Optimize Your Managed Care Carve Outs: Contracts with managed care companies are often complex documents and may include combinations of the following common payment arrangements: percent of charges (POC), per diems, DRG, case rate and capitation. In addition, many times these arrangements are further qualified by carve-out, carve-in, stop-loss, and a multitude of other special provisions. The bottom line for hospitals is that some of the risk that once fell on the managed care companies now falls on the hospital through their contracts.

The expected financial benefit of Managed Care Contract Optimization is net revenue improvement of 10 to 25% over contracts created by simply increasing all the fixed rates (per-diems, case-rates etc) by an across-the-board increase.

Managed care contract modeling is a point of great revenue leverage for hospitals. As an example, if a managed care agreement allows for an implant carve out that states “all implants at a charge above $8,000 will be paid” and the O.R. has orthopedic cases where the implant costs may not reach that threshold, unknowingly, your hospital will not be reimbursed for these implants. However by analyzing your managed care agreements to your actual surgical cases and especially cases that have high cost implants you can create actual models of cases and know where the revenue leakage is in your managed care agreements and put a strategy in place to insure revenue. Most managed care agreements don’t need to be immediately renegotiated but they do need to be reviewed, analyzed and then mapped to your cases so you are insuring every opportunity for reimbursement. Your hospital has immediate 30-day profit margin opportunity in your managed care agreements. If you would like to learn more about how to identify your specific opportunities, you can reach out to us at the contact information at the end of this special report.

Charge Master Analysis: A hospital’s Charge Master is one of the single most important pieces of data that exists within a hospital. Contrasted with other key information such as patient records, clinical records, and other detailed records that may exist within a hospital’s information systems, the Charge Master is unique in that it can directly and profoundly impact the financial efficiency and performance of the hospital. A well-maintained, well-defined Charge Master can mean a difference of millions of dollars in costs or revenue either lost or gained. Think of the Charge Master file as the linchpin piece of data between all of the various systems that deal with the purchasing, dispensing, and financial billing functions of the hospital. In addition to linking together these systems, a well-functioning and up-to-date Charge Master can set the stage for detailed analysis into what and how a hospital is purchasing, dispensing, and billing. This analysis can lead to informed decisions on how to save money, time, and effort at each of those three stages. Without a clean Charge Master, informed decisions in those arenas are simply not possible. A Charge Master is essentially out of date as soon as it is created. This is due to the nature of a Charge Master’s function: tracking ever-changing purchasing behavior and relating it to constantly updated billing practices. Maintaining an organized and updated Charge Master requires a number of different types...
of maintenance tasks that need to be performed on an ongoing basis. Issues that impact the financial performance of a chargemaster are:

- Missing charges
- Incorrect charges
- Incorrect data from the item master

3. **Every Day Innovation and Your Employee Ideas.** Your employees' ideas will boost profits. Everyday Innovation occurs when everyone in an organization is actively and continuously supported, encouraged, and contributing toward the generation and implementation of new ideas and innovations of all types, from small to transformational, to improve our organizations and our world. The ability to continuously generate new ideas and innovations has become imperative as markets grow more global, open, and competitive, and as customer expectations grow more diverse and demanding. Organizations are realizing they must commit to innovation as a key strategy for success and expect and support innovation from everyone.

The term “every” has three meanings in the context of Everyday Innovation:

1. Involving everyone in innovation
2. Having an innovation mindset at every moment
3. Valuing every type of innovation, from small to transformational

The most successful systems for ideation within an organization define focused business challenges and ask employees to solve specific problems in a short period of time. An organization might invite employees to suggest how it can reduce the time required to respond to a request for proposals or how to dramatically cut overtime spending – specific issues that need immediate improvement.

**Steps for every day innovation:**

1. **Invite everyone and engage the entire organization.** Research and practice show that employees are the most significant source of ideas for new business opportunities and innovations. In addition, a common idea management system will promote cross-pollination, facilitate recognition globally and minimize support and training costs.

2. **Embrace self-organization as a key design principle.** Avoid a system that relies on a single central point for evaluating or even routing ideas. It is impossible to keep track of the different and evolving innovation needs of your organization from one or even a few central locations.

3. **Start small and scale up.** Avoid driving collaborative idea management on a large scale in an organization if you don’t have top management support or a culture that is ready for openness and collaboration.

