbursement scheme, HMOs, negotiated rate PPOs, DRG reimbursement, the Prospective Payment System, bundled payments, pay for performance, etc. It is axiomatic that all systems do what they are designed to do. Today's third party reimbursement system was designed to subsidize demand and hide costs. That is exactly what it has been doing and it has done it very well. Now things are changing very fast.

My first hospital office more than forty years ago was in a Midwestern teaching hospital situated directly across the hall from that of the Chief of Medicine. His stock introductory message to each new crop of first-year residents was direct. "Eighty percent of all human disease is self-limiting," he would say, leaning back in his chair with his feet up on his desk. "Most of your patients will get better with or without your efforts-just don't screw it up!" Now I don't pretend to know if Fred's "eighty percent" number was accurate. I do know that his comment was in no way intended as a disparagement of sick people who truly need medical care. However his central point, which is that most patients will recover without medical intervention, is not only true but essential to understanding one of the principle reasons that national health care costs have exploded. Much clinically unnecessary care demand in the legacy system has been generated by patients who don't have to pay for it. However, with increased premium costs, rising deductibles, co-payment out-of-pocket costs, narrowing networks, and the emergence of non-hospital primary care providers in many locations, a considerable amount of expected primary care demand has evaporated. Hospitals must now consider the direct effect of service costs on patients on both utilization and revenue from a market perspective.

What must be done: Hospitals must act to compare their clinic charges against competitors and position themselves to make adjustments. This will require taking a hard look at clinic staffing practices and labor costs.

In the next issue: The Market's Perspective on Quality

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