4. **Start with passionate and “friendly” users in the organization.** Avoid designing and promoting a one-size-fits-all end-to-end innovation system in large and mature organizations where you typically already have “pockets” of innovation activities ongoing. Start implementation where you have motivated units/users.

5. **Focus on long-term change.** It takes time to implement new practices and tools across an organization. You need patience when dealing with changing the organizational culture.

**Fact:** A recent study found that submitted ideas saved companies more than $110 million dollars in time, materials, labor or energy, an average of $1,256 per suggestion.
4. **Fundraising, Use performance measures.** You measure every other aspect of your finances, if you aren’t tracking performance measures for your philanthropy division in the organization’s monthly “dashboard” reports, then start. Net return philanthropy is sometimes the hospital’s most valuable revenue producer. Say “Thank you.” Now more than ever those two words mean a lot. Personal “thank you” calls or notes from the CFO or CEO of a facility go a long way toward helping to build a strong relationship with your donor community. Call them up and say ‘Thank you.’ Let them know their donations are touching lives and give them examples of positive ways their gifts will be used.” Hiring a celebrity for event can also bring in significant fundraising revenue.

5. **Avoid Expense Creep.** Product creep occurs with the unmonitored introduction of unauthorized, higher-priced products—frequently at list price—into the formulary or the shift toward higher utilization of higher-cost products, resulting in increased use of more expensive items. Other critical watch points that purchasing should monitor are price creep and cost shifting. Price creep occurs when suppliers slowly increase prices over time or apply fixed discounts to new price lists. In contrast, cost shifting occurs when suppliers seek to compensate for discounts by quietly increasing prices. These increases may go unchecked by or be hidden from view of hospital purchasing departments until they analyze their spend history in aggregate retrospectively. Often ignored or, again, simply hidden from view, both price creep and product creep have a major impact—especially on the cost of physician preference items, such as cardiac stents, cardiac rhythm devices, and orthopedic implants. **These items often represent 40 percent of a hospital’s supply budget.** And unless a concerted effort is made to uncover the issue, price creep and product creep will hurt an organization’s bottom line.

6. **Negotiation Strategy Training for Your Organization.** Your supply vendors and managed care companies use sophisticated strategies to help them negotiate contracts. Hospitals need to apply the same or better advanced strategies and analytics when negotiating contracts in order to minimize their risk and ensure adequate revenue. These vendors and managed care companies spend money to train their people in negotiation skills. Are your employees and especially key staff trained annually and coached in their negotiations? If not, you are losing revenue. Here is an example of the one of many companies that train sales representatives in maintaining their companies margins by how they negotiate:

> “Now, if your margin is 10%, how much new business do you have to sell in order to get that $1 million in additional profit? With your margin at 10%, you would need $10 million in new sales to get that same $1 million in additional profit that just 1% better negotiating would produce. If your margin is only 5%, which was the case with one of my clients, you would actually need $20 million in new sales to have the same profit impact as just 1% better negotiating. And what IS 1%? Let’s say the list price for a supply item that you sell to a hospital is $1,025. What if you just round it off to an even thousand dollars? Well, what’s 1% of a thousand dollars? It’s ten dollars. If you drop from $1,025 down to $1,000, you’ve just given away 2 1/2%. Remember, that the real money in negotiating is in always doing just a little bit better. If you can consistently improve your results by 1, 2, or 3%, ultimately that is where the big impact on your bottom line will come from.”
Does your hospital have negotiation strategies based on training skills and science? If not, you are losing revenue. If you would like to learn about VIE’s negotiation training and coaching for hospitals, email us at the contact information below.

7. **New Sources of Revenue.** Hospitals understand they will not make the earnings from patient operations as they used to and need to be creative because of the pressure on patient margins. Beaumont Hospitals reap millions of dollars in non-patient revenue through such ventures as the Beaumont Commercialization Center and ownership in the Northwood Shopping Center at 13 Mile Road and Woodward Avenue. Forward-thinking hospitals are diversifying into occupational medicine and wellness services to employers, selling financial auditing services and generating revenue from outpatient labs and through joint ventures with physicians and businesses in their community. Your hospital has “IP” that can be licensed or sold. You can partner with manufacturers for clinical trials. There are many untapped non-patient revenue opportunities that can immediately improve your operating or profit margin.

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